

CA FOUNDATION (NEW SYLLABUS)

TRUE / FALSE

Meaning and scope of accounting

1. There is no difference between accounting and book-keeping, both are the same.
✓ False: Book keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provide by book keeping records.
2. Management Accounting covers the preparation and interpretation of financial statement and communication to the users of accounts.
✓ False: Management accounting is concerned with the internal reporting to the managers of business unit.
3. Financial accounting is concerned with internal reporting to the managers of a business unit.
✓ False: Financial accounting covers the preparation and interpretation of financial statements.
4. Customers of business should not be considered as users of account prepared by business. They are not interested to know the performance of the business.
✓ False: Customers are also concerned with stability and profitability of the enterprise because functioning is more or less dependent on the supply of goods.
5. Summarizing is the basic function of accounting. All accounting transactions of a finance character evidenced by some documents such as sale bill, pass book, salary slip etc. are recorded in the books of accounts.
✓ False: Recording is the basic function of accounting. Summarizing is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements.
6. Balance sheet shows the position of the business on the day of its preparation and not in the future date.
✓ True: Balance Sheet is a statement of the financial position of an enterprise at a given date.
7. Objectives of book-keeping are complete recording of transactions and ascertainment of financial effect on the business.
✓ True: Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.

Accounting Concepts, Principles and Conventions

8. The concept helps in keeping business affairs free from the influence of the persona affairs of the owner is known as the matching concept.

- ✓ False: Under matching concept all expenses matched with the revenue of that period should only be taken into consideration, in the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.
- 9. Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.
- ✓ True: Since the owner invested capital, he has claim on the profits of the promise.
- 10. Accrual means recognition as money received or paid and not of revenue and cost as they are earned or incurred.
- ✓ False: Under accrual concept, the effects of transactions and other events are recognized on mercantile basis i.e. when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
- 11. The Conservatism Concept also states that no change should be counted unless it has materialized.
- ✓ False: The Realisation Concept also states that no change should be counted unless it has materialized.
- 12. The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting.
- ✓ False: The concept of consistency does not imply non-flexibility as not to allow the introduction of improved method of accounting.
- 13. The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making decision etc.
- ✓ True: As per materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.
- 14. Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
- ✓ False: That is done in Cash Accounting approach.

Capital And Revenue Receipts

- 15. The nature of business is not an important criteria in separating an expenditure between capital and revenue.
- ✓ False: The nature of business is a very important criteria in separating an expenditure between capital and revenue.
- 16. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.
- ✓ False: Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

17. Amount spent as lawyer fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's and is Capital Expenditure.
- ✓ False: Legal expenses incurred to defend a suit is maintenance expenditure of the asset. By this expense, neither any enduring benefit can be obtained in the future in addition to that what is presently available nor will the capacity of the asset be increased. Maintenance expenditure in relation to an asset is revenue expenditure.
18. Amount spent for replacement of worn out part of the machine is capital expenditure.
- ✓ False: Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance.
19. Legal fee to acquire property is Capital Expenditure.
- ✓ True: Legal fee paid to acquire any property is a part of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
20. 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.
- ✓ True: Since temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

Contingent Assets And Contingent Liabilities

21. A contingent liability need not to be disclosed in the financial statements.
- ✓ False: A Contingent Liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.
22. A provision fails to meet the recognise criteria.
- ✓ False: A contingent liability fails to meet the recognition criteria.
23. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.
- ✓ False: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.
24. When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent Liability.
- ✓ False: When it is probable that the firm will need to pay off the obligation, this gives rise to provision.
25. Present financial obligation of an enterprise, which arises from past event is termed as contingent liability.
- ✓ Present financial obligation of an enterprise, which arises from past events is termed as liability.

Accounting Policies

26. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.
- ✓ False: There cannot be single list of accounting policies, which are applicable to all enterprises in all circumstances. There would always be different policies by different industries under different circumstances.
27. Selection of accounting policy doesn't impact financial performance and financial position of the business.
- ✓ False: Accounting policy has big impact on value of items goes under financial statements, hence it impacts financial performance and financial position of the business.
28. A change in accounting policies should be made as and when business like to show result as per their choice.
- ✓ False: A change in accounting policies should be made in the following conditions;
- It is required by some statute or for compliance with an Accounting Standard.
 - Change would result in more appropriate presentation of Financial Statement.
29. Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy.
- ✓ True: An enterprise may adopt FIFO or weighted average method for inventory valuation and the method selected for valuation is called an accounting policy.
30. Selection of an inappropriate accounting policy decision that will overstate the performance and financial position of a business entity every time
- ✓ False: It could understate/overstate the performance and financial position of a business entity.

Accounting as a measurement discipline – Valuation Principles and Accounting

Estimates

31. There are four generally accepted measurement bases.
- Historical cost
 - Realisable Value
 - Current Cost
 - Future Value
- ✓ False: There are four generally accepted measurement bases.
- Historical cost
 - Realizable Value
 - Current Cost
 - Present value
32. Historical cost means price paid at time of acquisition.
- ✓ True: Historical cost means the acquisition price.
33. As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.

- ✓ *False: At realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.*
34. *At present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.*
- ✓ *False: Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.*
35. *ABC purchased a machinery amounting Rs. 10,00,000 on 1st April, 2001. On 31st March 2020, similar machinery could be purchased for Rs. 20,00,000. Historical cost of machine is 20,00,000.*
- ✓ *False: Historical cost is Rs. 10,00,000*
36. *ABC purchased a machinery amounting Rs. 10,00,000 on 1st April 2001. On 31st March 2020 similar machinery could be purchased for Rs. 20,00,000. Current cost of machine is Rs. 20,00,000.*
- ✓ *True: Since similar machine is purchased at Rs. 20,00,000 the current cost of machine is Rs. 20,00,000*

Accounting Standards

37. *Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.*
- ✓ *True: Accounting Standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.*
38. *Accounting standards can override the statute.*
- ✓ *False: Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.*
39. *Difficulties in making choice between different treatments is one of the benefits of accounting standards.*
- ✓ *False: Difficulties in making choice between different treatments is one of the limitation of accounting standards.*
40. *Requirements for additional disclosures is limitation of accounting standards.*
- ✓ *False: Benefits of accounting standards are:*
- *Standardisation of alternative accounting treatments.*
 - *Comparability of financial statements.*
 - *Requirements for additional disclosures.*
41. *ASB stands for Accounting Standardisation Benchmarking.*
- ✓ *False: ASB stands for Accounting Standard Board.*
42. *There are limitation to accounting standards.*
- ✓ *False: Limitations of accounting standards.*
- *Difficulties in making choice between different treatments*

- *Restricted scope*

Accounting Process – Journal

43. *In accounting equation approach, Equity + Long-term Liabilities = Fixed asset + Current assets – Current Liabilities.*
- ✓ *True: As per the modern accounting equation approach – it is the basic formula in the accounting process.*
44. *In the traditional approach a debtor becomes receiver.*
- ✓ *False: In the traditional approach a debtor becomes giver.*
45. *The rule of nominal account states that all expenses and losses are recorded on credit side.*
- ✓ *False: The rule of nominal account states that all expenses and losses are recorded on debit side.*
46. *Journal proper is also called a subsidiary book.*
- ✓ *True: It is one of the book where in the transactions not entered in the other books are entered in this book.*
47. *Capital account has a debit balance.*
- ✓ *False: Capital Account has a credit side.*
48. *Purchase account is a nominal account.*
- ✓ *True: As it is considered as an expense.*
49. *All the personal and real account are recorded in P&L A/c.*
- ✓ *False: All the personal and real account are recorded in balance sheet.*
50. *Asset side of balance sheet contains all the personal and nominal accounts.*
- ✓ *False: Asset side of balance sheet contains all the personal and real accounts.*
51. *Capital account is a personal account.*
- ✓ *True: As it is in the name of the proprietor who is bringing in the capital to the business.*
52. *Journal is also known as the book of original entry.*
- ✓ *True: As the transaction are entered first in this book as a first hand record.*

Ledger

53. *A ledger is also known as the principal book of accounts.*
- ✓ *True: Since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial Balance, a ledger is also known as principal book of accounts.*
54. *Cash account has a debit balance.*
- ✓ *True: Being an asset under the modern equation approach, cash account has a debit balance.*
55. *Posting is the process of transferring the accounts from ledger to journal.*
- ✓ *False: Posting is the process of transferring the balances from journal to ledger.*
56. *At the end of the accounting year, all the nominal accounts of the ledger book are balanced.*

- ✓ *False: At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to P&L A/c.*
- 57. *Ledger records the transactions in a chronological order.*
- ✓ *False: Ledger records the transactions in analytical order, but journal records the transactions in a chronological order.*
- 58. *If the total debit side is greater than the total of credit side, we get a credit balance.*
- ✓ *False: If the total of debits side is greater than the total of credit side, we get a debit balance as the opening balance.*
- 59. *Ledger accounts of assets will always be debited when they are increased.*
- ✓ *True: The increase to an asset shall be debited since the original balance is also debit.*

Trial Balance

- 60. *Preparing trial balance is the third phase of accounting process.*
- ✓ *True: preparing trial balance is the third phase of accounting process which forms the base for the preparation of the final accounts.*
- 61. *Trial balance forms a base for the preparation of Financial Statement.*
- ✓ *Based on trial balance only, we can prepare financial statement.*
- 62. *Agreement of Trial Balance is a conclusive proof of accuracy.*
- ✓ *False: Agreement of trial balance gives only arithmetical accuracy, there can still be errors in preparing the trial balance.*
- 63. *A trial balance will tally in case of compensating errors.*
- ✓ *True: Since compensating errors cancel out due to their compensating nature of the amounts, hence the Trial Balance tallies.*
- 64. *A trial balance can find the missing entry from the journal.*
- ✓ *False: Trial balance cannot find the missing entry from the journal.*
- 65. *Suspense account opened in a trial balance is a permanent account.*
- ✓ *False: Suspense Account opened in a trial balance is a temporary account.*
- 66. *The balance of purchase returns account has a credit balance.*
- ✓ *True: As purchases is debited, any returns shall be credited (treated in opposite way).*

Subsidiary Books

- 67. *Transactions recorded in the purchase book include only purchase of goods on credit transactions.*
- ✓ *True: Since cash purchases are taken to the cash book, it is only credit transactions that are recorded in the purchases book.*
- 68. *Transactions regarding the purchase of fixed asset are recorded in the purchase book.*

- ✓ *False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recoded in it.*
- 69. *Cash sales are recorded in the sales book.*
- ✓ *False: Credit sales are recorded in the sales book.*
- 70. *Subsidiary books are also known as the books of original entry.*
- ✓ *True: Subsidiary books are maintained as an alternative to the journal.*
- 71. *Bills receivable book is a subsidiary book.*
- ✓ *True: Bills receivable is one of the subsidiary book*
- 72. *Return inward book is also known as purchase return book.*
- ✓ *False: Return inward book is also known as sales return book.*
- 73. *Purchases of a second hand machinery will be recorded in purchase book.*
- ✓ *False: Purchase of a second hand machinery will not be recorded in purchase book.*
- 74. *Total of sales return book is posted to the debit side of sales account.*
- ✓ *True: Since sales return is reduction from total sales value, it is debited in the sales account.*
- 75. *If the sales are on a frequent basis, the transactions are recorded in the sales book.*
- ✓ *True: When there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.*

Cash Book

- 76. *Cash book is a subsidiary book as well as a principal book.*
- ✓ *True: Since the balance is taken to the trial balance cash book is a subsidiary book as well as principal book.*
- 77. *Two column cash book consists of two column cash and bank columns.*
- ✓ *False: Two column cash book consists of two columns cash and discount column.*
- 78. *Discount column of cash book is never balanced.*
- ✓ *True: Discount column is totalled and transferred to the discount allowed or received account.*
- 79. *Contra entry is passed in a two column cash book.*
- ✓ *False: Contra entry is passed in a three column cash book which includes bank and cash columns.*
- 80. *If the bank column is showing the opening balance on credit side, it is an overdraft.*
- ✓ *True: Usually the debit side of opening balance shows a favourable balance, where there is unfavourable overdraft then it should be shown on the credit side.*
- 81. *A cash book records cash transactions as well as credit transactions.*
- ✓ *False: A cash book records only cash transactions.*
- 82. *Discount column of cash book records the trade discount.*
- ✓ *False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.*

Rectification of Errors

83. The method of rectification of errors depends on the stage at which the errors are detected.

✓ True: There are 3 different stages when the mistakes are identified and then rectification depends on the stage of identification of errors.

84. In case of error of complete omission, the trial balance does not tally.

✓ False: In order to balance the difference of balances in the trial balance suspense account is opened.

85. When errors are detected after preparation of trial balance, suspense account is opened.

✓ True: In order to balance the difference of balances in the trial balance suspense account is opened.

86. When purchase of an asset is treated as an expense, it is known as error of principle.

✓ True: Where the accounts being debited is principally incorrect it is termed as error of principle.

87. Trial balance agrees in case of compensating errors.

✓ True: Compensating errors cancel out each other when trial balance is prepared as the mistake pertains to the same amount being credited and later debited to furniture account as it is a capital expense.

88. When amount is written on wrong side, it is known as an error of principle.

✓ False: When amount is written on wrong side, it is known as an error of commission.

89. On purchase of furniture, the amount spent on repairs should be debited to repairs account.

✓ False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.

90. Profit and loss adjustment account is opened to rectify the errors detected in the current accounting period.

✓ False: Profit and Loss Adjustment account is opened to rectify the errors detected in the next accounting period.

91. Rent paid to land lord of the proprietor's house, must be debited to 'Rent Account'.

✓ False: Rent paid to landlord of the proprietor's house, must be debited to Drawings Account.

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

✓ False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.

Bank Reconciliation Statement

93. Bank reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.

- ✓ *False: Bank reconciliation statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the book of bank.*
94. *There are 3 types of differences between cash book and pass book namely Timing. Transactions and Errors.*
- ✓ *True: These are the three broad categories.*
95. *Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.*
- ✓ *False: Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.*
96. *Debit balance in cash book is same as overdraft as per pass book.*
- ✓ *False: Debit balance as per cash book should be represented by credit or favourable balance in pass book.*
97. *Bank charges debited by the bank is an example of a difference that is due to error.*
- ✓ *False: Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.*
98. *Overcasting of the debit side of the cash book is an example of timing difference for the purposes of bank reconciliation.*
- ✓ *True: Overcasting is an example of an error.*
99. *When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.*
- ✓ *True: Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.*
100. *The bank charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.*
- ✓ *False: Bank charges should be added when we start with credit or favourable balance in pass book as bank would have debited the charges.*
101. *When the causes of differences between pass book balance and cash book is no known, then the bank reconciliation statement can be prepared by matching, the two books and identifying any unticked items in both sets.*
- ✓ *True: Since we don't know the causes of difference matching the two statements is only efficient way to identify the difference.*
102. *While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.*
- ✓ *False: Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.*

103. Cash book shows a debit balance of Rs. 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for Rs. 60,000 but not yet presented for payment. The balance as per pass book should be Rs. 1,10,000.
- ✓ True: cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. Rs. 50,000 + Rs. 60,000 = Rs. 1,10,000
104. Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.
- ✓ False: Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.
105. A cheque for Rs. 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of Rs. 50,000 from the balance in pass book.
- ✓ True: Rs. 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.
106. A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.
- ✓ True: It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.
107. Bank Reconciliation Statement can be prepared in two formats – ‘Balance’ presentation and ‘Plus and Minus’ presentation.
- ✓ True: Reconciliation statement can be prepared in either of the two payments.
108. The difference between cash book and pass book that relates to errors are those mostly made by bank.★
- ✓ False: Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.
109. A cheque for Rs. 80,000 that was discounted from bank was dishonoured and the bank charged Rs. 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct Rs. 78,400 to reconcile with pass book.
- ✓ False: We need to deduct Rs. 81,600 (i.e. both cheque returned and charges) from debit balance in cash book to arrive at balance as per pass book
110. Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.
- ✓ False: Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.

111. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.
- ✓ True: In absence of any reconciliation, the accountants can mis-utilise the funds temporarily by recording the entry without actually depositing the cash.
112. Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.
- ✓ False: Timing difference relate to the transactions that are recorded in cash book and pass book in two different periods.

Inventories

113. Inventories are stock of goods and materials that are maintained for mainly the purpose of revenue generation.
- ✓ True; Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.
114. A building is considered inventory in a construction business.
- ✓ True: For a construction business a building under construction will be inventory. The building is being built in the normal course of business and will eventually be sold as inventory.
115. Inventory is valued as carrying cost less percentage decreases.
- ✓ False: Inventory is valued at lower of cost or net realisable value.
116. Management has daily information about the quantity and valuation of closing stock under physical inventory system.
- ✓ False: Under perpetual Inventory System management have daily information of closing stock.
117. Periodic Inventory System is more suitable for small enterprises.
- ✓ True: Periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.
118. When closing inventory is overstated, net income for the accounting period will be understated.
- ✓ False: When closing inventory is overstated net income for the accounting period will be overstated.
119. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.
- ✓ False: Closing stock = Cost of Goods sold - (Opening inventory + Purchases + Direct expenses).
120. Cost of inventories should comprise all cost of purchase.
- ✓ False: Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
121. Cost of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only.
- ✓ False: Cost of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable overheads as well.

122. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
- ✓ False: Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.
123. Perpetual system requires closure of business for counting of inventory.
- ✓ False: Periodic system requires closure of business for counting of inventory.
124. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
- ✓ True: Under periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.
125. The value of ending inventory under simple average price method is realistic as compare to LIFO.
- ✓ True: Value of closing stock as per average method is more realistic then LIFO.
126. The value of stock is shown on the assets side of the balance sheet as fixed assets.
- ✓ False: Value of stock is shown on the assets side of the balance sheet as current assets. As it is realisable within 12 months.
127. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.
- ✓ False: Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.
128. Under LIFO valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
- ✓ False: Under FIFO valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
129. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism.
- ✓ True: Conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net-realizable value whichever is less, therefore is based on principle of conservatism.
130. Finished goods are normally valued at cost or market price whichever is higher.
- ✓ False: Finished goods are normally valued at cost or market price whichever is lower.

Concept of Depreciation and Amortisation

131. Increase in market value of a fixed asset is one of the reasons for depreciation being charged.
- ✓ False: It is the decrease in market value as one of the reasons for depreciation, Increase market value may result in revaluation.
132. Depreciation of an asset begins when it is available for use in the location and condition necessary for it to be capable of being operated.

- ✓ True: It is not necessary that the asset must be used to be depreciated, thus depreciation may start once it is brought in the location and condition required to be used.
133. Cost or property, plant and equipment includes purchase price, refundable taxes and import duties after deducting any discount or rebate.
- ✓ False: Non-refundable taxes and duties form part of the cost.
134. Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.
- ✓ False: Inauguration costs shouldn't be part of cost.
135. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.
- ✓ True: SLM method results in same amount and diminishing method, involves same rate of depreciation.
136. In case of item of Property, Plant and Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.
- ✓ True: Revaluation should be done for the whole class of the asset.
137. In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognised in the profit and loss account.
- ✓ False: Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit and Loss Account.
138. Akash purchased a machine for Rs. 12,00,000. Estimated useful life is 10 years and scrap value is Rs. 1,00,000. Depreciation for the first year using sum of the years digit method shall be Rs. 2,00,000.
- ✓ True: Sum of years digital method depreciation is calculated as $10/55 \times (12,00,000 - 1,00,000) = 2,00,000$
139. Depletion is the allocation of the cost of intangible assets such as patents and copyrights.
- ✓ False: Depletion relates to allocation of cost of natural resources.
140. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.
- ✓ True: Depreciation being non-cash expense reduces the distributable profits and hence facilitates replacement of asset when required.
141. If the equipment account has a balance of Rs. 12,50,000 and the accumulated depreciation account has a balance of Rs. 4,00,000 the written down value of same shall be Rs. 16,50,000.
- ✓ False: $WDV = Rs. 12,50,000 - Rs. 4,00,000 = Rs. 8,50,000$
142. Sum of the years' digit method is an example of accelerated method of charging depreciation.
- ✓ True: Higher depreciation is charged in earlier years under sum of the years' digit method.
143. Over the life of an asset subject to depreciation, the accelerated method will result in less depreciation expense in early years and more depreciation in later years of its life.

- ✓ False: It is vice versa as under diminishing balance method, higher depreciation is charged in beginning.
144. While depreciating land cost, straight line method shall give more depreciation than the written down value.
- ✓ False: Land is not depreciated.
145. Provision for depreciation account is debited at the time of recording the depreciation on an asset.
- ✓ False: Provision for depreciation account is credited while charging the depreciation.
146. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.
- ✓ False: Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.
147. When a property, plant and equipment is sold then provision for depreciation account if debited, asset account is credited and any gain or loss is recorded to profit and loss account.
- ✓ True: At the time of sale of an asset, respective asset account is credited with provision for depreciation account being debited and any resulting gain or loss being charged to profit and loss account.
148. While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life if reduced from its cost.
- ✓ False: Under diminishing balance method, salvage value is not considered initially as it assumes that at the end of the asset's life the remaining value shall be its salvage value.
149. Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.
- ✓ True: Any change in useful life of an asset is accounted for as a change in estimate.
150. Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year.
- ✓ False: Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale of year.

Bills of Exchange

151. Bills Payable account is a nominal account.
- ✓ False: The bills payable account is a personal account that represents a liability.
152. Promise to pay is included in a bill of exchange.
- ✓ False: Bill of exchange contains an order to pay the required amount and not a mere promise to pay.
153. Days to pay are added to the due date to arrive at the maturity date.
- ✓ False: 3 days of grace are added to the due date to arrive at the maturity date.

154. There are always 2 parties to the bills of exchange.

✓ False: There can be more than 2 parties – namely the drawer, acceptor and the payee of the bill.

155. Foreign bill is drawn in the country and payable outside the country.

✓ True: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.

156. Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.

✓ True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

Final Accounts of Non-Manufacturing Entities

157. The income statement shows either net profit or net loss for a particular period.

✓ True: Profit and Loss Account shows either net profit or net loss for a particular period.

158. Gains from the sale or exchange of assets are not considered as the revenue of the business.

✓ False: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.

159. The salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities.

✓ True: The salary paid in advance is an asset it is not an expense it neither reduces assets nor increase liabilities.

160. A loss is an expenditure which does not bring any benefit to the concern.

✓ True: A loss is an expenditure of the business which does not bring any gain to the business.

161. All liabilities which become due for payment within year are classified as long-term liabilities.

✓ False: All liabilities which become due for payment within one year are classified as current liabilities

162. The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realised or sold or consumed within one year.

✓ True: Current assets are all the assets which are expected to be realised or sold or consumed within one year.

163. An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.

✓ True: When an asset is purchase capital expenditure is incurred and when the asset is put to use expenses are incurred in consumption.

164. If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.

✓ True: Debit balance of account are treated as expenses whose benefit is already received or expired.

165. Sales less cost of goods sold = gross profit.

✓ True: Gross Profit is obtained by deducting cost of goods sold from sales.

166. If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.

✓ False: IF the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.

167. The provision for bad debts is debited to Sundry Debtors Accounts.

✓ 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 of debtors.

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

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

169. The debts written off as bad, if recovered subsequently are credited to Debtors Account.

✓ False: The debts written off as bad, if recovered subsequently are credited to bad debts recovered account and becomes an Income.

170. The adjustment entry in respect of Income received in advance is debit income received in advance account and credit income account.

✓ False: The income received in advance is reduced from the concerned income in profit and loss account and it is shown as a liability in the current balance sheet under the head Current Liabilities.

171. Premium paid on the life policy of a proprietor is debited to profit and loss account.

✓ False: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.

172. Depreciation account appear in the trial balance is taken only to profit and loss account.

✓ True: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit and loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.

173. Personal purchases included in the purchases day book are added to the sales account in the Trading Account.

✓ False: Personal purchases included in purchases day book are deducted from the purchases account in the Trading Account.

174. Medicines given to the office staff by a manufacturer will be debited to salaries account.

✓ True: Any benefit given to the staff is debited to the salary account.

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

- ✓ *False: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.*
176. *If closing stock appears in the Trial Balance, the closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet.*
- ✓ *True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.*

Final Accounts for Manufacturing Entities

177. *By products valued at cost or net realisable value whichever is lower.*
- ✓ *False: By products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realisable value.*
178. *The manufacturing account is prepared to ascertain the profit or loss on the goods produced.*
- ✓ *False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.*
179. *If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.*
- ✓ *True: Manufacturing account deals with the raw material and work in progress.*
180. *Raw material consumed = Opening Inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.*
- ✓ *True: Raw material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.*
181. *The Trading Account will show the quantities of finished goods, raw materials and work in progress.* ★
- ✓ *False: The trading account will show the quantities of finished goods manufactured and sold and the opening and closing inventory, it will not show the quantity of raw materials or work in progress.*
182. *Overhead is defined as total cost of direct material, direct wages and direct expenses.*
- ✓ *False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.*

Financial Statement of Not for Profit Organisation (NPO)

183. *The receipts and payment account for a non-profit organisation follows the accrual concept of accounting.*
- ✓ *False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the receipts and payment account.*

The principle of accrual is not followed with regard to the receipts and payments account of non-profit organisation.

184. Both the revenue and capital nature transactions are recorded in the Income and Expenditure account.

✓ *False: The income and expenditure account records, only the revenue income and expenditure. The capital transactions are being recorded in the balance sheet.*

185. Sales of grass by a sports club is to be treated as sale of an asset.

✓ *False: The grass for sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.*

186. Subscriptions outstanding for the current year are disclosed under the fixed assets side of the balance sheet.

✓ *False: They are disclosed under the current assets of the Balance Sheet as they will be paid within the next year and not to be treated as non-current assets.*

187. Receipts and payments account gives the details about the expenses outstanding for the year.

✓ *False: Receipts and payments account gives information about the expenses paid in cash for the current year, previous year, or the next year. It is only from the additional information we identify the outstanding expenses.*

188. Adjustments in the form of additional information shall be adjusted in the final accounts of non-profit organisation only in one place.

✓ *False: Additional information means that information which has been identified just before the preparation of final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.*

189. Tournament expenses incurred more than the Tournament Fund, then the excess is to be shown as an asset in the closing Balance Sheet.

✓ *False: The excess of expenditure over the tournament fund shall be debited to income and expenditure account and not taken to the closing balance sheet.*

190. For non-profit organisation, Excess of income over expenditure in the Income and Expenditure Account is termed as profit.

✓ *False: The excess of the income over the expenditure is called as surplus and not profit for a non-profit and organisation.*

191. Surplus of non-profit organisations is distributed among its members.

✓ *False: The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.*

192. Tournament fund, building fund, library fund is based on the fund based accounting.

✓ *True: It is fund based accounting that records the fund balances in the balance sheet.*

193. Subscription fees refers to the on-time fees paid by the members to get admission for the benefits of the club.

- ✓ *False: Subscription is a regular fees paid by the members to keep the membership alive.*
194. *Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organisation is termed as Honorarium.*
- ✓ *True: Honorarium refers to the nominal amount paid for the services with a non-commercial unit.*
195. *An insurance company is an example of non-profit organisation.*
- ✓ *False: Insurance companies has a profit motive, hence it is not a non-profit organisation.*
196. *Part amount of entrance fee which is to be capitalised shall be disclosed in the Income and Expenditure account.*
- ✓ *False: It shall be shown in the balance sheet – where it is to be capitalised.*
197. *Both the Income and Expenditure of the current and the previous year are recorded in the Income and Expenditure account.*
- ✓ *False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.*
198. *Amount received as donation by a Non-profit organisation under the will of deceased partner is termed as legacy.*
- ✓ *True: While on the death bed, if there is any will written that the asset of a person shall be donated to any NPO – then such a donation to the NPO, is termed as Legacy.*
199. *Where a non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure account at the time of consolidation.*
- ✓ *True: Where in case of trading activities, the profit/loss from such activity to be transferred to the Income and Expenditure account in case of consolidated account.*
200. *Not for profit concerns concentrate their efforts to maximize the profit earning avenues.*
- ✓ *False: The non-profit organisation has its very existence to serve the members and the society. Profit earning shall never be its motive.*
201. *All the receipts are of revenue nature in case of Non-Profit Organisation.*
- ✓ *False: Receipts can be both of revenue as well as capital nature. Receipts of both revenue and capital nature are recorded in the receipts and payments account.*
202. *There is opening balance of Income and Expenditure.*
- ✓ *False: It represents a nominal account and is prepared in accordance with accrual concept, hence there can be opening balances.*

Accounting for Incomplete Records

203. *A trial balance cannot be drawn up from books kept under Single Entry.*
- ✓ *True: Since incomplete records are maintained, trial balance cannot be prepared.*
204. *Nominal Accounts are kept under Single Entry System.*
- ✓ *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.*

205. Single Entry Can be adopted by small firms.

- ✓ True: A single entry system is the one where financial transactions are recorded as a single entry in a log and is usually used by new small businesses.

206. Profit under single entry system is always correct and accurate.

- ✓ False: Profit under single entry system is only an estimate based on available information and correct profits cannot be determined.

207. Profits computed under single entry system by different business entities are not comparable.

- ✓ True: Since entry system has no fixed set of principles for recording the financial transaction, different organisations maintain records as per their needs. Hence their accounts are not comparable

Introduction to Partnership Accounts

208. In case of any agreement partners share profits of the business in the ration of their capital contribution.

- ✓ False: In absence of any agreement partners share profits equally and not in capital contribution ratio.

209. Profit sharing ration and capital contribution ratio need not be same.

- ✓ True: Profit sharing can be different from the capital introduced by each of the partner. Not necessary that partner contributing more capital should have higher profit sharing ratio and vice versa.

210. Every partnership firm must register with Registrar of Firms.

- ✓ False: Registration of firms is not compulsory under Indian Contract Act, 1932.

211. A partner can advance loan to the partnership firm in addition to capital contributed by him.

- ✓ True: Where the partnerships deed is absent, then the interest shall be paid at 6% per annum. So the interest on the loan to be paid to the partner.

212. A partner can demand interest on capital even if it not provided in the partnership deed.

- ✓ False: Interest on capital can be paid only if it is provided in the partnership deed.

213. If a partner does not take part in day to day business activities of the firm then he is not entitled to any share of profit.

- ✓ False: Every partner need not take part in the business. Even if a partner does not take part in the business he is entitled for his share of profit.

214. Interest should be paid @ 6% p.a. on partner's loan even if it not provided in the partnership deed.

- ✓ True: Interest of Partnership Deed, interest at the rate of 6% p.a. is to be allowed on a partner's loan to the firm.

215. Husband and wife cannot be partners in the same firm.

- ✓ False: Husband and wife can be partners in the same firm.

216. One senior partner is principal and other partners are his agents.

- ✓ False: There is no senior or junior partner. Every partner is agent/principal of other partners.
217. Partners are the agents of the firm and each other.
- ✓ True: Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.

Treatment of Goodwill in Partnership Accounts

218. Goodwill is intangible asset therefore it cannot be valued.
- ✓ False: Even though Goodwill is intangible asset it can be valued in terms of money.
219. Goodwill is valued whenever there is change in the profit sharing ratio among the partners.
- ✓ True: Goodwill has to be valued every time whenever there is a reconstitution.
220. Goodwill is the value of the reputation of a firm in respect of profits expected in future over and above the normal rate of profits.
- ✓ True: Goodwill is the brand image the firm has in the market due to which it enjoys an advantageous position over the other players in the market.
221. At the time of admission or retirement of a partner, goodwill can be used in the books of accounts and shown as an asset.
- ✓ False: At the time of admission or retirement of a partner, goodwill should not be raised in the books of account of partnership firm because no consideration in money or money worth has been paid for it.
222. Only simple average method can be used for valuation of goodwill.
- ✓ False: Weighted average method, capitalisation method super profits methods also can be used for valuation of Goodwill.
223. Super profit means excess of actual average profit over normal profit.
- ✓ True: Super profit means excess profit that can be earned by the firm over and above the normal profit usually earned by the firm under similar circumstances.
224. Normal profit means profit earned by similar companies in the same industry.
- ✓ True: The rate of return is considered as an average for the industry which is applied to the capital employed in the concerned firm.
225. Normal profit depends upon Normal Rate of Return and past profits.
- ✓ False: Normal profit depends upon normal rate of return only and not on past profits.
226. At the time of admission/retirement of a partner, since goodwill cannot be raised in the books of accounts is recorded through capital accounts of the partners.
- ✓ True: Generally, the goodwill at the time of admission is adjusted through the capital accounts and not shown in the books of the firm.
227. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.

- ✓ *False: Goodwill brought in by new partner is shared by old partners in sacrificing ratio and not equally.*

Admission of a New Partner

228. *A newly admitted partner does not have same rights as old partners.*

- ✓ *False: All the partners have same rights at all times, unless is provided in the partnership deed/or agreed by the partners.*

229. *When a new partner is admitted, old partners have to forego certain share in profits of the fir, this is sacrifice ratio.*

- ✓ *True: With every new partner, remaining old partners have to forego a proportion in their share which is called as sacrificing ratio.*

230. *Revaluation account is also called as Profit and Loss Adjustment Account.*

- ✓ *True: Revaluation is also called as profit and loss adjustment account.*

231. *Any appreciation in the value of an asset is credited to Revaluation Account.*

- ✓ *True: Increase in asset is an income hence credited to revaluation account.*

232. *All the partners may decide not to change the values of assets and liabilities in the books of accounts.*

- ✓ *True: This can be done by opening Memorandum Revaluation Account.*

233. *New partner is entitled to have share in reserves appearing in the balance sheet prior to this admission.*

- ✓ *False: New partner is not entitled to have any share in the reserves of the firm to his admission. Such reserves are distributed to old partners in their old profit sharing ratio.*

234. *If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally.*

- ✓ *False: If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.*

235. *New partner brings necessary amount as his capital.*

- ✓ *True: Every incoming partner shall bring in some amount of capital for the firm.*

236. *New partner is entitled to share in revaluation profit.*

- ✓ *False: New partner is not entitled to profit on revaluation, it belongs to old partners in their old profit sharing ratio.*

Retirement of Partner

237. *Business of a partnership has to be closed if any one of the partners retires.*

- ✓ *False: Business of a partnership is not closed if one of the partners retires, remaining partners continue to carry on the business.*

238. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.
- ✓ False: At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their old profit sharing ratio.
239. After retirement of a partner, profit sharing ratio of continuing partners remains the same.
- ✓ False: After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.
240. If any partner wants to retire from the business, he must retire on 1st Day of the accounting year.
- ✓ False: A partner can retire on any day as per his own wish.
241. Retiring partner has to forego his share of goodwill in the firm.
- ✓ False: Retiring partner is entitled to his share of goodwill in the firm.
242. If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year his date of retirement.
- ✓ False: If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.
243. If the firm has taken any joint life policy then it is to be surrendered at the time of retirement of a partner.
- ✓ True: The firm is eligible for the surrender value on the joint life policy taken on the partners at the time of their retirement.
244. Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio.
- ✓ True: As per the surrender policy method, the JLP reserve is distributed to the partners in their profit sharing ratio through capital account.
245. No revaluation account is necessary on retirement of a partner.
- ✓ False: Revaluation account is necessary on retirement of a partner.
246. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.
- ✓ False: Profit on revaluation is credited to all the partners in their profit sharing ratio.

Death of a Partner

247. Business of partnership comes to an end on death of a partner.
- ✓ False: Surviving partners continue to carry on the business.
248. Legal heir of a deceased partner automatically becomes partner in the firm.
- ✓ False: Legal heirs of deceased partners are entitled to dues of the deceased partner.
249. A revaluation account is opened in the books of accounts on death of a partner.
- ✓ True: To find out the actual values of the assets and liabilities, revaluation account is prepared.

250. Any reserve appearing in the balance sheet on the date of a partner's transferred to all partner's capital account in their profit sharing ratio.

✓ True: Reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.

251. Legal heirs of a deceased partner are entitled to his capital account balance only.

✓ False: Legal heirs of a deceased partner are entitled to all the dues of deceased partner.

252. It is not necessary to adjust goodwill on death of a partner.

✓ False: It is very much necessary to adjust goodwill on death of a partner.

253. On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio.

✓ True: It can be continued in the earlier share or in new share – in either case it leads to computing a new profit sharing ratio.

254. On death of a partner, the firm gets surrender value of the joint life policy.

✓ False: On death of a partner the firm gets full value of sum assured of the joint life policy.

255. Only legal heirs of deceased partner are entitled to amount received from joint life policy.

✓ False: All the partners are entitled to amount received from joint life policy.

Dissolution of a Partnership

256. Books of accounts are closed in dissolution of partnership.

✓ False: Books of accounts are not closed in dissolution of partnership but are closed in case of dissolution of partnership firm.

257. On the dissolution of a partnership, firstly the assets of the firm are realised. Then the amount realized. Is applied first towards repayment of liabilities to outsiders.

✓ True: On the dissolution of a partnership, firstly, the assets of the firm, are realised. Then the amount realised, is applied first towards repayment of liabilities to outsiders and loans taken from partners, afterwards, the capital contributed by partners is repaid.

258. In event of dissolution of the firm, the business ceases to end. In event of dissolution of the partnership, the partnership is reconstituted and the business discontinues.

✓ True: In event of the dissolution of the firm, the business ceases to end. However, in event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.

259. Expenses of dissolution on realization are credited to the realization account.

✓ False: Expense of dissolution on realisation of assets are debited to the realisation account.

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

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

Introduction to Company Accounts

261. Every Public Company is listed company.

✓ False: Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company.

262. Shares of a private company are not listed in a stock exchange.

✓ True: Only the shares of public company are listed on stock exchange, every listed company is a public company.

263. It is not mandatory to incorporate a company under the companies act.

✓ False: It is mandatory to incorporate a company under the Companies Act without such incorporation, a company cannot come into existence.

264. Company is an artificial, legal person created by law.

✓ True: Company is separate legal entity created by law. Death insolvency or change of member does not affect its existence.

265. Death, insolvency or change of members affects the existence of a company

✓ False: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect its existence.

266. If the shares are fully paid up by the shareholders, he is subject to no further liability.

✓ True; Liability of shareholders is limited, to the extent of the unpaid share capital. So, if shares are fully paid up, he is subject to no further liability.

267. Public limited company has restrictions on transferability of shares.

✓ False: Shares of public company are freely transferable. Transferability of shares is restricted statements include profit and loss account, balance sheet.

268. Financial statements of company show the financial position of the business. ★

✓ True: Financial statements give a true and fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet etc.

269. Schedule I gives proforma of Balance Sheet.

✓ False: Schedule III Part I explains proforma of balance sheet.

Issue, Forfeiture and Re-Issue of Shares

270. Liability of a holder of shares is limited to the face value of shares acquired by them.

✓ False: Liability of the holder of shares is limited to the issue price of shares acquired by them.

271. Authorised capital appears in the balance sheet at face value.

✓ True: Authorised capital is the amount of capital mentioned in 'Capital Clause' of the Memorandum of association. Authorised capital is considered only as presentation and not considered in total of balance sheet.

272. The rate of dividend on preference shares may vary from year to year.

✓ False: Rate of preference dividend is always fixed.

273. A company may issue shares at a discount to the public in general.

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

274. Sweat equity shares are those which are issued to employees and directors at a discount.

✓ 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).

275. As per table F, rate of interest on calls in arrears is 12%.

✓ False: As per table F, rate of interest on calls in arrears is 10%.

276. As per table F, rate of interest on calls in advance is 10%.

✓ False: As per table F, rate of interest on calls in advance is 12%.

277. Non-participating preference shareholders enjoy voting rights.

✓ 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.

278. Forfeited shares are available to the company for the purpose of resale.

✓ True: Reissue of forfeited shares is not allotment of shares but only a sale.

279. Loss on reissue should exceed the forfeited amount.

✓ False: Loss on re-issue should not exceed the forfeited amount.

Issue of Debentures

280. Debenture holder are the owners of the company.

✓ False: Debenture holder are the creditors of the company.

281. Perpetual debentures are payable at the time of liquidation of the company.

✓ True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.

282. Registered debentures are transferable by delivery.

✓ False: Registered debentures are not easily transferable by delivery. Bearer debentures are transferable by delivery.

283. When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures.

✓ False: In case the company cannot repay its loan and the interest thereon on the due date, the lender becomes debenture holder and then only he is entitled to interest on debentures.

284. Debentures suspense account appears on liability side of balance sheet.

✓ *False: Debentures suspense account appears on asset side of balance sheet under non-current asset.*

285. *If a company incurs loss, then it does not pay interest to the debenture holders.*

✓ *False: even if the company incurs loss or earns profit, it has to pay the interest on debentures.*

286. *At the time of liquidation, debentures holders are paid off after the shareholders.*

✓ *False: At the time of liquidation, debenture can be converted into equity shares after a certain period of time from the date of its issue.*

287. *Convertible debentures can be converted into equity shares redeemable debentures are not payable during the life time of the company.*

✓ *False: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.*

288. *Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.*

✓ *True: Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.*

Accounting of Bonus Issue and Right Issue

289. *Earning per share gets increased after bonus issue.*

✓ *False: Earnings per share gets decreased after bonus issue.*

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

✓ *False: Issued shares capital including issue of right shares and bonus shares is always less than or equal to Authorised capital.*

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

✓ *True: Rights issue of share results in decrease of market value of per share in comparison to market price before rights issue.*

292. *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.*

✓ *False: 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.*

Redemption of Preference Shares

293. *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.*

- ✓ False: 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.
294. 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.
- ✓ True: 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.
295. The balance in forfeited shares account can be used for transfer to capital redemption reserve account.
- ✓ False: The balance in forfeited shares account cannot be used for transfer to capital redemption reserve account.
296. Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses.
- ✓ True: Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses.

Redemption of Debentures

297. Amounts credited to the debenture redemption reserve may be utilised by the company for any purpose.
- ✓ False: 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.
298. 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).
- ✓ True: 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).
299. Under payment in instalment method, the payment of entire debenture is made in one lot.
- ✓ False: Under payment in instalments method, the payment of specified portion of debentures are made in instalments at specified intervals.
300. At redemption of debentures, DRR should be transferred to general reserve.
- ✓ True: DRR is transferred to general reserve at the time of redemption of debentures.