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CA FOUNDATION
ACCOUNTS
Theory Question Bank

CA ANANDH BHANGGARIYA

INDEX

MEANING AND SCOPE OF ACCOUNTING

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Accounting can be viewed as an information system which has its input processing methods and output.
2. There is no difference between book keeping and accounting, both are same.
3. Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
4. Financial accounting is concerned with internal reporting to the managers of a business unit.
5. Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business
6. Summarising is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.
7. Balance sheet shows the position of the business on the day of its preparation and not on the future date.
8. Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.

Answer :

1. True: Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.
2. **False:** Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records.
   Book-keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system.
3. **False:** Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
4. **False:** Management accounting is concerned with internal reporting to the managers of a business unit.
5. **False:** Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods
6. **False:** Recording is the basic function of accounting. Summarising is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements
7. **True:** Balance Sheet is a statement of the financial position of an enterprise at a given date.
8. **True:** Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.

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B) MULTIPLE CHOICE QUESTIONS

1) Which of the following is not a subfield of accounting?
   a) Management accounting
   b) Cost accounting.
   c) Book-keeping

Answer : (c) Book-keeping

2) Purposes of an accounting system include all the following except
   a) Interpret and record the effects of business transaction.
   b) Classify the effects of transactions
   c) Dictate the specific types of business enterprise transactions that the enterprises may engage in.

Answer : (c) Dictate the specific types of business enterprise transactions that the enterprises may engage in.

3) Book-keeping is mainly concerned with
   a) Recording of financial data.
   b) Designing the systems in recording, classifying and summarising the recorded data.
   c) Interpreting the data for internal and external users.

Answer : (a) Recording of financial data.

4) All of the following are functions of Accounting except
   a) Decision making.
   b) Ledger posting.
   c) Forecasting.

Answer : (b) Ledger posting.

5) Financial statements are part of
   a) Accounting.
   b) Book-keeping.
   c) Management Accounting.

Answer : (a)Accounting.

6) Financial position of the business is ascertained on the basis of
   a) Records prepared under book-keeping process.
   b) Trial balance.
   c) Balance Sheet.

Answer : (c) Balance Sheet.

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7) Users of accounting information include
   a) Creditors/Suppliers
   b) Lenders/ Customers
   c) Both (a) and (b)

Answer : (c) Both (a) and (b)

8) Financial statements do not consider
   a) Assets expressed in monetary terms.
   b) Liabilities expressed in monetary terms.
   c) Assets and liabilities expressed in non-monetary terms

Answer : (c) Assets and liabilities expressed in non-monetary terms

9) On January 1, Sohan paid rent of ₹ 5,000. This can be classified as
   a) An event.
   b) A transaction.
   c) A transaction as well as an event.

Answer : (b)A transaction.

10) On March 31, 2020 after sale of goods worth ₹ 2,000, he is left with the closing inventory of ₹ 10,000. This is
   a) An event.
   b) A transaction.
   c) A transaction as well as an event.

Answer : (a) An event.

C) THEORETICAL QUESTIONS

1) Define accounting. What are the sub-fields of accounting?
2) Who are the users of accounts?
3) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.
4) What services can a Chartered Accountant provide to the society?

Answer :

1) Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof. Various subfields of accounting are listed as: Financial Accounting; Management Accounting; Cost Accounting; Social Responsibility Accounting and Human Resource Accounting.

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2) Users of accounts can be listed as Investors, Employees, Lenders, Suppliers and Creditors, Customers, Govt. and their agencies, public and Management.
3) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:
    - The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
    - Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
    - Accounting ignores changes in some money factors like inflation etc.
    - There are occasions when accounting principles conflict with each other.
    - Certain accounting estimates depend on the sheer personal judgement of the accountant.
    - Different accounting policies for the treatment of same item adds to the probability of manipulations.
4) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

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Auto Driver's Daughter Gets Ist Rank in CA Final Nov 2012

This is the success story of Ist ranker herself, she's 24 year old **Prema Jayakumar,** you would have heard her name. She's belongs from Mumbai. Prema, whose father is an auto-rickshaw driver and drives an auto-rikshaw for a living, is now determined to use the milestone as a stepping-stone towards providing her parents with a life of comfort.

Prema's four-member family squeezes itself into a 300 sq ft room in S B Khan Chawl, Malad. Beaming over her success after the results were declared yesterday. This is not her first stint on a toppers' list: she scored 90 per cent in her Third Year B Com exams from the University of Mumbai, standing second. Prema said that she owed a debt of gratitude for the professors at her college and coaching institute, who had worked hard with her. The graduate from Nagindas Khandwala College completed her M Com from the University of Mumbai.

Tea Stall Daughter Cracks CA Final Nov 2012 Exam

The girl who even didn't have fees to pay CA course fees. She also worked on her father's tea stall cracks CA Final Nov 2012 exam. She proves success quotation: **"Where determination is Great, Nothing is Great"** She had determined a goal to be a CA and she worked hard to fulfill her dream even after toughest difficulties in her life and now she's the CA Cracker. She proved: **"Where there's a Will, there's a way"**

Her name is CA DHANSHREE VILAS TODKAR. See the **irony**, her father hadn't enough money to celebrate such a big day with Sweets, what he brought for her daughter was "BISCUITS".

Salutes. /

Many many congratulations to her and her family.

CA Shailee Chaudhary Air I- From Ipcc In 8 Attempts To Final Rank I

"I have cleared my IPCC first group in 4th attempt and the second group in 5th attempt. It took me two attempts for the CA Final exam also, but the **second one was a golden attempt and I got AIR I in CA Final.** "

Shailee Chaudhary has set an Example for all of us. She is actually a role model for all the CA Students who takes failure as last phase of life. So students who got failed in this attempt Please don't loose hope, May be GOD has written something better for you.

You have to understand that never such competitive exams will have 100% result and u have to work hard in such way that if institute result is 5% then you should in that 5% and for that its important to make a proper strategy. We should always plan our work first and then we should work on that plan.

We often feel demotivated because the task we face feels too big, too hard or too much of a challenge. That's why it's important to break your studying down into smaller, more manageable chunks of work.

The idea of revising an entire module in one go can be rather daunting, so make things easier on yourself. Take a more structured approach and plan out what you will study week by week.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
2) Accrual concept implies accounting on cash basis.
3) The results and position disclosed by final accounts are not exact.
4) The value of human resources is generally shown as assets in the Balance Sheet.
5) Net income in case of persons practicing vocation is determined by preparing profit and loss account.
6) The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matchingconcept.
7) Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.
8) Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred.
9) The Conservatism Concept also states that no change should be counted unless it has materialized.
10) The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting.
11) The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc.

Answer :

1) True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
2) False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
3) True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.
4) False: The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.
5) False: Net income is determined by preparing income and expenditure in case of persons practicing vacation.
6) **False:** Under matching concept all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.
7) **True:** Since the owner invested capital, he has claim on the profits of the enterprise.

8) **False:** Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e., when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
9) **False:** The Realisation Concept also states that no change should be counted unless it has materialised.
10) **False:** The concept of consistency does not imply non-flexibility as not to allow the introduction of improved method of accounting.
11) **True:** As per materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.

B) MULTIPLE CHOICE QUESTIONS

I.

i. All the following items are classified as fundamental accounting assumptions except
   a) Consistency.
   b) Business entity.
   c) Going concern.

ii. Two primary qualitative characteristics of financial statements are
   a) Understandability and materiality.
   b) Relevance and reliability.
   c) Neutrality and understandability.

iii. Kanika Enterprises follows the written down value method of depreciating machinery year after year due to
   a) Comparability.
   b) Convenience.
   c) Consistency.

iv. A purchased a car for ₹ 5,00,000, making a down payment of ₹ 1,00,000 and signing a ₹ 4,00,000 bill payable due in 60 days. As a result of this transaction
   a) Total assets increased by ₹ 5,00,000.
   b) Total liabilities increased by ₹ 4,00,000.
   c) Total assets increased by ₹ 4,00,000 with corresponding increase in liabilities by ₹ 4,00,000.

v. Mohan purchased goods for ₹15,00,000 and sold 4/5th of the goods amounting ₹18,00,000 and met expenses amounting ₹ 2,50,000 during the year, 2020. He counted net profit as ₹ 3,50,000. Which of the accounting concept was followed by him?

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a) Entity.
b) Periodicity.
c) Matching.

vi. A businessman purchased goods for ₹ 25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2020. The market value of the remaining goods was ₹ 4,00,000. He valued the closing Inventory at cost. He violated the concept of
a) Money measurement.
b) Conservatism.
c) Cost.

vii. Capital brought in by the proprietor is
a) Increase in asset and increase in liability
b) Increase in liability and decrease in asset.
c) Increase in asset and decrease in liability.

Answer :

i. (b) Business entity.
ii. (b) Relevance and reliability.
iii. (c) Consistency.
iv. (c) Total assets increased by ₹ 4,00,000 with corresponding increase in liabilities by ₹ 4,00,000.
v. (c) Matching.
vi. (b) Conservatism.
vii. (a) Increase in asset and increase in liability

2.

i. Assets are held in the business for the purpose of
a) Resale.
b) Conversion into cash.
c) Earning revenue.

ii. Revenue from sale of products, is generally, realized in the period in which
a) Cash is collected.
b) Sale is made.
c) Products are manufactured.

iii. The concept of conservatism when applied to the balance sheet results in
a) Understatement of assets.
b) Overstatement of assets.
c) Overstatement of capital.

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iv. Decrease in the amount of trade payables results in
  a) Increase in cash.
  b) Decrease in bank over draft account.
  c) Decrease in assets.

v. The determination of expenses for an accounting period is based on the principle of
  a) Objectivity.
  b) Materiality.
  c) Matching.

vi. Economic life of an enterprise is split into the periodic interval to measure its performance is as per
  a) Entity.
  b) Matching.
  c) Periodicity.

Answer :

i. (c) Earning Revenue
ii. (b) Sale is made
iii. (a) Understatement of assets.
iv. (c) Decrease in assets.
v. (c) Matching.
vi. (c) Periodicity.

3.

i. If an individual asset is increased, there will be a corresponding
  a) Increase of another asset or increase of capital.
  b) Decrease of another asset or increase of liability.
  c) Decrease of specific liability or decrease of capital.

ii. Purchase of machinery for cash
  a) Decreases total assets.
  b) Increases total assets.
  c) Retains total assets unchanged.

iii. Consider the following data pertaining to Alpha Ltd.: Particulars

	₹
Cost of machinery purchased on 1st April, 2019	10,00,000
Installation charges	1,00,000

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Market value as on 31st March, 2020 12,00,000

While finalizing the annual accounts, if the company values the machinery at ₹ 12,00,000. Which of the following concepts is violated by the Alpha Ltd.?

a) Cost.
b) Increases total assets.
c) Accrual.

Answer :

i. (b) Decrease of another asset or increase of liability.
ii. (c) Retains total assets unchanged.
iii. (a) Cost.

C) THEORETICAL QUESTIONS

1. Briefly explain the qualitative characteristics of the financial statements:

Answer :

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users.

D) SHORT NOTES

1. Fundamental accounting assumptions.
2. Periodicity concept.
3. Accounting conventions.
4. Measurement.

Answer :

1. Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:
   1. Going concern: The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
   2. Consistency: It is assumed that accounting policies are consistent from one period to another.

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3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

2. **Periodicity concept:** According to this concept accounts should be prepared after every period & not at the end of the life of the entity.

3. **Accounting** conventions: Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

4. Measurement is vital aspect of accounting. Primarily transactions and events are measured in **terms** of money. Any measurement discipline deals with three basic elements of measurement viz., identification of objects and events to be measured, selection of standard or scale to be used, and evaluation of dimension of measurement standards or scale.
   Kohler defined measurement as the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquiry or apparatus of observations in accordance with logical or mathematical rules.
   Three important elements of measurement are:
   (1) Identification of objects and events to be measured;
   (2) Selection of standard or scale to be used;
   (3) Evaluation of dimension of measurement standard or scale.

E) DISTINGUISH BETWEEN

1) Money measurement concept and matching concept
2) Going concern and cost concept

Answer :

1) Distinction between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

2) Distinction between Going concern and cost concept

Going Concern Concept

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

Cost Concept

By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost.

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ACCOUNTING POLICIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The balance sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the balance sheet date.
2. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.
3. Selection of accounting policy doesn't impact financial performance and financial position of the business
4. A change in accounting policies should be made as and when business like to show result as per their choice.
5. Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy.
6. Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time.

Answer :

1. False; If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.
2. **False:** There cannot be single list of accounting policies, which are applicable to all enterprises in all circumstances. There would always be different policies chosen by different industries under different circumstances.
3. **False:** Accounting policy has big impact on value of items goes under financial statements, hence it impacts financial performance and financial position of the business.
4. **False:** A change in accounting policies should be made in the following conditions:
   (a) It is required by some statute or for compliance with an Accounting Standard.
   (b) Change would result in more appropriate presentation of financial statement.
5. **True:** An enterprise may adopt FIFO or weighted average method for inventory valuation and the method selected for valuation is called an accounting policy.
6. **False:** It could understate/overstate the performance and financial position of a business entity.

B) MULTIPLE CHOICE QUESTIONS

1. A change in accounting policy is justified
   a) To comply with accounting standard and law.
   b) To ensure more appropriate presentation of the financial statement of the enterprise.
   c) All of the above.

Answer : (c) All of the above.

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2. Accounting policy for inventories of Xeta Enterprises states that inventories are valued at the lower of cost determined on weighted average basis or net realizable value. Which accounting principle is followed in adopting the above policy?
   a) Materiality
   b) Prudence.
   c) Substance

Answer : (b) Prudence.

3. The areas wherein different accounting policies can be adopted are
   a) Providing depreciation.
   b) Valuation of inventories.
   c) Both the option.

Answer : (c) Both the option.

4. Selection of an inappropriate accounting policy decision may
   a) Overstate the performance and financial position of a business entity.
   b) Understate/overstate the performance and financial position of a business entity.
   c) Overstate the performance of a business entity.

Answer : (b) Understate/overstate the performance and financial position of a business entity.

5. Accounting policies refer to specific accounting
   a) Principles.
   b) Methods of applying those principles.
   c) Both (a) and (b).

Answer : (c) Both (a) and (b).

C) THEORETICAL QUESTIONS

1. Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.
2. "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Answer :

1. Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements.
2. Change in accounting policy may have a material effect on the items of financial statements. For example, if depreciation method is changed from straight-line method to written-down value method, or if cost formula used for inventory valuation is changed from weighted average

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to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

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ACCOUNTING AS A MEASUREMENT DISCIPLINE – VALUATION PRINCIPLES, ACCOUNTING ESTIMATES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. There are four generally accepted measurement bases.

   (i) Historical Cost; (ii) Current Cost;

   (iii) Realizable Value; (iv) Future Value.

2. Historical Cost means price paid at time acquisition.
3. As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
4. At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.
5. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Historical cost of machine is 20,00,000
6. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Current cost of machine is ₹ 20,00,000

Answer :

1. **False:** There are four generally accepted measurement bases .

   (i) Historical Cost; (ii) Current Cost;

   (iii) Realizable Value; (iv) Present Value.

2. **True:** Historical cost means the acquisition price.
3. **False:** At Realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
4. **False:** Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.
5. **False:** Historical cost is ₹10,00,000.
6. **True:** Since similar machine is purchased at 20,00,000, the current cost of machine is ₹ 20,00,000

B) MULTIPLE CHOICE QUESTIONS

1. Measurement discipline deals with
   a) Identification of objects and events.
   b) Selection of scale.
   c) Both (a) and (b)

2. All of the following are valuation principles except
   a) Historical cost.
   b) Present value.

c) Future value.

3. Book value of machinery on 31st March, 2019 ₹ 10,00,000

Market value as on 31st March, 2019 if sold ₹ 11,00,000

As on 31st March, 2019, if the company values the machinery at ₹ 11,00,000, which of the following valuation principle is being followed?

a) Historical Cost.

b) Present Value.

c) Realisable Value.

Answer :

1. (c) Both (a) and (b)
2. (c) Future value.
3. (c) Realisable Value.

4. Mohan purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2019, similar machinery could be purchased for ₹ 20,00,000 but the realizable value of the machinery (purchased on 1.4.2001) was estimated at ₹ 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as ₹ 12,00,000.

i. The current cost of the machinery is

a) ₹ 10,00,000.

b) ₹ 20,00,000.

c) ₹ 15,00,000.

ii. The present value of machinery is

a) ₹ 10,00,000.

b) ₹ 20,00,000.

c) ₹ 12,00,000.

iii. The historical cost of machinery is

a) ₹ 10,00,000.

b) ₹ 20,00,000.

c) ₹ 15,00,000.

iv. The realizable value of machinery is

a) 10,00,000.

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b) ₹ 20,00,000.

c) ₹ 15,00,000.

Answer :

i. (b) ₹ 20,00,000.

ii. (c) ₹ 12,00,000.

iii. (a) ₹ 10,00,000.

iv. (c) ₹ 15,00,000.

C) THEORETICAL QUESTIONS

1. Define Measurement in brief. Explain the significant elements of measurement.
2. Describe in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.

Answer :

1. Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Three elements of measurement are: (1) Identification of objects and events to be measured; (2) Selection of standard or scale to be used;(3)Evaluation of dimension of measurement standard or scale.

2. Alternative measurement bases are: (i)Historical Cost; (ii)Current cost (iii) Realizables (Settlement) Value and (iv) Present Value.

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CAPITAL AND REVENUE EXPENDITURES AND RECEIPTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
2. Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
3. Insurance claim received on account of plant and machinery completely damaged by the fire is a capital receipt.
4. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
5. Amount spent on the replacement of worn out part of machine is Capital Expenditure.
6. Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
7. Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
8. M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.
9. The nature of business is not an important criteria in separating an expenditure between capital and revenue.
10. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.
11. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.
12. Amount spent for replacement of worn out part of machine is Capital Expenditure.
13. Legal fees to acquire property is Capital Expenditure.
14. Amount spent for the construction of temporary huts, which were necessary for construction of the cinema house and were demolished when the cinema house was ready, is Capital Expenditure.

Answer:

1. True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.
2. False: 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.

3. True; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
4. True; Subsidy received from the government for working capital by a manufacturi ng concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
5. False: Amount spent for replacement of any worn out part of a machine is revenue expense since it is a part of its maintenance cost.
6. False: Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.
7. True: Since the temporaryhuts were necessaryfor the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
8. False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.
9. **False:** The nature of business is a very important criteria in separating an expenditure between capital and revenue. For example- For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. .
10. **False:** Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
11. **False:** Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.
12. **False:** Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.
13. **True:** Legal fee paid to acquire any property is a part of cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
14. **True:** Since temporary huts were necessary for the construction, their cost should be added to the cinema hall and thus capitalised.

B) MULTIPLE CHOICE QUESTIONS

1. Money spent ₹ 10,000 as traveling expenses of the directors on trips abroad for purchase of capital assets is
   a) Capital expenditures
   b) Revenue expenditures
   c) Prepaid revenue expenditures

Answer: (a) Capital expenditures

2. Amount of ₹ 5,000 spent as lawyers' fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is
   a) Capital expenditures
   b) Revenue expenditures
   c) Prepaid revenue expenditures

Answer: (b) Revenue expenditures

3. Entrance fee of ₹ 2,000 received by Ram and Shyam Social Club is
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

Answer: (a) Capital receipt

4. Subsidy of ₹ 40,000 received from the
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

Answer: (b) Revenue receipt

5. Insurance claim received on account of machinery damaged completely by fire is
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

Answer: (a) Capital receipt

6. Interest on investments received from UTI is
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

Answer: (b) Revenue receipt

7. Amount received from IDBI as a medium term loan for augmenting working capital is
   a) Capital expenditures
   b) Revenue expenditures
   c) Capital receipt

Answer: (c) Capital receipt

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8. Revenue from sale of products, ordinarily, is reported as part of the earning in the period in which
    a) The sale is made.
    b) The cash is collected.
    c) The products are manufactured.

Answer: (a) The sale is made.

9. If repair cost is ₹ 25,000, whitewash expenses are ₹ 5,000, (both these expenses relate to presently used building) cost of extension of building is ₹ 2,50,000 and cost of improvement in electrical wiring system is ₹ 19,000; the amount to be expensed is
    a) ₹ 2,99,000.
    b) ₹ 44,000.
    c) ₹ 30,000.

Answer: (c) ₹ 30,000.

C) THEORETICAL QUESTIONS

1. What are the basic considerations in distinguishing between capital and revenue expenditures?
2. Define revenue receipts and give examples. How are these receipts treated?

Answer:

1. The basic considerations in distinction
    a) Nature of business.
    b) Recurring nature of expenditure.
    c) Purpose of expenses.
    d) Effect on revenue generating capacity of business.
    e) Materiality of the amount involved.
2. Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).
   Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

D) DISTINGUISH BETWEEN

1. Capital and revenue expenditure.

Answer

The basic considerations in distinction between capital and revenue expenditures are:

(a)	Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criterion in separating expenditure

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	between capital and revenue.
(b)	Recurring nature of expenditure: If the frequency of an expense is quite oftenin an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.
(c)	Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
(d)	Effect on revenue generating capacity of business: The expenses which helpto generate income/revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.
(e)	Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

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INDIAN ACCOUNTING STANDARDS

I. **A) STATE** WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. The Government of India in consultation with the ICAI decided to adopt IFRSs issued by the IASB.
2. There are many beneficiaries of convergence with IFRSs such as the economy, investors, industry etc.
3. Ther Was no need to converge to global accounting standards.
4. International Financial Reporting Standards (IFRSs) are considered a "rules-based" set of standards.
5. Govt of India has taken IASB support to develop Ind AS standards.
6. IASC stands for International Accounting Standards Council.

Answer :

1. **False :** The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.
2. **True :** Major beneficiaries of convergence with IFRS's are economy,investors and industry.
3. **False :** Since India is going global, there was huge demand of global standards for better comparison.
4. **False :** International Financial Reporting Standards (IFRSs) are considered a "principles-based" set of standards.
5. **False :** Government of India has taken ASB support to develop Ind AS standards.
6. **False :** IASC stands for International Accounting Standards Committee.

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ACCOUNTING STANDARDS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2. Accounting standards can override the statute.
3. Difficulties in making choice between different treatments is one of the benefits of accounting standards.
4. Requirements for additional disclosures is limitation of accounting standards.
5. ASB stands for Accounting standardisation benchmarking.
6. There are no limitation to accounting standards.

Answer :

1. **True:** Accounting standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2. **False:** Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.
3. **False:** Difficulties in making choice between different treatments is one of the limitation of accounting standard.
4. **False:** Benefits of accounting standards are:
   - Standardisation of alternative accounting treatments
   - Comparability of financialstatements
   - Requirements for additional disclosures.
5. **False:** ASB stands for Accounting standard Board.
6. **False:** limitations of accountingstandards
   - Difficulties in making choice between different treatments
   - Restricted scope

B) MULTIPLE CHOICE QUESTIONS

1. Accounting Standards for Non-Corporate entities in India are issued by
   a) Central Govt.
   b) State Govt.
   c) Institute of Chartered Accountants of India.
   d) Reserve Bank of India.

Answer : (c) Institute of Chartered Accountants of India.

2. Accounting Standards
   a) Harmonise accounting policies.
   b) Eliminate the non-comparability of financial statements.
   c) Improve the reliability of financial

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d) All the three.

Answer : (d) All the three.

3. It is essential to standardize the accounting principles and policies in order to ensure
   a) Transparency.
   b) Consistency.
   c) Comparability.
   d) All the three.

Answer : (d) All the three.

C) THEORETICAL QUESTIONS

1. Explain the objective of "Accounting Standards" in brief.
2. State the advantages of setting Accounting Standards.

Answer :

1. Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

2. The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

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CONTINGENT ASSETS AND CONTINGENT LIABILITIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A contingent liability need not be disclosed in the financial statements.
2. A Provision fails to meet the recognition criteria.
3. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.
4. When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability.
5. Present financial obligation of an enterprise, which arises from past event is termed as contingent liability.

Answer :

1. **False:** A Contingent liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.
2. **False:** A contingent liability fails to meet the recognition criteria.
3. **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset
4. **False:** When it is probable that the firm will need to pay off the obligation, this gives rise to provision.
5. **False:** Present Financial obligation of an enterprise, which arises from past events is termed as liability,

B) MULTIPLE CHOICE QUESTIONS

1. Contingent asset usually arises from unplanned or unexpected events that give rise to
   a) The possibility of an inflow of economic benefits to the business entity.
   b) The possibility of an outflow of economic benefits to the business entity.
   c) Either (a) or (b).

Answer : (a) The possibility of an inflow of economic benefits to the business entity.

2. If an inflow of economic benefits is probable then a contingent asset is disclosed
   a) In the financial statements.
   b) In the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).
   c) In the cash flow statement.

Answer : (b) In the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).

3. In the case of, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.
   a) Liability

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b) Provision

c) Contingent liabilities

Answer : (c) Contingent liabilities

4. Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as .

a) Provision.

b) Liability.

c) Contingent liability.

Answer : (a) Provision.

5. In the financial statements, contingent liability is

a) Recognised.

b) Not recognised.

c) Adjusted.

Answer : (b) Not recognised.

C) DISTINGUISH BETWEEN

1. Provision and Contingent Liability.
2. Liability and Contingent liability.

Answer :

1. Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation. On the other hand, a Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.

2. A liability is defined as the present financial obligation of an enterprise, which arises from past events. On the other hand, in the case of contingent liability, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

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BASIC ACCOUNTING PROCEDURES - JOURNAL ENTRIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. In accounting equation approach, equity + Long-term liabilities = fixed asset + 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 P&L A/c.
8. Asset side of balance sheet contains all the personal & nominal accounts.
9. Capital account is a personal account.
10. Journal is also known as the book of original entry.
11. All the personal & real accounts are recorded in P&L A/c.

Answer :

1. **True:** as per the modern accounting equation approach- it is the basic formula in the accounting process
2. **False:** In the traditional approach a debtor becomes giver.
3. **False:** The rule of nominal account states that all expenses & losses are recorded on debit side.
4. **True:** it is one of the book where in the book Where in the transactions not entered in the other books are entered in this book.
5. **False:** Capital account has a credit balance.
6. **True:** as it is considered as an expense.
7. **False:** All the personal & real account are recorded in balance sheet.
8. **False:** Asset side of balance sheet contains all the personal & real accounts.
9. **True:** as it is in the name of the proprietor who is bringing in the capital to the business
10. **True:** as the transactions are entered first in this book as a first hand record.
11. False: All the personal & real account are recorded in balance sheet.

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B) MULTIPLE CHOICE QUESTIONS

1. The rent paid to landlord is credited to
   a) Landlord's account.
   b) Rent account.
   c) Cash account.

Answer : (c) Cash account.

2. In case of a debt becoming bad, the amount should be credited to
   a) Trade receivables account.
   b) Bad debts account.

c) Cash account.

Answer : (a) Trade receivables account.

3. A Ltd. has a ₹ 35,000 account receivable from Mohan. On January 20, Mohan makes a partial payment of ₹ 21,000 to A Ltd. The journal entry made on January 20 by A Ltd. to record this transaction includes:
   a) A credit to the cash received account of ₹ 21,000.
   b) A credit to the Accounts receivable account of ₹ 21,000.
   c) A debit to the cash account of ₹ 14,000.

Answer : (b) A credit to the Accounts receivable account of ₹ 21,000.

4. Which financial statement represents the accounting equation - Assets = Liabilities + Owner's equity:
   a) Income Statement
   b) Statement of Cash flows
   c) Balance Sheet.

Answer : (c) Balance Sheet.

5. Which account is the odd one out?
   a) Office furniture & Equipment.
   b) Freehold land and Buildings.
   c) Inventory of materials.

Answer : (c) Inventory of materials.

6. The debts written off as bad, if recovered subsequently are
   a) Credited to Bad Debts Recovered Account
   b) Credited to Trade receivables Account.
   c) Debited to Profit and Loss Account.

Answer : (a) Credited to Bad Debts Recovered Account

7. In Double Entry System of Book-keeping every business transaction affects:
   a) Two accounts
   b) Two sides of the same account.
   c) The same account on two different dates.

Answer : (a) Two accounts

8. A sale of goods to Ram for cash should be debited to:
   a) Ram

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b) Cash

c) Sales

Answer : (c) Sales

C) SHORT NOTES

1. classification of accounts.
2. Double entry system.
3. Journal.

Answer :

1. Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies broad categories, which are as follows:

    i. Assets: These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.

    ii. Liabilities: These are financial obligations of an enterprise other than owner's equity namely long term loans, creditors, outstanding expenses etc.

    iii. Capital: It generally refer to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.

    - **Expenses:** These represents those accounts which show the amount spent or even lost in carrying on operations.
    - **Incomes:** These represent those accounts which show the revenue amounts earned by the enterprise.

However, traditionally accounts are classified as follows:

i. Personal Accounts: These accounts relate to persons, institutions, debtors or creditors.

ii. Impersonal Accounts: These represent accounts which are not personal. These can be further sub-divided as follows:

- Real Accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc.
- Nominal accounts: These accounts relate to expenses, losses, gains, revenues etc.

2. Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

    Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.
b) The profit earned or loss suffered during a period can be ascertained together with details.
c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.
d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.
e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

3. Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

D) DISTINGUISH BETWEEN

1. Real account and nominal account.

Answer :

1. Real account and nominal account. - A real account is an account relating to properties and assets, other than personal accounts of the firm. Examples are land, buildings, machinery, cash, investments etc. Nominal accounts relate to expenses or losses, incomes and gains. Examples are: wages, salaries, rent, depreciation etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are therefore, temporary. The real accounts are shown in the balance sheet along with personal accounts.

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LEDGERS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A ledger is also known as the principal book of accounts.
2. Cash account has a debit balance.
3. Posting is the process of transferring the accounts from ledger to journal.
4. At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
5. Ledger records the transactions 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.

Answer :

1. **True:** since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance
2. **True:** being an asset under the modern equation approach.
3. **False:** Posting is the process of transferring the balances from journal to ledger.
4. **False:** At the end of the accounting year, a ll the nominal accounts of the ledger book are totaled and transferred to P&L A/c.
5. **False:** Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.
6. **False:** IF the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.
7. **True:** the increase to an asset shall be debited since the original balance is also debit.

B) MULTIPLE CHOICE QUESTIONS

1. The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as
   a) Posting
   b) Purchase
   c) Balancing of an account

Answer : (a) Posting

2. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as
   a) Posting
   b) Purchase
   c) Balancing of an account

Answer : (c) Balancing of an account

3. Journal and ledger records transactions in
   a) A chronological order and analytical order respectively.

b) An analytical order and chronological order respectively.
c) A chronological order only

Answer : (a) A chronological order and analytical order respectively.

4. Ledger book is popularly known as
   a) Secondary book of accounts
   b) Principal book of accounts
   c) Subsidiary book of accounts

Answer : (b) Principal book of accounts

5. At the end of the accounting year all the nominal accounts of the ledger book are
   a) Balanced but not transferred to profit and loss account
   b) Not balanced and also the balance is not transferred to the profit and loss account
   c) Not balanced and their balance is transferred to the profit and loss account.

Answer : (c) Not balanced and their balance is transferred to the profit and loss account.

C) THEORETICAL QUESTIONS

1. What do you mean by principal books of accounts?
2. What are the rules of posting of journal entries into the Ledger?

Answer :

1. Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).

2. Rules regarding posting of entries in the ledger:
   a) Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly.
   b) It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
   c) The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

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TRIAL BALANCE

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Preparing trial balance is the third phase of accounting process.
2. Trial balance forms a base for the preparation of Financial statements.
3. Agreement of Trial balance is a conclusive proof of accuracy.
4. A trial balance will tally in case of compensating errors.
5. A Trial balance can find the missing entry from the journal.
6. Suspense account opened in a trial balance is a permanent account.
7. The balance of purchase returns account has a credit balance.
8. A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Answer :

1. **True:** which forms the base for the preparation of the final accounts.
2. **True:** yes only based on the Trial balance we can prepare the financial statements.
3. **False:** Agreement of Trial balance gives only arithmetical accuracy, there can still be errors in preparing the trail balance
4. **True:** since compensating errors cancel out due to their compensating nature of the amounts, hence here is no problem in the Trial balance
5. **False:** A Trial balance cannot find the missing entry from the journal.
6. **False:** Suspense account opened in a trial balance is a temporary account
7. **True:** as purchases is debited, any returns shall be credited (treated in opposite way)
8. False: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

B) MULTIPLE CHOICE QUESTIONS

1. A trial balance will not balance if
   a) Correct journal entry is posted twice.
   b) The purchase on credit basis is debited to purchases and credited to cash.
   c) ₹ 500 cash payment to creditor is debited to Trade payables for ₹ 50 and credited to cash as ₹ 500.

Answer : (c) ₹ 500 cash payment to creditor is debited to Trade payables for ₹ 50 and credited to cash as ₹ 500.

2. ₹ 1, 500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance
   a) The debit total will be greater by ₹ 3,000 than the credit total.
   b) The debit total will be greater by ₹ 1,500 than the credit total.
   c) Subject to other entries being correct the total will agree.

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Answer : (a) The debit total will be greater by ₹ 3,000 than the credit total.

3. After the preparation of ledgers, the next step is the preparation of
   a) Trading accounts
   b) Trial balance
   c) Profit and loss account

Answer : (b) Trial balance

4. After preparing the trial balance the accountant finds that the total of debit side is short by ₹ 1,500. This difference will be
   a) Credited to suspense account
   b) Debited to suspense account
   c) Adjusted to any of the debit balance account

Answer : (b) Debited to suspense account

5.

S.No.	Account heads	Debit (₹)	Credit (₹)
1.	Sales		15,000
2.	Purchases	10,000	
3.	Miscellaneous expenses	2,500	
4.	Salaries		2,500
	Total	12,500	17,500

The difference in trial balance is due to
   a) Wrong placing of sales account
   b) Wrong placing of salaries account
   c) Wrong placing of miscellaneous expenses account

Answer : (b) Wrong placing of salaries account

C) THEORETICAL QUESTIONS

1. What is the trial balance? And how it is prepared?
2. Explain objectives of preparation of trial balance.
3. Even if the trial balance agrees, some errors may remain. Do you agree? Explain.

Answer :

1. Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance.

   Trial balance contains various ledger balances on a particular date. It forms the basis for preparing final statement i.e. profit and loss statement and balance sheet. It is tallies, it means that the accounts are arithmetically accurate but certain errors may still remain

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undetected. Therefore, it is very important to carefully journalise and post the entries, following are rules of accounting

2. The preparation of trial balance has the following objectives:
   i. Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books.
   ii. Financial statements are normally prepared on the basis of agreed trial balance; otherwise the work may be cumbersome. Preparation of financial statements, therefore, is the second objective.
   iii. The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.
3. In spite of the agreement of the trial balance some errors may remain. These may be of the following types:
   i. Transaction has not been entered at all in the journal.
   ii. A wrong amount has been written in both columns of the journal.
   iii. A wrong account has been mentioned in the journal.
   iv. An entry has not at all been posted in the ledger.
   v. Entry is posted twice in the ledger.

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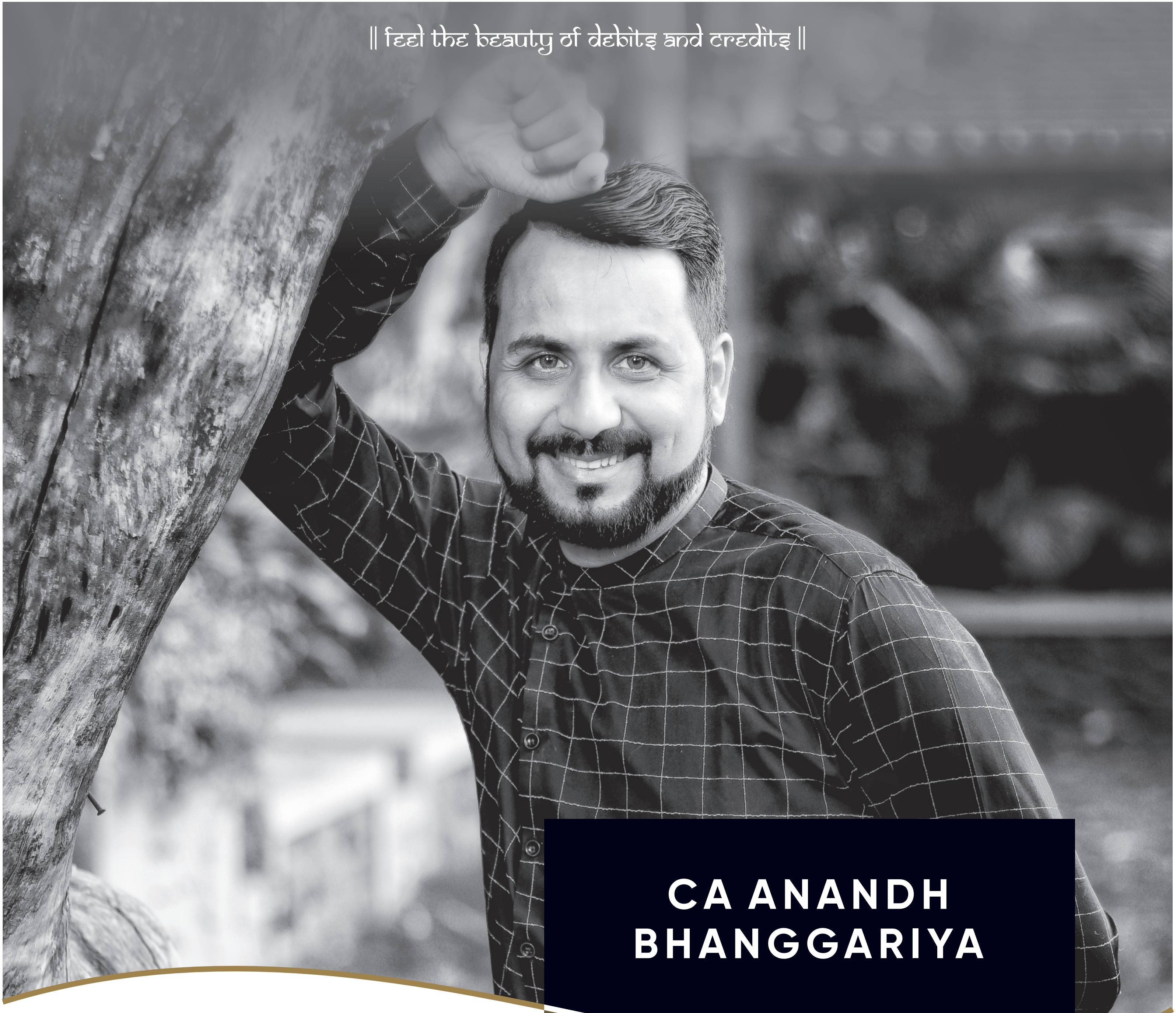

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SUBSIDIARY BOOKS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Transactions recorded in the purchase book include only purchases on credit transactions.
2. Transactions regarding the purchase of fixed asset are recorded in the purchase book.
3. Cash sales are recorded in the sales book.
4. Subsidiary books are also known as the books of original entry.
5. Bills receivable book is a subsidiary book.
6. Return inward book is also 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 return account.
9. If the sales are on a frequent basis, the transactions are recorded in the sales book.
10. The debit notes issued are used to prepare Sales Return Book.
11. The Sales book is kept to record both cash and credit sales.
12. Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.
13. Bills receivable and bills payable books are type of subsidiary books.

Answer:

1. **True:** since cash purchases are taken to the cash book , it is only credit transactions that are recorded in the purchases book
2. **False:** Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it.
3. **False:** Credit sales are recorded in the sales book.
4. **True:** they are maintained as an alternate to the journal.
5. **True:** yes it is one of the subsidiary book
6. **False:** Return inward book is also known as sales return book.
7. **False:** Purchase of a second hand machinery will not be recorded in purchase book.
8. **True:** since it is reduction from the total sales value, it is debited in the sales account
9. **True:** yes when there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.
10. False: The debit notes issued are used to prepare purchases return book.
11. False - The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.
12. True: the trade discount is to be deducted from the total value of ₹ 75,800. The amount paid in cash includes cash purchases and only the credit purchase will be shown in the purchases book- 36,005 (72,010 x 50%).
13. True: Yes, they are types of subsidiary books which is alternate to the journals.

B) MULTIPLE CHOICE QUESTIONS

1. In Purchases Book the record is in respect of

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a) Cash purchase of goods.

b) Credit purchase of goods dealt in.

c) All purchases of goods.

Answer : (b) Credit purchase of goods dealt in.

2. The Sales Returns Book records

a) The return of goods purchased.

b) Return of anything purchased.

c) Return of goods sold.

Answer : (c) Return of goods sold.

3. The Sales Book

a) Is a part of journal.

b) Is a part of the ledger.

c) Is a part of the balance sheet.

Answer : (a) Is a part of journal.

4. The weekly or monthly total of the Purchase Book is

a) Posted to the debit of the Purchases Account.

b) Posted to the debit of the Sales Account.

c) Posted to the credit of the Purchases Account.

Answer : (a) Posted to the debit of the Purchases Account.

5. The total of the Sales Book is posted to

a) Credit of the Sale s Account.

b) Credit of the Purchases Account.

c) Credit of the Capital Account.

Answer : (a) Credit of the Sale s Account.

6. In which book of original entry, will you record an allowance of ₹50 was offered for an early payment of cash of ₹1,050 .

a) Sales Book

b) Cash Book

c) Journal Proper (General Journal)

Answer : (b) Cash Book

7. A second hand motor car was purchased on credit from B Brothers for ₹10,000 will be recorded in

a) Journal Proper (General Journal)

b) Sales Book
c) Cash Book
d) Purchase Book

Answer : (a) Journal Proper (General Journal)

8. In which book of original entry, will you record a bills receivable of ₹1,000, which was received from a debtor in full settlement for a claim of ₹1,100, is dishonoured .
   a) Purchases Return Book
   b) Bills Receivable Book
   c) Journal Proper (General Journal)

Answer : (c) Journal Proper (General Journal)

C) THEORETICAL QUESTIONS

1. Which subsidiary books are normally used in a business?

Answer :

1. Normally, the following subsidiary books are used in a business:
   i. Cash Book to record receipts and payments of cash, including receipts into and payments out of the bank.
   ii. Purchases Book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
   iii. Purchase Returns Books to record the returns of goods and materials previously purchased.
   iv. Sales Book to record the sales of the goods dealt in by the firm.
   v. Sale Returns Book to record the returns made by the customers.
   vi. Bills Receivable Books to record the receipts of promissory notes or hundies from various parties.
   vii. Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
   viii. Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

D) SHORT NOTES

1. Advantages of subsidiary books.

Answer:

1. Advantages of Subsidiary Books

   The use of subsidiary books affords the undermentioned advantages :
   i. Division of work
   ii. Specialisation and efficiency

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iii. Saving of the time
iv. Availability of information's
v. Facility in checking

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CASH BOOK

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Cash book is a subsidiary book as well as a principal book.
2. Two column cash book consists of two columns cash column & 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 on credit side, it is an overdraft.
6. A cash book records cash transactions as well as credit transactions.
7. Discount column of cash book records the trade discount.
8. The balance in petty cash book represents an asset.

Answer :

1. **True:** since the balance is taken to the Trial balance.
2. **False:** Two column cash book consists of two columns cash column & discount column.
3. **True:** it is totaled and transferred to the discount allowed or received account.
4. **False:** Contra entry is passed in a three column cash book in bank and cash columns
5. **True:** usually the debit side of opening balance shows a favorable balance, where there is unfavorable- overdraft then it should be shown on the credit side
6. **False:** A cash book records only cash transactions.
7. **False:** Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.
8. True: The balance represents the cash physically in existence and is therefore an asset.

B) MULTIPLE CHOICE QUESTIONS

1. The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the
   a) Credit of the discount allowed account.
   b) Debit of the discount allowed account.
   c) Credit of the discount received account.

Answer : (a) Debit of the discount allowed account.

2. Cash book is a type ____ of but treated as a _____ of accounts.
   a) Subsidiary book, principal book
   b) Principal book, subsidiary book
   c) Subsidiary book, subsidiary book

Answer : (a) Subsidiary book, principal book

3. Which of the following is not a column of a three-column cash book?
   a) Cash column

b) Bank column

c) Petty cash column

Answer : (a)Petty cash column

4. Contra entries are passed only when______

    a) Double-column cash book is prepared

    b) Three-column cash book is prepared

    c) Simple cash book is prepared

Answer : (b) Three-column cash book is prepared

5. The Cash Book records

    a) All cash receipts

    b) All cash payments

    c) All cash receipts and payments

Answer : (c) All cash receipts and payments

6. The balance in the petty cash book is

    a) An expense

    b) A profit

    c) An asset

Answer : (c) An asset

7. If Ram has sold goods for cash, the entry will be recorded

    a) In the Cash Book

    b) In the Sales Book

    c) In the Journal

Answer : (a) In the Cash Book

C) THEORETICAL QUESTIONS

1. Is cash book a subsidiary book or a principal book? Explain.
2. What are the various kinds of cash book?
3. What are the advantages of a three column cash book?

Answer :

1. Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank accoun the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it has also to be treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

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2. The main Cash Book may be of the three types:
    i. Simple Cash Book;
    ii. Two-column Cash Book;
    iii. Three-column Cash Book.

   In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.
3. The advantages of three column Cash Book are that -
    a) the Cash Account and the Bank Account are prepared simultaneously, therefore the double entry is completed in the Cash Book itself. Thus the contra entries can be easily cross-checked in Cash column in one side and the Bank column in the other side of the Cash Book. Also the chances of error are reduced.
    b) the information regarding Cash in Hand and the Bank Balance can be obtained very easily and quickly as there is no need to prepare Ledger of the Bank Account.

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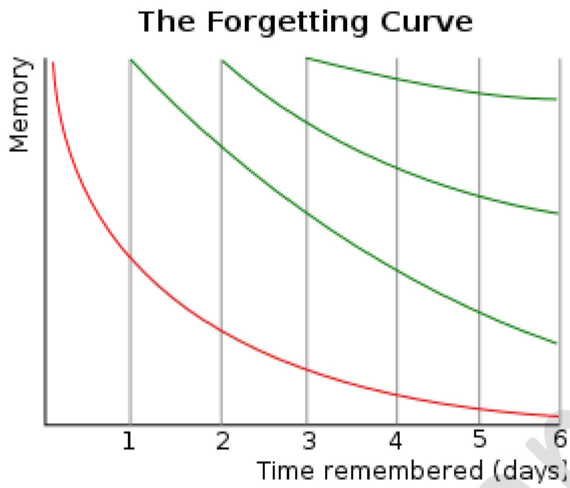
Proper revision makes Chartered Accountancy exams enjoyable

The forgetting curve demonstrates the decline of memory retention in time – how information is lost over a period when there is no attempt to retain it.

When we acquire knowledge, much of our forgetting occurs right away. Ebbinghaus discovered that a significant amount of information was forgotten within twenty minutes of learning; over half of the nonsense material he learned was forgotten within an hour.



He asserted that the best method for increasing the strength of memory is repetition. Each repetition in learning increases the optimum interval before the next repetition is needed (for near-perfect retention, initial repetitions may need to be made within days, but later they can be made after years).

Spending time each day to remember information, such as that for exams, will greatly decrease the effects of the forgetting curve. Reviewing material in the first 24 hours after learning information is the optimum time to re-read notes and reduces the amount of knowledge forgotten.

Just as you would practice playing your piece of music before a piano concert or do team drills before a sports match, doing revision over time is the best way to prepare yourself to succeed in tests and exams.

Revision is considered as a must do before exam. If the topics that you studied months back are not revised, it is as good as not studied. Preparation for the exam is a continuous process. You might have covered the syllabus long back, but memory deteriorates with time. It is always better if you can make a number of revisions before the exam.

Identify the specific problems or concepts which we want to practice on the last day before exam because it is not possible to revise all the problems on the last day.

BANK RECONCILIATION STATEMENT

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 differences between cash book and pass book namely Timing, Transactions & Errors.
3. Adjusting the cash book for any errors and/or omissions 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 purposes of bank reconciliation.
6. Overcasting of the debit side of the cash book is an example of a difference that is due to Error.
7. When we start bank reconciliation with a debit balance in cash book, then cheques issued 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 bank reconciliation statement is being prepared starting from a credit balance of pass book.
9. When the causes of differences 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 cheques 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 the cash book shall result in a higher bank balance in cash book when compared with pass book balance.
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 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.
15. Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation.
16. The difference between cash book & pass book that relates to errors are those mostly made by bank.
17. A cheque for ₹ 80,000 that was discounted from bank was dishonoured and the bank charged ₹ 1,600 as the charges on account of same. While starting with debit balance in cash book for

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preparing bank reconciliation statement, we need to deduct ₹ 78,400 to reconcile with pass book.

18. Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.
19. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.
20. Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.
21. Bank reconciliation statement is prepared to arrive at the bank balance.

Answer:

1. **False :** Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.
2. **True :** These are the three broad categories.
3. **False :** Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.
4. **False :** Debit balance as per cash book should be represented by credit or favourable balance in pass book.
5. **False :** Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.
6. **True :** Overcasting is an example of an error.
7. **True :** Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as
8. **False :** Bank charges should be added bank would have debited the charges.
9. **True :** Since, we don't know the causes of difference, matching the two statements is only efficient way to identify the difference.
10. **False :** Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.
11. **True :** Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.
12. **False :** Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.
13. **True:** ₹ 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.
14. **True :** It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.
15. **True :** Reconciliation statement can be prepared in either of the two formats.

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16. **False :** Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.
17. **False :** We need to deduct 81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.
18. **False :** Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.
19. **True :** In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.
20. **False :** Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.
21. False - Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

B) MULTIPLE CHOICE QUESTIONS

1. When the balance as per Cash Book is the starting point, direct deposits by customers are:
    a) Added
    b) Subtracted
    c) Not required to be adjusted.

Answer: (a)Added

2. A debit balance in the depositor's Cash Book will be shown as:
    a) A debit balance in the Bank Statement.
    b) A credit balance in the Bank Statement.
    c) An overdrawn balance in the Bank Statement.

Answer: (b) A credit balance in the Bank Statement.

3. When balance as per Pass Book is the starting point, interest allowed by Bank is
    a) Added
    b) Subtracted
    c) Not required to be adjusted.

Answer: (b) Subtracted

4. A Bank Reconciliation Statement is prepared with the help of:
    a) Bank statement and bank column of the Cash Book.
    b) Bank statement and cash column of the Cash Book
    c) Bank column of the Cash Book and cash column of the Cash Book.

Answer: (a) Bank statement and bank column of the Cash Book.

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5. The cash book showed an overdraft of ₹1,50,000, but the pass book made up to the same date showed that cheques of ₹ 10,000, ₹ 5,000 and ₹ 12,500 respectively had not been presented for payments; and the cheque of ₹ 4,000 paid into account had not been cleared. The balance as per the pass book will be:
   a) ₹ 1,10,000
   b) ₹ 2,17,500
   c) ₹ 1,26,500

Answer: (c) ₹ 1,26,500

6. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:
   a) Added;
   b) Deducted;
   c) Not required to be adjusted.

Answer: (a) Added;

7. When drawing up a BRS if you start with a Dr. Balance as per Bank Statement, the following are added:
   1. Cheque issued but not presented to bank
   2. B/R collected directly by bank
   3. Overcasting of the Dr. Side of bank A/c in the cash book.
   a) only 1
   b) only 1& 2
   c) all of the above
   d) only 3.

Answer: (b) only 1& 2

C) THEORETICAL QUESTIONS

1. Write short note on Bank reconciliation statement.
2. State the causes of difference between the balance shown by the pass book and the cash book.

Answer :

1. Bank reconciliation statement is prepared as on a particular date to reconcile and explain the causes of difference between the bank balance as per cash book and the same as per savings bank pass book or current account statement. At the end of each month, the bank balance as per cash book and that as per pass book /bank statement should be compared and, if there is disagreement, these balances should be reconciled stating exact reasons of disagreement. The reconciliation is made in a statement called the bank reconciliation statement.

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2. The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

   i. Cheques issued but not yet presented for payment.
   ii. Cheques deposited into the bank but not yet cleared.
   iii. Interest allowed by the bank.
   iv. Interest and expenses charged by the bank.
   v. Interest and dividends collected by the bank.
   vi. Direct payments by the bank.
   vii. Direct deposits into the bank by a customer. (viii)Dishonour of a bill discounted with the bank.
   viii. Bills collected by the bank on behalf of the customer.
   ix. An error committed in cash book or by the bank etc.
   x. Undercasting or Overcasting in cashbook.

D) SHORT NOTES

1. Importance of bank reconciliation to an industrial unit.

Answer :

1. Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

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RECTIFICATION OF ERRORS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. The method of rectification of errors depends on the stage at which the errors are detected.
2. In case of error 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 asset 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 repairs should be debited to repairs account.
8. 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.
9. Rent paid to land lord of the proprietors 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 account.
11. The rationale behind the opening of a suspense account is to tally the trial balance.
12. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
13. Purchase of office furniture & fixtures of ₹ 2,500 has been debited to general Expense Account. It is an error of omission.
14. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.

Answer :

1. **True:** there are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification
2. **False:** In case of error of complete omission, the trial balance tallies.
3. **True:** to balance the difference of balances in the trial balance.
4. **True:** where the accounts being debited is principally incorrect it is termed as error of principle
5. **True:** compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes.
6. **False:** When amount is written on wrong side, it is known as an error of commission.
7. **False:** On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.
8. **False:** 'Profit & Loss adjustment account' is opened to rectify the errors detected in the next accounting period.
9. **False:** Rent paid to land lord of the proprietors house, must be debited to 'Drawings account'.

10. **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.
11. False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.
12. False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
13. False; When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.
14. False: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

B) MULTIPLE CHOICE QUESTIONS

1. Goods purchased from A for ₹10,000 passed through the sales book. The error will result in
   a) Increase in gross profit.
   b) Decrease in gross profit.
   c) No effect on gross profit.

Answer: (a) Increase in gross profit.

2. If a purchase return of ₹1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the
   a) Trial balance would show the debit side to be ₹1,000 more than the credit.
   b) Trial balance would show the credit side to be ₹1,000 more than the debit.
   c) The debit side of the trial balance will be ₹2,000 more than the credit side.

Answer: (c) The debit side of the trial balance will be ₹2,000 more than the credit side.

3. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called
   a) Error of omission.
   b) Error of commission.
   c) Error of principle.

Answer: (b) Error of commission.

4. ₹200 paid as wages for erecting a machine should be debited to
   a) Repair account.
   b) Machine account.

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c) Capital account.

Answer: (b) Machine account.

5. On purchase of old furniture, the amount of ₹1,000 spent on its repair should be debited to

a) Repair account.

b) Furniture account.

c) Cash account.

Answer: (b) Furniture account.

6. Goods worth ₹50 given as charity should be credited to

a) Charity account.

b) Sales account.

c) Purchase account.

Answer: (c) Purchase account.

7. Goods worth ₹100 taken by proprietor for domestic use should be credited to

a) Sales account.

b) Proprietor's personal expenses.

c) Purchases account.

Answer: (c) Purchases account.

8. Sales of office furniture should be credited to

a) Sales Account.

b) Furniture Account.

c) Purchase Account.

Answer: (b) Furniture Account.

9. The preparation of a trial balance is for:

a) Locating errors of commission.

b) Locating errors of principle.

c) Locating clerical errors.

Answer: (c) Locating clerical errors.

10. ₹200 received from Smith whose account, was written off as a bad debt should be credited to:

a) Bad Debts Recovered account.

b) Smith's account.

c) Cash account.

Answer: (a) Bad Debts Recovered account.

11. Purchase of office furniture ₹1,200 has been debited to General Expense Account. It is:

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a) A clerical error.
b) An error of principle.
c) An error of omission.

Answer: (b) An error of principle

C) THEORETICAL QUESTIONS

1. How does errors of omission differ from errors of commission?
2. What is error of principle and how does it affect Trial Balance?
3. When and how is Suspense account used to rectify errors?

Answer:

1.
   i. Errors of Omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.
   ii. Errors of Commission: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."

2. Errors of principle: When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a typewriter, the office expenses account is debited; the trial balance will still agree.

3. The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections the trial balance will agree. Sometimes the trial balance is artificially made to agree inspite of errors by opening a suspense account and putting the difference in the trial balance to the account - the suspense account will be debited if the total of the credit column in the trial balance exceeds the total of the debit column; it will be credited in the other case. Each and every error detected can only be corrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the difference or the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

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INVENTORIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Inventories are stocks of goods and materials 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. Periodic Inventory System is more suitable for small enterprises.
6. When closing inventory is overstated, net income for the accounting period will be understated.
7. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.
8. Cost of inventories should comprise all cost of purchase.
9. Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only.
10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
11. Perpetual system requires closure of business for counting of inventory.
12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
13. The value of ending inventory under simple average price method is realistic as compare to LIFO.
14. The value of stock is shown on the assets side of the balance-sheet as fixed assets.
15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.
16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism.
18. Finished goods are normally valued at cost or market price whichever is higher.
19. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

Answer :

1. **True:** Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.
2. **True:** For a construction business a building under construction will be inventory. The building is being built in the normal course of business and will eventually be sold as well as inventory.
3. **False:** Inventory is valued at lower of cost or net realizable value.
4. **False:** Under Perpetual Inventory System management have daily information of closing stock.
5. **True:** A periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.

6. **False:** When closing inventory is overstated, net income for the accounting period will be overstated.
7. **False:** Closing stock = Cost of goods sold - (Opening inventory + Purchases + Direct expenses).
8. **False:** Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
9. **False:** Costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable overheads.
10. **False:** Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.
11. **False:** Periodic system requires closure of business for counting of inventory.
12. **True:** Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.
13. **True:** Value of Closing stock as per average method is more realistic then LIFO.
14. **False:** The value of stock is shown on the assets side of the balance-sheet as current assets.. As it is realisable within 12 months.
15. **False:** Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.
16. **False:** Under FIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17. **True:** The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net realisable value whichever is less, therefore is based on principle of Conservatism.
18. **False:** Finished goods are normally valued at cost or market price whichever is lower.
19. False: Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

B) MULTIPLE CHOICE QUESTIONS

1. The amount of purchase if

Cost of goods sold is ₹ 80,700

Opening Inventory ₹ 5,800

Closing Inventory ₹ 6,000

a) ₹ 80,500

b) ₹ 74,900

c) ₹ 80,900.

Answer : (c) ₹ 80,900.

2. Average Inventory = ₹ 12,000. Closing Inventory is ₹ 3,000 more than opening Inventory. The value of closing Inventory = _.

   a) ₹ 12,000

   b) ₹ 24,000

   c) ₹ 13,500.

Answer : (c) ₹ 13,500

3. While finalizing the current year's profit, the company realized that there was an error in the valuation of closing Inventory of the previous year. In the previous year, closing Inventory was valued more by ₹ 50,000. As a result

   a) Previous year's profit is overstated and current year's profit is also overstated

   b) Previous year's profit is overstated and current year's profit is understated

   c) Previous year's profit is understated and current year's profit is also understated

Answer : (b) Previous year's profit is overstated and current year's profit is understated

4. Consider the following for Q Co. for the year 2019-20:

Cost of goods available for sale	₹ 1,00,000
Total sales	₹ 80,000
Opening inventory of goods	₹ 20,000
Gross profit margin on sales	25%

Closing inventory of goods for the year 2019-20 as

   a) ₹ 80,000

   b) ₹ 60,000

   c) ₹ 40,000

Answer : (c) ₹ 40,000

5. If the profit is 25% of the cost price then it is

   a) 25% of the sales price

   b) 33% of the sales price

   c) 20% of the sales price

Answer : (c) 20% of the sales price

6. Goods purchased ₹ 1,00,000. Sales ₹ 90,000. Margin 20% on cost. Closing Inventory = ?

   a) ₹ 20,000

   b) ₹ 10,000

   c) ₹ 25,000

Answer : (c) ₹ 25,000

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7. A company is following weighted average cost method for valuing its inventory. The details of its purchase and issue of raw-materials during the week are as follows:

1.12.2020 opening Inventory 50 units value ₹ 2,200.

2.12.2020 purchased 100 units @ ₹47.

4.12.2020 issued 50 units.

5.12.2020 purchased 200 units @ ₹ 48.

The value of inventory at the end of the week and the unit weighted average costs is

a) ₹ 14,200 – ₹ 47.33

b) ₹ 14,300 – ₹ 47.67

c) ₹ 14,000 – ₹ 46.66

Answer : (a) ₹ 14,200 – ₹ 47.33

8. The cost of sales is equal to

a) Opening stock plus purchases

b) Purchases minus Closing stock

c) Opening stock plus purchases minus closing stock

Answer : (c) Opening stock plus purchases minus closing stock

9. Inventory is disclosed in financial statements under:

a) Fixed Assets

b) Current Assets

c) Current Liabilities

Answer : (b) Current Assets

10. Accounting Standards do not permit following method of inventory valuation

a) FIFO

b) Average cost

c) LIFO

Answer : (c) LIFO

11. Which inventory costing formula calculates value of closing inventory considering that inventory most recently purchased has not been sold?

a) FIFO

b) LIFO

c) Weighted average cost

Answer : (a) FIFO

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12. Valuing inventory at cost or net releasable value is based on which principle
    a) Consistency
    b) Conservatism
    c) Going concern

Answer : (b) Conservatism

13. Under inflationary trend, which of the methods will show highest value of inventory?
    a) FIFO
    b) Weighted average
    c) LIFO

Answer : (a) FIFO

14. Which of the following methods does not consider historical cost of inventory?
    a) Weighted average
    b) FIFO
    c) Retail price method

Answer : (c) Retail price method

C) THEORETICAL QUESTIONS

1. Define inventory. Explain the importance of proper valuation of inventory in the preparation of statements of the business entity.

Answer :

Inventory can be defined as assets held

- for sale in the ordinary course of business, or
- in the process of production for such sale, or
- for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

The significance of inventory valuation arises due to the following reasons:

i. Determination of Income
ii. Ascertainment of Financial Position
iii. Liquidity Analysis
iv. Statutory Compliance

D) SHORT NOTES

1. Adjusted Selling Price method of determining cost of stock.
2. Principal methods of ascertainment of cost of inventory.

Answer :

1. Adjusted selling method is also called retails inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which

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are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

2. The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

E) DISTINGUISH BETWEEN:

1. LIFO and FIFO basis of costing of stock.
2. FIFO and weighted average price method of stock costing.

Answer :

1. Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.
   On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices.

2. Under the First-In-First-Out (FIFO) method of valuation of stock, the actual issue of goods is usually the earliest lot on hand. Hence, the stock in hand will therefore consist of the latest consignments. The closing stock is valued at the price paid for such consignments.
   The weighted average price method is not a simple average price method. Under this method of valuation of stock, a stock ledger is maintained, recording receipts and issues on daily basis. A new average would be calculated on receiving fresh consignment. The average price thus calculated after considering arrival of new consignment with the previous value of stock and dividing the preceding stock value and the cost of new arrival with the total units of preceding and new arrival will give the weighted average price.

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CONCEPT AND ACCOUNTING OF DEPRECIATION

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Increase in market value of a 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
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 years 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 Expense 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.
17. When a property, plant or equipment is sold then provision for depreciation account is debited, asset account is credited and any gain or loss is recorded to profit and loss account.
18. While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life is reduced from its cost.
19. Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.
20. Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year.

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21. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
22. Depreciation is a non-cash expense and does not result in any cash outflow.

Answer :

1. **False :** It is the decrease in market value as one of the reasons for depreciation. Increase in market value may result in Revaluation.
2. **True :** It is not necessary that the asset must be used to be depreciated, thus depreciation may start once it is brought in the location & condition required to be used.
3. **False :** Non refundable taxes & duties form part of the cost.
4. **False :** Inauguration costs shouldn't be part of cost.
5. **True :** SLM method results in same amount and Declining method involves same rate of depreciation.
6. **True :** Revaluation should be done for the whole class of the asset.
7. **False :** Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account.
8. **True :** Sum of years digit method depreciation is calculated as 10/55 x (12,00,000 – 1,00,000) = 2,00,000
9. **False :** Depletion relates to allocation of cost of natural resources
10. **True :** Depreciation being non cash expense reduces the distributable profits and hence facilitates replacement of asset when required.
11. **False :** WDV = ₹ 12,50,000 - ₹ 4,00,000 = ₹ 8,50,000
12. **True :** Higher depreciation is charged in earlier years under sum of the years digit method.
13. **False :** It is vice versa as under diminishing balance method; higher depreciation is charged in beginning.
14. **False :** Land is not depreciated.
15. **False :** Provision for Depreciation account is credited while charging the depreciation.
16. **False :** 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.
17. **True :** 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.
18. **False:** 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.
19. **True :** Any change in useful life of an asset is accounted for as a change in estimate.
20. **False :** 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.
21. True: In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs

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and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

22. True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

B) MULTIPLE CHOICE QUESTIONS

1. Original cost = ₹ 12,60,000; Salvage value = Nil; Useful life = 6 years. Depreciation for the first year under sum of years digits method will be
   a) ₹ 3,60,000
   b) ₹ 1,20,000
   c) ₹ 1,80,000

Answer : (a) ₹ 3,60,000

2. Obsolescence of a depreciable asset may be caused by:
   I. Technological changes.
   II. Improvement in production method.
   III. Change in market demand for the product or service output.
   IV. Legal or other restrictions.
   a) Only (I) above
   b) Both (I) and (II) above
   c) All (I), (II), (III) and (IV) above

Answer : (c) All (I), (II), (III) and (IV) above

3. The number of production of similar units expected to be obtained from the use of an asset by an enterprise is called as
   a) Unit life
   b) Useful life
   c) Production life

Answer : (b) Useful life

4. If a concern proposes to discontinue its business from March 2015 and decides to dispose of all its plants within a period of 4 months, the Balance Sheet as on March 31, 2015 should indicate the plants at their
   a) Historical cost
   b) Net realizable value

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c) Cost less depreciation

Answer : (b) Net realizable value

5. In the case of downward revaluation of a plant which is for the first time revalued, the account to be debited is

a) Plant account

b) Revaluation Reserve

c) Profit & Loss account

Answer : (c) Profit & Loss account

6. The portion of the acquisition cost of the tangible asset, yet to be allocated is known as

a) Written down value

b) Accumulated value

c) Realisable value

Answer : (a) Written down value

7. The main objective of providing depreciation is to

a) Create secret reserve

b) Reduce the book value of assets

c) Allocate cost of the assets

Answer : (c) Allocate cost of the assets

8. Original cost of a machine was ₹ 25,20,000 salvage value was ₹ 1,20,000, useful life was 6 years.

Annual depreciation under Straight Line Method

a) ₹ 4,20,000

b) ₹ 4,00,000

c) ₹ 3,00,000

Answer : (b) ₹ 4,00,000

9. The cost of a machine is ₹ 20,00,000. Two years later the book value is ₹ 10,00,000. The Straight-line percentage depreciation is

a) 50%

b) 33-1/3%

c) 25%

Answer : (c) 25%

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10. A machinery with original cost of ₹ 10,00,000 and Nil Salvage value acquired on Ist April 2017 with 4 years useful life was depreciated using Straight Line Method. It was decided to sell the machinery on Ist October 2020 for ₹ 1,20,000. What shall be the gain or (loss) on the sale of Machinery ?
    a) Loss of ₹ 1,30,000
    b) Gain of₹ 1,20,000
    c) Gain of ₹ 5,000
    d) Loss of ₹ 5,000

Answer : (d) Loss of ₹ 5,000

11. Which of the following assets does not depreciate
    a) Machinery and equipment
    b) Patents
    c) Land

Answer : (c) Land

12. A company purchased a machinery on April 01, 2014, for ₹ 15,00,000. It is estimated that the machinery will have a useful life of 5 years after which it will have no salvage value. The depreciation charged during the year 2018-19 was
    a) ₹ 5,00,00
    b) ₹ 4,00,000
    c) ₹ 3,00,000

Answer : (c) ₹ 3,00,000

13. If the equipment account has a balance of Rs. 22,50,000 and the accumulated depreciation account has a balance of Rs. 14,00,000, the book value of the equipment is
    a) ₹ 36,50,000
    b) ₹ 8,50,000
    c) ₹ 14,00,000

Answer : (b) ₹ 8,50,000

14. A plant with original cost of ₹ 50,00,000 was revalued after 2 years resulting in credit to Revaluation Surplus account of ₹ 4,00,000. Towards the year end of 2019-20, due to COVID-19 the plan value had gone down by ₹ 5,00,000 and accordingly management decided to revalue the same. What shall be the impact of this downwards revaluation on the Profit & Loss Account ?
    a) Debit of ₹ 5,00,000
    b) Debit of ₹ 1,00,000

c) Credit of ₹ 5,00,000

d) Credit of ₹ 1,00,000

Answer : (b) Debit of ₹ 1,00,000

C) THEORETICAL QUESTIONS

1. What factors are considered for calculation of depreciation of a plant?

Answer :

1. The factors considered for calculation of depreciation are as: (i)Cost of asset including expenses for installation, commissioning, trial run etc. (ii) Estimated useful life of the asset and (iii) Estimated scrap value (if any) at the end of useful life of the asset.

D) SHORT NOTES

1. Depletion method of depreciation
2. Machine Hour Rate method of calculating depreciation.

Answer :

1. Natural resources include physical assets like mineral deposits, oil and gas resources and timber. These natural resources exhaust by exploitation.

Depletion per unit is calculated as

Acquisition cost-Residual value / Estimated life in terms of production units

2. Machine Hour Rate method of calculating depreciation: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

Hourly Depreciation = Total cost of Machine / Estimated life of Machine

= ₹10,00,000 / 50,000 hours

= ₹ 20 per hour

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours x₹ 20 = ₹ 40,000.

E) DISTINGUISH BETWEEN:

I. Straight line method of depreciation and Written down value method of depreciation.

Answer :

I. Under straight line method an equal amount is written off each year throughout the working life of the depreciable tangible asset so as to reduce the cost of the asset to nil or to its scarp value at the end. Under reducing balance method, a fixed percentage is charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scarp value at the end of useful life. The basic distinction between these two methods are as follows:

Under straight line method, annual depreciation charge is equal throughout the life of the asset; but under reducing balance method, depreciation charge is reduced over the years as the asset grows old.

Under straight-line method, the asset can be fully depreciated but under reducing balance method asset can never be fully depreciated.

Under straight line method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the asset will not be uniform. To the contrary, under reducing balance method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under reducing balance method depreciation and repairs are more or less evenly distributed throughout the life of the asset.

F) Define the following terms:

i. Capital Commitment
ii. Expired Cost
iii. Floating Charge
iv. Obsolescence

Answer

i. Capital commitment: Future liability for capital expenditure in respect of which contracts have been made.
ii. Expired cost: The portion of the expenditure from which no further benefit is expected. Also termed as expense.
iii. Floating charge: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.
iv. Obsolescence: Diminution in the value of an asset by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

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Reasons for being failure in exam with Remedies

"The greatest failure in life is the failure to try again"

Interestingly, a high proportion of the candidates who appear for such exams are those who've been outstanding in their career record throughout; and when they face failure, they get traumatized. Many candidates get demotivated and get depressed about their failure.

"Man needs difficulties in life because they are necessary to enjoy the success."

Here are the Interesting Reasons for being failure in exam with Remedies

I would strongly suggest you all to stick to the basics of study to avoid further failure and ensure success.

1. **No Proper Planning and Time management skills**

   Most of the students are careless towards career. So, Be serious. Else you will feel guilty throughout your life even if you do something good elsewhere. Usually, they engaged in other activities during preparation (Marriage, birthdays, family get together, poojas, parties). "All these events can be completed without you"

   "Don't Waste Time otherwise Time will Sucks you."

   Proper utilization of this time is really essential to clear your exam in first attempt. So, time management is very important.

   Just do not take the text book and start reading from the first chapter. Plan your subject, your interest, have an overall feel of the Book, Chapters and their importance. Do not leave any chapter in option

   "Nobody in this world ever achieved anything by giving up"

2. **Wrong Selections of books and Ignorance of ICAI Study material, Practice Manual, RTP**

   You need to refer the book which is given by your Coaching teacher but without ignoring the material provided by ICAI like study material, practice manual, RTPs etc. Nobody is asking you to read these materials wholly and thoroughly. But the main idea is to make you realize their importance.

   Study martial is Bhagavad Gita/Bible/Quran. First read this and then if required, refer any reference book. Suggested are very much helpful in understanding the way Institute asks a question and expect us to answer.

3. **Poor presentation skills**

   This thing is said by many Rank Holders. They say that they have scored rank because others don't have the proper and needed writing skills. And you see, this is another main reason of failure in ICAI Exams. So work on your presentation skills from now onwards otherwise you will never realize what mistake you are committing in every attempt.

4. **Inappropriate Guidance & unsolicited guidance from every random persons**

   CA Students accept every other CA Students' advice which is actually doing more harm than good. Until and unless the advice is coming from a expert, please don't accept any one else's advice. Don't even listen to them as it will distract you.

   "Success delayed is not success denied"

5. **Not practicing by writing the proper format**

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Rough work? Rough work is how a CA Student defines his practice.

Blunder, a big blunder. Have you ever seen Sachin (Master Blaster) practicing roughly? Or practicing with a poor and old bat? No he doesn't. He practices with the bat like he is playing the Final Match. And dear CA Students you have to so the same. Trust me this habit if inculcated will reap in more benefits than any other tip being talked about here..

Students solve practical problems in the text book by ticking the posting. In exams we are not provided with answers which we have to verify. We have to actually write the answers. So practice in note book and ensure that you complete full question. Don't leave halfway.

"Failure will never overtake me if my definition to succeed is strong enough"

6. More of advice & less of its implementations

The problem with the CA Student is that he is always ready enough to listen to the motivation being provided by the friends, teachers, peers, parents etc. but the only problem is that there is more of listening and less of implementation. There is no point of listening if you are not converting those thoughts into actions.

7. No analysis of mistakes. Tensions, Panic, Depressions, frustrations etc

Get very specific about the reasons of your failure. Failure is there not without a reason. It's there to give you the wisdom you need to succeed. Each failure you encounter increases your wisdom and brings you one step closer to success. If you have this mindset, you will see failure differently. You will see each failure as an opportunity to learn.

"FAILURE in CA Exams is NOT the End of the World. Face it"

Look at your failure objectively, unemotionally. It takes courage and deep strength to overcome the overwhelming feelings of frustrations when you fail an examination. You should help yourself by staying strong by neglecting all the negative feelings brought by the disappointments.

Success is for those people who never quit. You should look forward for good things to happen ahead of you. You should tell yourself that a failed examination may give you bad days but not bad life.

8. No proper time allocation for revision

Another basic study point is to give ample emphasis to a good revision plan. There is nothing is this world which can substitute a good revision plan. To succeed revision is must.

9. Less importance given to theory potion of practical papers.

Most of the students don't give due value to the theory in the practical subject. Right amount of theory preparation in practical subjects is equally important. The best way to solve this issue is to prepare notes of frequently asked theory questions from Scanner.

*"A clear vision, backed by definite plans, gives you a tremendous feeling of confidence and personal power." – **Brian Tracy***

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BILLS OF EXCHANGE AND PROMISSORY NOTES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 latter.
7. Discount at the time of retirement of a bill is a gain for the drawee.

Answer:

1. **False:** The bills payable account is a liability account that is disclosed in the balance sheet.
2. **False:** Bill of exchange contains an order to pay the required amount and not a mere promise to pay.
3. **False:** 3 Days of grace are added to the due date to arrive at the maturity date.
4. **False:** There can be more than 2 parties- namely the drawer, acceptor and the payee of the bill.
5. **True:** When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.
6. **True:** In case of the promissory note, it the bill of exchange, the person accept the bill.
7. True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

B) MULTIPLE CHOICE QUESTIONS

1. On 1.1.2019, A draws a bill on B for ₹1,20,000 for 3 months' maturity date of the bill will be:
   a) 1.4.2019
   b) 3.4.2019
   c) 4.4.2019

Answer: (c) 4.4.2019

2. On 16.6.2020 P draws a bill on Q for ₹1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be:
   a) 19th July
   b) 18th July
   c) 17th July

Answer: (b) 18th July

3. PQ draws a bill on XY for ₹130,000 on 1.1.2020. X accepts the same on 4.1.2020 for period of 3 months after date. What will be the maturity date of the bill:
   a) 4.4.2020
   b) 3.4.2020
   c) 7.4.2020

Answer: (a) 4.4.2020

4. A draws a bill on B. A endorsed the bill to C. The payee of the bill will be
   a) A
   b) B
   c) C

Answer: (c) C

5. A bill of ₹ 120,000 was discounted by Saras with the banker for ₹1,18,800. At maturity, the bill returned dishonoured, noting charges ₹ 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonour?
   a) ₹1,20,000
   b) ₹1,18,800
   c) ₹1,20,200

Answer: (c) ₹1,20,200

6. X draws a bill on Y for ₹300,000 on 1.1.2020 for 3 months after sight, date of acceptance is 6.1.2020. Maturity date of the bill will be:
   a) 8.4.2020
   b) 9.4.2020
   c) 10.4.2020

Answer: (b) 9.4.2020

7. X sold goods to Y for ₹ 5,00,000. Y paid cash ₹4,30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be:
   a) ₹ 98,000
   b) ₹ 68,000
   c) ₹ 68,600

Answer: (c) ₹ 68,600

8. On 1.1.2020, X draws a bill on Y for ₹ 5,00,000 for 3 months. X got the bill discounted 4.1.2020 at 12% rate. The amount of discount on bill will be:

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(a) ₹ 15,000 (b) ₹ 16,000 (c) ₹ 18,000

Answer: (a) ₹ 15,000

9. Mr. Jay draws a bill on Mr. John for ₹ 3,00,000 on 1.1.2020 for 3 months. On 4.2.2020, John got the bill discounted at 12% rate. The amount of discount will be:
   a) ₹ 9,000
   b) ₹ 6,000
   c) ₹ 3,000

Answer: (b) ₹ 6,000

10. XZ draws a bill on YZ for ₹ 2,00,000 for 3 months on 1.1.2020. The bill is discounted with banker at a charge of ₹1,000. At maturity the bill return dishonoured. In the books of XZ, for dishonour, the bank account will be credited by:
    a) ₹199,000
    b) ₹ 200,000
    c) ₹ 201,000

Answer: (b) ₹ 200,000

11. On 1.1.2020, XA draws a bill on YB for ₹ 1,00,000. At maturity YB request XA to renew the bill for 2 month at 12% p.a. interest. Amount of interest will be:
    a) ₹ 2,000
    b) ₹ 1,500
    c) ₹ 1,800

Answer: (a) ₹ 2,000

12. A bill of exchange is drawn by a
    a) Creditor
    b) Debtor
    c) Debenture holder

Answer: (a) Creditor

13. At the time of drawing a bill, the drawer credits
    a) Bills Receivables A/c
    b) Bills Payable A/c
    c) Debtor's A/c

Answer: (c) Debtor's A/c

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14. A promissory note is made by a
    a) Seller
    b) Purchaser
    c) Endorsee

Answer: (b) Purchaser

15. A bill of exchange contains
    a) An unconditional order
    b) A promise
    c) A request to deliver the goods

Answer: (a) An unconditional order

16. A promissory note contains
    a) An unconditional order
    b) A promise
    c) A request to deliver the goods

Answer: (b) A promise

17. The rebate on the bill shows that
    a) It has been endorsed
    b) It has been paid after the date of maturity
    c) It has been paid before the date of maturity

Answer: (c) It has been paid before the date of maturity

18. Notary Public may charge his fee from the
    a) Holder of bill of exchange
    b) Drawer
    c) None

Answer: (a) Holder of bill of exchange

C) THEORETICAL QUESTIONS

1. What is bill of exchange? How does it differ from Promissory Note?

Answer:

1. A bill of exchange has been defined as "an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of certain person or to the bearer of the instrument". When such an order is accepted by the drawee, it becomes a valid bill of exchange. A promissory note is an instrument in writing (not being a bank note or a government currency note) containing an

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unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

A promissory note needs no acceptance, as the debtor himself writes the document promising to pay the stated amount. Like bills of exchange, promissory notes are also negotiable instruments, and can be transferred by endorsement. In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person.

D) SHORT NOTES

1. Accommodation bill.
2. Renewal of bill.
3. Bill of exchange and the various parties to it.
4. Retirement of bills of exchange.

Answer:

1. Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills.

2. When the acceptor of a bill finds himself in financial straits to honour the bill on the due date, then he may request the drawer to cancel the original bill and draw on him a fresh bill for another period. And if the drawer agrees, a new bill in place of the original bill may be accepted by the drawee for another period. This is called the renewal of bill.

3. A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

   There are three parties to a bill of exchange:

   a) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
   b) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
   c) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

4. Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee

agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

E) DISTINGUISH BETWEEN:

I. Trade bill vs. Accommodation bill.

Answer:

I. Distinction between Trade bill and Accommodation bill

a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

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SALE OF GOODS ON APPROVAL OR RETURN BASIS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Goods sold on approval or return 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 express 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 needs to be passed in the books 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.
7. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,

Answer :

1. **False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.
2. **False:** As per the Sale of goods Act, when the goods are retained by the customer after the given time and no express intimation is given with regard to rejection- they are deemed sales.
3. **False:** At the end of the accounting period- if there are goods sold on approval or return basis, without any information, then the accounting treatment s to reverse the same from the sales and to add it with the existing closing stock at cost price.
4. **True:** At the end, already the entries pertaining to the reversal of the sale and the addition to the closing stock would have been passed. If subsequently if the customer rejects the goods, no further entry needs to be passed
5. **False:** It is the seller who fixes the terms of the period within which the customer has to get back with the answer of rejection or accepting the goods
6. **False:** 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. Mere transfer of possession does no convey ownership.
7. False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

B) MULTIPLE CHOICE QUESTIONS

1. When a large number of articles are sent frequently on a sale or return basis, it is necessary to maintain

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a) Sale journal
b) Goods returned journal
c) Sale or return journal

Answer : (c) Sale or return journal

2. Sale or Return Day Book and Sale or Return Ledger are known as
a) principal books
b) subsidiary books
c) memorandum books

Answer : (c) memorandum books

3. A sent some goods costing ₹ 3,500 at a profit of 25% on sale to B on sale or return basis. B returned goods costing ₹ 800. At the end of the accounting period i.e. on 31st December, 2020, the remaining goods were neither returned nor were approved by him. The Inventories on approval will be shown in the balance sheet at ₹
a) 2,000.
b) 2,700
c) 2,700 less 25% of 2,700.

Answer : (b) 2,700

4. A merchant sends out his goods casually to his dealers on approval basis. All such transactions are, however, recorded as actual sales and are passed through the sales book. On 31-12-2020, it was found that 100 articles at a sale price of 200 each sent on approval basis were recorded as actual sales at that price. The sale price was made at cost plus 25%. The amount of Inventories on approval will be amounting
a) ₹ 16,000.
b) ₹ 20,000.
c) ₹ 15,000.

Answer : (a) ₹ 16,000.

5. Umesh sends goods on approval basis as follows:

Date January, 2020	Customer's Name	Sale price of Goods Sent ₹	Goods Accepted ₹	Goods Returned ₹
8	Anna	3,500	3,000	500
10	Babu	2,800	2,800	–
15	Chandra	3,680	–	3,680

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22	Desai	1,260	1,000	260

The Inventories of goods sent on approval basis on 31st January will be

a) ₹ 500.

b) Nil.

c) ₹ 260.

Answer : (b) Nil.

6. A company sends its cars to dealers on 'sale or return' basis. All such transactions are however treated like actual sales and are passed through the sales day book. Just before the end of the financial year, two cars which had cost ₹ 55,000 each have been sent on 'sale or return' and have been debited to customers at ₹ 75,000 each, cost of goods lying with the customers will be

a) ₹ 1,10,000.

b) ₹ 55,000.

c) ₹ 75,000.

Answer : (a) ₹ 1,10,000.

7. A trader has credited certain items of sales on approval aggregating ₹ 60,000 to Sales Account. Of these, goods of the value of ₹16,000 have been returned and taken into Inventories at cost ₹ 8,000 though the record of return was omitted in the accounts. In respect of another parcel of ₹12,000 (cost being ₹ 6,000) the period of approval did not expire on the closing date. Cost of goods lying with customers should be

a) 12,000.

b) ₹ 54,000.

c) ₹ 6,000.

Answer : (c) ₹ 6,000.

8. Under sales on return or approval basis, the ownership of goods is passed only

a) when the retailer gives his approval

b) if the goods are not returned within specified period.

c) Both (a) and (b)

Answer : (c) Both (a) and (b)

9. Under sales on return or approval basis, when transactions are few, the seller, while sending the goods, treats them as

a) an ordinary sale but no entry is passed in the books

b) an ordinary sale and entry for normal sale is passed in the books

c) Approval sale and no entry is passed

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Answer : (b) an ordinary sale and entry for normal sale is passed in the books

10. Under sales on return or approval basis, when transactions are few and the seller at the end of the accounting year reverse the sale entry, then what will be the accounting treatment for the goods returned by the customers on a subsequent date?
    a) No entry will be passed for such return of goods
    b) Entry for return of goods is passed by the seller
    c) Only the Inventories account will be adjusted

Answer : (a) No entry will be passed for such return of goods

C) THEORETICAL QUESTIONS

1. What are the features of sale of goods on approval or return basis? Explain in brief.
2. When 'sale or return basis' transactions are numerous, what books are maintained by the business entity.

Answer :

1. Features of sale of goods on approval or return basis: (i) There is a change in the possession of goods from one person to another. (ii) It does not involve transfer of ownership of goods. The ownership is passed only when the retailer gives his approval or if the goods are not returned within that specified period. (iii) The retailer (customer) does not incur any liability when the goods are merely sent to him.

2. When transactions are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. 'Ledger' contains the accounts of the customers and the 'Sale or Return' Total account. 'Day Book' is the primary book which records all transactions, and from there these are entered in the 'Sale or Return' Total account. It is important to remember that both are Memorandum Books, i.e., these records are not a part of regular books of accounts.

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CONSIGNMENT

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 debts in case of del credere commission shall be debited to the Consignment account
9. Abnormal loss is created out of uncontrollable situations and circumstances.
10. The relationship between the consignor and his consignee is that of a seller and a buyer.
11. The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
12. In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.
13. A limited is sending goods costing ₹ 50,000 to B limited on consignment basis. The accountant of A limited is of the opinion that these goods should be sent a sale invoice
14. Consignee will not pass any journal entry in his books at time of receiving of goods from consignor.
15. Consignment account is of the nature of real account.
16. If del-creders commission is paid to consignee, the loss of bad debts is to be borne by the consignor.

Answer :

1. **False:** The abnormal loss is credited to the consignment account since it is a reduction in the value of the stock. Alternatively it can be credited to the trading account of the consignor too as there is reduction from the stock of the goods.
2. **False:** The sales account shows the balance receivable on account of the sales- both cash and credit. Whereas the account sales statement is given by the consignee to the consignor on a periodical basis detailing the transactions done by the former.
3. **True:** The consignor is the owner of the goods sent on consignment. Consignee is a mere agent appointed to sell the goods for a commission and the mere transfer of possession does not entitle consignee to become the owner of the goods.
4. **False:** The del-credere commission is the commission paid to the consignee for bearing the loss of the bad debts if any.

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5. **True:** It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.
6. **False:** It is a nominal account recording the expenses on the debit and the income on the credit side, balance being the profit/ loss on the consignment account to the trading account.
7. **False:** Proforma invoice is given by the consignor to the consignee with regard to the goods sent on consignment and their price.
8. **False:** If del credere commission is given to the consignee then, the bad debts are taken into the accounts of the consignee. It will not appear in the consignment account.
9. **False:** Abnormal loss occurs due to unforeseen circumstances, but if necessary steps are taken they can be controlled, it is only the natural loss which cannot be controlled since it occurs due to nature of the product.
10. **False:** The relationship between the consignor and the consignee is that of a principal and agent. It is mere arrangement for sale of goods on behalf of the consignor.
11. False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
12. False: In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.
13. False; Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.
14. True; Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.
15. False: Consignment account is a nominal-cum-personal account.
16. False: To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

B) MULTIPLE CHOICE QUESTIONS

1. P of Delhi sends out 1,000 boxes of toothpaste costing ₹ 200 each. Each box consist of 12 packets. 600 boxes were sold by consignee at ₹ 20 per packet. Amount of sale value will be:

    a) ₹ 1,44,000

    b) ₹ 1,20,000

    c) ₹1,32,000

Answer : (a) ₹ 1,44,000

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2. X of Kolkata sends out 2,000 boxes to Y of Delhi costing ₹ 100 each. Consignor's expenses ₹ 5,000. 1/10th of the boxes were lost in consignee's godown and treated as normal loss. 1,200 boxes were sold by consignee. The value of consignment Inventories will be:
   a) ₹ 68,333
   b) ₹ 61,500
   c) ₹ 60,000

Answer : (b) ₹ 61,500

3. Which of the following statement is not true:
   a) If del-credere commission is allowed, bad debt will not be recorded in the books of consignor
   b) If del-credere commission is allowed, bad debt will be debited in consignment account
   c) Del-credere commission is provided by consignor to consignee

Answer : (b) If del-credere commission is allowed, bad debt will be debited in consignment account

4. X of Kolkata sent out 2,000 boxes costing 100 each with the instruction that sales are to be made at cost + 45%. X draws a bill on Y for an amount equivalent to 60% of sales value. The amount of bill will be:
   a) ₹ 1,74,000
   b) ₹ 2,00,000
   c) ₹ 2,90,000

Answer : (a) ₹ 1,74,000

5. Which of the following statement is wrong:
   a) Consignor is the owner of the consignment Inventories
   b) Del-credere commission is allowed by consignor to protect himself from bad debt
   c) All proportionate consignee's expenses will be added up for valuation of consignment Inventories.

Answer : (c) All proportionate consignee's expenses will be added up for valuation of consignment Inventories.

6. Out of the following at which point the treatment of "Sales" and "Consignment" is same:
   a) Ownership transfer.
   b) Money receive.
   c) Inventories outflow.

Answer : (c) Inventories outflow.

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7. If del-credere commission is allowed for bad debt, consignee will debit the bad debt amount to:
    a) Commission Earned A/c
    b) Consignor's A/c
    c) Trade receivables (Customers) A/c

Answer : (a) Commission Earned A/c

8. A proforma invoice is sent by:
    a) Consignee to Consignor
    b) Consignor to Consignee
    c) Customer/Debtors to Consignee

Answer : (b) Consignor to Consignee

9. Which of the following statement is correct:
    a) Consignee will pass a journal entry in his books at the time of receiving goods from consignor.
    b) Consignee will not pass any journal entry in his books at the time of receiving goods from consignor.
    c) The ownership of goods will be transferred to consignee at the time of receiving the goods.

Answer : (b) Consignee will not pass any journal entry in his books at the time of receiving goods from consignor.

10. Consignment Inventories will be recorded in the balance sheet of consignor on asset side at:
    a) Invoice Value
    b) At Invoice value less Inventories reserve
    c) At lower than cost price

Answer : (b) At Invoice value less Inventories reserve

11. Which of the following expenses of consignee will be considered as non-selling expenses:
    a) Advertisement
    b) Insurance on freight inward
    c) Selling Expenses

Answer : (b) Insurance on freight inward

12. The consignment accounting is made on the following basis:
    a) Accrual
    b) Realisation

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c) Cash Basis

Answer : (a) Accrual

13. Which of the following item is not credited to consignment account?

a) Cash sales made by consignee

b) Credit sales made by consignee

c) Inventories Reserve on closing consignment Inventories

Answer : (c) Inventories Reserve on closing consignment Inventories

C) SHORT NOTES

1. Del-credere commission.
2. Account sales.
3. Over-riding commission.

Answer :

1. Del-credere commission is an additional commission paid by the consignor to the consignee for undertaking responsibility of collection of debts. Generally, the consignee gets ordinary commission for sales made by him as a percentage of gross sales, over and above, he may get del- credere commission for the additional responsibility of debt collection. Sometimes it is agreed that del-credere commission shall be allowed on credit sales only. However, in the absence of any such agreement the consignor allows del-credere commission on total sales and not merely on credit sales. If the consignee is entitled to del-credere commission, he has to bear the bad debts; if any, arising, out of credit sale of consignment goods.

2. Account sales is a periodic statement furnished by the consignee to the consignor stating therein, the quantity sold, price charged, expenses incurred on behalf of the consignee and commission payable to him in respect of a particular consignment, and the net amount due from him and remittance received if any. It also shows the details of quantity of goods received, destroyed, if any, and still held as stock.

3. Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

   To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

   To provide incentive for supervising the performance of other agents in a particular area.

   To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

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D)Distinguish between:

1. Consignment sale and Normal sale.
2. Commission and Discount.
3. provision and contingent liability,

Answer :

1. In case of consignment, the property in the goods remains with the consignor until the goods are actually sold. The consignee acts only as a custodian of goods sent by consignor. In consignment, the ownership of goods does not pass on to the consignee in any case. In case of ordinary sale, the ownership of goods passes to the buyer immediately after sale. In case of consignment, the risk attached to the goods remain with the consignor even after sending the goods to the consignee. However, in case of ordinary sale, as soon as the property in the goods passes on to the buyers, the risk attached to the goods also passes at the same time. The relationship between consignor and consignee is that of principal and agent. In case of credit sale, the relationship between the buyer and the seller is that of a debtor and a creditor.

2. Commission may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and is usually based on a percentage of the amounts involved.

   Commission earned is accounted for as an income in the books of accounts, and commission allowed or paid is accounted for as an expense in the books of the party availing such facility or service.

   The term discount refers to any reduction or rebate allowed and is used to express one of the following situations:

   An allowance given for the settlement of a debt before it is due i.e. cash discount.

   An allowance given to the whole sellers or bulk buyers on the list price or retail price, known as trade discount. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost of purchases.

3. Difference between Provision and Contingent liability

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognitioncriteria.	A contingent liability fails to meet thesame.

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(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

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“Study 100% of portion, solve 100%”

Chartered Accountancy exams are considered to be tough. But it’s not impossible to clear it. I’m saying this with belief coz had it been impossible we would all not have joined this course. Isn’t it?? Our joining this course ensures that we all think we have it in us to clear the CA exams. So why is the fear for Chartered Accountancy Exams and the fear for Results?? How to overcome the fear?

It is observed that some students do not concentrate on the difficult subjects (for them) and spend more time on the easy subjects. Such students may fail badly as they have to clear all papers in a group. It may be advisable that they first deal with the difficult one and ensure that they can get through that.

When you are studying, it can be demotivating when you don’t know the answer to something. Make notes about anything you are not sure of and don’t leave any questions unanswered – these are gaps in your knowledge which need to be plugged.

One should have that all urge to be called as a “CHARTERED ACCOUNTANT” one day it will feel good. Call yourself “Chartered Accountant followed by your name” within yourself and see how it feels. Imagine the world calling u like this one day once u qualifies. Wowwwww is the feeling isn’t it??

Hey !!! I am afraid of you…

(Pen down the subjects you find it difficult and concentrate more on them rather ignoring them. 2 revisions of these subjects without leaving anything in option is must)

AVERAGE DUE DATE

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. The specific due date excludes the addition of grace days to arrive at the due date.
2. Payment made before the average due date entitles rebate to the customer.
3. Average due date results in loss to the party making the payment.
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 day preceding the sudden holiday.

Answer :

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

B) MULTIPLE CHOICE QUESTIONS

1. If payment is made on the average due date it results in-
   a) Loss of interest to the creditor.
   b) Loss of interest to the debtor.
   c) No loss of interest to either of them.

Answer : (c) No loss of interest to either of them.

2. A mean date is calculated
   a) In connection with the settlement of contra accounts.
   b) For a lump sum payment.
   c) For several payments on different dates.

Answer : (c) For several payments on different dates.

3. If payment is made after average due date, the party entitled to interest is
   a) Creditor

b) Debtor

c) Bank

Answer : (a) Creditor

4. When due date is a public holiday, then the due date will be.
   a) Succeeding business day
   b) Preceding business day
   c) Due date will not change and will remain same.

Answer : (b) Preceding business day

5. A Bill due on 29th January, 2020 is made payable at one month after date. The due date of instrument
   a) 28th February, 2020
   b) 29th February, 2020
   c) 3rd March, 2020

Answer : (c) 3rd March, 2020

C) THEORETICAL QUESTIONS

1. Define Average Due Date.
2. List out the various instances when Average Due Date can be used.

Answer :

1. In business enterprises, many receipts and payments by and from a single party may occur at different points of time. To simplify the calculation of interest involved for such transactions, the idea of average due date has been developed. Average Due Date is a break-even date on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.

2. Few instances where average due date can be used:
   i. Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.
   ii. Settlement of accounts between a principal and an agent.
   iii. Settlement of contra accounts, that is, A and B sell goods to each other on different dates.

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Account current

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. In Account Current, Red Ink Interest is treated as negative interest.
2. There are two ways of preparing an account current
3. The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.
4. In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

Answer :

1. True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.
2. False: There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.
3. True: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.
4. True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

B) MULTIPLE CHOICE QUESTIONS

1. Red ink interest is
   a) really not interest
   b) negative interest
   c) used in connection with average due date.

Answer : b) negative interest

2. An account current is a statement of mutual transactions
   a) between two parties
   b) in lieu of average due date
   c) prepared for a particular accounting period.

Answer : a)between two parties

3. In account current, while counting the number of days, the due date is ignored and date up to which the accounts are prepared, is

a) included
b) excluded
c) ignored

Answer : a)included

C) THEORETICAL QUESTIONS

1. Define Account Current. Explain ways of preparing an Account Current
2. Write short note on Red-ink interest.

Answer :

1. An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of an ledger account. There are three ways of preparing an Account Current:
   i. With help of interest table.
   ii. By means of products.
   iii. By means of products of balances.

2. In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest. This Red Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill X (due date-closing date) is written in ordinary ink in the opposite side on which the bill is entered]. It means interest from future date from date of account current i.e., present date. In earlier periods, it was written in red ink; hence it got the name of red ink interest. It implies that rebate will be allowed on interest paid/ received, if settlement of future due transaction is done on account current date

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FINAL ACCOUNTS OF MANUFACTURING ENTITIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. By-products valued at cost or net realisable 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 + Purchases – 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.

Answer :

1. **False:** By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.
2. **False:** The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.
3. **True:** Manufacturing account deals with the raw material, and work in progress.
4. **True:** Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.
5. **False:** The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.
6. **False:** Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

B) MULTIPLE CHOICE QUESTIONS

1. Under-statement of closing work in progress in the period will
   a) Understate cost of goods manufactured in that period.
   b) Overstate current assets.
   c) Understate net income in that period.
   d) None of the three.

Answer : (c) Understate net income in that period.

2. Sales is equal to
   a) Cost of goods sold – Gross profit.
   b) Cost of goods sold + Gross profit.
   c) Gross profit – Cost of goods sold.
   d) Net profit + cost of goods sold.

Answer : (b) Cost of goods sold + Gross profit.

3. Indirect Manufacturing expenses are also called
    a) Manufacturing overhead.
    b) Production overhead.
    c) Works overhead.
    d) All the three.

Answer : (d) All the three.

4. Sale value of the by-product is credited to
    a) Manufacturing account.
    b) Capital account.
    c) Overheads account.
    d) Trading account.

Answer : (a) Manufacturing account.

5. Manufacturing account shows
    a) Total cost of manufacturing the finished products.
    b) It provides details of factory cost.
    c) It facilitates reconciliation of financial books with cost records.
    d) All the three.

Answer : (d) All the three.

C) THEORETICAL QUESTIONS

1. Write short note on By-products.
2. Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses

Answer :

1. By-products generally have insignificant value as compared to the value of main product. They are generally valued at net realisable value, if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

2. Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

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FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 expense.
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.
20. If Closing Stock appears in the Trial Balance, the Closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet.
21. A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
22. In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing. The accountant can use the balance in securities premium account to write off preliminary expenses.
23. Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

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24. Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
25. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.
26. If Closing Stock appears in the Trial Balance:

    The closing inventory in then not entered in Trading Account. It is shown only in the balance sheet.
27. Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.
28. Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members

Answer :

1. **True:** Profit and loss account shows either net profit or net loss for a particular period.
2. **False:** Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.
3. **True:** The salary paid in advance is an asset it is not an expense because it neither reduces assets or nor increase liabilities.
4. **True:** A loss is an expenditure of the business which does not bring any gain to the business.
5. **False:** All liabilities which become due for payment in one year are classified as current liabilities.
6. **True:** Current assets are all the assets which are expected to be realized or sold or consumed within one year.
7. **True:** When an asset is purchase capital expenditure is incurred and when the asset is put to use expenses are incurred in consumption.
8. **True:** Debit balance of accounts are treated as expenses whose benefit is already received or expired.
9. **True:** Gross profit is obtained by deducting cost of goods sold from sales.
10. **False:** If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.
11. **False:** The provision for bad debts is debited to debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.
12. **True:** According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.
13. **False:** The debts written off as bad, if recovered subsequently are credited to Bad Debts Recovered Account and becomes an income.
14. **False:** Income received in advance is reduces it from the concerned income in profit and loss account. And, it is shows it as a liability in the current balance sheet under the head Current Liabilities.
15. **False:** Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.

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16. **True:** Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.
17. **False:** Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.
18. **True:** Any benefit given to the staff is debited to the salary account.
19. **False:** Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.
20. **True:** The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.
21. False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.
22. True; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.
23. False: It shall be disclosed as a current liability in the opening balance sheet.
24. True: Because it depicts that one aspect of the double entry has been completed.
25. True: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.
26. True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.
27. False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.
28. True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

B) MULTIPLE CHOICE QUESTIONS

1. A debit to an account may
   a) increase expense
   b) decrease an asset.
   c) increase a liability.
   d) increase income.

Answer : (a) increase expense

2. Prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as:
   a) a liability and a debit balance.
   b) an asset and a debit balance.
   c) an asset and a credit balance.
   d) a liability and a credit balance.

Answer : (c) an asset and a credit balance.

3. Gross profit is the difference between:
   a) sales and purchases
   b) sales and cost of sales.
   c) sales and total expenses.
   d) Sales and total liabilities.

Answer : (b) sales and cost of sales.

4. Payment made to a creditor subject to cash discount will :
   a) reduce a liability, reduce an asset and add to expenses.
   b) reduce a liability, add to an asset, and add to revenue.
   c) reduce an asset, reduce a liability, and add to revenue.
   d) reduce a liability, reduce an asset and decrease expenses.

Answer : (c) reduce an asset, reduce a liability, and add to revenue.

5. A customer returns goods already charged to him. We should:
   a) debit his account.
   b) credit his account.
   c) make no entry on his account.
   d) None of the above.

Answer : (b) credit his account.

6. Capital is the difference between
   a) Income and expenses
   b) Sales and Cost of goods sold
   c) Assets and liabilities
   d) None of the above.

Answer : (c) Assets and liabilities

7. The capital of a sole trader would change as a result of:
   a) A creditor being paid his account by cheque.

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b) Raw materials being purchased on credit.
c) Fixed assets being purchased on credit.
d) Wages being paid in cash.

Answer : (d) Wages being paid in cash.

8. A decrease in the provision for doubtful debts would result in:
   a) An increase in liabilities.
   b) A decrease in working capital.
   c) An increase in net profit.
   d) None of the three.

Answer : (c) An increase in net profit.

9. A Company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?
   a) 33%
   b) 25%
   c) 20%
   d) 30%

Answer : (b) 25%

10. If sales is ₹ 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be
    a) ₹ 2,000.
    b) ₹ 1,500.
    c) ₹ 1,600.
    d) ₹ 1,000.

Answer : (c) ₹ 1,600.

11. Sales for the year ended 31st March, 2020 amounted to ₹ 10,00,000. Sales included goods sold to Mr. A for ₹ 50,000 at a profit of 20% on cost. Such goods are still lying in the godown at the buyer's risk.

Therefore, such goods should be treated as part of
   a) Sales.
   b) Closing Inventory.
   c) Goods in transit.
   d) None of the above.

Answer : (a) Sales.

12. If sales revenues are ₹4,00,000; cost of goods sold is ₹ 3,10,000 and expenses are ₹60,000, the gross profit is

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a) ₹ 30,000.

b) ₹ 90,000.

c) ₹ 3,40,000.

d) ₹ 4,00,000.

Answer : (b) ₹ 90,000.

C) THEORETICAL QUESTIONS

Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

Answer:

Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

i. The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money
ii. Balance sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in the long run and not for the past date.
iii. Accounting ignores changes in some money factors like inflation etc.
iv. There are occasions when accounting principles conflict with each other.
v. Certain accounting estimates depend on the sheer personal judgment of the accountant.
vi. Different accounting policies for the treatment of same item adds to the probability of manipulations.

D) SHORT NOTES

1. Balance sheet.
2. Trading account
3. Closing entries

Answer :

1. The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date." Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as at."

2. At the end of the year, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss with the helps to Trading A/c. Gross Profit is the difference between the selling price and the cost of the goods sold.

3. Closing entries: The entries that have to be made in the journal for preparing the Trading and the Profit and Loss Account that is for transferring the various accounts to these two accounts are known as closing entries.

E)Distinguish between

I. Provision and reserve fund.

Answer :

I. Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy".

   Reserve Fund: It signifies the amount standing to the credit of the reserve that is invested outside the business in securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

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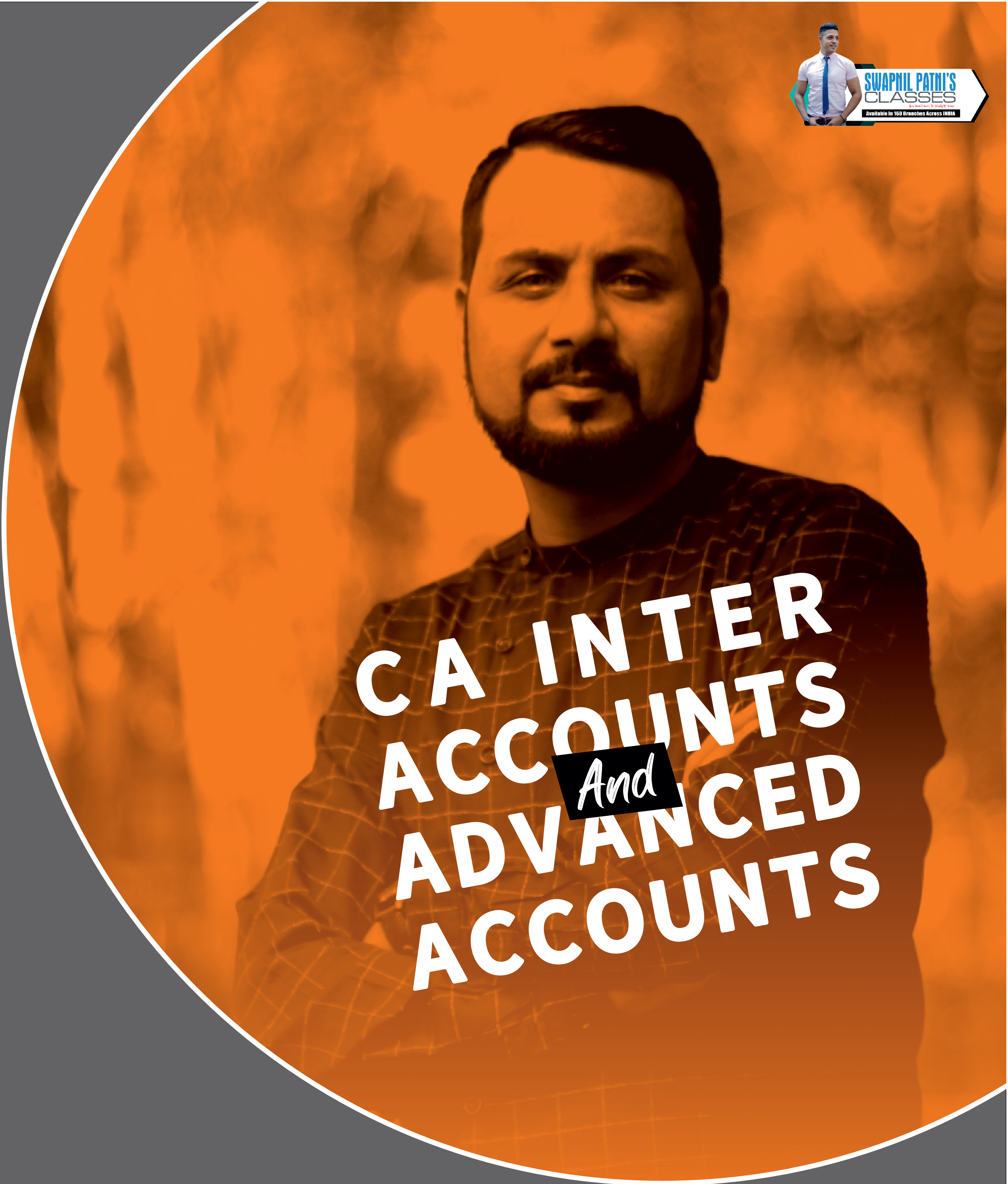

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INTRODUCTION TO COMPANY ACCOUNTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Every public company is a listed company.
2. Shares of a private company are not listed on stock exchange.
3. It is not mandatory to incorporate a company under the companies act.
4. Company is an artificial, legal person created by law.
5. Death, insolvency or change of members affects the existence of a company.
6. If the shares are fully paid-up by the shareholder, he is subject to no further liability.
7. Public limited company has restrictions on transferability of shares.
8. Financial statements of company show the financial position of the business.
9. Schedule I gives proforma of Balance Sheet.
10. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.
11. Re-issue of forfeited shares is allotment of shares but not a sale.
12. A Company is not allowed to issue shares at a discount to the public in general.
13. A person holding preference shares of a company cannot hold equity shares of the same company.
14. Interest on calls in arrears is payable by company to shareholders.

Answer :

1. **False:** Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.
2. **True:** Only the shares of public company are listed on stock exchange. Every listed company is a public company.
3. **False:** It is mandatory to incorporate a company under the Companies Act. Without such incorporation, a company cannot come into existence.
4. **True:** Company comes into existence through the operation of law. It is a separate entity distinct from it's members.
5. **False:** Company is a separate legal entity created by law. Death, insolvency or change of member does not affect it's existence.
6. **True:** Liability of shareholders is limited to the extent of the unpaid share capital. So, if shares are fully paid-up, he is subject to no further liability.
7. **False:** Shares of public company are freely transferable. Transferability of shares is restricted in a private limited company.
8. **True:** Financial statements give a true & fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet, etc.
9. **False:** Schedule III Part I explains form of Balance Sheet.

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10. False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
11. False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.
12. True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
13. False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
14. False: Interest on calls in arrears is payable by shareholders to company.

B) MULTIPLE CHOICE QUESTIONS

1. Which of the following statement is not a feature of a Company?
   a) Separate legal entity
   b) Perpetual Existence
   c) Members have unlimited liability

Answer : (c) Members have unlimited liability

2. In a Government Company, the holding of the Central Government in paid-up capital should not be less than
   a) 25%
   b) 50 %
   c) 51%

Answer : (c) 51%

3. Which of the following statement is true in case of a Foreign Company?
   a) A Company incorporated in India and has place of business outside India.
   b) A Company incorporated outside India and has a place of business in India.
   c) A Company incorporated in India and has a place of business in India.

Answer : (b) A Company incorporated outside India and has a place of business in India.

4. Which of the following statements is not a feature of a private company?
   a) Restricts the rights of members to transfer its shares.
   b) Does not restrict on the number of its members to any limit.
   c) Does not involve participation of public in general.

Answer : (b) Does not restrict on the number of its members to any limit.

C) SHORT NOTES

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1. Foreign company.
2. Small company.
3. Company limited by guarantee.

Answer :

1. Foreign Company

According to Section 2 (42) of the Companies Act, 2103, "Foreign company" means any company or body corporate incorporated outside India which –

a) Has a place of business in India whether by itself or through an agent physically or through electronic mode; and
b) Conducts any business activity in India in any other manner.

2. Small Company

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company.

i. paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or
ii. turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees.

3. Company limited by Guarantee

As per Section 2(21) of the Companies Act, 2013, "company limited by guarantee" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.

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ISSUE, FORFEITURE AND RE-ISSUE OF SHARES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Liability of a holder of shares is limited to the face value of shares acquired by them.
2. Authorised 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.

Answer :

1. **False:** Liability of the holder of shares is limited to the issue price of shares acquired by them.
2. **True:** Authorised capital is the amount of capital mentioned in 'capital clause' of the 'Memorandum of Association'. Authorised capital is considered only as presentation and not considered in total of balance sheet.
3. **False:** Rate of preference dividend is always fixed.
4. **False:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.
5. **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
6. **False:** As per table F, rate of interest on calls in arrears is 10%.
7. **False:** As per Table F, rate of interest on calls in advance is 12%.
8. **False:** 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. Non-participating preference shareholders do not enjoy voting rights.
9. **True:** Reissue of forfeited shares is not allotment of shares but only a sale.
10. **False:** Loss on re-issue should not exceed the forfeited amount.

B) MULTIPLE CHOICE QUESTIONS

1. The excess price received over the par value of shares, should be credited to .
   a) Calls-in-advance account
   b) Share capital account
   c) Securities premium account

Answer : (c) Securities premium account

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2. The Securities Premium amount may be utilized by a company for .
   a) Writing off any loss on sale of fixed asset
   b) Writing off any loss of revenue nature
   c) Writing off the expenses/discount on the issue of debentures

Answer : (c) Writing off the expenses/discount on the issue of debentures

3. When shares are forfeited, the share capital account is debited with___and the share forfeiture account is credited with____.
   a) Paid-up capital of shares forfeited; Called up capital of shares forfeited
   b) Called up capital of shares forfeited; Calls in arrear of shares forfeited
   c) Called up capital of shares forfeited; Amount received on shares forfeited

Answer : (c) Called up capital of shares forfeited; Amount received on shares forfeited

4. T Ltd. proposed to issue 6,000 equity shares of ₹100 each at a premium of 40%. The minimum amount of application money to be collected per share as per the Companies Act, 2013
   a) ₹5.00
   b) ₹6.00
   c) ₹7.00

Answer : (a) ₹5.00

5. Dividends are usually paid as a percentage of .
   a) Authorized share capital
   b) Net profit
   c) Paid-up capital

Answer : (c) Paid-up capital

6. As per the SEBI guidelines, on issue of shares, the application money should not be less than
   a) 2.5% of the nominal value of shares
   b) 2.5% e of shares
   c) 25.0% of the issue price of shares

Answer : (c) 25.0% of the issue price of shares

7. G Ltd. acquired assets worth ₹7,50,000 from H Ltd. by issue of shares of ₹100 at a premium of 25%. The number of shares to be issued by G Ltd. to settle the purchase consideration = ?
   a) 6,000 shares
   b) 7,500 shares
   c) 9,375 shares

Answer : (a) 6,000 shares

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C) THEORETICAL QUESTIONS

1. Can a company issue shares at discount?

Answer :

1. According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.

D) SHORT NOTES

1. Re-issue of forfeited shares

Answer :

1. A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale. The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it off. In practice, forfeited shares are disposed off by auction. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.

E) DISTINGUISH BETWEEN:

1. Calls-in-Arrears and Calls-in-advance
2. Issue of shares for cash and Issue of Shares for Consideration other than Cash

Answer :

1. Calls-in-Arrears: Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.

   Calls-in-advance: Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance.

2. The shares can be issued by a company either for cash or for consideration other than cash. Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets.

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ISSUE OF DEBENTURES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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. Debentures 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.
11. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
12. Debenture holders enjoy the voting rights in the company.

Answer :

1. **False:** Debenture holder are the creditors of the company.
2. **True:** Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.
3. **False:** Registered debentures are not easily transferable by delivery. Bearer debentures are transferrable by delivery.
4. **True:** In case the company cannot repay its loan & the interest thereon on the due date, the lender becomes debenture holder & them only he is entitled to interest on debentures.
5. **False:** Debentures suspense account appears on asset side of balance sheet under non-current asset.
6. **False:** Even if the company incurs or earns profit, it has to pay the interest on debentures.
7. **False:** At the time of liquidation, debenture holders are paid off before shareholders on priority basis.
8. **True:** At the time of liquidation, debenture holders are paid off before shareholders on priority basis.
9. **False:** These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.
10. **True:** Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.
11. False - Debenture interest is payable before the payment of any dividend on shares.
12. False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

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B) MULTIPLE CHOICE QUESTIONS

1. Premium on redemption of debentures account appearing in the balance sheet is .
   a) A nominal account – expenditure
   b) A nominal account – income
   c) A personal account .

Answer : (c) A personal account.

2. Debenture interest
   a) Is payable before the payment of any dividend on shares
   b) Accumulates in case of losses or inadequate profits
   c) Is payable after the payment of preference dividend but before the payment of equity dividend

Answer : (a) Is payable before the payment of any dividend on shares

3. F Ltd. purchased Machinery from G Company for a book value of ₹ 4,00,000. The consideration was paid by issue of 10% debentures of ₹ 100 each at a premium of 25%. The debenture account was credited with .
   a) ₹ 4,00,000
   b) ₹ 5,00,000
   c) ₹ 3,20,000

Answer : (c) ₹ 3,20,000

4. Which of the following is not a characteristic of Bearer Debentures?
   a) They are treated as negotiable instruments
   b) Their transfer requires a deed of transfer
   c) They are transferable by mere delivery

Answer : (b) Their transfer requires a deed of transfer

5. When debentures are issued as collateral security, the final entry for recording the collateral debentures in the books is .
   a) Credit Debentures A/c and debit Cash A/c.
   b) Debit Debenture suspense A/c and credit Cash A/c.
   c) Debit Debenture suspense A/c and credit Debentures A/c.

Answer : (c) Debit Debenture suspense A/c and credit Debentures A/c.

6. When debentures are redeemable at different dates, the total amount of discount on issue of debentures should be written off
   a) Every year by applying the sum of the year's digit method

b) Every year by applying the straight line method

c) To profit and loss account in full in the year of final or last redemption

Answer : (a) Every year by applying the sum of the year's digit method

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INTRODUCTION TO PARTNERSHIP ACCOUNTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 can not 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.
11. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
12. Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932
13. Partners can share profits or losses in their capital ratio, when there is no agreement.
14. A partnership firm can acquire fixed assets in the name of the firm.
15. When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.
16. A Partnership firm cannot own any Assets.

Answer :

1. **False:** In absence of any agreement partners share profits equally and not in capital contribution ratio.
2. **True:** Profit sharing can be different from the that of the capital introduced by each of the partner. Not necessary that partner contributing more capital should have a higher profit sharing ratio and vice versa.
3. **False:** Registration of firms is not compulsory under Indian Partnership Act 1932.
4. **True:** Yes loan is given to the firm 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:** Interest on capital can be paid only if it is provided in the partnership deed.
6. **False:** Every partner need not take part in the business. Even if a partner does not take part in the business he is entitled for his share of profit.
7. **True:** Yes as per the provisions of the law- it is necessary that the interest on loan at 6% per annum shall be paid to the concerned partner.
8. **False:** Husband and wife can be partners in the same firm.

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9. **True:** There is no senior or junior partner. Every partner is agent/principal of other partners.
10. **True:** Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.
11. False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
12. False: The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.
13. False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
14. False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.
15. True: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.
16. True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

B) MULTIPLE CHOICE QUESTIONS

1. If a firm prefers Partners' Capital Accounts to be shown at the amount introduced by the partners as capital in firm then entries for salary, interest, drawings, interest on capital and drawings and profits are made in
   a) Trading Account
   b) Profit and Loss Account
   c) Partners' Current Account

Answer : (c) Partners' Current Account

2. In the absence of any agreement, partners are liable to receive interest on their Loans @
   a) 12% p.a.
   b) 10% p.a.
   c) 6% p.a.

Answer : (c) 6% p.a.

3. The relationship between persons who have agreed to share the profit of a business carried on by all or any of them acting for all is known as ....
   a) Partnership.
   b) Joint Venture.
   c) Association of Persons.

Answer : (a) Partnership.

4. Firm has earned exceptionally high profits from a contract which will not be renewed. In such a case the profit from this contract will not be included in ....
   a) Profit sharing of the partners.
   b) Calculation of the goodwill.
   c) Both.

Answer : (b) Calculation of the goodwill.

5. In the absence of an agreement, partners are entitled to
   a) Interest on Loan and Advances.
   b) Commission.
   c) Salary.

Answer : (a) Interest on Loan and Advances.

6. Partners are supposed to pay interest on drawings only when .... by the ....
   a) Provided, Agreement.
   b) Agreed, Partners
   c) Both (a) & (b) above.

Answer : (c) Both (a) & (b) above.

7. When a partner is given a guarantee by the other partner, loss on such guarantee will be borne by
   a) Partner who gave the guarantee
   b) All the other partners.
   c) Partnership firm.

Answer : (a) Partner who gave the guarantee

8. A, B and C had capitals of ₹ 50,000; ₹ 40,000 and ₹ 30,000 respectively for carrying on business in partnership. The firm's reported profit for the year was ₹ 80,000. As per provisions of the Indian Partnership Act, 1932, find out the share of each partner in the above amount after taking into account that no interest has been provided on an advance by A of ₹ 20,000, in addition to his capital contribution.
   a) ₹ 26,267 for Partner B and C & ₹ 27,466 for partner A.
   b) ₹ 26,667 each partner.
   c) ₹ 33,333 for A, ₹ 26,667 for B and ₹ 20,000 for C.
   d) ₹ 30,000 each partner.

Answer : (a) ₹ 26,267 for Partner B and C & ₹ 27,466 for partner A.

9. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and X wanted interest on capital @ 20% as his capital contributions was ₹ 1,00,000 as compared to that of Y and Z which was ₹ 75,000 and ₹ 50,000 respectively.
   a) Profits of ₹ 6,000 will be distributed equally with no interest on either Capital.
   b) X will get the interest of ₹ 20,000 and the loss of ₹ 14,000 will be shared equally.
   c) All the partners will get interest on capital and the loss of ₹ 39,000 will be shared equally.
   d) None of the above.

Answer : (a) Profits of ₹ 6,000 will be distributed equally with no interest on either Capital.

10. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and Y determined interest @ 24% p.a. on his loan of ₹ 80,000. There was no agreement on this point. Calculate the amount payable to X, Y and Z respectively.
   a) ₹ 2,000 to each partner.
   b) Loss of ₹ 4,400 for X and Z & Y will take home ₹ 14,800.
   c) ₹ 400 for X, ₹ 5,200 for Y and ₹ 400 for Z.
   d) ₹ 2,400 to each partner.

Answer : (c) ₹ 400 for X, ₹ 5,200 for Y and ₹ 400 for Z.

11. X, Y and Z are partners in a firm. At the time of division of profit for the year there wasdispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and Z demanded minimum profit of ₹ 5,000 as his financial position was not good. However, there was no written agreement. Profits to be distributed to X, Y and Z will be
   a) Other partners will pay Z the minimum profit and will suffer loss equally.
   b) Other partners will pay Z the minimum profit and will suffer loss in capital ratio.
   c) ₹ 2,000 to each of the partners.

Answer : (c) ₹ 2,000 to each of the partners.

C) SHORT NOTES

1. Features of Partnership
2. Powers of Partners

Answer :

1. The following four essential features of a partnership, namely:

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i. Partnership is the result of an agreement: It means that the relation of partnership arises from contract and not from status.
ii. Business: A partnership can exist only in business.
iii. Sharing of profit: The persons concerned must agree to share the profits of the business.
iv. Mutual agency: It means that the business is to be carried on by all or any of them acting for all. Thus, if the person carrying on the business acts not only for himself but for others also so that they stand in the positions of principals and agents, they are partners.

2. Powers of partners are the following:
   i. Buying and selling of goods;
   ii. Receiving payments on behalf of the firm and giving valid receipt;
   iii. Drawing cheques and drawing, accepting and endorsing bills of exchange and promissory notes in the name of the firm;
   iv. Borrowing money on behalf of the firm with or without pledging the inventories-in-trade;
   v. Engaging servants for the business of the firm.

D) DISTINGUISH BETWEEN:

1. Fixed capital and fluctuating capital.
2. Partnership and joint venture

Answer :

1. In fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, Unless a decision is taken to change it, initial capital account balance is not changed.
   In fluctuating capital method, no current account is maintained. All such transactions and events are passed through capital accounts. Naturally, capital account balance of the partners fluctuates every time. So in fixed capital method a fixed capital balance is maintained over a period of time while in fluctuating capital method capital account balances fluctuate all the time.

2. Partnership is a relationship between persons who have agreed to share profits or losses of a business carried on by all or any of them acting for all. Whereas, a joint venture is a contractual agreement whereby two or more parties undertake an economic activity which is subject to joint control. Thus joint venture is a temporary partnership formed for a particular economic activity or venture. The following differences exist between joint venture and other forms of partnership:

The owners of a partnership business are called partners, whereas the owners of a joint venture are called co-ventures.

Accrual basis of accounting is followed in case of partnership and a joint venture generally follows cash basis of accounting.

The financial results of a partnership are obtained at regular intervals. On the other hand, the financial results of a joint venture are obtained generally at the end of the venture.

However, there may be ventures in certain areas which may last for a longer period, for example, joint ventures in key areas like power, petroleum, telecommunication, etc. In these cases, the ventures may even last for ten/fifteen years. For these long term joint ventures, financial statements are prepared periodically by following accrual basis of accounting. Therefore, the line of distinction between long term joint ventures and other forms of partnership is very thin.

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TREATMENT OF GOODWILL IN PARTNERSHIP ACCOUNTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Goodwill is intangible asset therefore it cannot be valued.
2. Goodwill is valued whenever there is change in the constitution of the business.
3. Goodwill is excess earning capacity of the business attributable to many reasons.
4. At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.
5. Only simple average method can be used for valuation of goodwill.
6. Super profit means excess of actual average profit over normal profit.
7. Normal profit means profit earned by similar companies in the same industry.
8. Normal profit depends upon Normal Rate of Return and past profits.
9. At the time of admission/retirement of a partner, since goodwill can not be raised in the books of accounts is recorded through capital accounts of the partners.
10. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.
11. Goodwill is intangible asset therefore it cannot be valued.

Answer :

1. **False:** Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units
2. **True:** Goodwill has to be valued each time when there is a reconstitution to made good the sacrifice made by few partner due to such reconstitution.
3. **True:** Goodwill is the brand image the firm has in the market due to which it enjoys an advantageous position over the other players in the market
4. **False:** At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and it is immediately written off. It can not remain in the books of accounts as asset in balance sheet as per accounting standard .
5. **False:** Weighted average profit method, cpaitlisation method, super profits methods also can be used for valuation of Goodwill.
6. **True:** It is capacity of the firm to earn excessive profits over the industry normal evidencing the fact that the firm experiences higher goodwill
7. **True:** The rate of return is considered as an average for the industry, which is applied to the capital employed in the concerned firm.
8. **False:** Normal profit depends upon Normal Rate of Return only and not on past profits.
9. **True:** Generally the goodwill at the time of admission id adjusted through the capital accounts and not shown in the books of the firm.
10. **False:** Goodwill brought in by new partner is shared by old partners in Sacrifice Ratio and not equally.
11. False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

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B) MULTIPLE CHOICE QUESTIONS

1. Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their.........ratio.
   a) Capital.
   b) New Profit Sharing.
   c) Sacrificing.

Answer : (c) Sacrificing.

2. A & B are partners sharing profits and losses in the ratio 5:3. On admission, C brings ₹70,000 cash and ₹48,000 against goodwill. New profit sharing ratio between A, B and C are 7:5:4. Find the sacrificing ratio of A:B.
   a) 3:1.
   b) 4:7.
   c) 5:4.

Answer : (a) 3:1.

3. Following are the factors affecting goodwill except:
   a) Nature of business.
   b) Efficiency of management.
   c) Location of the customers.

Answer : (c) Location of the customers.

4. Weighted average method of calculating g
   a) Profits has increasing trend.
   b) Profits has decreasing trend.
   c) Either 'a' or 'b'.

Answer : (c) Either 'a' or 'b'.

5. In the absence of any provision in the partnership agreement, profits and losses are shared
   a) In the ratio of capitals.
   b) Equally.
   c) In the ratio of loans given by them to the partnership firm.

Answer : (b) Equally.

6. The profits and losses for the last 4 years are 2007-08 2016-17 Losses ₹ 10,000; 2008-09 2017-18 Losses ₹ 2,500; 2009-10 2018-19 Profits ₹ 98,000 & 2019-20 Profits ₹ 76,000. The average capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 12%.

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The remuneration of partners is estimated to be ₹ 1,000 per month not charged in the above losses/ profits. Calculate the value of goodwill on the basis of two years purchase of super profits based on the average of four years.

a) ₹ 9,000.

b) ₹ 8,750.

c) ₹ 8,500.

d) ₹ 8,250.

Answer : (b) ₹ 8,750.

7. A, B and C are partners sharing profits and losses in the ratio 3:2:1. They decide to change their profit sharing ratio to 2:2:1. To give effect to this new profit sharing ratio they decide to value the goodwill at ₹ 30,000. Pass the necessary journal entry if Goodwill not appearing in the old balance sheet and should not appear in the new balance sheet.

a) B's Capital Account Dr. ₹ 2,000
C's Capital Account Dr. ₹ 1,000
To A's Capital Account ₹ 3,000

b) Goodwill Account Dr. ₹ 30,000
To A's Capital Account ₹ 15,000
To B's Capital Account ₹ 10,000
To C's Capital Account ₹ 5,000

c) A's Capital Account Dr. ₹ 12,000
B's Capital Account Dr. ₹ 12,000
C's Capital Account Dr. ₹ 6,000
To Goodwill Account ₹ 30,000

Answer :

(a) B's Capital Account Dr. ₹ 2,000
C's Capital Account Dr. ₹ 1,000
To A's Capital Account ₹ 3,000

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ADMISSION OF A NEW PARTNER

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A newly admitted partner does not have same rights as old partners.
2. When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.
3. Revaluation account is also called as Profit and Loss Adjustment Account.
4. Any appreciation in the value of an asset is credited to Revaluation account.
5. All the partners 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 Reserves appearing in the balance sheet prior to his admission.
7. Any Reserve appearing in the Balance Sheet is credited to existing partners equally.
8. If revaluation account shows 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 partner is entitled to share in revaluation profit.
11. In case of admission of a new partner in a partnership firm, the profit / loss on revaluation account is transferred to all partners in their new profit sharing ratio.

Answer :

1. **False:** All the partners have same rights / or agreed by the partners.
2. **True:** With every new partner, remaining old partners have to foregone a proportion in their share which is called as sacrifice ratio
3. **True:** Revaluation is also called as profit and loss adjustment account.
4. **True:** increase in Asset is an income hence credited to revaluation account.
5. **True:** This can be done by opening Memorandum Revaluation Account.
6. **False:** New partner is not entitled to have any share in the reserves of the firm prior to his admission. Such reserves are distributed to old partners in their old profit sharing ratio..
7. **False:** Any Reserve appearing in the Balance Sheet is credited to existing partners in their old profit sharing ratio and not equally.
8. **False:** If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.
9. **True:** Every incoming partner shall bring in some amount of capital for the firm
10. **False:** New partner is not entitled to profit on revaluation, it belongs to old partners in their profit sharing ratio.
11. False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

B) MULTIPLE CHOICE QUESTIONS

1. A and B are partners sharing profits and losses in the ratio 5:3. They admitted C and agreed to give him 3/10th of the profit. What is the new ratio after C's admission?
   a) 35:42:17.
   b) 35:21:24.
   c) 49:22:29.

Answer: (b) 35:21:24.

2. A and B are partners sharing profits in the ratio 5:3, they admitted C giving him 3/10th share of profit. If C acquires 1/5 from A and 1/10 from B, new profit sharing ratio will be:
   a) 5:6:3.
   b) 2:4:6.
   c) 17:11:12

Answer : (c) 17:11:12

3. C was admitted in a firm with 1/4th share of the profits of the firm. C contributes ₹15,000 as his capital, A and B are other partners with the profit sharing ratio as 3:2. Find the required capital of A and B, if capital should be in profit sharing ratio taking C's as base capital:
   a) ₹27,000 and ₹16,000 for A and B respectively.
   b) ₹27,000 and ₹18,000 for A and B respectively.
   c) ₹32,000 and ₹21,000 for A and B respectively.

Answer : (b) ₹27,000 and ₹18,000 for A and B respectively.

4. A, B and C are partners sharing profits and losses in the ratio 6:3:3, they agreed to take D into partnership for 1/8th share of profits. Find the new profit sharing ratio.
   a) 12:27:36:42.
   b) 14:7:7:4.
   c) 1:2:3:4.

Answer : (b) 14:7:7:4.

5. A and B are partners sharing profits and losses in the ratio of 3:2 (A's Capital is ₹30,000 and B's Capital is ₹15,000). They admitted C and agreed to give 1/5th share of profits to him. How much C should bring in towards his capital?
   a) ₹9,000.
   b) ₹12,000.
   c) ₹11,250.

Answer : (c) ₹11,250.

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6. A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who brings in ₹25,000 against capital and ₹10,000 against goodwill. New profit sharing ratio is 1:1:1. In what ratio will this amount will be shared among the old partners A & B.
   a) ₹8,000: ₹2,000.
   b) ₹5,000: ₹5,000.
   c) Old partners will not get any share in the goodwill brought in by C.

Answer : (a) ₹ 8,000: ₹2,000.

7. A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who is supposed to bring ₹25,000 against capital and ₹10,000 against goodwill. New profit sharing ratio is 1:1:1. C brought cash for his share of Capital and agreed to compensate to A and B outside the firm. How this will be treated in the books of the firm.
   a) Cash brought in by C will only be credited to his capital account.
   b) Goodwill will be raised to full value in old ratio.
   c) Goodwill will be raised to full value in new ratio.

Answer : (a) Cash brought in by C will only be credited to his capital account.

8. X and Y are partners sharing profits in the ratio of 3: 1. They admit Z as a partner who pays ₹4,000 as Goodwill the new profit sharing ratio being 2:1: 1 among X, Y and Z respectively. The amount of goodwill will be credited to:
   a) X and Y as ₹3,000 and ₹1,000 respectively.
   b) X only
   c) Y only.

Answer : (b) X only

9. P and Q are partners sharing Profits it from 1st April on the term that he will bring ₹ 20,000 as his capital for 1/4th share and pays ₹ 9,000 for goodwill, half of which is to be withdrawn by P and Q. If profit on revaluation is ₹ 6,000 and opening capital of P is ₹ 40,000 and of Q is ₹ 30,000, find the closing balance of each capital.
   a) ₹ 47,000: ₹ 33,500: ₹ 20,000
   b) ₹ 50,000: ₹ 35,000: ₹ 20,000.
   c) ₹ 40,000: ₹ 30,000: ₹ 20,000
   d) ₹ 41,000: ₹ 30,500: ₹ 29,000.

Answer : (a) ₹ 47,000: ₹ 33,500: ₹ 20,000

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10. Adam, Brain and Chris were equal partners of a firm with goodwill ₹ 1,20,000 shown in the balance sheet and they agreed to take Daniel as an equal partner on the term that he should bring ₹ 1,60,000 as his capital and goodwill, his share of goodwill was evaluated at ₹ 60,000 and the goodwill account is to be written off before admission. What will be the treatment for goodwill?
    a) Write off the goodwill of ₹ 1,20,000 in old ratio.
    b) Cash brought in by Daniel for goodwill will be distributed among old partners in sacrificing ratio.
    c) Both (a) & (b)
    d) None of the above

Answer : (c)Both (a) & (b)

C) SHORT NOTES

1. Write short note on Revaluation account.

Answer :

1. When a new partner is admitted into the partnership, assets are revalued and liabilities are reassessed. A Revaluation Account (or Profit and Loss Adjustment Account) is opened for the purpose. This account is debited with all reduction in the value of assets and increase in liabilities and credited with increase in the value of assets and decrease in the value of liabilities. The difference in two sides of the account will show profit or loss. This is transferred to the Capital Accounts of old partners in the old profit sharing ratio.

D) DISTINGUISH BETWEEN:

1. What is the difference between revaluation account and memorandum revaluation account?

Answer :

1. Difference between revaluation account and memorandum revaluation account
    i. Revaluation account is prepared to find out the profit or loss on revaluation of assets and liabilities which appear in the new balance sheet at the new or revalued figures. Memorandum revaluation account is also prepared to record the effect of revaluation of assets and liabilities which of course are recorded at their old figures in the new balance sheet.

    ii. Revaluation account is not divided into two parts. But the memorandum revaluation account has two parts: first part for old partners and second part for all partners including the new partner.

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RETIREMENT OF A PARTNER

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 1st 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.

Answer :

1. **False:** Business of a partnership is not closed if any one partner retires, remaining partners continue to carry on the business.
2. **False:** 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.
3. **False:** After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.
4. **False:** A partner can retire on any day as per his wish.
5. **False:** Retiring partner is entitled to his share of goodwill in the firm.
6. **False:** 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.
7. **True:** Yes the firm is eligible for the surrender value on the the JLP taken on the partners.
8. **True:** As per the surrender policy method, the JLP reserve is distributed to the partners in their profit sharing ratio through capital account.
9. **False:** Revaluation account is necessary on retirement of a partner.
10. **False:** Profit on revaluation is credited to all the partners in their profit sharing ratio.

B) MULTIPLE CHOICE QUESTIONS

1. C, D and E are partners sharing profits and losses in the proportion of ½, 1/3 and 1/6. D retired and the new profit sharing ratio between C and E is 3:2 and the Reserve of ₹ 12,000 is divided among the partners in the ratio:

a) ₹ 2,000: ₹ 4,000: ₹ 6,000.

b) ₹ 5,000: ₹ 5,000: ₹ 2,000.

c) ₹ 6,000: ₹ 4,000: ₹ 2,000.

Answer : (c) ₹ 6,000: ₹ 4,000: ₹ 2,000.

2. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement, A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy premium is fully charged to revenue as and when paid?

a) ₹ 50,000 credited to all the partners in old ratio.

b) ₹2,50,000 credited to all the partners in old ratio.

c) ₹2,00,000 credited to all the partners in old ratio.

Answer : (a) ₹ 50,000 credited to all the partners in old ratio.

3. A, B and C take a Joint Life Policy, after five years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if join t life policy is maintained at the surrender value?

a) ₹ 50,000 credited to all the partners in old ratio.

b) ₹2,50,000 credited to all the partners in old ratio.

c) No treatment is required.

Answer : (c) No treatment is required.

4. A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹ 30,000. Find the contribution of A and C to compensate B.

a) ₹ 20,000 and ₹ 10,000.

b) ₹ 8,000 and ₹ 4,000.

c) They will not contribute anything.

Answer : (b) ₹ 8,000 and ₹ 4,000.

5. A, B and C were partners in a firm sharing profits and losses in the ratio of 2:2:1 respectively with the capital balance of ₹ 50,000 for A and B, for C ₹ 25,000. B declared to retire from the firm and balance in reserve on the date was ₹ 15,000. If goodwill of the firm was valued as ₹ 30,000 and profit on revaluation was ₹ 7,050 then what amount will be transferred to the loan account of B.

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a) ₹ 70,820.

b) ₹ 50,820.

c) ₹ 25,820.

Answer : (a) ₹ 70,820.

6. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires on a decided date and Goodwill of the firm is to be valued at ₹ 60,000. Find the amount payable to retiring partner on account of goodwill.

a) ₹ 30,000.

b) ₹ 20,000.

c) ₹ 10,000.

Answer : (c) ₹ 10,000.

7. A, B and C were partners sharing profits and losses in the ratio of 3:2:1. A retired and Goodwill of the firm is to be valued at ₹ 24,000. What will be the treatment for goodwill?

a) Credited to Revaluation Account at ₹ 24,000.

b) Adjusted through partners' capital accounts in gaining/sacrificing ratio.

c) Only A's capital account credited with ₹ 12,000.

Answer : (b) Adjusted through partners' capital accounts in gaining/sacrificing ratio.

8. Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as A - ₹2,00,000; B - ₹3,00,000 and C - ₹2,00,000. A desired to retire from the firm, B and C share the future profits equally, Goodwill of the entire firm be valued at ₹1,40,000 and no Goodwill account being raised.

a) Credit Partner's Capital Account with old profit sharing ratio for ₹1,40,000.

b) Credit Partner's Capital Account with new profit sharing ratio for ₹1,40,000.

c) Credit A's Account with ₹ 40,000 and debit B's Capital Account with ₹ 10,000 and C's Capital Account with ₹ 30,000.

Answer : (c) Credit A's Account with ₹ 40,000 and debit B's Capital Account with ₹ 10,000 and C's Capital Account with ₹ 30,000.

C) THEORETICAL QUESTIONS

1. What is joint life policy? What is the objective of taking such a policy?

Answer :

A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

D) SHORT NOTES

1. Calculation of gaining ratio.
2. Final payment of a retiring partner.

Answer :

1. On retirement of a partner, the continuing partners will gain in terms of profit sharing ratio. For example, if A, B and C were sharing profits and losses in the ratio of 5:3: 2 and B retires, then A and C have to decide at which ratio they will share profits and losses in future. If it is decided that the continuing partners will share profits and losses in future at the ratio of 3:2, then A gains 1/10th [(3/5)-(5/10)] and C gains 2/10 [(2/5)-(2/10)]. So the gaining ratio between A and C is 1:2. If A and C decide to continue at the ratio 5:2, this indicates that they are dividing the gained share in the previous profit sharing ratio.

2. The following adjustments are necessary in the Capital A/c:(i) Transfer of reserve, (ii) Transfer of goodwill,(iii)Transfer of profit/loss on revaluation. After adjustment of these items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him. The continuing partners may discharge the whole claim at the time of retirement.

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DEATH OF A PARTNER

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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.
10. Business of partnership comes to an end on death of a partner.

Answer :

1. **False:** Surviving partners continue to carry on the business.
2. **False:** Legal heirs of deceased partners are entitled to dues of the deceased partner. They can not become partner in the business.
3. **True:** To find out the actual values of the assets and liabilities, revaluation account is prepared.
4. **True:** reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.
5. **False:** Legal heirs of a deceased partner are entitled to all the dues of deceased partner.
6. **False:** It is very much necessary to adjust goodwill on death of a partner.
7. **TRUE-** 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
8. **False:** On death of a partner the firm gets full value of sum assured of the joint life policy.
9. **False:** All the partners are entitled to amount received from joint life policy.
10. False: Surviving partners may continue to carry on the business in case of partnership.

B) MULTIPLE CHOICE QUESTIONS

1. In the absence of proper agreement, representative of the deceased partner is entitled to the Dead partner's share in
   a) Profits till date, goodwill, joint life policy, share in revalued assets and liabilities.
   b) Capital, goodwill, joint life policy, interest on capital, share in revalued assets and liabilities.
   c) Capital, profits till date, goodwill, joint life policy, share in revalued assets and liabilities.

Answer : (c) Capital, profits till date, goodwill, joint life policy, share in revalued assets and liabilities.

2. A, B and C are the partners sharing profits and losses in the ratio 2:1:1. Firm has a joint life policy of ₹1,20,000 and in the balance sheet it is appearing at the surrender value i.e. ₹ 20,000. On the death of A, how this JLP will be shared among the partners.

   a) ₹ 50,000: ₹ 25,000: ₹ 25,000.

   b) ₹ 60,000: ₹ 30,000: ₹ 30,000.

   c) ₹ 40,000: ₹ 35,000: ₹ 25,000.

Answer : (a) ₹ 50,000: ₹ 25,000: ₹ 25,000.

3. R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2020. It was decided to value the goodwill on the basis of three year's purchase of last five years average profits. If the profits are ₹ 29,600; ₹ 28,700; ₹ 28,900; ₹ 24,000 and ₹ 26,800. What will be D's share of goodwill?

   a) ₹ 20,700.

   b) ₹ 27,600.

   c) ₹ 82,800.

Answer : (a) ₹ 20,700.

4. R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2020 and profits for the accounting year 2019-2020 were ₹ 24,000. How much share in profits for the period 1st April 2020 to 30th June 2020 will be credited to D's Account.

   a) ₹ 6,000.

   b) ₹ 1,500.

   c) ₹ 2,000.

Answer : (b) ₹ 1,500.

5. Revaluation account is prepared at the time of

   a) Admission and Retirement of a partner

   b) Death of a partner

   c) All of the above

Answer : (c) All of the above

6. If three partners A, B & C are sharing profits as 5:3:2, then on the death of a partner A, how much B & C will pay to A's executer on account of goodwill. Goodwill is to be calculated on the basis of 2 years purchase of last 3 years average profits. Profits for last three years are: ₹ 3,29,000; ₹ 3,46,000 and ₹ 4,05,000.

   a) ₹ 2,16,000 & ₹ 1,42,000.

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b) ₹ 2,44,000 & ₹ 2,16,000.

c) ₹ 3,60,000 & ₹ 3,60,000.

d) ₹ 2,16,000 & ₹ 1,44,000.

Answer : (d) ₹ 2,16,000 & ₹ 1,44,000.

C) THEORETICAL QUESTIONS

1. Explain distinction between retirement and death of a partner as relating to finalisation of amount payable.
2. What amount is payable to legal representatives of dead partner?

Answer :

1. The basic distinction between retirement and death of a partner relates to finalisation of amount payable to the Executor of the deceased partner. Although, revaluation of goodwill is done in the same way as it has been done in case of retirement, in addition, the executor of the deceased partner is entitled to share of profit upto the date of death
2. When the partner dies the amount payable to him/her is paid to his/her legal representatives. The representatives are entitled to the followings :
   a) The amount standing to the credit to the capital account of the deceased partner;
   b) Interest on capital, if provided in the partnership deed upto the date of death;
   c) Share of goodwill of the firm;
   d) Share of undistributed profit or reserves;
   e) Share of profit on the revaluation of assets and liabilities;
   f) Share of profit upto the date of death;
   g) Share of Joint Life Policy.

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FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

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 informationshall be adjusted in the final accounts of an Non- profit organisation 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 organisation, 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 an Non-profit organisation under the will of a deceased person is termed as legacy.
17. Where a Non-profit organisation 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.
18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.
19. All the receipts are of revenue nature in case of Non-profit organisation.
20. There is opening balance of Income and expenditure account.
21. Receipts and Payments Account highlights total income and expenditure.
22. In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

23. Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.
24. Fees received for Life Membership is a revenue receipt as it is of recurring nature.

Answer :

1. **False:** It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.
2. **False:** The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.
3. **False:** The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.
4. **False:** They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.
5. **False:** Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.
6. **False:** Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.
7. **False:** The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.
8. **False:** The excess of the income over the expenditure is called as Surplus and not profit for an Non- profit organisation.
9. **False:** The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.
10. **True:** It is Fund based accounting that records the fund balances in the balance sheet.
11. **False:** Subscription is a regular fees paid by the members to keep the membership alive.
12. **True:** Honorarium refers to the nominal amount paid for the services with a non-commercial intent.
13. **False:** Insurance Company has a profit motive, hence it is not a non-profit organization.
14. **False:** It shall be shown in the Balance sheet- where it is to be capitalized.
15. **False:** It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.
16. **True:** While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as LEGACY.
17. **True:** Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.

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18. **False:** The Non-profit organisation has its very existence to the main base line of serving the members and the society. Profit earning shall never be its motive.
19. **False:** Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.
20. **False:** It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.
21. False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.
22. True: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.
23. True: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.
24. False: Life Membership Fee 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.

B) MULTIPLE CHOICE QUESTIONS

1. Scholarship granted to students out of
   a) Income and Expenditure Account.
   b) Receipts and payments Account.
   c) Funds granted for Scholarship account.
   d) None of the three.

Answer : (c) Funds granted for Scholarship account.

2. In case of NPO, excess of total assets over liabilities is known as
   a) Profits.
   b) Surplus.
   c) Capital Fund.
   d) Accumulated Fund.

Answer : (c) Capital Fund.

3. General donations and legacies are credited to
   a) Receipts and Payments Account.
   b) Income and Expenditure Account.
   c) Capital Fund.
   d) Fund Account.

Answer : (b) Income and Expenditure Account.

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4. Interest on prize funds is
    a) Credited to Income and Expenditure Account.
    b) Credited to Receipts and Payments Account.
    c) Capital Fund.
    d) Added to prize fund.

Answer : (d) Added to prize fund.

5. Special aids are
    a) Treated as capital receipts.
    b) Treated as revenue receipts.
    c) Added to Capital Fund.
    d) Both (a) and (c).

Answer : (d) Both (a) and (c).

C) DISTINGUISH BETWEEN

1. Receipt and Payment and Income and Expenditure Account.

Answer :

1. Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. For distinguishing features of both the accounts,

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