

PLEASE IGNORE ALL HIGHLIGHT POINT DUE TO OUT OF SYLLABUS NOW.**MOCK TEST PAPER**

State with reasons, whether the following statements are true or false:

1. The balance in petty cash book represents an asset.

Ans. True - The balance represents the cash physically in existence and is therefore an asset.

2. Finished goods are normally valued at cost or market price whichever is higher.

Ans. False - Finished goods are normally valued at cost or net realizable value whichever is lower.

3. Subscriptions received for the current year shall be shown in the balance sheet as a current asset.

Ans. False - Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.

4. 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.

Ans. 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.

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

Ans. True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

6. Bills receivable and bills payable books are type of subsidiary books.

Ans. True - Yes they are types of subsidiary books which are alternate to the journals.

(MTP - March -2021)

State with reasons, whether the following statements are true or false:

1. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

Ans. 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.

2. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. 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 periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high 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.

3. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Ans. True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

4. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

Ans. 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.

5. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Ans. False: Debenture interest is payable before the payment of any dividend on shares.

6. Net income in case of persons practicing vocation is determined by preparing profit and loss account.

Ans. False: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

(MTP - April -2021)

State with reasons whether the following statements are True or False:

(i) The concept of conservatism when applied to the balance sheet results in understatement of assets.

Ans. (i) True - Conservatism states that the accountant I entity should not anticipate any future income. However, they should provide for all possible I probable losses. Imprudent use of concept of conservatism may lead to understatement of income and assets.

(ii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. (ii) True - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high 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.

(iii) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (iii) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(iv) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.

Ans. (iv) False -If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.

(v) 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.

Ans. (v) 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.

(vi) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

Ans. (vi) False -Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(MTP - October - 2021)

State with reasons whether the following statements are True or False:

(i) 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.

Ans. (i) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) Finished goods are normally valued at cost or market price whichever is higher.

Ans. (ii) False: Finished goods are normally valued at cost or net realizable value whichever is lower.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

Ans. (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) The firm will receive surrender value of the joint life policy on the death of the partner.

Ans. (iv) False: The firm will receive full value of sum assured of the joint life policy on the death of the partner.

(v) Where a non profit organisation separate trading activity, the profit/loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.

Ans. (v) True: When in case of trading activities for a Non- Profit -Organisation, the profit/loss from such activity is to be transferred to the Income Expenditure Account at the time of consolidation.

(vi) Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

Ans. (vi) False: The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is : Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities.

(MTP - November - 2021)

State with reasons, whether the following statements are true or false:

(i) Wages paid for erection of machinery are debited to Profit and Loss Account.

Ans. (i) False: Such wages being related to capital Asset should be debited to the machinery account.

(ii) 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.

Ans. (ii) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

Ans. (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del-credere commission.

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

Ans. (iv) False: Due date may be the due date of the first transaction or the due date of the last transaction or any other due date between the first and the last but preferably earlier due date may be taken.

(v) The business of partnership must be carried on by all the partners.

Ans. (v) False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

(vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Ans. (vi) False: Debenture interest is payable before the payment of any dividend on shares. (MTP - March -2022)

State with reasons whether the following statements are True or False:

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

Ans. (i) 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.

(ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

Ans. (ii) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iii) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

Ans. (iii) True: If closing stock appears in trail balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.

(iv) Consignment account is of the nature of real account.

Ans. (iv) False: Consignment account is a nominal-cum-personal account.

(v) Partners can share profits or losses in their capital ratio, when there is no agreement.

Ans. (v) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Ans. (vi) 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. (MTP - May -2022)

State with reasons, whether the following statements are true or false:

(i) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

Ans. (i) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(ii) Accrual concept implies accounting on cash basis.

Ans. (ii) 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.

(iii) Consignment account is of the nature of real account.

Ans. (iii) False: Consignment account is a nominal account.

(iv) 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.

Ans. (iv) 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.

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

Ans. (v) 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.

(vi) 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.

(vi) 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. **(MTP - November - 2022)**

State with reasons whether the following statements are True or False:

(i) Prior Period Items need not be separately disclosed in the current statement of profit and loss.

Ans. (i) False: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

(ii) Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

Ans. (ii) False: The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is : Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities.

(iii) The sale value of the by-product is credited to Trading Account.

Ans. (iii) False: The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (iv) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) If a partner retires, then other partners have a gain in their profit sharing ratio.

Ans. (v) True: If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(vi) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

(vi) False: Net income is determined by preparing income and expenditure in case of persons practicing vocation. **(MTP - December - 2022)**

State with reasons, whether the following statements are true or false:

(i) The concepts of conservatism when applied to the Balance Sheet results in understatement of assets.

Ans. (i) True: Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.

(ii) 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.

Ans. (ii) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(iii) Current Account and Account Current are one and the same.

Ans. (iii) False: Account current statement is running transaction between two parties to ascertain the amount payable along with interest. A Current Account is an account type to be maintained with the bank. In both the cases interest is calculated, with the help of different methods.

(iv) 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.

Ans. (iv) 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.

(v) On death of a partner, the firm gets surrender value of the joint life policy .

Ans. (v) False: On the death of a partner, the firm receives full value of the sum assured of the joint life policy.

(vi) Company A is incurring huge losses, the Board of Directors are of the opinion that incase of losses, there is no need to pay interest on debenture holders.

Ans. (vi) False: Even if the company incurs losses, it has to pay interest on debentures. Debentures being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

(MTP - April - 2023)

State with reasons whether the following statements are True or False:

(i) Overhauling expenses of the engine of a truck to get better fuel efficiency is revenue expenditure.

Ans. (i) False: Overhauling expenses incurred for the engine of a truck to derive better fuel efficiency reduces the running cost in future and thus the benefit is in form of enduring long-term advantage. So this expenditure should be capitalised.

(ii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. (ii) True: In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high 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.

(iii) The sale value of by-product is credited to Trading Account.

Ans. (iii) False: The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

Ans. (iv) 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.

(v) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Ans. (v) False: Debenture interest is payable before the payment of any dividend on shares.

(vi) In Not for Profit (NPO) organizations, the excess of total assets over total outside liabilities is known as Capital Fund.

Ans. (vi) True: The capital fund represents the amount contributed by members through legacies, special donations entrance fee and accumulated surplus over the years.

(MTP - May - 2023)

State with reasons whether the following statements are True or False:

(i) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

Ans. (i) 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.

(ii) Accrual concept implies accounting on cash basis.

Ans. (ii) 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.

(iii) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

Ans. (iii) True: If closing stock appears in the trail balance, it depicts that one aspect of the double entry has been completed.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (iv) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) Partners can share profits or losses in their capital ratio, when there is no agreement.

Ans. (v) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(vi) Receipts and Payments Account highlights total income and expenditure.

Ans. (vi) 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. **(MTP - November - 2023)**

State with reasons, whether the following statements are true or false:

(i) The provision for bad debts is debited to sundry debtors account.

Ans. (i) False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is either shown on liability side or deducted from the head debtors.

(ii) Discount column of the cash book is never balanced.

Ans. (ii) True: Discount column is totalled and transferred to the discount allowed or received account.

(iii) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out.

Ans. (iii) 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.

(iv) 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.

Ans. (iv) 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.

(v) Business of partnership comes to an end on death of a partner.

Ans. (v) False: Surviving partners may continue to carry on the business in case of partnership.

(vi) Non-participating preference shareholders enjoy voting rights.

Ans. (vi) 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. **(MTP - December - 2023)**

State with reasons whether the following statements are True or False:

(i) Accounting Standards for non-corporate entities in India are issued by the Central Government.

Ans. (i) False - Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

(ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.

Ans. (ii) True - Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. (iii) True - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high 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.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (iv) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) Business of partnership comes to an end on death of a partner.

Ans. (v) False - Surviving partners may continue to carry on the business in case of partnership.

(vi) Receipts and Payments Account highlights total income and expenditure.

Ans. (vi) 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. **(MTP - May 2024) (1st Series)**

State with reasons whether the following statements are True or False:

(i) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

Ans. (i) 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.

(ii) In the balance sheet of Angel Limited, preliminary expenses amounting to Rs. 15 lakhs and securities premium account of Rs. 105 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

Ans. (ii) 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 Rs. 15 lakhs.

(iii) The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Ans. (iii) True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(iv) 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.

Ans. (iv) 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.

(v) The debit notes issued are used to prepare Sales Return Book.

Ans. (v) False: The debit notes issued are used to prepare purchases return book.

(vi) Debenture holders enjoy the voting rights in the company.

(MTP - May 2024) (IInd Series)

Ans. (vi) False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

State with reasons whether the following statements are True or False:

(i) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.

Ans. True: Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

Ans. (ii) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iii) The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Ans. (iii) True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(iv) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Ans. (iv) 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.

(v) Nominal Accounts are kept under Single Entry System.

Ans. (v) False: Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.

(vi) A person holding preference shares of a company cannot hold equity shares of the same company.

Ans. (vi) False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

(MTP - May 2024) (IIIrd Series)

REVISION TEST PAPER

State with reasons, whether the following statements are true or false:

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

Ans. (i) 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.

(ii) Re-issue of forfeited shares is allotment of shares but not a sale.

Ans. (ii) 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.

(iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

Ans. (iii) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) There are two ways of preparing an account current.

Ans. (iv) 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.

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

Ans. (v) 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.

(vi) 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.

Ans. (vi) 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.

(vii) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Ans. (vii) 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. **(RTP - May - 2020)**

State with reasons, whether the following statements are true or false:

(a) Accrual concept implies accounting on cash basis.

Ans. (a) 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.

(b) The Sales book is kept to record both cash and credit sales.

Ans. (b) 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.

(c) Bank reconciliation statement is prepared to arrive at the bank balance.

Ans. (c) 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.

(d) Finished goods are normally valued at cost or market price whichever is higher.

Ans. (d) False - Finished goods are normally valued at cost or net realizable value whichever is lower.

(e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. (e) True - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high 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.

(f) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (f) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

Ans. (g) 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.

(h) Partners can share profits or losses in their capital ratio, when there is no agreement.

Ans. (h) False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(i) Receipts and Payments Account highlights total income and expenditure.

Ans. (i) 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. **(RTP - November - 2020)**

State with reasons, whether the following statements are true or false:

(i) Gauri purchased goods worth Rs. 75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is Rs. 36,005.

Ans. (i) True: the trade discount is to be deducted from the total value of Rs. 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%).

(ii) All the personal & real accounts are recorded in P&L A/c.

Ans. (ii) False: All the personal & real account are recorded in balance sheet.

(iii) Amount spent on the replacement of worn out part of machine is Capital Expenditure.

Ans. (iii) 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.

(iv) When closing inventory is overstated, net income for the accounting period will be understated.

Ans. (iv) False: When closing inventory is overstated, net income for the accounting period will be overstated.

(v) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

Ans. (v) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(vi) Goodwill is intangible asset therefore it cannot be valued.

Ans. (vi) False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

(vii) Interest on calls in arrears is payable by company to shareholders.

Ans. (vii) False: Interest on calls in arrears is payable by shareholders to company.

(viii) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

Ans. (viii) False: It shall be disclosed as a current liability in the opening balance sheet.

(ix) Debenture holders enjoy the voting rights in the company.

(RTP - May - 2021)

Ans. (ix) False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

State with reasons, whether the following statements are true or false:

(i) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Ans. (i) 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.

(ii) The rationale behind the opening of a suspense account is to tally the trial balance.

Ans. (ii) False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. (iii) 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 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.

(iv) A partnership firm can acquire fixed assets in the name of the firm.

Ans. (iv) 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.

(v) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

Ans. (v) False: It shall be disclosed as a current liability in the opening balance sheet.

(vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Ans. (vi) True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) The debit notes issued are used to prepare Sales Return Book.

Ans. (vii) False: The debit notes issued are used to prepare purchases return book.

(viii) Bills receivable and bills payable books are type of subsidiary books.

Ans. (viii) True: Yes, they are types of subsidiary books which is alternate to the journals.

(ix) The results and position disclosed by final accounts are not exact.

Ans. (ix) True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them. **(RTP - November - 2021)**

State with reasons, whether the following statements are true or false:

(i) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.

Ans. (i) True: The profit on sale of capital assets should not be added to revenue to ascertain profit since it has not been earned due to normal business operations.

(ii) Sale of office furniture should be credited to Profit and Loss Account.

Ans. (ii) False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

Ans. (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del-credere commission.

(iv) A partnership firm can acquire fixed assets in the name of the firm.

Ans. (iv) False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.

(v) Debenture holders enjoy the voting rights in the company.

Ans. (v) False: Debenture holders do not enjoy voting rights in company.

(RTP - May - 2022)

State with reasons, whether the following statements are true or false:

(a) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Ans. (a) True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(b) The debit notes issued are used to prepare Sales Return Book.

Ans. (b) False: The debit notes issued are used to prepare purchases return book.

(c) Bank reconciliation statement is prepared to arrive at the bank balance.

Ans. (c) 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.

(d) If Closing Stock appears in the Trial Balance then the closing inventory is not entered in Trading Account. It is shown only in the balance sheet.

Ans. (d) 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.

(e) Depreciation is a non-cash expense and does not result in any cash outflow.

Ans. (e) 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.

(f) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (f) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) 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.

Ans. (g) 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.

(h) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

Ans. (h) 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 proprietor's capital.

(i) Partners can share profits or losses in their capital ratio, when there is no agreement.

Ans. (i) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

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

Ans. (j) 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.

(k) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Ans. (k) False: Debenture interest is payable before the payment of any dividend on shares. **(RTP - November - 2022)**

State with reasons, whether the following statements are true or false:

(i) Prior period items need not be separately disclosed in the current statement of profit and loss.

Ans. (i) False: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

(ii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

Ans. (ii) 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.

(iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

Ans. (iii) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) The sale value of by-product is credited to Trading Account.

Ans. (iv) False: The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

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

Ans. (v) 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.

(vi) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

Ans. (vi) 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.

(vii) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

Ans. (vii) False: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

(viii) "Listed company" means a company which has its securities only listed with National stock exchange.

Ans. (viii) False: As per Section 2 (52) of the Companies Act, 2013, "listed company" means a company which has any of its securities listed on any recognized stock exchange.

(ix) Partners can share profits or losses in their capital ratio, when there is no agreement.

Ans. (ix) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners. **(RTP - May - 2023)**

State with reasons, whether the following statements are true or false:

(i) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

Ans. (i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account since less goods are left in the business for sale.

(ii) M/s Raj Yog & 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 25 to 28. The total expenditure incurred was Rs. 50,000 and was treated as a revenue expenditure.

Ans. (ii) False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, this renovation expense is capital expenditure in nature.

(iii) 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.

Ans. (iii) 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".

(iv) Depreciation is a non-cash expense and does not result in any cash outflow.

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

(v) There are two ways of preparing an account current.

Ans. (v) 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.

(vi) The additional commission paid to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

Ans. (vi) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(vii) A Partnership firm cannot own any Assets.

Ans. (vii) 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.

(viii) Goodwill is intangible asset therefore it cannot be valued.

Ans. (viii) False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

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

Ans. (ix) 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.

(x) 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.

Ans. (x) 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 towards nominal value on shares forfeited.

(RTP - November - 2023)

State with reasons, whether the following statements are true or false:

(a) A concern proposes to discontinue its business from December 2023 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2023 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.

Ans. (a) 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.

(b) The Sales book is kept to record both cash and credit sales.

Ans. (b) False: The Sales book is a register especially 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.

(c) Bank reconciliation statement is prepared to arrive at the bank balance.

Ans. (c) 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.

(d) Damaged Inventory should be valued at cost or market price, whichever is lower.

Ans. (d) False: Damaged Inventory should be valued at net realisable value.

(e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Ans. (e) True: In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high 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.

(f) Discount at the time of retirement of a bill is a gain for the drawee.

Ans. (f) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) A withdrawal of cash from the business by the proprietor for personal use should be charged to profit and loss account as an expense.

Ans. (g) False: Cash withdrawal for personal use 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.

(h) 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.

Ans. (h) 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.

(i) Where a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

Ans. (i) True: Where in case of a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

(j) In the balance sheet of X Limited, preliminary expenses amounting to Rs. 5 lakhs and securities premium account of Rs. 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

Ans. (j) 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 Rs. 5 lakhs.

(k) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Ans. (k) False: Debenture interest is payable before the payment of any dividend on shares.

PREVIOUS YEAR EXAMINATION QUESTIONS

State with reasons, whether the following statements are true or false:

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

Ans. (i) 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.

(ii) Re-issue of forfeited shares is allotment of shares but not a sale.

Ans. (ii) 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.

(iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

Ans. (iii) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) There are two ways of preparing an account current.

Ans. (iv) 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.

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

Ans. (v) 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.

(vi) Interest coverage ratio indicates the firm's ability to pay off current interest and installments.

Ans. (vi) False: Interest coverage ratio is computed as Earnings before interest and taxes divided by Interest. This indicates the firm's ability to meet only the interest and other fixed-charges obligations and not instalments. **(May - 2018)**

State with reasons, whether the following statements are true or false:

(i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.

Ans. (i) 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.

(ii) Depreciation is a non-cash expense and does not result in any cash outflow.

Ans. (ii) 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.

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

Ans. (iii) 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.

(iv) If Closing Stock appears in the Trial Balance: The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.

Ans. (iv) 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.

(v) Inventory Turnover Ratio is also known as Stock Turnover Ratio.

Ans. (v) True: Inventory Turnover Ratio is also known as Stock Turnover Ratio. It establishes the relationship between the cost of goods sold during the year and average inventory held during the year.

(vi) If del-credere commission is paid to consignee, the loss of bad debts is to be borne by the consignor.

Ans. (vi) 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. **(Nov. - 2018)**

State with reasons, whether the following statements are true or false:

(i) 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.

Ans. (i) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) 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.

Ans. (ii) 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".

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

Ans. (iii) 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.

(iv) 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.

Ans. (iv) 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.

(v) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Ans. (v) 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.

(vi) The relationship between sales and fixed assets is expressed as working capital ratio.

Ans. (vi) False: The relationship between sales and fixed assets is expressed as fixed assets turnover ratio. **(May - 2019)**

State with reasons, whether the following statements are True or False:

(i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

Ans. (i) 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.

(ii) 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 Rs. 30,000 and was treated as revenue expenditure.

Ans. (ii) 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.

(iii) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

Ans. (iii) 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 releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

Ans. (iv) False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person.

(v) A Partnership firm cannot own any Assets.

Ans. (v) 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.

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Ans. (vi) 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. **(Nov. - 2019)**

State with reasons, whether the following statements are True or False.

(i) 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.

Ans. (i) 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.

(ii) In the balance sheet of X Limited, preliminary expenses amounting to Rs. 5 lakhs and securities premium account of Rs. 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

Ans. (ii) 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 Rs. 5 lakhs.

(iii) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

Ans. (iii) 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.

(iv) Purchase of office furniture & fixtures of Rs. 2,500 has been debited to General Expense Account. It is an error of omission.

Ans. (iv) 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.

(v) A Limited is sending goods costing Rs. 50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.

Ans. (v) False; Goods sent on consignment basis should be sent under a performa invoice not a sale invoice.

(vi) 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.

Ans. (vi) 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. **(November, 2020)**

State with reasons, whether the following statements are True or False :

(i) Re-issue of forfeited shares is allotment of shares but not a sale.

Ans. (i) False; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.

(ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.

Ans. (ii) True; Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(iii) The Sale Book is kept to record both the cash and credit sales.

Ans. (iii) False; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

(iv) There are two ways of preparing an account current.

Ans. (iv) False; There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.

(v) Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.

Ans. (v) 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.

(vi) Accounting Standards for non-corporate entities in India are issued by the Central Government.

Ans. (vi) False; Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI). **(January - 2021)**

State With reasons, whether the following statements are True or False:

(i) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,

Ans. (i) 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.

(ii) A Company is not allowed to issue shares at a discount to the public in general.

Ans. (ii) 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).

(iii) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

Ans. (iii) 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.

(iv) A person holding preference shares of a company cannot hold equity shares of the same company.

Ans. (iv) False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

(v) Business of partnership comes to an end on death of a partner.

Ans. (v) False: Surviving partners may continue to carry on the business in case of partnership.

(vi) Cash book is a subsidiary book as well as a principal book.

(July, 2021)

Ans. (vi) True: 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 account; 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 a principal book. The Cash Book is thus both a subsidiary book and a principal book.

State with reasons, whether the following statements are True or False:

(i) Any amount spent to minimize the working expenses is revenue expenditure.

Ans. (i) False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

(ii) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.

Ans. (ii) True: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.

(iii) The provision for bad debts is debited to sundry debtors account.

Ans. (iii) False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(iv) Non-participating preference shareholders enjoy voting rights.

Ans. (iv) 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.

(v) There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.

Ans. (v) 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.

(vi) Discount column of the cash book is never balanced.

Ans. (vi) True: Discount column is totalled and transferred to the discount allowed or received account. **(December, 2021)**

State with reasons, whether the following statements are True or False:

(i) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability. ·

Ans. (i) False: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

(ii) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

Ans. (ii) False: At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

(iii) The specific due date excludes the addition of grace days to arrive at the due date.

Ans. (iii) True: Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.

(iv) Any amount spent for replacement of worn out part of a machine is capital expenditure.

Ans. (iv) False: Amount spent for replacement of any worn-out part of a machine is revenue expense since it is part of its maintenance cost.

(v) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

Ans. (v) False: Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

(vi) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

Ans. (vi) False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.

(May, 2022)

State with reasons, whether the following statements are True or False:

(i) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.

Ans. (i) False: 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.

(ii) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

Ans. (ii) True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

(iii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

Ans. (iii) True: According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained.

(iv) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

Ans. (iv) False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle, compensating errors, errors of complete omission which can be rectified without opening a suspense account.

(v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

Ans. (v) True: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

(vi) A fixed charge generally covers all the assets of the company including future one.

Ans. (vi) False: A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

(November, 2022)

State with reasons, whether the following statements are True or False:

(i) As per concept of conservatism the accountant should provide for all possible losses but should not anticipate income.

Ans. (i) True: Conservatism states that the accountant should not anticipate any future income, however they should provide for all possible losses.

(ii) Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.

Ans. (ii) False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense and hence it is to be capitalised. Such expenses are amortized over a period of time.

(iii) Under or over - casting of a subsidiary book is an example of error of commission.

Ans. (iii) True: 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." Thus, under or over casting of subsidiary books is an example of error of commission.

(iv) If Del-credere commission is paid to consignee, the loss of bad debts is to be borne by the consignor.

Ans. (iv) 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.

(v) Perpetual debentures are payable at the time of liquidation of the company.

Ans. (v) True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.

(vi) Overhead is defined as the total cost of direct material, direct wages and direct expenses.

Ans. (vi) False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages and expenses cannot be directly linked to unit produced.

(June, 2023)

State with reasons, whether the following statements are True or False:

(i) The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle.

Ans. (i) True: The financial statement must disclose all the reliable and relevant information about the business enterprise to the management and also to their external users for which they are meant, which in turn will help them to take a reasonable and rational decision. The disclosure should be full and final as per AS – 1, so that users can correctly assess the financial position of the enterprise.

(ii) The gain from sale of capital assets is added to revenue to ascertain the net profit of the business.

Ans. (ii) True: Gains from the sale of capital assets are considered as the revenue of the business. But this revenue is not in the ordinary course of business so it is capital receipts.

(iii) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.

Ans. (iii) False: Depreciation is non-cash but operating expenses which are to be provided for whether there are profits or losses in the financial year.

(iv) Sum of the year's digit method is an example of accelerated method of charging depreciation.

Ans. (iv) True: Sum of year digit method is an example of accelerated method of charging depreciation. Higher depreciation is charged in earlier years' sum of year's digit method.

(v) Inauguration expenses of Rs. 10 lakhs incurred on the new unit in an existing business is a capital expenditure.

Ans. (v) False: Inauguration expenses incurred on the opening of a new unit may help to explore more customers This expenditure is revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.

(vi) Discount column of cash book records the trade discount.

Ans. (vi) False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

(December, 2023)