

---

---

**TRUE OR FALSE**

**2**

---

---

|

If a partner retires, then other partners have a gain in their profit sharing ratio if Nothing is mentioned

If a partner retires, then other partners have a gain in their profit sharing ratio if Nothing is mentioned

**Answer** – True

**Reason:**-If a partner retires, the share of his profit or loss will be shared by other partners in their profit sharing ratio.

## 2

M/s. Ram & Co. did not provide any depreciation on Plant and Machinery, as its market value is much higher than the cost of purchase.

## 2

M/s. Ram & Co. did not provide any depreciation on Plant and Machinery, as its market value is much higher than the cost of purchase.

**Answer** – False

**Reason:**-Plant & Machinery is held with an intention of being used for the purpose of producing goods or providing services and is not held for re-sale in the ordinary course of business. Depreciation is to be charged on Plant & Machinery irrespective of its market value.

### 3

Provision for bad debts is debited to Sundry Debtors Account.

3

Provision for bad debts is debited to Sundry Debtors Account.

**Answer** – False

**Reason:**-Provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.

# 4

Companies can keep their accounts under cash basis.



4

Companies can keep their accounts under cash basis.

**Answer** –False

**Reason**:-It is mandatory for companies to keep their accounts under accrual basis as per the provisions of the Company Law.

5

A has drawn a bill on B. B accepts the same and endorses the bill to C.

5

A has drawn a bill on B. B accepts the same and endorses the bill to C.

**Answer** – False

**Reason:**-A is a drawer and B is the drawee. So B cannot endorse the bill to C, only A can do so.

# 6

The debts written off as bad, if recovered subsequently are credited to debtor account.

6

The debts written off as bad, if recovered subsequently are credited to debtor account.

**Answer** – False

**Reason:**-The debts written off as bad if recovered subsequently shall be treated as gain and be credited to Profit and Loss Account or to Bad Debts Recovered Account.

# 7

There are two ways of preparing an account current.

7

There are two ways of preparing an account current.

**Answer** – False

**Reason**:-There are three ways of preparing an account current;

- a) With the help of interest tables
- b) By means of products
- c) By means of product of balances.

# 8

Average due date is the median average of several due dates for payments.



8

Average due date is the median average of several due dates for payments.

**Answer** – False

**Reason:**-Average due date is an equated date for several due dates of payments where There is No Loss of Interest to Either Party.

# 9

Accounting principles are general rules followed in preparation of Financial Statements.

9

Accounting principles are general rules followed in preparation of Financial Statements.

**Answer** -True

**Reason**:-Accounting principles suggests the rules of action, which are universally accepted by the accountants for the recording of accounting transactions.

# 10

Account Sales is the statement sent by the consignor to the consignee.

# 10

Account Sales is the statement sent by the consignor to the consignee.

**Answer** – False

**Reason:**-Accounts Sales is a statement sent by the consignee to consignor, setting out the sales made by the consignee, the expenses incurred on behalf of the consignor, the commission earned by the consignee, any advance given to the consignor and the balance due to the consignor.

||

Fees received for Life Membership is a revenue receipt as it is of recurring nature.



Fees received for Life Membership is a revenue receipt as it is of recurring nature.

**Answer** – False

**Reason:**-Fees received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

12

Goodwill is a current asset.



# 12

Goodwill is a current asset.

**Answer**– False

**Reason**:-Goodwill is an intangible asset and is classified as fixed asset.

# 13

Major repair charges including replacement of certain worn-out parts incurred before using a second-hand Car purchased recently is a capital expenditure.

## 13

Major repair charges including replacement of certain worn-out parts incurred before using a second-hand Car purchased recently is a capital expenditure.

**Answer** – True

**Reason**:-These charges were incurred to put a second-hand car in working condition to derive long term benefits of enduring nature. So this is capital expenditure.

# 14

Amount written off from the cost of fixed assets is capital expenditure.

# 14

Amount written off from the cost of fixed assets is capital expenditure.

**Answer** – False

**Reason:**-Amounts written off from the cost of fixed assets is treated as revenue expenditure and charged to profit and loss account. Depreciation is an example of such write off.

# 15

Over-riding commission is calculated on credit sales only.

# 15

Over-riding commission is calculated on credit sales only.

**Answer** – False

**Reason:**-In case the sales exceed a specific amount, an extra commission is allowed to consignee. This commission is termed as over-riding commission. It is calculated on total sales, unless specifically agreed between consignor and consignee.

# 16

Expenses incurred on white-washing of factory building done after every six months is Revenue expenditure.



# 16

Expenses incurred on white-washing of factory building done after every six months is Revenue expenditure.

**Answer** – True

**Reason**:-Expenses incurred on white-washing of factory building done after every six months are incurred in the course of normal maintenance of the asset and are therefore, revenue expenses.

# 17

Heavy advertising to introduce a new product is capital expenditure.

Heavy advertising to introduce a new product is capital expenditure.

**Answer** – False

**Reason:**-The effect of heavy advertising with regard to the launching of a new product will last generally for more than one accounting period. But it does not create any property of tangible nature and so the expenditure is spread over the period for which its effect would remain. This type of expenditure is deferred revenue expenditure and not capital expenditure.

# 18

Provision for discount on debtors is calculated on the Balance available after deducting bad Debts & the provision for doubtful debts from debtors.

## 18

Provision for discount on debtors is calculated on the Balance available after deducting bad Debts & the provision for doubtful debts from debtors.

**Answer** – True

**Reason:**-Provision for discount on debtors is to be calculated on the balance of debtors left after deducting Bad Debts & Provision for doubtful debts As Remaining Debtors Specify Good Debtors to whom discount can be given.

# 19

If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account.

# 19

If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account.

**Answer** – False

**Reason:**-Such expenses should be deducted from the sports fund and will not be taken to income and expenditure account.

## 20

Amount paid to Management company for consultancy to reduce the working expenses is a Capital expenditure.



20

Amount paid to Management company for consultancy to reduce the working expenses is a Capital expenditure.

**Answer** – False

**Reason:**-Amount paid to management company for consultancy to reduce the working expenses is deferred revenue expenditure as this expenditure will generate long-term benefit to the entity. It cannot be Classified as Capital Expenditure as it Does not Give rise to capital Asset.

21

The Firm Will Receive the Surrender value of JLP on Death of the partner.

21

The Firm Will Receive the Surrender value of JLP on Death of the partner.

**Answer** –False

**Reason:**-The Firm will receive the Full value of Sum assured of the JLP on the Death of partner.

## 22

The expressions depreciation is to be charged at 10% and 10% p.a. on furniture and fittings carry the same meaning.

## 22

The expressions depreciation is to be charged at 10% and 10% p.a. on furniture and fittings carry the same meaning.

**Answer** – False

**Reason**:-They differ on the basis of time factor 10% p.a. implies that time factor is to be considered while calculating depreciation on pro-rate basis whereas simply 10% implies that time factor is immaterial for calculation.

# 23

Overriding commission is granted to an agent in case of sales exceeding targets.

## 23

Overriding commission is granted to an agent in case of sales exceeding targets.

**Answer** – False

**Reason:**-Over-Riding Commission is paid over and above the ordinary commission. It is generally calculated on the surplus sale proceeds realised as a result of selling the product price over and above the minimum sale price fixed by the consignor.

# 24

Accrual concept implies accounting on cash basis.



# 24

Accrual concept implies accounting on cash basis.

**Answer** – False

**Reason:**-Accrual concept implies accounting done on due or accrual basis. It involves the recognition of revenues and costs as they accrue irrespective of the actual receipts or payments.

# 25

A promissory note cannot be made payable to bearer.

# 25

A promissory note cannot be made payable to bearer.

**Answer** – True

**Reason:-**A Promissory note cannot be made payable to a bearer as it is payable To or to the order of the person who is mentioned in it.

# 26

Wages incurred by a factory in manufacturing a part for its plant, is a revenue expense.

## 26

Wages incurred by a factory in manufacturing a part for its plant, is a revenue expense.

**Answer** – False

**Reason:**-Wages incurred by a factory in manufacturing a part of its plant, is a capital expenditure. This expenditure will be included in the cost of plant.

# 27

Contingent liability is an ascertained liability but its amount and due date are indeterminate.

Contingent liability is an ascertained liability but its amount and due date are indeterminate.

**Answer** –False

**Reason:**-Contingent liability is an unascertained liability and its amount and due date are also indeterminate. A contingency is defined as a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

## 28

In the calculation of average due date, only the due date of the first transaction must be taken, as the base date.



## 28

In the calculation of average due date, only the due date of the first transaction must be taken, as the base date.

**Answer** – False

**Reason:**-Due date of any transaction can be taken as the base date. However, it is preferable to take the due date of first transaction as the base date.

# 29

Current cost gives an alternative measurement base.

## 29

Current cost gives an alternative measurement base.

**Answer** – True

Generally, the value of an asset is determined on the basis of acquisition cost. Current cost is another alternative measurement basis according to which assets are carried at the amount of cash or cash equivalents required to be paid if the same or an equivalent asset has to be acquired currently.

# 30

Del credere commission is normally calculated on total sales.

30

Del credere commission is normally calculated on total sales.

**Answer** – True

**Reason:**-Although it arises in relation to credit sales, it is calculated on the total sales, not merely on credit sales.

# 31

When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

## 31

When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

**Answer** – True

**Reason:**-Rule in absence of partnership deed says that interest at the rate of 6% p.a. is to be allowed on a partners loan to the firm.

# 32

Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.



Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

**Answer** – False

**Reason:**-The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

# 33

Patent right is in the nature of Nominal Account.

Patent right is in the nature of Nominal Account.

**Answer** – False

**Reason**:-Patent right is an intangible asset. So, it is as item of Real Account.

# 34

Closing entries are recorded in Journal Proper.

# 34

Closing entries are recorded in Journal Proper.

**Answer** – True

**Reason**:-All the closing entries are recorded in journal proper.

# 35

In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

# 35

In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

**Answer** – False

**Reason:**-The ownership of the goods, i.e. the property in the goods, remains with the consignor or the principal – the agent or the consignee does not become their owner even though goods are in his possession.

# 36

The trial balance checks honesty of the book-keeper.



# 36

The trial balance checks honesty of the book-keeper.

**Answer** –False

**Reason**:-The Trial Balance helps to establish the arithmetical accuracy of ledger books.

# 37

Legal fees paid to acquire a property is capital expenditure.

# 37

Legal fees paid to acquire a property is capital expenditure.

**Answer** – True

**Reason**:-Legal fees paid to acquire a property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.

# 38

Revenue is matched with expenses in accordance with the matching principle.

# 38

Revenue is matched with expenses in accordance with the matching principle.

**Answer** –True

**Reason:**-The matching concept involves that the expenses incurred during the same period to generate that revenue.

# 39

Receipts and payments account highlights total income and expenditure.

# 39

Receipts and payments account highlights total income and expenditure.

**Answer** – False

**Reason:**-Receipt and Payments account is a summary of all cash or bank receipts and payments over a certain period with a cash bank balance at the beginning as well as at the end of the period.

# 40

At the time of Renewal of a bill, Interest account is debited in the books of a Drawee.



40

At the time of Renewal of a bill, Interest account is debited in the books of a Drawee.

**Answer** – True

**Reason**:-At the time of renewal of a bill, interest account is debited and drawer's account is credited in the books of drawee because interest become liability for drawee and it becomes payable to drawer.