`

CA- FOUNDATION

ACCOUNTANCY

TRUE/FALSE QUESTIONS

for Practice

(Coverage of 12 marks in exam)

Note for Students:-

True/False questions are asked for 12 marks in CA Foundation Accountancy exam. In general, there are 6 questions of 2 marks each that are part of mandatory Question No. 1 in the exam. This means that you can't avoid practicing these questions if you wish to score well in CA Foundation Accountancy exam. Here we have compiled all True/False questions asked in ICAI exams, ICAI Mock Test Papers and ICAI Revision Test papers. Additionally certain extra questions have been compiled by our faculties from private publications for the benefit of the students.

QUESTIONS FROM ICAI RESOURCES

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

1) Accrual concept implies accounting on cash basis.

Ans. False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

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

Ans. False - The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

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

Ans. False - Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

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

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

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

Ans. True - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

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

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

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

Ans. False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

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

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

9) Receipts and Payments Account highlights total income and expenditure.

Ans. False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

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

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

11) Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment.

Ans. False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

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

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

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

Ans. True: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

14) Consignment account is of the nature of real account.

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

15) The balance in petty cash book represents an asset.

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

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

Ans. True: Because it depicts that one aspect of the double entry has been completed.

17) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

Ans. True: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

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

Ans. True: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

19) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.

Ans. True: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.

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

Ans. True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

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

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

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

Ans. True: In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

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

Ans. True: Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

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

Ans. False: The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.

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

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

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

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

27) In Account Current, Red Ink Interest is treated as negative interest.

Ans. True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.

28) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Ans. False: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

29) Goods worth ` 600 taken by the proprietor for personal use should be credited to Capital Account.

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

30) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

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

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

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

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

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

33) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

Ans. False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

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

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

35) Consignment account is of the nature of real account.

Ans. False: Consignment account is a nominal account

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

Ans. False- The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

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

Ans. False- While calculating the average due date, any transaction date may be taken as the base date.

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

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

39) Net income in case of persons practicing vocation is determined by preparing profit and loss account.
Ans. False: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

40) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
Ans. False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

41) Re-issue of forfeited shares is allotment of shares but not a sale.
Ans. False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

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

43) There are two ways of preparing an account current.
Ans. False: There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.

44) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.
Ans. True: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

45) Interest coverage ratio indicates the firm's ability to pay off current interest and installments.
Ans. False: Interest coverage ratio is computed as Earnings before interest and taxes divided by Interest. This indicates the firm's ability to meet only the interest and other fixed-charges obligations and not instalments.

46) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
Ans. False: Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

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

48) Fees received for Life Membership is a revenue receipt as it is of recurring nature.
Ans. False: Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

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

Ans. **True:** The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.

50) Inventory Turnover Ratio is also known as Stock Turnover Ratio.

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

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

Ans. **False:** To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

52) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

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

53) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.

Ans. **False:** If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

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

Ans. **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

55) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

Ans. **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

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

Ans. **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

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

Ans. **False:** The relationship between sales and fixed assets is expressed as fixed assets turnover ratio.

ADDITIONAL QUESTIONS FOR PRACTICE

CHAPTER-1 MEANING AND SCOPE OF ACCOUNTING

Q1. Capital is all assets less fictitious assets.

Ans. False: Capital is all assets less fictitious assets less external liabilities.

Q2. Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

Ans. False: Because Accounting Equation is:

Capital + Long Term Liabilities + Current Liabilities = Fixed Assets + Current Assets

Q3. Equity +LTL-CL = FA+CA

Ans. False: The basic accounting equation is: Equity +LTL +CL= FA +CA

CHAPTER-2 ACCOUNTING CONCEPTS, PRINCIPLES & CONVENTIONS

Q1. Prudence is a concept to recognize unrealized profits and not losses.

Ans. False: Prudence is a concept to recognize future or anticipated losses and not profits.

Q2. As per AS-1, Fundamental Accounting Assumptions are Going Concern, Full Disclosure and Accrual Concept.

Ans. False: As per AS-1, Fundamental Accounting Assumptions are Going Concern Concept, Consistency and Accrual Concept.

Q3. The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle.

Ans. True: The financial statement must disclose all the relevant and reliable information to comply with AS-1 Disclosure of Accounting Policies.

Q4. Accrual concept implies accounting on cash basis.

Ans. False: Accrual concept implies accounting on 'accrual' basis not on cash basis.

Q5. As per Concept of C~mservatism, the accountant should provide for all possible losses, but should not anticipate income.

Ans. True: As per Concept of Conservatism, the accountant should provide for all possible losses, but should not anticipate income.

Q6. The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions.

Ans. True: The economic life of an enterprise is artificially split into periodic intervals in accordance with the accounting period concept. The going concern assumption states that an enterprise will continue its operation for indefinite period of time.

CHAPTER-6 CAPITAL AND REVENUE EXPENDITURE

Q1. Lease premium will be ti'eated as revenue expenditure.

Ans. False: Lease premium is a capital expenditure.

Q2. Amount received by the issue of debentures is a capital receipt.

Ans. True: Money received by way of issue of shares or debentures by a company is a capital receipt.

Q3. Capital expenditure is done to restore the efficiency of an asset.

Ans. False: Capital expenditure is done to improve the efficiency of an asset.

Q4. Revenue loss is not the same thing as Revenue expenditure.

Ans. True: Revenue expenditure is incurred to receive a benefit during a current year. Revenue loss occurs in the normal course of business and provides no benefit.

Q5. Any expenditure which increases the value of fixed assets is termed as capital expenditure.

Ans. True: Expenditure that is done in connection with the acquisition of fixed assets or which leads to the increment in the value of fixed assets are classified under capital expenditure.

Q6. Preliminary expenses are classified under deferred revenue expenditure.

Ans. True: Preliminary expenses are treated as deferred revenue expenditure as these can be written off over a maximum of 4-5 years. Though according to AS 26, Preliminary expenses spent in the incorporation of a company should be written off in the year it is incurred.

Q7. Wages paid to workers for erecting machines will be treated as revenue expenditure.

Ans. False: Expenditure done in connection with the erection of machines is an example of capital expenditure.

Q8. Any heavy expenditure of revenue nature the benefit of which will be availed over a numbers of years can be classified as capital expenditure.

Ans. False: The expenditure of this kind will be termed as Deferred revenue expenditure.

Q9. Capital receipts are either shown as an increase in liabilities or as a reduction in the value of assets.

Ans. True: Capital receipts are shown in the balance sheet as an increase in liabilities or as reduction in the value of assets.

Q10. Money spent to reduce working expenses is treated as capital expenditure.

Ans. True: Any expenditure that reduces the working expenses will be treated as capital expenditure.

Q11. Interest paid on purchase of an asset in all cases, will be treated as capital expenditure.

Ans. False: Such expenditure is classified under the head of capital expenditure if it is paid during the production/ construction period. The expenditure will be treated as revenue after the asset is put to use.

Q12. Amount spent on experimenting which did not result in success will be treated as capital loss.

Ans. False: It will be considered as a deferred revenue expenditure so that the burden of loss is shifted over a number of years.

Q13. A building of book value Rs. 45,000 got demolished and a new building having a book value Rs. 17;00,000 was constructed. Thus, Rs. 45,000 is a revenue loss and Rs. 17,00,000 is a capital receipt.

Ans. False: Rs. 45,000 is a revenue loss but Rs. 17,00,000 is a capital expenditure.

Q14. Repairs amount spent on second hand machine, purchased recently, before using it will be treated as capital expenditure.

Ans. True: Overhaul expenses (repairs) incurred to put a second hand machine in useable condition to derive its benefit for future periods is a capital expenditure.

Q15 *t* 10 lakhs were spent on the construction of a mess hall for the welfare of the employees. *t* 6 lakhs were received from the government as a grant. In this case Rs. 4 lakhs will be treated as capital expenditure and *t* 6 lakhs as capital receipt.

Ans. False: Rs. 10,00,000 will be treated as capital expenditure since it is spent on the construction of the mess hall, though the amount has been received as a grant.

Q16. Amount spent in connection with the issue of capital should he considered as a capital expenditure, but legal expenses spent in connection with the issue of capital shall be considered as revenue expenditure.

Ans. False: Legal expenses incurred on the issue of capital will be treated as capital expenditure.

Q17. Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

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

Q18. Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.

Ans. False: Overhauling expenses incurred for the engine of a motor car to derive better fuel efficiency will reduce the running cost, so this is a capital expenditure.

CHAPTER-7 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Q1. Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as contingent liability.

Ans. False: Present iiability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as provision.

Q2. In the financial statement, contingent liability is recognized.

Ans. False: In the financial statement, contingent liability is not recognized.

Q3. If an inflow of economic benefits is probable then a contingent asset is disclosed in the financial statements.

Ans. False: If an inflow of economic benefits is probable then a contingent asset is disclosed in the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).

Q4. Contingent asset usually arises from unplanned or unexpected events that give rise to the possibility of an outflow of economic benefits to the business entity.

Ans. False: Contingent asset usually arises from unplanned or unexpected events that give rise to the possibility of an inflow of economic benefits to the business entity.

CHAPTER-8 Accounting Process (Journal, Ledger, Trial Balance, Cash Book, Subsidiary Books)

Q1. Wages paid for erection of machinery is debited to Profit and Loss Account.

Ans. False: Wages paid for erection is a capital expenditure, so it should be debited to the machinery account.

Q2. The balance in the cash book shows net income.

Ans. False: The balance in the cash book shows cash in hand at the end of the period.

Q3. The debts written off as bad, if recovered subsequently are credited to Debtors Account.

Ans. False: The debts written off as bad, if recovered subsequently, shall be credited to Bad Debts Recovered Account.

Q4. The sales day book is a part of the ledger.

Ans. False: The sales day book is a book of prime entry and so it is part of journal.

Q5. Patent right is in the nature of nominal account.

Ans. False: Patent- right is an intangible asset, so it is a real account.

Q6. Goods costing Rs. 600 taken by the proprietor for personal use should be credited to Sales Account.

Ans. False: Goods taken by the proprietor for personal use should be credited to Purchase Account at a cost price of Rs. 600.

Q7. If a cheque received is further endorsed, it must be entered on both sides of the cash book.

Ans. True: The cash book is debited in cash column when the cheque is received and itis credited when it is endorsed.

Q8. Rent paid account is Nominal Account whereas, rent received account is a Real Account.

Ans. False: Rent paid and rent received-both are nominal accounts because they are expenses and incomes of the business.

Q9. A tallied Trial.balance is a conclusive proof of accuracy of books of account.

Ans. False: Agreement of trial balance is not a conclusive proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not affect the total of trial balance.

Q10. Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper.

Ans. True: All the Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper because these are not recorded in any other subsidiary book.

Q11. Sale of office furniture should be credited to Sales Account.

Ans. False: Sale of office furniture is a capital receipt, so it should be credited to Furniture Account.

Q12. The balance in the Petty Cash Book represents expenses.

Ans. False: The balance in the Petty Cash Book represents petty cash balance lying with the Petty cashier. It is treated as an asset of the business.

Q13. The purchase day book is a part of the ledger.

Ans. False: Purchase day book is a book of original entry and so it is a part of journal.

Q14. In a Cash Book, Discount Columns may show either debit balance or credit balance.

Ans. False: Discount Columns of a Cash Book are totalled but never balanced. These are totalled and transferred to Discount Allowed and Discount Received Account respectively.

Q15. Purchase book records all purchases of goods.

Ans. False: Purchase book records only credit purchases of goods.

Q16. The Sales book is kept to record all sales.

Ans. False: The Sales book is kept to record only the credit sales of goods.

Q17. The debit notes issued are used to prepare sales return book.

Ans. False: The credit notes are used to prepare sales return book.

Q18. Bank column of the cash book will show only a debit balance.

Ans. False: Bank column of the cash book may show debit or credit balance.

CHAPTER-9 BANK RECONCILIATION STATEMENT

Q1. The interest charged by Banker to customer on overdrawn account is called Red ink interest.

Ans. False: Interest charged by banker to customer on overdrawn account is called 'interest on overdraft'.

Q2. Bank reconciliation statement is prepared to arrive at the bank balance.

Ans. False: Bank reconciliation statement is prepared to reconcile the differences between bank balance as per cash book and balance in bank statement.

Q3. Interest charged by the bank will be deducted, when the overdraft as per the cash book is the starting point for making the bank reconciliation statement.

Ans. False: Interest charged by the bank will be added because it will increase the overdraft as shown by the cash book.

Q4. If the balance as per cash book and pass book are the same, there is no need to prepare a reconciliation statement.

Ans. False: Bank reconciliation statement is prepared to find out the reasons of difference in cash book and pass book even if the balance as per cash book and pass book are same.

CHAPTER-10 BILLS OF EXCHANGE

Q1. Salary paid to Ram will be debited to Ram's Personal account.

Ans. False: Because salary paid to Ram will be debited to Salaries account as an expense of the business.

Q2. A promissory note can be made payable to the bearer.

Ans. False: A promissory note cannot be made payable to the bearer. It is payable to or to the order of a certain person.

Q3. No cancellation entry is required when a bill is renewed.

Ans. False: When the bill is renewed, entries are passed for cancellation of the old bill and for recording of the new bill.

Q4. At the time of Renewal of a bill, Interest account is debited in the books of a drawee.

Ans. True: At the time of Renewal of a bill, interest account is debited in the books of a drawee as it represents an expense for him.

Q5. A bill given to a creditor is called bills payable.

Ans. True: A bill given to a creditor is called Bills Payable.

Q6. A has drawn a bill on B. B accepts the same and endorses the bill to C.

Ans. False: B cannot endorse the bill to C because he is a drawee. Only A, the drawer can do it.

Q7. Refusal by the acceptor to make payment of the bill on the maturity date is called Retirement of the bill.

Ans. False: Refusal by the acceptor to make payment of the bill on the maturity date is called dishonour of the bill. Early payment of the bill is known as the Retirement of the bill.

Q8. Promissory Note requires acceptance

Ans. False: Promissory note does not require acceptance, only bills receivable require acceptance.

Q9. Cancelling old bill and drawing new bill is called renewal of bill.

Ans. True: When the acceptor of a bill fails to pay on the due date, a new bill may be drawn on him after cancellation of the old bill. This is known as renewal of a bill.

Q10. Discount at the time of retirement of a bill is a gain for the drawee.

Ans. True: Discount at the time of retirement of a bill is a gain for the drawee.

CHAPTER-11 RECTIFICATION OF ERRORS

Q1. Rectifying errors in subsequent accounting period always affect the profit or loss of that period.

Ans. False: Rectifying errors in subsequent accounting period related to Personal & Real Accounts will not affect the profit of that period.

Q2. Errors of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.

Ans. True: Recording the transaction in an incorrect fundamental manner is an error of principle.

Q3. Wrong casting of subsidiary books does not affect the trial balance.

Ans. False: Wrong casting of subsidiary books affects the trial balance because wrong total will be posted to its account and then to the trial balance.

Q4. If the amount is posted in the wrong account or it is written on the wrong side of an account, it is called an error of commission.

Ans. True: Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.

Q5. Under or over-casting of a subsidiary book is an example of error of commission.

Ans. True: Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.

Q6. Any type of error affects the agreement of trial balance.

Ans. False: Every error does not affect the agreement of trial balance because Errors of Principle, Compensating errors etc. do not affect the agreement of trial balance.

Q7. Purchase of office furniture has been debited to general expenses account. It is a compensating error.

Ans. False: It is an error of principle because here an item of capital nature is treated as an item of revenue nature.

Q8. Errors of complete omission will be located, if trial balance is prepared.

Ans. False: Errors of Complete omission cannot be located because both debit and credit aspects of an entry are not recorded and hence it will not affect trial balance.

Q9. Errors of principle will affect trial balance.

Ans. False: Errors of principle will not affect trial balance because both the aspects (debit & credit) of a transaction are recorded with correct figures.

Q10. Error of carry-forward of totals of purchase journal affects two accounts.

Ans. False: It will affect one account i.e. purchases account so it will affect the total of trial balance.

Q11. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

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

CHAPTER-12 INVENTORY VALUATION

Q1. Damaged inventory should be valued at cost or market price, whichever is lower.

Ans. False: Damaged inventory should be valued at net realizable value only.

Q2. Finished goods are normally valued at cost or market price whichever is higher.

Ans. False: As per AS-2, finished goods are normally valued at cost or net realizable value whichever is lower.

Q3. The inventory under AS-2 is valued on the basis of cost price or current replacement cost, whichever is less.

Ans. False: As per AS-2, Valuation of Inventories, inventory is valued at the lower of cost and net realizable value.

CHAPTER-13 DEPRECIATION

Q1. Land is also a depreciable asset.

Ans. False: Land is not a depreciable asset because it does not qualify for depreciation as per AS-10.

Q2. Depreciation is a cash expenditure like other normal expenses.

Ans. False: Depreciation is a non-cash expenditure because it does not involve any cash outflow.

Q3. Depreciation is an amortised expenditure.

Ans. True: Depreciation is charged on value of fixed asset over its useful life. So, by way of depreciation any capital expenditure is amortised over its useful life.

Q4. Depreciation cannot be provided in case of loss, in a financial year.

Ans. False: Depreciation is a charge against profit so it has to be provided for whether there is a profit or loss in a financial year of the business.

Q5. Depreciable amount refers to the difference between historical cost and the market value of an asset.

Ans. False: Depreciable amount refers to historical cost less salvage value.

Q6. Depreciation is a non-cash expense and does not result in any cash outflow.

Ans. True: Depreciation is a non cash expense and there is no outflow of cash in the business.

CHAPTER-14 SALE ON APPROVAL BASIS

Q1. Sales or Return Account in the Sale or return ledger represents the value of goods still lying with the customers for approval.

Ans. True: The balance of Sale or Return Account in Sale or Return ledger represents the value of goods lying with the customers who have neither returned nor intimated for goods till date.

CHAPTER-15 FINAL ACCOUNTS

Q1. Profit and loss account shows the financial position of the concern.

Ans. False: Profit and loss account shows the profit or loss of a concern for a particular accounting period.

Q2. Profit and loss account is a point statement whereas a balance sheet is a period statement.

Ans. False: A profit and loss account is a period statement and a balance sheet is a point statement.

Q3. The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors.

Ans. False: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.

Q4. The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.

Ans. True: The profit on sale of capital assets should not be added to ascertain the net operating profit of a business.

Q5. Under the 'liquidity approach' assets which are most liquid are presented at the bottom of the balance sheet.

Ans. False: Under the 'liquidity approach' assets which are most liquid are presented first, like, cash & cash equivalents.

Q6. The proprietor of a shop feels that he has made a loss due to closing stock being zero.

Ans. False: Only closing stock is not taken in the calculation of the profits of a business.

Q7. Closing stock will never appear in the trial balance.

Ans. False: Closing stock may appear in the trial balance if an adjusting entry relating to closing stock has already been passed and adjusted purchases are given in trial balance.

Q8. If Closing Stock appears in the Trial Balance:

The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.

Ans. True: If closing stock appears in the Trial balance it indicates that it is already been adjusted with the purchase and will be shown in the Balance Sheet only.

CHAPTER-16 CONSIGNMENT ACCOUNTS

Q1. The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

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

Q2. The relationship between consignor and consignee is that of principal and agent.

Ans. True: The relationship between consignor and consignee is that of principal and agent.

Q3. In consignment, the goods are dispatched on the basis that the goods will be sold on behalf of, at the expense of and at the risk of the consignee.

Ans. False: In a consignment business, goods are generally sold on behalf of, at the expense of and at the risk of the consignor as per its basic characteristic.

Q4. Account sales is the statement sent by the consignor to the consignee.

Ans. False: Account sales is a statement sent by the consignee to consignor, showing the information of sales expenses incurred on behalf of the consignor, the commission earned by the consignee, any advance given to the consignor and the balance due to the consignor.

Q5. Loss of stock is said to be normal loss when such loss is not due to inherent characteristics of the commodities.

Ans. False: Loss due to inherent characteristics of goods is treated as normal loss.

Q6. Loss of stock is said to be abnormal loss when such loss is due to inherent characteristics of the commodities.

Ans. False: Loss incurred by accidents like loss by fire, loss by theft, abnormal spoilage etc., is treated as abnormal loss.

Q7. If the consignee is not authorized to get the del-credere commission, then he is liable for all losses on account of non-recovery of debts.

Ans. False: If the consignee is not authorized to get the del-credere commission, then he is not responsible for any losses on account of non-recovery of debts.

Q8. Consignee has no right in the profit on goods sent on consignment.

Ans. True: The consignee being an agent is entitled for commission only and not for share in profit.

Q9. If Del-credere commission is paid to consignee, the loss of bad debts is to be borne by the consignor.

Ans. False: If Dcl-crcdere con1mission is paid to consignee, then loss of bad debts will be borne by consignee only.

CHAPTER-17 PARTNERSHIP

Q1. A partner who devotes more time to a business than other partners is entitled to get a salary.

Ans. False: No partner is entitled for salary unless it is provided for in the partnership deed.

Q2. Partners can share profits or losses in their capital ratio, when there is no agreement.

Ans. False: If there is no agreement profits or losses are to be shared equally among the partners.

Q3. The business of partnership firm must be carried on by all the partners.

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

Q4. Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio.

Ans. False: When a new partner brings in cash for goodwill, it is taken away by the old partners in their sacrificing ratio.

Q5. Goodwill is fictitious asset.

Ans. False: Goodwill is an intangible asset.

Q6. Goodwill is in the nature of personal account.

Ans. False: Goodwill is an intangible asset so it is in nature of real account.

Q7. If a partner retires, then other partners have a gain in their profit sharing ratio.

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

Q8. Minor can be admitted to the benefits of LLP.

Ans. False: Minor cannot be admitted to the benefits of LLP.

Q9. The objective of taking a joint life policy by the partnership firm is to secure the lives of the existing partners of the firm.

Ans. False: The objective of taking a joint life policy is to enable the firm to make payment to the legal representatives of a deceased partner or to the retiring partner.

Q10. LLP has no separate legal entity.

Ans. False: LLP has separate legal entity.

Q11. LLP Partners act as agents of LLP and other partners.

Ans. False: LLP Partners act as agents of LLP and not of other partners.

Q12. When there is no partnership deed prevails, the interest on loan of a partner to be paid@ 6%.

Ans. True: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

CHAPTER-18 AVERAGE DUE DATE

Q1. If payment is made on average due date, it results in loss of interest to creditors.

Ans. False: Average due date results in.no loss to any party i.e. debtor or creditor.

Q2. Average due date is the median average of several due dates for payments.

Ans. False: Average due date is mean date of several due. dates for payments.

Q3. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

Ans. False: While calculating the average due date, any date may be taken as the base date.

CHAPTER-19 ACCOUNT CURRENT

Q1. In Account Current, red-ink interest is treated as negative interest.

Ans. True: Red-ink interest is treated as negative interest.

Q2. There are two ways of preparing an account current.

Ans. False: There are three ways of preparing an Account Current: (i*)* With help of interest table; (*ii)* By means of products and (*iii)* By means of products of balances.

CHAPTER-20 NOT FOR PROFIT ORGANIZATION

Q1. Scholarship granted to students out of funds provided by Government will be debited to Income & Expenditure Account.

Ans. False: The Scholarship granted to students should be deducted from the funds provided by the Government for the same purpose in the Balance Sheet.

Q2. Receipts and Payments Account is a summary of all capital receipts and payments.

Ans. False: Receipts and Payments Account is a summary of all cash or bank receipts and payments whether they are of capital or revenue in nature.

Q3. If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account.

Ans. False: Expenses incurred on sports activities will be deducted from sports fund only.

Q4. Receipts and Payments Account highlights total income and expenditure.

Ans. False: Receipts and Payments Account is a summary of all cash or bank receipts and payments whether they are of capital or revenue in nature.

Q5. Only revenue items are disclosed in Income and Expenditure account.

Ans. True: Income and Expenditure Account is prepared to find out surplus/ deficit. Hence, only revenue items are shown in the Income and Expenditure Account. Thus, capital expenditures are not shown in Income & Expenditure Account.

Q6. Fees received for Life Membership is a revenue receipt as it is of recurring nature.

Ans. False: Life membership fee received for the life membership is a capital receipt because it is of non-recurring nature.

CHAPTER-21 SHARES

Q1. Reserve Capital and Capital Reserve carry the same meaning.

Ans. False: Reserve Capital refers to that portion of uncalled up share capital which shall not be capable of being called up except in the event of winding up. Capital Reserve is a reserve which is created out of capital profits.

Q2. As per Table F, the Minimum rate of interest that can be charged on calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.m. and 12% p.m. respectively.

Ans. False: As per Table F, the maximum rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.a. and 12% p.a. respectively.

Q3. Re-issue of forfeited shares is allotment of shares but not a sale.

Ans. False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

CHAPTER-22 DEBENTURES

Q1. Debenture Redemption Premium Account and Discount on issue of debentures Account are Nominal Accounts.

Ans. False: Debenture Redemption Premium Account is a Personal Account but Discount on issue of Debentures Account is a Nominal Account.

Q2. Now Debentures can be issued at Par/Premium but not at discount.

Ans. False: Debentures can be issued at Par /Premium/ discount since there are no restrictions on issue of debentures at discount.

Q3. Like Shares a Company can issue debentures with voting rights.

Ans. False: A Company cannot issue debentures with voting rights.

CHAPTER-23 FINANCIAL STATEMENT OF COMPANIES (SCHEDULE III)

Q1. Maximum number of members in case of private company is 50.

Ans. False: Maximum number of members in case of private company is 200.

Q2. While drafting the balance sheet of a company bills receivables are shown under the head Other Current Assets.

Ans. False: While drafting the balance sheet of a company bills receivables are shown under the sub-head Trade receivables.

Q3. When duration of operating cycle cannot be identified, it is assumed of 12 months.

Ans. True: Normally operating cycle is less than or more than 12 months in any business but when it is difficult to identify the duration of operating cycle of any business it is assumed as of 12 months.

Q4. Securities premium received by a company is added to share capital while preparing the balance sheet of a company.

Ans. False: Securities premium is not added to share capital but is shown under the sub-head Reserves and Surplus.

Q5. It 'is mandatory for a company to deduct provision for bad and doubtful debts from trade receivables.

Ans. False: It is not mandatory for any company to deduct provision for bad and doubtful debts from trade receivables. A company may show their provision under the sub-head of short term provisions in the head of current liabilities as per their choice.

Q6. A company registered under Companies Act, 2013 in India may prepare its balance sheet in horizontal form only.

Ans. False: A company registered under Companies Act, 2013 in India must prepare its balance sheet in vertical format only as stated in schedule III.