MOCK TEST PAPER

March, 2021:

Q - 1 Discuss the limitations which must be kept in mind while evaluating the Financial Statements. (4 Marks)

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

• The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.

• Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.

• Accounting ignores changes in some money factors like inflation etc.

• There are occasions when accounting principles conflict with each other.

• Certain accounting estimates depend on the sheer personal judgement of the accountant.

• Different accounting policies for the treatment of same item adds to the probability of manipulations.

Q - 2 State the causes of difference between the balance shown by the pass book and the cash book. (5 Marks)

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

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

Q - 3 Which subsidiary books are normally used in a business? (5 Marks)

Ans. Normally, the following subsidiary books are used in a business:

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

April, 2021:

Q - 4 "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. (4 Marks)

Ans. Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

Q - 5 Write short notes on any two of the following:

(i) Double entry system.
(ii) Importance of bank reconciliation to an industrial unit.
(iii) Bill of exchange and the various parties to it.
(iv) Retirement of bills of exchange. (5 Marks)

Ans. (i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction. Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

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

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

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

(iv) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

<u>October, 2021</u>:

Q - 6 Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? (4 Marks)

Ans. The basic considerations in distinction between capital and revenue expenditures are:
(i) <u>Nature of business</u>: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
(ii) <u>Recurring nature of expenditure</u>: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
(iii) <u>Purpose of expenses</u>: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
(iv) <u>Materiality of the amount involved</u>: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Q - 7 Explain in brief objectives of preparing Trial Balance. (5 Marks)

Ans. The preparation of trial balance has the following objectives:
1. Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. Summarized ledger: Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required

Q - 8 What are the rules of posting of journal entries into the Ledger? Explain in brief. (5 Marks)

Ans. Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

<u>November, 2021</u>:

Q - 9 Differentiate between provision and contingent liability. (4 Marks)

Ans. Difference between Provision and Contingent liability

S.No.	Provision	Contingent liability
1.	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
2.	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
3.	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
4.	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

<u>March, 2022</u>:

Q -10 What services can a Chartered Accountant provide to the society? (4 Marks)

Ans. The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts; (ii) Statutory audit;
(iii) Internal Audit; (iv) Taxation;
(v) Management accounting and consultancy services; (vi) Financial advice and financial investigations etc.

Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Q -11 Write short notes on: (i) Adjusted Selling Price method of determining cost of stock.
(ii) Principal methods of ascertainment of cost of inventory. (5 Marks)

Ans. (i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

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

<u>May, 2022</u>:

Q - 12 Explain Cash and Mercantile system of accounting. (4 Marks)

Ans. Cash and mercantile system: Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

Q - 13 Explain in brief objective and advantages of setting Accounting Standards. (5 Marks)

Ans. Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

(i) Reduction in variations. (ii) Disclosure beyond that required by law. (iii) Facilities comparison.

<u>**November, 2022**</u>**:**

Q - 14 "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. (4 Marks)

Ans. Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows: Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

Q - 15 Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent for replacement of a petrol driven engine by CNG kits.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Insurance claim received on account of inventory damaged by fire.

(v) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory. (5 Marks)

Ans. (i) Capital Expenditure (ii) Capital Expenditure (iii) Capital Expenditure (iv) Revenue Expenditure (v) Capital Expenditure.

<u>**December, 2022**</u>**:**

Q - 16 Discuss the limitations which must be kept in mind while evaluating the Financial Statements. (4 Marks)

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

The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.

Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.

Accounting ignores changes in some money factors like inflation etc.
There are occasions when accounting principles conflict with each other.
Certain accounting estimates depend on the sheer personal judgement of the accountant.
Different accounting policies for the treatment of same item adds to the probability of manipulations.

Q - 17 State the causes of difference between the balance shown by the pass book and the cash book. (5 Marks)
Ans. The difference between the balance shown by the passbook and the cashbook may arise on account of the following:
(i) Cheques issued but not yet presented for payment.
(ii) Cheques deposited into the bank but not yet cleared.
(iii) Interest allowed by the bank.
(iv) Interest and expenses charged by the bank.
(v) Interest and dividends collected by the bank.
(vi) Direct payments by the bank.
(vii) Direct deposits into the bank by a customer.
(viii) Dishonour of a bill discounted with the bank.
(ix) Bills collected by the bank on behalf of the customer.
(x) An error committed by the bank etc.

Q - 18 Which subsidiary books are normally used in a business? (5 Marks)
Ans. Normally, the following subsidiary books are used in a business:
(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
(iv) Sales Book to record the sales of the goods dealt in by the firm.
(v) Sale Returns Book to record the returns made by the customers
(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.
(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

April, 2023:
Q - 19 Explain the objective of "Accounting Standards" in brief. (4 Marks)
Ans. Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.
Q - 20 Explain in brief objectives of preparing Trial Balance. (5 Marks)
Ans. The preparation of trial balance has the following objectives:
1. Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. Summarized ledger: Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Q - 21 What are the rules of posting of journal entries into the Ledger? Explain in brief. (5 Marks)
Ans. Rules regarding posting of entries in the ledger
1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.

2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

MAY, 2023

Q - 22 "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. (4 Marks)

Ans. Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

For Example, Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

Q - 23 Write short notes on any two of the following: (5 Marks)

(i) Double entry system.
(ii) Importance of bank reconciliation to an industrial unit.
(iii) Del-credere commission. (Out of Course)
(iv) LIFO and FIFO basis of costing of stock.

Ans. (i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction. Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

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

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

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

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices.

NOVEMBER, 2023

Q - 24 Explain Cash and Mercantile system of accounting. (4 Marks)

Ans. Cash and mercantile system: Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/impaired and an asset is created/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually. Mercantile system of accounting is generally accepted accounting system by business entities.

DECEMBER, 2023

Q - 25 Discuss the limitations which must be kept in mind while evaluating the Financial Statements. (4 Marks)

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

• The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.

• Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.

• Accounting ignores changes in some money factors like inflation etc.

• There are occasions when accounting principles conflict with each other.

• Certain accounting estimates depend on the sheer personal judgement of the accountant.

• Different accounting policies for the treatment of same item adds to the probability of manipulations.

MAY, 2024 (Series I)

Q - 26 Discuss the factors taken into consideration for calculation of depreciation. (5 Marks)

Ans. Following factors are taken into consideration for calculation of depreciation.

1. Cost of asset including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

2. Estimated useful life of the asset - Useful Life is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.

3. Estimated scrap value (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Q - 27 Write short notes on Accommodation bill and Renewal of bill. (5 Marks)

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

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

MAY, 2024 (Series I)

Q - 28 Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. (4 Marks)

Ans. Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

Q - 29 Write short notes on any two of the following: (5 Marks)

(i) Bill of exchange and the various parties to it. (ii) Retirement of bills of exchange.

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

There are three parties to a bill of exchange:

(a) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(b) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(c) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(ii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity.

The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

Q - 30 Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? (5 Marks)

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

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

(ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

JUNE, 2024

Q - 31 Differentiate between provision and contingent liability. (4 Marks)

Ans. Same as Q - 9