



CA Darshan Jain

B.Com , CA , CS , LLB , DISA , DIRM

A Chartered Accountant & A Company Secretary By Profession & A Educator By passion.

Teaching Financial Accounting & Financial management to CA Students Since Last 12 years.



Darshan Jain is a Commerce Graduate & Fellow Member of The Institute of Chartered Accountants of India. He has Also Completed His Diploma in System Audit & Diploma in Insurance & Risk Management Conducted by ICAI. He is a Qualified Company Secretary as well & Has Also Completed his LLB From Dr. Babasaheb Ambedkar Marathwada University.

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TRUE OR FALSE

1

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I

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



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

Answer – False

Reason:-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.

2

Scholarships granted to students out of funds provided by Government will be debited to Income and Expenditure Account.

2

Scholarships granted to students out of funds provided by Government will be debited to Income and Expenditure Account.

Answer – False

Reason:-The scholarships granted to students should be shown as deduction from the funds provided by the Government for the same purpose in the Balance Sheet.

3

A Partnership firm cannot own any Assets.

3

A Partnership firm cannot own any Assets.

Answer – True

Reason:-A partnership firm cannot own any assets. The partners own the assets of the firm.

4

Provision for depreciation account is debited at the time of recording the depreciation on an asset.

4

Provision for depreciation account is debited at the time of recording the depreciation on an asset.

Answer – False

Reason:- Provision for Depreciation account is credited while charging the depreciation.

5

Books of accounts are closed in dissolution of partnership.

5

Books of accounts are closed in dissolution of partnership.

Answer – False

Reason:- Books of accounts are not closed in dissolution of partnership but are closed in case of dissolution of partnership firm.

6

Accommodation bills are drawn, accepted and endorsed for some consideration.

6

Accommodation bills are drawn, accepted and endorsed for some consideration.

Answer – False

Reason:-Accommodation bills are drawn, accepted and endorsed without any consideration.

7

Higher depreciation will not affect cash profit of the business.

7

Higher depreciation will not affect cash profit of the business.

Answer – True

Reason:-It is a non-cash expense and therefore will not affect cash profit of the business.

8

Bank reconciliation statement is not prepared to arrive at the bank balance.

8

Bank reconciliation statement is not prepared to arrive at the bank balance.

Answer – True

Reason:-Object of preparation of BRS is to reconcile the pass book balance and the cash book balance in order to find out the causes of difference between these two books on a particular date.

9

Rectification of errors are necessary to tally the trial balance.

9

Rectification of errors are necessary to tally the trial balance.

Answer – False

Reason:-There is no need to rectify the error in order to tally the trial balance. Trial balance can be tallied by debiting or crediting the difference amount to the suspense account.

10

The balance in the Petty Cash Book represents the amount spent.

10

The balance in the Petty Cash Book represents the amount spent.

Answer –False

Reason:-The balance in the Petty Cash Book represents cash balance lying with the petty cashier.



Discount account should be balanced in the cash book.



Discount account should be balanced in the cash book.

Answer –False

Reason:-Discount account is not maintained in Cash Book. But a Cash Book (Double Column or Three Column Cash Book) may have discount columns. These columns are not balanced, they are merely totaled. These totals on the receipt side and on the payments side are entered in the discount allowed account and discount received account respectively in the ledger.

12

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

12

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

Answer – False

Reason:-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. It's a Cash Discount Which is granted by Supplier for Prompt payment.

13

The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumption.

13

The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumption.

Answer –False

Reason:-The economic life of an enterprise is artificially split into periodic intervals in accordance with the Periodicity Concept.

14

Wages paid to workers to produce a tool to be captively consumed is capital expenditure.

14

Wages paid to workers to produce a tool to be captively consumed is capital expenditure.

Answer – True

Reason:-Wages paid to workers for the creation of an asset to be used in the business is capital expenditure.

15

$$\text{Equity} + \text{LTL} - \text{CL} = \text{FA} + \text{CA}.$$

15

Equity + LTL - CL = FA + CA.

Answer – False

Reason:-The basic accounting equation is given by:

Equity + LTL = FA + CA - CL

16

The balance of an account is always known by the side which is shorter.

16

The balance of an account is always known by the side which is shorter.

Answer – False

Reason:-The balance of an account is the difference between the total of debits and total of credits appearing in the account. If the debit side (left hand side) total is higher, it shall be a debit balance and if the credit side (right hand side) total is higher, it shall be a credit balance.

17

The proprietor of a shop feels that he has made a loss due to closing stock being zero.

17

The proprietor of a shop feels that he has made a loss due to closing stock being zero.

Answer – False

Reason:-The level of closing stock does not directly determine the profits of a business. The operational efficiency and other factors affecting cost determine the profits.

18

Damaged inventory should be valued at cost or market price, whichever is lower.

18

Damaged inventory should be valued at cost or market price, whichever is lower.

Answer – False

Reason:-Damaged inventory should be valued at Net Realizable Value.

19

A bill given to a creditor is called bill payable.

19

A bill given to a creditor is called bill payable.

Answer – True

Reason:-On giving a bill, the debtor has committed for a payment, therefore, a bill given to a creditor is called Bills payable.

20

Expenses of dissolution on realization of assets are credited to the Realization Account.

20

Expenses of dissolution on realization of assets are credited to the Realization Account.

Answer – False

Reason:- Expenses of dissolution on realization of assets are debited to the Realization Account.

21

Assets and Liabilities of a particular accounting period are shown in the Balance Sheet.

21

Assets and Liabilities of a particular accounting period are shown in the Balance Sheet.

Answer – False

Reason:-A balance sheet shows the position of the assets and liabilities as on a particular date.

22

Depreciation cannot be provided in case of loss, in a financial year.

Depreciation cannot be provided in case of loss, in a financial year.

Answer – False

Reason:-Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for even in case of loss in a financial year.

23

Freight and cartage expenses paid on purchase of goods is added to the amount of purchase.

23

Freight and cartage expenses paid on purchase of goods is added to the amount of purchase.

Answer – False

Reason:-Freight and cartage expenses paid to bring goods purchased into the business premises/factory are included in the 'Cost of Purchase'.

24

No cancellation entry is required when a bill is renewed.

24

No cancellation entry is required when a bill is renewed.

Answer – False

Reason:-On renewal of a bill, entries are passed for the cancellation of the old bill and recording of a new bill.

25

A partner who devotes more time to a business than other partners is entitled to get a salary.

25

A partner who devotes more time to a business than other partners is entitled to get a salary.

Answer – False

Reason:-Unless and until the partnership deed specifically provides for the entitlement of salary, no partner can receive it.

26

Providing depreciation in the accounts reduces the amount the amount of profit available for dividend.

26

Providing depreciation in the accounts reduces the amount the amount of profit available for dividend.

Answer – True

Reason:-Dividend are distributed out of net profit which is obtained after providing for depreciation therefore, depreciation reduces the amount of profit for dividend.

27

Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

27

Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

Answer – True

Reason:- Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

28

Earning per share gets increased after bonus issue.

28

Earning per share gets increased after bonus issue.

Answer – False

Reason:- Earnings per share gets decreased after bonus issue

29

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

29

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

Answer – True

Reason:-A company, being independent from its members, continues to be in existence despite the death, insolvency, or change of members.

30

Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital.

30

Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital.

Answer – False

Reason:- Issued share capital including issue of rights shares and bonus shares is always less than or equal to Authorised capital.

31

Accounting can be viewed as an information system which has its input processing methods and output.

Accounting can be viewed as an information system which has its input processing methods and output.

Answer –True

Reason:-Accounting is a processing system whose input is financial transaction and output is financial statements communicating various information to various interested groups.

32

The value of human resources is generally shown as assets in the Balance Sheet.

32

The value of human resources is generally shown as assets in the Balance Sheet.

Answer –False

Reason:-The human recourse still cannot be defined in terms of money.

33

Depreciation can be charged on Goodwill by Fixed Installment method.

Depreciation can be charged on Goodwill by Fixed Installment method.

Answer – False

Reason:-Goodwill is an intangible asset. It is written off over a reasonable period of time and not depreciated as per fixed installment method.

34

“Marshalling” and “Grouping” have the same meaning.

“Marshalling” and “Grouping” have the same meaning.

Answer – False

Reason:-‘Marshalling’ means presentation of assets and liabilities in a Balance Sheet in the order of liquidity or permanency. When similar items are grouped together under a common heading for the purpose of clarity, it is known as ‘Grouping’.

35

Loss of stock is said to be normal loss when such is not due to inherent characteristics of the commodities.

35

Loss of stock is said to be normal loss when such is not due to inherent characteristics of the commodities.

Answer – False

Reason:-When loss is caused by fire, theft, abnormal spoilage etc., loss is said to be abnormal loss. Loss attributable to inherent features of goods is normal loss.

36

Depreciable amount refers to the difference between historical cost and the market value of an asset.

36

Depreciable amount refers to the difference between historical cost and the market value of an asset.

Answer– False

Reason:-Depreciable amount refers to historical cost less salvage value.

37

Amount spent for replacement of worn out part of a machine is capital expenditure.

37

Amount spent for replacement of worn out part of a machine is capital expenditure.

Answer – False

Reason:-Amount spent for replacement of any worn out part of a machine is revenue expenditure since it is part of its maintenance cost.

38

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

38

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

Answer –True

Reason:-Concept of conservation states that the accountants should not anticipate income and should provide for all possible losses.

39

The receipts and payments account records receipts and payments of revenue nature only.

39

The receipts and payments account records receipts and payments of revenue nature only.

Answer – False

Reason:-The Receipts and Payments Account records the receipts and payments of both capital as well as revenue nature.



40

A Promissory Note requires acceptance.

40

A Promissory Note requires acceptance.

Answer – False

Reason:-Promissory note is a written unconditional promise and it does not require any acceptance. It is drawn and signed by the person to whom credit is granted or by the debtor.



thank you!



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TRUE OR FALSE

2

I

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



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

Answer – True

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

2

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

2

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

Answer – False

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

3

Provision for bad debts is debited to Sundry Debtors Account.

3

Provision for bad debts is debited to Sundry Debtors Account.

Answer – False

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

4

Companies can keep their accounts under cash basis.

4

Companies can keep their accounts under cash basis.

Answer –False

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

5

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

5

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

Answer – False

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

6

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

6

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

Answer – False

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

7

All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any Debenture Redemption Reserve (DRR).

7

All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any Debenture Redemption Reserve (DRR).

Answer – True

Reason:- All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any DRR

8

Under payment in instalments method, the payment of entire debenture is made in one lot.

8

Under payment in instalments method, the payment of entire debenture is made in one lot.

Answer – False

Reason:- under payment in instalments method, the payment of specified portion of debentures are made in instalments at specified intervals

9

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

9

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

Answer –True

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

10

At redemption of debentures, DRR should be transferred to general reserve.

10

At redemption of debentures, DRR should be transferred to general reserve.

Answer – True

Reason:- DRR is transferred to general reserve at the time of redemption of debentures



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



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

Answer – False

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



12

Goodwill is a current asset.

12

Goodwill is a current asset.

Answer– False

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

13

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

13

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

Answer – True

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

14

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

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

Answer – False

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

15

When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Reserve account by debiting the distributable profit.

15

When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Reserve account by debiting the distributable profit.

Answer – False

Reason:- When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve account by debiting the distributable profit.

16

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

16

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

Answer – True

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

17

Heavy advertising to introduce a new product is capital expenditure.

17

Heavy advertising to introduce a new product is capital expenditure.

Answer – False

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

18

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

18

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

Answer – True

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

19

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

19

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

Answer – False

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

20

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

20

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

Answer – False

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



21

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

21

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

Answer –False

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

22

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

22

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

Answer – False

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

23

A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing for premium on the redemption of Redeemable Preference shares of the Company.

23

A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing for premium on the redemption of Redeemable Preference shares of the Company.

Answer – True

Reason:- A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing the premium on the redemption of redeemable preference shares.



24

Accrual concept implies accounting on cash basis.

Accrual concept implies accounting on cash basis.

Answer – False

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



25

A promissory note cannot be made payable to bearer.

25

A promissory note cannot be made payable to bearer.

Answer – True

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

26

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

26

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

Answer – False

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

27

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

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

Answer –False

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

28

The balance in forfeited shares account can be used for transfer to capital redemption reserve account.

28

The balance in forfeited shares account can be used for transfer to capital redemption reserve account.

Answer – False

Reason:- The balance in Forfeited shares account cannot be used for transfer to capital redemption reserve account.

29

Current cost gives an alternative measurement base.

29

Current cost gives an alternative measurement base.

Answer – True

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

30

Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses

30

Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses

Answer – True

Reason:- Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses.

31

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

31

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

Answer – True

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

32

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

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

Answer – False

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

33

Patent right is in the nature of Nominal Account.

Patent right is in the nature of Nominal Account.

Answer – False

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

34

Closing entries are recorded in Journal Proper.

34

Closing entries are recorded in Journal Proper.

Answer – True

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

35

A Trial Balance cannot be drawn up from books kept under Single Entry.

35

A Trial Balance cannot be drawn up from books kept under Single Entry.

Answer – True

Reason: Since incomplete records are maintained, trial balance cannot be prepared

36

The trial balance checks honesty of the book-keeper.

36

The trial balance checks honesty of the book-keeper.

Answer –False

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

37

Legal fees paid to acquire a property is capital expenditure.

37

Legal fees paid to acquire a property is capital expenditure.

Answer – True

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

38

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

38

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

Answer –True

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

39

Receipts and payments account highlights total income and expenditure.

Receipts and payments account highlights total income and expenditure.

Answer – False

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

40

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

40

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

Answer – True

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



thank you!



CA Darshan Jain

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Teaching Financial Accounting & Financial management to CA Students Since Last 12 years.



Darshan Jain is a Commerce Graduate & Fellow Member of The Institute of Chartered Accountants of India. He has Also Completed His Diploma in System Audit & Diploma in Insurance & Risk Management Conducted by ICAI. He is a Qualified Company Secretary as well & Has Also Completed his LLB From Dr. Babasaheb Ambedkar Marathwada University.

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TRUE OR FALSE

3

|

In Accounting , All business Transactions are Recorded as Having Dual Aspect



In Accounting , All business Transactions are Recorded as Having Dual Aspect

Answer – True

Reason:-Being associated with the system of double entry book keeping. Every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by the same amount.

2

Land is also a depreciable asset.

2

Land is also a depreciable asset.

Answer – False

Reason:-Land is not a depreciable asset As it has Unlimited Life.

3

Travelling expenses of Rs 80,000 paid to a technician for the installation of a new machine is debited to Profit and Loss Account.

3

Travelling expenses of Rs 80,000 paid to a technician for the installation of a new machine is debited to Profit and Loss Account.

Answer – False

Reason:-The expenditure is a capital expenditure since it has been incurred to put the asset in working condition.

4

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

4

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

Answer –True

Reason:-The financial statements must also disclose the relevant and reliable information as per AS-1 i.e. Disclosure of Accounting policies.

5

Refusal by the acceptor to make payment of the bill on the maturity date is called Retirement of the bill

5

Refusal by the acceptor to make payment of the bill on the maturity date is called Retirement of the bill

Answer – False

Reason:-Refusal by the acceptor to make payment of the bill on the date of maturity is called dishonour of the bill.

6

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

6

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

Answer – False

Reason:-Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long-term advantages. So this expenditure should be capitalized.

7

Nominal accounts are balanced in the end of the accounting year.

7

Nominal accounts are balanced in the end of the accounting year.

Answer – False

Reason:-Nominal accounts are not balanced; the balances in the end are transferred to the Trading & profit and loss account.

8

A tallied trial balance means that the books of account have been prepared as per accepted accounting principles.

8

A tallied trial balance means that the books of account have been prepared as per accepted accounting principles.

Answer –False

Reason:-Trial balance only checks the arithmetical accuracy of books. Errors of principles and errors of omissions will not affect the agreement of the Trial Balance.

9

The Sales Day Book is a part of the Ledger.

The Sales Day Book is a part of the Ledger.

Answer –False

Reason:-Sales day book is a book of prime entry and hence it is a part of the journal.

10

Loss of Stock is said to be abnormal loss when such loss is due to inherent characteristics of the commodities.

10

Loss of Stock is said to be abnormal loss when such loss is due to inherent characteristics of the commodities.

Answer – False

Reason:-Abnormal loss is usually caused by fire, theft, abnormal spoilage etc. Loss attributable to inherent features of goods is normal loss.



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



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

Answer – False

Reason:-Limited liability partnership is governed by Limited Liability Partnership (LLPs) Act, 2008.

12

M/s. XYZ & Co. runs a café. 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 a revenue expenditure.

12

M/s. XYZ & Co. runs a café. 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 a revenue expenditure.

Answer – False

Reason:-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.

13

If a cheque received is further endorsed, it must be entered on both sides of the Cash Book.

13

If a cheque received is further endorsed, it must be entered on both sides of the Cash Book.

Answer –True

Reason:-When a cheque received is further endorsed, it must be entered on both sides of the cash book. The cash book is debited when the cheque is received and it is credited when it is endorsed in favour of somebody.

14

Purchase of officer furniture has been debited to general expenses account. It is a compensating error.

14

Purchase of officer furniture has been debited to general expenses account. It is a compensating error.

Answer – False

Reason:-Recording the transactions in a fundamentally wrong manner in contravention of accounting principles is an error of principle.

15

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

15

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

Answer – False

Reason:-If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

16

Interest charged by the bank will be deducted, when the overdraft as per the cash book is made the starting point for making the bank reconciliation statement.

16

Interest charged by the bank will be deducted, when the overdraft as per the cash book is made the starting point for making the bank reconciliation statement.

Answer – False

Reason:-Interest charged by the bank will be added when the overdraft as per the Cash Book is made the starting point in preparing Bank Reconciliation Statement.

17

Inventory of by-products should be valued at net realizable value where cost of by-products can be separately determined.

17

Inventory of by-products should be valued at net realizable value where cost of by-products can be separately determined.

Answer – False

Reason:-Inventory of by-products, the cost of which cannot be separately determined, should be valued at net realizable value. Where Cost can be Separately determined it is to be valued at Cost or NRV Whichever is lower.

18

If the amount is posted in the wrong account or it is written on the wrong side of an account it is called error of omission.

18

If the amount is posted in the wrong account or it is written on the wrong side of an account it is called error of omission.

Answer – False

Reason:-Posting an amount on the wrong side or to a wrong account is called error of commission.

19

The balance in the Cash Book shows net income.

The balance in the Cash Book shows net income.

Answer –False

Reason:-The balance in the Cash Book shows cash in hand.

20

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.

20

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.

Answer – False

Reason:-In case of Bills 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.

21

Depreciation is a process of allocation of the cost of fixed asset.

21

Depreciation is a process of allocation of the cost of fixed asset.

Answer – True

Reason:-It is measure of wear and tear of an asset. On charging depreciation, the cost of fixed asset is allocated during the period it is used.

22

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.

22

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 – True

Reason:-Cost of temporary huts constructed which were necessary for the construction of the Cinema House is part of the construction cost of the Cinema House. Therefore, such costs are to be capitalized.

23

Where subsidiary books are maintained, journal is not required.

Where subsidiary books are maintained, journal is not required.

Answer –False

Reason:-Journal is required even when subsidiary book are maintained. This is so because many entries such as opening and closing entry, rectification entry etc. are recorded in journal.

24

Debenture Interest is Payable after the payment of Preference Dividend but before the payment of Equity Dividend.

24

Debenture Interest is Payable after the payment of Preference Dividend but before the payment of Equity Dividend.

Answer –False

Reason:-Debenture Interest is a charge against profit & Dividend is appropriation of profit. Debenture interest is payable before the payment of any dividend on Shares.

25

A bill of exchange is a conditional order in writing given by a Debtor to a Creditor.

25

A bill of exchange is a conditional order in writing given by a Debtor to a Creditor.

Answer – False

Reason:-A bill of exchange is an unconditional order signed by the maker, directing the debtor to pay a certain sum of money on a certain date or on the demand of the maker i.e. creditor.

26

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.

26

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.

Answer – True

Reason:-If closing stock appears in the Trial Balance, then closing stock is not entered in the trading account, but only shown in the Balance Sheet. This is because it has already been adjusted to arrive at cost of goods sold.

27

Error of carry forward of totals of Purchase Journal affects two accounts.

27

Error of carry forward of totals of Purchase Journal affects two accounts.

Answer – False

Reason:-Error of carry-forward of totals of Purchase Journal will affect only one account i.e. Purchases A/c and finally it will result in disagreement of Trial Balance.

28

Rectifying errors in subsequent accounting period always affects the profit or loss of that period.

28

Rectifying errors in subsequent accounting period always affects the profit or loss of that period.

Answer – False

Reason:-If errors are rectified in the subsequent accounting period as prior period items, profit of subsequent period is not affected as We use P/L Adjustment A/c to rectify Errors & Not P/L Account

29

Only revenue items are disclosed in Income and Expenditure account.

29

Only revenue items are disclosed in Income and Expenditure account.

Answer – True

Reason:-Only revenue items are disclosed in Income and Expenditure accounts As the Nature of Income & Expenditure Account is Nominal.

30

Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.

30

Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.

Answer – True

Reason:- Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.

31

Direct collection received by the bank on behalf of its customers will increase the balance as per the Bank-book as compared to the balance as per the Cash-book.

31

Direct collection received by the bank on behalf of its customers will increase the balance as per the Bank-book as compared to the balance as per the Cash-book.

Answer – True

Reason:-Direct collection received by the bank on behalf of its customer will increase the balance of pass book, as compared to the balance as per cash book, till the customer gets an intimation from the bank.

32

Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue.

32

Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue.

Answer – False

Reason:- Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue

33

A Company is not allowed to issue shares at discount to the public in general.

33

A Company is not allowed to issue shares at discount to the public in general.

Answer – True

Reason:-According to Section 53 of The Companies Act 2013, A Company cannot issue shares at discount except in case of issue of sweat Equity share.

34

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

34

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

Answer – False

Reason:- Warehouse rent paid for storage of finished inventory are not included in the cost of finished inventory.

35

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

35

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

Answer – False

Reason:-A person can hold both equity and preference shares of the same company.

36

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

36

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

Answer – False

Reason:-On the death of a partner business of partnership does not end, remaining partners carry on the business.

37

Cash book is a subsidiary book as well as a principal book.

37

Cash book is a subsidiary book as well as a principal book.

Answer – True

Reason:-Cash book is both subsidiary book as well as principal book. It is Journal as well as Ledger

38

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

38

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

Answer – True

Reason:-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.

39

Amounts credited to the debenture redemption reserve may be utilised by the company for any purpose.

39

Amounts credited to the debenture redemption reserve may be utilised by the company for any purpose.

Answer – False

Reason:- Amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose other than for redemption of debentures.

40

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

40

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

Answer – False

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



thank you!