

**CA Foundation
Accounts
True & False**

Journal Entry

Q. No.	Questions
1.	In accounting equation approach, equity + long term liabilities = fixed assets + current assets – current liabilities.
2.	In the traditional approach a debtor becomes receiver.
3.	The rule of nominal account states that all expenses & losses are recorded on credit side.
4.	Journal proper is also called a subsidiary book.
5.	Capital account has a debit balance.
6.	Purchase account is a nominal account.
7.	All the personal & real account are recorded in profit and loss A/c.
8.	Assets side of balance sheet contains all the personal & nominal accounts.
9.	Capital account is a personal account.
10.	Journal is also known as the books of original entry.
11.	Goods worth ₹600 taken by the proprietor for personal use should be credited to capital account.

Journal Entry

Q. No.	Answers
1.	True: - Reason: As per the <u>modern accounting equation approach</u> – it is the basic formula in the accounting process.
2.	False: - Reason: In the <u>traditional approach</u> a debtor becomes giver.
3.	False: - Reason: The rule of nominal account states that <u>all expenses & losses are recorded on debit side.</u>
4.	True: - Reason: It is one of the book where in the <u>transaction not entered</u> in the <u>other books</u> are <u>entered in this book.</u>
5.	False: - Reason: <u>Capital account</u> has a credit balance.
6.	True: - Reason: As it is considered as <u>an expense.</u>
7.	False: - Reason: All <u>the personal & real account</u> are recoded in the <u>balance sheet.</u>
8.	False: - Reason: <u>Assets side</u> of the <u>balance sheet</u> contains all the <u>personal & real account.</u>
9.	True: - Reason: As it is in the <u>name of the proprietor</u> who is bringing in the <u>capital</u> to the business.
10.	True: - Reason: As the <u>transaction are entered first in this book as first-hand record.</u>
11.	False: - Reason: Goods taken by the proprietor for the personal use should be <u>credited to purchase account</u> as less goods are left in the business for sale.

Ledger

Q. No.	Questions
1.	A ledger is also known as the principle book of accounts.
2.	Cash account has a debit balance.
3.	Posting is the process of transferring the accounts form ledger to journal.
4.	At the end of the accounting year, all the nominal account of the ledger book are balanced.
5.	Ledger records the transaction in a chronological order.
6.	If the total debit side is greater than the total of credit side, we get a credit balance.
7.	Ledger accounts of assets will always be debited when they are increased.

Ledger

Q. No.	Answers
1.	True: - Reason: Since <u>it classifies all the amount relates to a particulars account</u> and then it is <u>used as the base for preparing the trail balance.</u>
2.	True: - Reason: Being an asset under <u>the modern equation approach,</u>
3.	False: - Reason: Posting is the process of <u>transferring the balances from journal to ledger.</u>
4.	False: - Reason: At the end of the accounting year, all the <u>nominal accounts</u> of the <u>ledger book</u> <u>are totaled</u> and <u>transferred to profit and loss account.</u>
5.	False: - Reason: Ledger records the transaction in <u>analytical order.</u> But journal records the transaction in <u>a chronological order.</u>
6.	False: - Reason: If the total debit side is greater than the total of credit side, we get a <u>debit balance as the opening balance.</u>
7.	True: - Reason: The <u>increase to an asset shall be debited</u> since the <u>original balance is also debit.</u>

Trial balance

Q. No.	Questions
1	Preparing trial balance is the third phase of accounting process.
2.	Trail balance forms a base for the preparation of financial statements.
3.	Agreement of trail balance is a conclusive proof of accuracy.
4.	A trail balance will tally in case of compensating errors.
5.	A trail balance can find the missing entry from the journal.
6.	Suspense account opened in a trail balance is a permanent account.
7.	The balance of purchase returns account has a credit balance.
8.	Tallying of the trial balance only proves arithmetically accuracy.
9.	A tallied trial balance means that the books of accounts have been prepared as per accepted accounting process.
10.	Trail balance is an absolute proof of the accuracy of the books of accounts.
11.	Closing stock will never appear in the trail balance.



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Trial balance

Q. No.	Answers
1.	True: - Reason: Which forms the <u>base for the preparation of the final account</u> .
2.	True: - Reason: Yes, only <u>based on the trial balance</u> we can <u>prepare the financial statements</u> .
3.	False: - Reason: Agreement of trial balance gives only <u>arithmetical accuracy</u> , there can still be errors in preparing the trial balance,
4.	True: - Reason: Since <u>compensating errors cancel out due to their compensating nature of amounts</u> hence here is no problem in the trial balance.
5.	False: - Reason: A <u>trial balance cannot</u> find the <u>missing entry from the journal</u> .
6.	False: - Reason: Suspense account opened in a trial balance is a <u>temporary account</u> .
7.	True: - Reason: As <u>purchase is debited any return shall be credited</u> (treated in opposite way),
8.	True: - Reason: Trial balance help to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal <u>errors of principle</u> and <u>compensating errors</u> .
9.	False: - Reason: Trial balance only checks the arithmetical accuracy of books. <u>Errors of principle and errors of omission</u> will not affect the agreement of the trial balance.
10.	False: - Reason: Agreement of trial balance is not an absolute proof of the accuracy because there may be some errors like <u>errors of principle, compensating errors</u> etc. which do not effect the agreement of trial balance.
11.	False: - Reason: When <u>cost of goods sold or gross profit</u> are given in the trial balance. Closing stock will appear in the trial balance.

Subsidiary Books

Q. No.	Questions
1.	Transaction recorded in the purchase book include only purchase on credit transactions.
2.	Transaction regarding the purchase of fixed assets are recorded in the purchase book.
3.	Cash sales are recorded in the sales books.
4.	Subsidiary books are also known as the books of original entry.
5.	Bills receivable book is a subsidiary book.
6.	Return inwards book is known as purchase return book.
7.	Purchase of a second-hand machinery will be recorded in purchase book.
8.	Total of sales return book is posted to the debit side of sales account.
9.	If the sales are on a frequent basis, the transaction are recorded in the sales book.
10.	The purchase day book is part of ledger.
11.	The sales day is a part of ledger.
12.	Purchase books records all credit purchase of goods.
13.	Wrong casting of subsidiary books does affects the agreement of trail balance.
14.	The debit notes issued are to prepare sales return book.
15.	The return of goods by a customer should be debited to return outward account.

Subsidiary Books

Q. No.	Answers
1.	False: - Reason: Transaction regarding the <u>purchase of fixed assets</u> are not recorded in the purchase book, only the credit purchase of goods are recorded in it.
2.	False: - Reason: Transaction regarding the <u>purchase of fixed assets</u> are not recorded in the purchase book, only the credit purchase of goods are recorded in it.
3.	False: - Reason: <u>Credit sales</u> are <u>recorded in the sales book</u> . <u>Cash sales</u> are <u>recorded in cash book</u> .
4.	True: - Reason: They are <u>maintained as an alternate to the journal</u> .
5.	True: - Reason: Yes, it is one of the subsidiary books.
6.	False: - Reason: Return inwards book is known as <u>sales return book</u> .
7.	False: - Reason: Purchase of a second-hand machinery will not be recorded in purchase book. It is <u>recorded in machinery account</u> .
8.	True: - Reason: Since it is <u>reduction from the total sales value</u> , it is debited in the sales account
9.	True: - Reason: Yes, when there are numerous transactions then there are <u>subsidiary books</u> like the sales book where there are <u>recorded instead of regular journal entries</u> .
10.	False: - Reason: <u>Purchase Day book</u> is a prime entry and hence it is part of the journal.

Cash Book

Q. No.	Questions
1.	Cash book is a subsidiary book as well as principal book.
2.	Two column cash book consists of two columns cash column and bank column.
3.	Discount column of cash book is never balanced.
4.	Contra entry is passed in a two-column cash book.
5.	If the bank column is showing the opening balance in credit side, it is an overdraft.
6.	A cash book records cash transaction as well as credit transactions.
7.	Discount column of cash book records the trade discount.
8.	The balance in the cash book shows net income.
9.	The balance in the petty cash books represents the amount spent.
10.	Bank column of the cash book will show only a debit balance.

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Cash Book

Q. No.	Answers
1.	True: - Reason: Since the balance is taken to the trial balance.
2.	False: - Reason: Two column cash book consist of two column <u>cash column and discount column.</u>
3.	True: - Reason: It is totalled and transferred to the discount allowed or received account.
4.	False: - Reason: Contra entry is passed in a <u>three-column cash book</u> in bank and cash column.
5.	True: - Reason: Usually the <u>debit side of opening balance shows a favorable balance, where there is unfavorable overdraft</u> then it should be shown on the credit side.
6.	False: - Reason: A <u>cash book records only cash transaction.</u>
7.	False: - Reason: <u>Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.</u>
8.	False: - Reason: The <u>balance in the cash book shows cash in hand.</u>
9.	False: - Reason: The <u>balance in the petty cash books represents cash balance lying with the petty cashier.</u>
10.	False: - Reason: <u>Bank column of the cash book will show credit balance</u> if the bank account has <u>an overdraft balance.</u>

Rectification of Errors

Q. No.	Questions
1.	The method of rectification of errors depends on the stage at which the errors are detected.
2.	In case of errors of complete omission, the trial balance does not tally.
3.	When errors are detected after preparation of trial balance suspense account is opened.
4.	When purchase of an assets is treated as an expense it is known as error of principle.
5.	Trial balance agrees in case of compensating errors.
6.	When amount is written on wrong side, it is known as an error of principle.
7.	On purchase of furniture the amount spent on repair should be debited to repairs accounts.
8.	Profit and loss adjustment account is opened to rectify the errors detected in the current accounting period.
9.	Rent paid to land lord of the proprietor house, must be debited to rent account.
10.	If the errors are detected after preparing trial balance, then all the errors are rectified through suspense accounts.
11.	Any type of error affects the agreement of trail balance.
12.	Purchase of office furniture has been debited to general expense account. It is compensating errors.
13.	Error of carry forward of totals of purchase journal affects two accounts.
14.	If the amount is posted in the wrong side or to a wrong account is called error of commission.

Rectification of Errors

Q. No.	Answers
1.	True: - Reason: There are <u>3 different stages when the mistake is identified</u> and then the rectification depends on the stage of identification.
2.	False: - Reason: In case of <u>errors of complete omission</u> , the trial balance tallies.
3.	True: - Reason: To <u>balance the difference</u> of balance <u>in the trail balance</u> .
4.	True: - Reason: Where the accounts being debited is principally incorrect it is termed as <u>error of principle</u> .
5.	True: - Reason: <u>Compensating errors cancel out each other</u> when trial balance is prepared as the mistake pertains to the same amounts being credit and later debited on account of two different mistake.
6.	False: - Reason: When amount is written on wrong side, it is known as <u>an error of commission</u> .
7.	False: - Reason: On purchase of furniture, the amount spent on repairs should be <u>debited to furniture account</u> as it is a <u>capital expense</u> .
8.	False: - Reason: <u>Profit and loss adjustment account</u> is opened <u>to rectify the errors detected in the next accounting period</u> .

9.	False: - Reason: Rent paid to land lord of the proprietor house, must be <u>debited to drawing account</u> .
10.	False: - Reason: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principle errors which can be rectified without opening a suspense account.
11.	False: - Reason: Any type of errors does <u>not affect the agreement of trail balance</u> .
12.	False: - Reason: Recording the transaction in a fundamentally wrong manner in contravention of accounting principle is an <u>error of principle</u> .
13.	False: - Reason: Error of carry forward of totals of purchase journal <u>will affect only one account</u> .
14.	True: - Reason: Posting an amount on the wrong side or to a wrong account is called <u>errors of commission</u> .

Bills of Exchange

Q. No.	Questions
1.	Bills payable account is a nominal account.
2.	Promise to pay is included in a bill of exchange
3.	Days of rebate are added to the due date to arrive at the maturity date.
4.	There are always 2 parties to the bills of exchange
5.	Foreign bill is drawn in the country and payable outside the country.
6.	Promissory note is different from that of a bill of exchange where the amount is paid by the maker in case of former and by the acceptor in the later.
7.	In case of bills of exchange the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

Bills of Exchange

Q. No.	Answers
1.	False: - Reason: Bills payable account is a <u>liability account</u> .
2.	False: - Reason: <u>Bills of exchange contain an order to pay</u> the required amount and not a mere promise to pay.
3.	False: - Reason: <u>3 days of grace</u> are added to the <u>due date</u> to arrive at the <u>maturity date</u> .
4.	False: - Reason: There <u>can be more than 2 parties</u> namely the <u>drawer, acceptor and the payee of the bill</u> .
5.	True: - Reason: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.
6.	True: - Reason: In the <u>promissory note</u> , it is generally <u>the maker who makes the payment</u> but in case of <u>the bills of exchange</u> , the <u>person accepting the bill shall be liable to make the payment to the holder of the bill</u> .
7.	False: - Reason: In case of <u>bills of exchange</u> the <u>drawer and the payee may be the same person</u> but in case of a <u>promissory note</u> , the <u>maker and the payee cannot be the same person</u> .

Bank Reconciliation Statement

Q. No.	Questions
1.	Bank reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.
2.	There are 3 types of difference between cash book and pass book namely timing. Transaction & errors.
3.	Adjusting the cash book for any errors and/ or omission before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.
4.	Debit balance in cash book is same as overdraft as per pass book.
5.	Bank charges debited by the bank is an example of timing difference for the purpose of bank reconciliation.
6.	Overcasting of debit side of the cash book is an example of a different that is due of error.
7.	When we start bank reconciliation with a debit balance in cash book then cheque issue but not yet presented should be added back to arrive at the balance as per pass book.
8.	The bank charges charged by the bank should be deducted when the bank reconciliation statement is being prepared starting from a credit balance of pass book.
9.	When the cause of difference between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets.

10.	While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement the deposited cheques that are not yet cleared need not be adjusted.
11.	Cash book shows a debit balance of 50,000 and the only difference from the balance as shown in pass book relates to cheque issued for 60,000 but not yet presented for payment. The balance as per pass book should be 1,10,000.
12.	Overcasting of credit side of cash book shall result in a higher bank balance in cash book when compared with pass book balances.
13.	A cheque for 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of 50,000 from the balance in the pass book.
14.	A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.



Bank Reconciliation Statement

Q. No.	Answers
1.	False: - Reason: Bank reconciliation statement <u>reconcile bank column of cash book with the balance in the pass book.</u>
2.	True: - Reason: These are 3 board categories.
3.	False: - Reason: <u>Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.</u>
4.	False: - Reason: <u>Debit balance as per cash book should be represented by credit or favorable balance in pass book.</u>
5.	False: - Reason: Bank charges are example of <u>the transaction that bank carries out by itself</u> and the same has not been recorded in the cash book until statement is obtained from the bank.
6.	True: - Reason: Overcasting is an example of <u>an error.</u>
7.	True: - Reason: Since the cheque issued would have been recorded as payment and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.
8.	False: - Reason: Bank charges <u>should be added when we start with credit or favorable balance in pass book</u> as bank would have debited the charges.

Depreciation

Q. No.	Questions
1.	Increase in market value of fixed asset is one of the reasons for depreciation being charged.
2.	Depreciation of an asset begins when it is available for use in the location & condition necessary for it to be capable of being operated.
3.	Cost of Property, Plant and Equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.
4.	Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.
5.	Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.
6.	In Case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.
7.	In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.
8.	Akash purchased a machine for ₹ 12,00,000. Estimated useful life is 10 years and scrap value is ₹ 1,00,000. Depreciation for the first year using sum of the year digit method shall be ₹ 2,00,000.
9.	Depletion is the allocation of the cost of intangible assets such as patents and copyrights.

10.	Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.
11.	If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.
12.	Sum of the years digit method is an example of accelerated method of charging depreciation.
13.	Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expenses in early years and more depreciation in later years of its life.
14.	While depreciating Land Cost, Straight line method shall give more depreciation than the written down value.
15.	Provision for depreciation account is debited at the time of recording the depreciation on an asset.
16.	If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.



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Depreciation

Q. No.	Answers
1.	False: - Reason; It is the <u>decrease in market value</u> as <u>one of the reasons for depreciation charged</u> . Increase in market value may result in Revaluation.
2.	True: - Reasons; It is not necessary that the asset must be used to be depreciated, thus <u>depreciation may start once it is brought in the location & condition required to be used</u> .
3.	False: - Reasons; <u>Non-Refundable taxes & duties from part of the cost</u> .
4.	False: - Reasons; <u>Inauguration costs shouldn't be part of cost</u> .
5.	True: - Reasons; <u>SLM method results in same amount and Declining method involves same rate of depreciation</u> .
6.	True: - Reasons; <u>Revaluation should be done for the whole class of the asset</u> .
7.	False: - Reasons; Any <u>decrease in value of asset</u> on account of <u>revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account</u> .
8.	True: - Reasons; Sum of years digit method depreciation is calculated as $10/55 \times (12,00,000 - 1,00,000) = 2,00,000$.
9.	False: - Reasons; <u>Depletion relates to allocation of cost of natural resources</u> .

10.	<p>True: -</p> <p>Reasons; <u>Depreciation being non-cash expense reduces the distributable profits and hence facilitates replacement of asset when required.</u></p>
11.	<p>False: -</p> <p>Reasons; $WDV = ₹ 12,50,000 - ₹ 4,00,000 = ₹ 8,50,000.$</p>
12.	<p>True: -</p> <p>Reasons; <u>Higher depreciation is charged in earlier years under sum of the years digit method.</u></p>
13.	<p>False: -</p> <p>Reasons; <u>It is vice versa as under diminishing balance method; higher depreciation is charged in beginning.</u></p>
14.	<p>False: -</p> <p>Reasons; <u>Land is not depreciated.</u></p>
15.	<p>False: -</p> <p>Reasons; <u>Provision for Depreciation account is credited while charging the depreciation.</u></p>
16.	<p>False: -</p> <p>Reasons; <u>Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.</u></p>
17.	<p>True: -</p> <p>Reasons; <u>At the time of sale of an asset, respective asset account is credited with provision for depreciation account being debited and any resulting gain or loss being charged to profit & loss account.</u></p>
18.	<p>False: -</p> <p>Reasons; <u>Under diminishing balance method, salvage value is not considered initially as it assumes that at the end of the asset's life the remaining value shall be its salvage value.</u></p>
19.	<p>True: -</p> <p>Reasons; <u>Any change in useful life of an asset is accounted for as a change in estimate.</u></p>
20.	<p>False: -</p> <p>Reasons; <u>Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale year.</u></p>

Final Accounts of Manufacturing Entities

Q. No.	Questions
1.	By-products valued at cost or net reliasable value whichever is lower.
2.	The manufacturing account is prepared to ascertain the profit or loss on the goods produced.
3.	If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.
4.	Raw Material Consumed = Opening inventory of Raw materials + Purchase – Closing inventory of Raw Materials.
5.	The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.
6.	Overhead is defined as total cost of direct material, direct wages and direct expenses.



Final Accounts of Manufacturing Entities

Q. No.	Answers
1.	False: - Reasons; <u>By-Products</u> generally have insignificant value as compared to the value of <u>main product</u> . Therefore, they are generally <u>valued at net realizable value</u> .
2.	False: - Reasons; The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for <u>assessing the cost effectiveness of manufacturing activities</u> .
3.	True: - Reasons; Manufacturing account <u>deals with the raw material, and work in progress</u> .
4.	True: - Reasons; <u>Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases</u> .
5.	False: - Reasons; The <u>Trading Account</u> will <u>show the quantities of finished goods manufactured and sold and the opening and closing inventory</u> . It will not show the quantity of raw materials or work-in-progress.
6.	False: - Reasons; <u>Overheads is defined as total cost of indirect material, indirect wages and indirect expenses</u> .

Final Accounts of Non-Manufacturing Entities

Q. No.	Questions
1.	The income statement shows either net profit or net loss for a particular period.
2.	Gains from the sale or exchange of assets are not considered as the revenue of the business.
3.	The Salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities.
4.	A loss is an expenditure which does not bring any benefit to the concern.
5.	All liabilities which become due for payment in one year are classified as long-term liabilities.
6.	The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.
7.	An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.
8.	If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expenses.
9.	Sales less cost of goods sold = gross profit.
10.	If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.
11.	The provision for bad debts is debited to Sundry Debtors Account.
12.	The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

13.	The debts written off as bad, if recovered subsequently are credited to Debtors Account.
14.	The adjustment entry in respect of income received in advance is debit income received in advance account and credit income account.
15.	Premium paid on the life policy of a proprietor is debited to profit and loss account.
16.	Depreciation account appear in the trial balance is taken only to profit and loss account.
17.	Personal purchases included in the purchases day book are added to the sales account in the Trading account.
18.	Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.
19.	Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.



Final Accounts of Non-Manufacturing Entities

Q. No.	Answers
1.	True: - Reasons; <u>Profit and loss account shows either net profit or net loss for a particular period.</u>
2.	False: - Reasons; Gains from the sale or exchange of assets are considered as the revenue of the business, but this <u>revenue not in the ordinary course of business so it is capital receipts.</u>
3.	True: - Reasons; The <u>Salary paid in advance is an asset</u> it is not an expense because <u>it neither reduces assets or nor increase liabilities.</u>
4.	True: - Reasons; A <u>loss is an expenditure of the business which does not bring any gain to the business.</u>
5.	False: - Reasons; All <u>liabilities</u> which become <u>due for payment in one year</u> are <u>classified as current liabilities.</u>
6.	True: - Reasons; <u>Current assets</u> are all the <u>assets which are expected to be realized or sold or consumed within one year.</u>
7.	True: - Reasons; When an <u>asset is purchase capital, expenditure is incurred</u> and when the asset is <u>put to use expenses are incurred in consumption.</u>
8.	True: -:- Reasons; <u>Debit balance of accounts are treated as expenses whose benefit is already received or expired.</u>
9.	True: - Reasons; <u>Gross profit is obtained by deducting cost of goods sold from sales.</u>

Sales of Goods on Approval Basis

Q. No.	Questions
1.	Goods sold on approval basis are not recorded as credit sales initially when they are sent out.
2.	The customer retains the goods even after the expiry of the mentioned term, but this act does not confirm to sale of goods as there is no expense consent given.
3.	At the end of the year those goods on approval basis awaiting approval from the customer are shown as part of sales in the books of the seller.
4.	No entry need to be passed in the book of the seller when the customer rejects the goods awaiting approval after the closing of the books of the seller.
5.	The period within which the customer has to reject or accept is fixed by the buyer.
6.	Mere transfer of the possession of the goods from the seller to the customer under sale on approval basis, also ensure transfer of ownership to customer



Sales of Goods on Approval Basis

Q. No.	Answers
1.	<p>False: -</p> <p>Reason: They are <u>recorded as sales</u> irrespective of whether the customer might accept or reject the goods at the end of the period for the approval.</p>
2.	<p>False: -</p> <p>Reason: As per the sale of goods act when the goods are retained by the customer after the given time and <u>no express intimation is given with regard to rejection, they are deemed sales.</u></p>
3.	<p>False: -</p> <p>Reason: At the end of the accounting period-if there are goods sold on approval or return basis without any information then <u>the accounting treatment to reverse the same from the sale and to add it with the existing closing stock at cost price.</u></p>
4.	<p>True: -</p> <p>Reason: <u>At the end, already the entries pertaining to the reversal of the sale and the addition to the closing stock would have been passed.</u> If subsequently if the <u>customer rejects the goods, no further entry needs to be passed.</u></p>
5.	<p>False: -</p> <p>Reason: <u>It is the seller who fixes the term of the period</u> within which the customer has to get back with the answer of rejection or accepting the goods.</p>
6.	<p>False: -</p> <p>Reason: Only upon accepting the goods expressly or doing some act inconsistent with the title of goods the ownership and risk associated with the goods pass on to the buyer. <u>Mere transfer of possession does no convey ownership.</u></p>

Financial Statement of Not-for-Profit Organization

Q. No.	Questions
1.	The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
2.	Both the revenue and capital nature transactions are recorded in the income and expenditure account.
3.	Sale of grass by a sports club is to be treated as sale of an asset.
4.	Subscriptions Outstanding for the current year are disclosed under the Fixed assets side of the Balance Sheet.
5.	Receipts and payments account gives the details about the expenses outstanding for the year.
6.	Adjustments in the form of additional information shall be adjusted in the final accounts of a Non-profit organization only in one place.
7.	Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.
8.	For an Non-profit organization, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
9.	Surplus of non-profit organizations is distributed among its members.
10.	Tournament fund, building fund, library fund is based on the fund-based accounting.
11.	Subscription fees refers to the one-time fees paid by the memberships to get admission to the benefits of the club.

12.	Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
13.	An Insurance company is an example of non-profit organization.
14.	Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
15.	Both the income and expenditure of the current and the previous year are recorded in the income and expenditure account.
16.	Amount received as donation by a Non-profit organization under the will of a deceased person is termed as legacy.
17.	Where a Non-profit organization has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of Consolidation.



Financial Statement of Not-for-Profit Organization

Q. No.	Answers
1.	<p>False: -</p> <p>Reasons; It depicts the cash system of accounting rather than the accrual system, as the <u>cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed</u> with regard to the receipts and payments account of a non-profit organization.</p>
2.	<p>False: -</p> <p>Reason; The <u>income and expenditure account records only the revenue income and expenditure.</u> The capital transactions are being recorded in the Balance Sheet.</p>
3.	<p>False: -</p> <p>Reasons; The grass for a sports club is not a capital item, hence the sale of such grass shall <u>be treated as a revenue receipt.</u></p>
4.	<p>False: -</p> <p>Reason; They are <u>disclosed under the current assets of the Balance sheet</u> as they will be paid within the next year and not to be treated as non-current assets.</p>
5.	<p>False: -</p> <p>Reason; <u>Receipts and payments account gives information about the expenses paid in cash for the current year. Previous or the next year.</u> It is only from the additional information we identify the outstanding expenses.</p>
6.	<p>False: -</p> <p>Reasons; Additional information means that information which has been identified just before the preparation of the final Accounts. As <u>NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.</u></p>

Consignment

Q. No.	Questions
1.	Value of the abnormal loss is debited to the consignment account.
2.	Sales account and account sales are one and the same.
3.	The consignment stock is at the risk of the consignor
4.	Normal commission is paid to the consignee to bear the risk of the bad debts on sale of the consigned stock.
5.	There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.
6.	Consignment account is a representative personal account.
7.	Proforma invoice is sent by the consignee to the consignor giving details about the stock of goods sent on consignment and their cost invoice price etc.
8.	The bad debt in case of del credere commission shall be debited to the consignment account.
9.	Abnormal loss is created out of uncontrollable situation and circumstances.
10.	The relationship between the consignor and his consignee is that of a seller and a buyer.

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Consignment

Q. No.	Answers
1.	False: - Reason: The abnormal loss <u>is credited to the consignment account since it is a reduction in the value of the stock.</u> Alternatively, it can be <u>credited to the trading account of the consignor too as there is reduction from the stock of the goods.</u>
2.	False: - Reason: <u>The sales account shows the balance receivable account of the sales- both cash and credit sales,</u> whereas the <u>account sale statement is given by the consignee to the consignor on a periodical basis detailing the transaction done by the former.</u>
3.	True: - Reason: The <u>consignor is the owner of the goods sent on consignment.</u>
4.	False: - Reason: <u>The del-credit commission paid to the consignee for bearing the loss of the bad debt if any.</u>
5.	True: - Reason: <u>It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods.</u> There is no entry passed in the books of the consignee.
6.	False: - Reason: It is a <u>nominal account recording the expense on the debit and the income on the credit side</u> balance being the profit/loss on the consignment account to the trading account.

7.	False: - Reason: <u>Proforma invoice is given by the consignor to the consignee with regards to the goods sent or consignment and their price.</u>
8.	False: - Reason: If del-credere commission is given to the consignee then, the <u>bad debt is taken into the accounts of the consignee.</u> It will <u>not appear in the consignment account.</u>
9.	False: - Reason: Abnormal loss occurs due to unforeseen circumstance, but if necessary, steps are taken they can be controlled it is only the <u>natural loss which cannot be controlled since it occurs due to nature of the product.</u>
10.	False: - Reason: The <u>relationship between the consignor and the consignee is that of a principle and agent.</u> It is mere arrangement for sale of goods on behalf of the consignor.



Inventories

Q. No.	Questions
1.	Inventories are stock of goods and material that are maintained for mainly the purpose of revenue generation.
2.	A building is considered inventory in a construction business
3.	Inventory is valued as carrying cost less percentage decreases.
4.	Management has daily information about the quantity and valuation of closing stock under physical inventory system.
5.	Period inventory system is more suitable for small enterprises.
6.	When closing inventory is over stated, net income for the accounting period will be understated.
7.	Closing inventory = opening inventory + purchase + direct expense + cost of goods sold.
8.	Cost of inventory should comprise all cost of purchase.
9.	Cost of conversion of inventory includes cost directly related to the units of production. They include allocation of fixed overheads only.
10.	Abnormal amounts of wasted materials, labor or other production overheads expense are included in the cost of inventories.
11.	Perpetual system requires closure of business for counting of inventory.
12.	Periodic inventory system is a method of ascertain inventory by taking an actual physical count.

13.	The value of ending inventory under simple average method is realistic as compare to LIFO
14.	The value of stock is shown as on the asset side of balance sheet as fixed assets
15.	Under inflationary condition, FIFO will not show lowest value of cost of goods sold.
16.	Under LIFO valuation of inventory is based on the assumption that cost are charged against revenue in the order in which they occur.
17.	Valuation of inventory at cost or net realizable value whichever less, is based on the principle of conversation.
18.	Finished goods are normally valued at cost or market price whichever is higher.
19.	Inventory of by-product should be valued at net realizable value where cost of by-product can be separate determined

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Inventories

Q. No.	Answers
1.	True: - Reason: Inventory refer to stock of goods and material that are <u>maintained for mainly the purpose of revenue generation.</u>
2.	True: - Reason: For a <u>construction business a building under construction will be inventory.</u> The building is being built in the normal course of business and will eventually be sold as well as inventory.
3.	False: - Reason: Inventory is <u>valued at lower of cost or net realizable value.</u>
4.	False: - Reason: Under <u>perpetual inventory system management have daily information of closing stock.</u>
5.	True: - Reason: <u>A Period inventory system is more suitable for small enterprises.</u>
6.	False: - Reason: When closing inventory is overstated <u>net income for the accounting period will be overstated.</u>
7.	False: - Reason: Closing stock = COGS-(opening inventory+ purchase+ direct expense).
8.	False: - Reason: Cost of inventory should <u>comprise all cost of conversion and other cost incurred in bringing the inventories to their present location and condition.</u>

9.	False: - Reason: Cost of conversion of inventories includes cost directly related to the units of production. They <u>also include a systematic allocation of fixed and variable overheads.</u>
10.	False: - Reason: Abnormal amounts of wasted materials labor or other production overheads expense are generally <u>not included in the cost of inventories.</u>
11.	False: - Reason: <u>Periodic system requires closure of business for counting of inventory</u>
12.	True: - Reason: Under Periodic inventory system is <u>a method of ascertain inventory by taking an actual physical count.</u>
13.	True: - Reason: <u>Value of ending inventory under simple average method is realistic as compare to LIFO.</u>
14.	False: - Reason: The <u>value of stock is shown on the asset side of the balance sheet as current assets.</u> As it is realizable within 12 months
15.	False: - Reason: Under inflationary condition, <u>valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.</u>
16.	False: - Reason: Under FIFO, <u>valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.</u>
17.	True: - Reason: The <u>Valuation of inventory at cost or net realizable value whichever less, is based on the principle of conversation.</u>
18.	False: - Reason: Finished goods are normally <u>valued at cost or market price whichever is lower.</u>
19.	False: - Reason: <u>Inventory of by-product the cost of which cannot be separately determined should be valued at net realizable value.</u>

Average Due Date

Q. No.	Questions
1.	The specific due date excludes the addition of grace day to arrive at the due date.
2.	Payment made before the average due date entitles rebate to the customer.
3.	Average due date result in loss to the party making payment exactly on the average due date.
4.	It is always the date of any transaction which is considered as base date.
5.	Interest has to be paid by the party making payment exactly on the average due date.
6.	Where the due date is a public holiday and the preceding day is a sudden holiday, then the due date falls on the preceding the sudden holiday.

Average Due Date

Q. No.	Answers
1.	True: - Reason: Where the <u>due date is specifically given</u> , then there is <u>no need of further addition of 3 days grace to it</u> .
2.	True: - Reason: The <u>rebate is given to the customer who make payment early to the average due date</u> .
3.	False: - Reason: <u>It is single weighted average date</u> calculated in such a way that it does <u>not create any profit/loss to both the parties involved</u> .
4.	False: - Reason: The <u>date of the earlier or most initial transaction that is considered as the base date</u> for the purpose of arriving at the average due date.
5.	False: - Reason: If payment made on the average due date, then there is <u>no need to pay interest or provide rebate as it is a date resulting in no profit/loss to either party</u> .
6.	True: - Reason: This can be understood from the example-where august 15 th is the due date, then the revised due date is 14 th -which is considered as sudden holiday, then the due date becomes 13 th (preceding working day)

Account Current

Q. No.	Questions
1.	Current account and account current are one and the same.
2.	The account current is an extension of the average due date concept
3.	Date of transaction or the due date whichever is earlier is considered for computation of the number of days.
4.	A is in account current with B. the person rendering the account current is Mr. A.
5.	The honored bills of exchange will not be recorded in the account current.
6.	The interest charged by banker to customer on overdrawn account is called red ink interest.

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Account Current

Q. No.	Answers
1.	<p>False: -</p> <p>Reason: Account current statement of running transaction between two parties to ascertain the amount along with interest payable. Current account is an <u>account type to be maintained with the bank</u>. In both the interest is calculated, but then different methods to calculate the interest.</p>
2.	<p>True: -</p> <p>Reason: <u>An extension of the counter transaction between two parties' type under the average due date</u> where in the date of the initial transaction is considered as the base date from which the no. of days to the date of rendering the account is calculated.</p>
3.	<p>False: -</p> <p>Reason: <u>The due date is considered for the purpose of calculation of number of days and not the date of transaction.</u></p>
4.	<p>False: -</p> <p>Reason: <u>It is B who is preparing and rendering the account current to Mr. A</u></p>
5.	<p>True: -</p> <p>Reason: The bill of exchange which is honored will not appear in the account current, <u>only in case of dishonor, it will be appearing in the account current.</u></p>
6.	<p>False: -</p> <p><u>When the due date of any transaction falls after the date on which account current is prepared</u> interest in respect of such transaction is written in red ink being a negative item. Since it is written in red ink, it is called red ink interest.</p>

Issue Forfeiture and Re-Issue of Shares

Q. No.	Questions
1.	Liability of a holder of shares is limited to the face value of shares acquired by them.
2.	Authorized Capital appears in the balance Sheet at face Value.
3.	The rate of dividend on preference shares may vary from year to year.
4.	A Company may issue shares at a discount to the public in general.
5.	Sweat equity Shares are those which are issued to employees & directors at a discount.
6.	As per Table F, rate of interest on calls in arrears is 12%.
7.	As per Table F, rate of interest on calls in advance is 10%.
8.	Non-participating preference shareholders enjoy voting rights.
9.	A forfeited shares is available to the company for the purpose of resale.
10.	Loss on reissue should exceed the forfeited amount.



Issue Forfeiture and Re-Issue of Shares

Q. No.	Answers
1.	False: - Reason; Liability of the holder of shares is limited to the <u>issue price of shares acquired by them.</u>
2.	True: - Reason; Authorized Capital is the amount of Capital Mentioned in 'capital clause' of the 'Memorandum of Association'. <u>Authorized capital is considered only as presentation and not considered in total of balance sheet.</u>
3.	False: - Reason; <u>Rate of preference dividend is always fixed.</u>
4.	False: - Reason; According to Section 53 of the Companies Act, 2013, <u>Company cannot issue shares at a discount except in the case of issue of sweat equity shares (Issued to employees and directors).</u> Thus, any issue of shares at discount shall be void.
5.	True: - Reason; According to Section 53 of the Companies Act, 2013, <u>a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (Issued to employees and directors).</u>
6.	False: - Reason; As per table F, <u>rate of interest on calls in arrears is 10%.</u>
7.	False: - Reason; As per Table F, <u>rate of interest on calls in advance is 12%.</u>

8.	False: - Reason; A Share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'non-participating preference shares, <u>non-participating preference shareholders do not enjoy voting rights.</u>
9.	True: - Reason; <u>Reissue of forfeited shares is not allotment of shares but only a sale.</u>
10.	False: - Reason; <u>Loss on re-issue should not exceed the forfeited amount.</u>

Issue of Debentures

Q. No.	Questions
1.	Debenture holder are the owners of the company.
2.	Perpetual debentures are payable at the time of liquidation of the company.
3.	Registered debentures are transferable by delivery.
4.	When Companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures
5.	Debenture's suspense account appears on liability side of balance sheet.
6.	If a company incurs loss, then it does not pay interest to the debenture holders.
7.	At the time of liquidation, debenture holders are paid off after the shareholders.
8.	Convertible debentures can be converted into equity shares.
9.	Redeemable debentures are not payable during the life time of the company.
10.	Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.



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Issue of Debentures

Q. No.	Answers
1.	False: - Reasons; <u>Debenture holder are the creditors of the company.</u>
2.	True: - Reasons; <u>Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.</u>
3.	False: - Reason; <u>Registered debentures are not easily transferable by delivery.</u> Bearer debentures are transferrable by delivery.
4.	True: - Reasons; <u>In Case the company cannot repay its loan & the interest there on the due date, the lender becomes debenture holder & then only he is entitled to interest on debentures.</u>
5.	False: - Reasons; <u>Debenture's suspense account appears on asset side of balance sheet under non-current asset.</u>
6.	False: - Reason; <u>Even if the company incurs losses. It has to pay the interest on debentures.</u>
7.	False: - Reasons; <u>At the time of liquidation, debentures holders are paid off before shareholders on priority basis.</u>
8.	True: - Reasons; <u>Yes, convertible debentures can be converted into equity shares.</u>
9.	False: - Reason; <u>These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.</u>
10.	True: - Reason; <u>Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.</u>

Introduction to Partnership Accounts

Q. No.	Questions
1.	In absence of any agreement partners share profits of the business in the ratio of their capital contribution.
2.	Profit sharing ratio and capital contribution ratio need not be same.
3.	Every Partnership firm must register itself with Registrar of firms.
4.	A partner can advance loan to the partnership firm in addition to capital contributed by him.
5.	A partner can demand interest on capital even if it is not provided in the partnership deed.
6.	If a partner does not take part in day-to-day business activities of the firm, then he is not entitled to any share of profit.
7.	Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed.
8.	Husband and wife cannot be partners in the same firm.
9.	One Senior partner is Principal and other partners are his agents.
10.	Partners are the agents of the firm and each other.

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Introduction to Partnership Accounts

Q. No.	Answers
1.	False: - Reasons; In <u>absence of any agreement partners share profits equally</u> and not in capital contribution ratio.
2.	True: - Reasons; <u>Profit sharing can be different from the that of the capital introduced by each of the partner.</u> Not necessary that partner contributing more capital should have a higher profit-sharing ratio and vice versa.
3.	False: - Reasons; <u>Registration of firms is not compulsory</u> under Indian Partnership Act 1932.
4.	True: - Reasons; Yes, <u>loan is given to the firm</u> at a cost, where the partnership deed is absent, then the interest shall be paid at a minimum of 6% per annum. So the interest on the loan to be paid to the partner.
5.	False: - Reasons; <u>Interest on capital can be paid only if it is provided in the partnership deed.</u>
6.	False: - Reasons; Every partner need not take part in the business. <u>Even if a partner does not take part in the business he is entitled for his share of profit.</u>
7.	True: - Reasons; Yes, as per the provisions of the law- <u>it is necessary that the interest on loan at 6% per annum shall be paid to the concerned partner.</u>
8.	False: - Reasons; <u>Husband and wife can be partners in the same firm.</u>
9.	True: - Reasons; There is <u>no senior or junior partner.</u> Every partner is agent/principal of other partners.
10.	True: - Reasons; <u>Concept of agency applies to every partner and the firm as well.</u> So, each partner is a principal to and agent of every other partner and to the firm.

Admission of Partner

Q. No.	Questions
1.	A new admitted partner does not have some rights as old partner.
2.	When a new partner is admitted, old partner have to forego certain share in profit of the firm this is called as sacrificing ratio.
3.	Revaluation account is also called as profit and loss adjustment account.
4.	Any appreciation in the value of an assets is credited to revaluation account.
5.	All the partner may decide not to change the values of assets and liabilities in the books of accounts.
6.	New partner is entitled to have share in reserve appearing in the balance sheet prior to his admission.
7.	Any reserve appearing in the balance sheet is credited to existing partner equally.
8.	If revaluation accounts show credit balance, then it represents profit and therefore it is credited to all partners equally.
9.	New partner brings in necessary amount as his capital.
10.	New partners are entitled to share in revaluation profit.

Admission of Partner

Q. No.	Answers
1.	False: - Reason: <u>All the partners have same right at all times, unless contrary is provided in the partnership deed/or agreed by the partner.</u>
2.	True: - Reason: With every new partner remaining <u>old partner have to forgone a proportionate in their share which is called sacrificing ratio.</u>
3.	True: - Reason: <u>Revaluation is also called as profit and loss adjustment account</u>
4.	True: - Rishi Raj rishiraj7870587444@gmail.com 918210552711 Reason: <u>Increase in assets is an income hence credited to revaluation account.</u>
5.	True: - Reason: This <u>can be done by opening memorandum revaluation account.</u>
6.	False: - Reason: <u>New partner is not entitled to have any share in the reserve of the firm prior to his admission</u> such reserve is distributed to old partner in their old profit-sharing ratio.
7.	False: - Reason: Any reserve appearing in the balance sheet is <u>credited to existing partners in their old profit sharing ratio and not equally.</u>
8.	False: - Reason: If revaluation account shows credit balance, then it represents profit and therefore it is <u>credited to all partners in their profit-sharing ratio</u> and not equally.
9.	True: - Reason: Every <u>incoming partner shall bring in some amount of capital for the firm.</u>
10.	False: - Reason: <u>New partner is not entitled to profit on revaluation</u> , it belonging to old partners in their profit-sharing ratio.

Retirement of a Partner

Q. No.	Questions
1.	Business of a partnership has to be closed if any one partner retires.
2.	At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.
3.	After retirement of a partner, profit sharing ratio of continuing partners remains the same.
4.	If any partner wants to retire from the business, he must retire on 1 st day of the accounting year.
5.	Retiring partner has to forego his share of goodwill in the firm.
6.	If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement.
7.	If the firm has taken any joint life policy then it is to be surrendered on retirement of a partner.
8.	Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit-sharing ratio.
9.	No revaluation account is necessary on retirement of a partner.
10.	Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.

Retirement of a Partner

Q. No.	Answers
1.	False: - Reasons; <u>Business of a partnership is not closed if any one partner retires, remaining partners continue to carry on the business.</u>
2.	False: - Reasons; <u>At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their profit-sharing ratio.</u>
3.	False: - Reasons; <u>After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.</u>
4.	False: - Reasons; <u>A partner can retire on any day as per his wish.</u>
5.	False: - Reasons; <u>Retiring partner is entitled to his share of goodwill in the firm.</u>
6.	False: - Reasons; <u>If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.</u>
7.	True: - Reasons; <u>Yes, the firm is eligible for the surrender value on the JLP taken on the partners.</u>
8.	True: - Reasons; <u>As per the surrender policy method, the JLP reserve is distributed to the partners in their old profit-sharing ratio through capital account.</u>
9.	False: - Reason; <u>Revaluation account is necessary on retirement of a partner.</u>
10.	False: - Reasons; <u>Profit on Revaluation is credited to all the partners in their profit-sharing ratio.</u>

Death of Partner

Q. No.	Questions
1.	Business of partnership comes to an end on death of a partner.
2.	Legal heir of a deceased partner automatically becomes partner in the firm.
3.	A revaluation account is opened in the books of accounts on death of a partner.
4.	Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners' capital account in their profit-sharing ratio.
5.	Legal heirs of a deceased partner are entitled to his capital account balance only.
6.	It is not necessary to adjust goodwill on death of a partner.
7.	On death of a partner continuing partners can agree to change their capital contribution and profit-sharing ratio.
8.	On death of a partner, the firm gets surrender value of the Joint life policy.
9.	Only legal heirs of deceased partner are entitled to amount received from Joint life Policy.



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Death of Partner

Q. No.	Answers
1.	False: - Reasons; <u>Surviving partners continue to carry on the business.</u>
2.	False: - Reasons; <u>Legal heirs of deceased partners are entitled to dues of the deceased partner.</u> <u>They cannot become partner in the business.</u>
3.	True: - Reasons; <u>To find out the actual values of the assets and liabilities, revaluation account is prepared.</u>
4.	True: - Reasons; <u>Reserves belong to the partners in the same manner the capital contributed by them.</u> Hence it is distributed to them through the capital account.
5.	False: - Reasons; <u>Legal heirs of a deceased partner are entitled to all the dues of deceased partner.</u>
6.	False: - Reasons; <u>It is very much necessary to adjust goodwill on death of a partner.</u>
7.	True: - Reasons; <u>Yes, it can be continued in the earlier share or in new share-in-either case it leads to computing a new profit-sharing ratio.</u>
8.	False: - Reasons; <u>On death of a partner the firm gets full value of sum assured of the joint life policy.</u>
9.	False: - Reasons; <u>All the partners are entitled to amount received from joint life policy.</u>