

Question-1

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

- 1) The concepts of conservatism when applied to the Balance Sheet results in understatement of assets.
- 2) 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.
- 3) Current Account and Account Current are one and the same.
- 4) 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.
- 5) On death of a partner, the firm gets surrender value of the joint life policy.
- 6) Company A is incurring huge losses, the Board of Directors are of the opinion that in case of losses, there is no need to pay interest on debenture holders.

Answers:

- 1) True: Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.
- 2) 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.
- 3) False: Account current statement is running transaction between two parties to ascertain the amount payable along with interest. A Current Account is an account type to be maintained with the bank. In both the cases interest is calculated, with the help of different methods.
- 4) 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.
- 5) False: On the death of a partner, the firm receives full value of the sum assured of the joint life policy.

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

Question-2

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

- 1) Accrual concept implies accounting on cash basis.
- 2) The Sales book is kept to record both cash and credit sales.
- 3) Bank reconciliation statement is prepared to arrive at the bank balance.
- 4) Finished goods are normally valued at cost or market price whichever is higher.
- 5) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- 6) Discount at the time of retirement of a bill is a gain for the drawee.
- 7) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
- 8) Partners can share profits or losses in their capital ratio, when there is no agreement.
- 9) Receipts and Payments Account highlights total income and expenditure.
- 10) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
- 11) Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long-term investment.

Answers:

- 1) 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) 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) 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) False - Finished goods are normally valued at cost or net realizable value whichever is lower.
- 5) 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) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 7) False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietor's capital.
- 8) 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) 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) False - Debenture interest is payable before the payment of any dividend on shares.
- 11) 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.

Question-3

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

- 1) Net income in case of persons practicing vocation is determined by preparing profit and loss account.
- 2) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.
- 3) Consignment account is of the nature of real account.
- 4) The balance in petty cash book represents an asset.

- 5) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
- 6) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.
- 7) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.
- 8) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.

Answers:

- 1) False: Net income is determined by preparing income and expenditure in case of persons practicing vacation.
- 2) 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.
- 3) False: Consignment account is a nominal-cum-personal account.
- 4) True: The balance represents the cash physically in existence and is therefore an asset.
- 5) True: Because it depicts that one aspect of the double entry has been completed.
- 6) 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.
- 7) 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.
- 8) 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.

Question-4

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

- 1) The results and position disclosed by final accounts are not exact.
- 2) The rationale behind the opening of a suspense account is to tally the trial balance.
- 3) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

- 4) Accounting can be viewed as an information system which has its input processing methods and output.
- 5) The value of human resources is generally shown as assets in the Balance Sheet.
- 6) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- 7) The debit notes issued are used to prepare Sales Return Book.
- 8) In Account Current, Red Ink Interest is treated as negative interest.
- 9) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Answers:

- 1) True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.
- 2) False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.
- 3) 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.
- 4) 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.
- 5) False: The value of human resources cannot be measured in monetary terms; thus, it will not be shown in the balance sheet.
- 6) True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- 7) False: The debit notes issued are used to prepare purchases return book.
- 8) 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.

- 9) 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.

Question-5

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

- 1) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
- 2) 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.
- 3) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
- 4) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
- 5) 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.

Answers:

- 1) 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.
- 2) 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.
- 3) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- 4) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

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

Question-6

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

- 1) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
- 2) Re-issue of forfeited shares is allotment of shares but not a sale.
- 3) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- 4) There are two ways of preparing an account current.
- 5) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.
- 6) 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.
- 7) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Answers:

- 1) 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.
- 2) 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.
- 3) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- 4) 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.
- 5) 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.

- 6) 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.
- 7) 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.

Question-7

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

- 1) Accrual concept implies accounting on cash basis.
- 2) The Sales book is kept to record both cash and credit sales.
- 3) Bank reconciliation statement is prepared to arrive at the bank balance.
- 4) Finished goods are normally valued at cost or market price whichever is higher.
- 5) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- 6) Discount at the time of retirement of a bill is a gain for the drawee.
- 7) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
- 8) Partners can share profits or losses in their capital ratio, when there is no agreement.
- 9) Receipts and Payments Account highlights total income and expenditure.

Answers:

- 1) 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) 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) 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) False - Finished goods are normally valued at cost or net realizable value whichever is lower.
- 5) 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) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 7) False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietor's capital.
- 8) 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) 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.

Question-8

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

- 1) Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.
- 2) All the personal & real accounts are recorded in P&L A/c.
- 3) Amount spent on the replacement of worn-out part of machine is Capital Expenditure.
- 4) When closing inventory is overstated, net income for the accounting period will be understated.
- 5) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
- 6) Goodwill is intangible asset therefore it cannot be valued.
- 7) Interest on calls in arrears is payable by company to shareholders.

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- 8) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
- 9) Debenture holders enjoy the voting rights in the company.

Answers:

- 1) True: the trade discount is to be deducted from the total value of ₹ 75,800. The amount paid in cash includes cash purchases and only the credit purchase will be shown in the purchases book- 36,005 (72,010 x 50%).
- 2) False: All the personal & real account are recorded in balance sheet.
- 3) False: Amount spent for replacement of any worn-out part of a machine is revenue expense since it is a part of its maintenance cost.
- 4) False: When closing inventory is overstated, net income for the accounting period will be overstated.
- 5) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- 6) False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
- 7) False: Interest on calls in arrears is payable by shareholders to company.
- 8) False: It shall be disclosed as a current liability in the opening balance sheet.
- 9) False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

Question-9

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

- 1) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.
- 2) The rationale behind the opening of a suspense account is to tally the trial balance.
- 3) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- 4) A partnership firm can acquire fixed assets in the name of the firm.
- 5) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

- 6) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- 7) The debit notes issued are used to prepare Sales Return Book.
- 8) Bills receivable and bills payable books are type of subsidiary books.
- 9) The results and position disclosed by final accounts are not exact.

Answers:

- 1) 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.
- 2) False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.
- 3) 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.
- 4) False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.
- 5) False: It shall be disclosed as a current liability in the opening balance sheet.
- 6) True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- 7) False: The debit notes issued are used to prepare purchases return book.
- 8) True: Yes, they are types of subsidiary books which is alternate to the journals.
- 9) True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

Question-10

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

- 1) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.
- 2) Sale of office furniture should be credited to Profit and Loss Account.

- 3) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
- 4) A partnership firm can acquire fixed assets in the name of the firm.
- 5) Debenture holders enjoy the voting rights in the company.

Answers:

- 1) True: The profit on sale of capital assets should not be added to revenue to ascertain profit since it has not been earned due to normal business operations.
- 2) False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.
- 3) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del-credere commission.
- 4) False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.
- 5) False: Debenture holders do not enjoy voting rights in company.

Question-11

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

- 1) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- 2) The debit notes issued are used to prepare Sales Return Book.
- 3) Bank reconciliation statement is prepared to arrive at the bank balance.
- 4) If Closing Stock appears in the Trial Balance then the closing inventory is not entered in Trading Account. It is shown only in the balance sheet.
- 5) Depreciation is a non-cash expense and does not result in any cash outflow.
- 6) Discount at the time of retirement of a bill is a gain for the drawee.
- 7) 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.
- 8) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
- 9) Partners can share profits or losses in their capital ratio, when there is no agreement.
- 10) Fees received for Life Membership is a revenue receipt as it is of recurring nature .

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

Answers:

- 1) True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- 2) False: The debit notes issued are used to prepare purchases return book.
- 3) 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) 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.
- 5) 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.
- 6) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 7) 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.
- 8) False: Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietor's capital.
- 9) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- 10) 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.
- 11) False: Debenture interest is payable before the payment of any dividend on shares.

Question-12

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

- 1) Prior period items need not be separately disclosed in the current statement of profit and loss.
- 2) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.
- 3) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- 4) The sale value of by-product is credited to Trading Account.
- 5) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.
- 6) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.
- 7) Net income in case of persons practicing vocation is determined by preparing profit and loss account.
- 8) "Listed company" means a company which has its securities only listed with National stock exchange.
- 9) Partners can share profits or losses in their capital ratio, when there is no agreement.

Answers:

- 1) False: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived
- 2) 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.
- 3) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- 4) False: The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

- 5) 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.
- 6) 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.
- 7) False: Net income is determined by preparing income and expenditure in case of persons practicing vacation.
- 8) False: As per Section 2 (52) of the Companies Act, 2013, "listed company" means a company which has any of its securities listed on any recognised stock exchange.
- 9) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

Question-13

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

- 1) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
- 2) M/s Raj Yog & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 25 to 28. The total expenditure incurred was ₹ 50,000 and was treated as a revenue expenditure.
- 3) 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.
- 4) Depreciation is a non-cash expense and does not result in any cash outflow.
- 5) There are two ways of preparing an account current.
- 6) The additional commission paid to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
- 7) A Partnership firm cannot own any Assets.
- 8) Goodwill is intangible asset therefore it cannot be valued.
- 9) Fees received for Life Membership is a revenue receipt as it is of recurring nature.

- 10) 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.

Answers:

- 1) False: Goods taken by the proprietor for personal use should be credited to Purchases Account since less goods are left in the business for sale.
- 2) False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, this renovation expense is capital expenditure in nature.
- 3) 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".
- 4) True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow.
- 5) 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.
- 6) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- 7) True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.
- 8) False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
- 9) 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.
- 10) False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received towards nominal value on shares forfeited.

Question-14

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

- 1) A concern proposes to discontinue its business from December 2023 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st

December, 2023 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.

- 2) The Sales book is kept to record both cash and credit sales.
- 3) Bank reconciliation statement is prepared to arrive at the bank balance.
- 4) Damaged Inventory should be valued at cost or market price, whichever is lower.
- 5) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- 6) Discount at the time of retirement of a bill is a gain for the drawee.
- 7) A withdrawal of cash from the business by the proprietor for personal use should be charged to profit and loss account as an expense.
- 8) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.
- 9) Where a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.
- 10) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
- 11) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend

Answers:

- 1) False: If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.
- 2) False: The Sales book is a register especially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.
- 3) 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) False: Damaged Inventory should be valued at net releasable value.
- 5) 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) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 7) False: Cash withdrawal for personal use by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.
- 8) False: In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- 9) True: Where in case of a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.
- 10) True: According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs
- 11) False: Debenture interest is payable before the payment of any dividend on shares.

Question-15

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

- 1) Accrual concept implies accounting on cash basis.
- 2) The Sales book is kept to record both cash and credit sales.
- 3) Bank reconciliation statement is prepared to arrive at the bank balance.
- 4) The provision for bad debts is debited to sundry debtors account.
- 5) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
- 6) Discount at the time of retirement of a bill is a gain for the drawee.
- 7) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

- 8) Partners can share profits or losses in their capital ratio, when there is no agreement.
- 9) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.
- 10) A fixed charge generally covers all the assets of the company including future one.

Answers:

- 1) 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) 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) 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) False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.
- 5) True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.
- 6) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 7) True: According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained.
- 8) 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) True: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.
- 10) False: A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

Question-16

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

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- 1) 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.
- 2) Accrual concept implies accounting on cash basis.
- 3) Finished goods are normally valued at cost or market price whichever is higher.
- 4) Discount at the time of retirement of a bill is a gain for the drawee.
- 5) Partners can share profits or losses in their capital ratio, when there is no agreement.
- 6) Receipts and Payments Account highlights total income and expenditure.

Answers:

- 1) 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.
- 2) 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.
- 3) False - Finished goods are normally valued at cost or net realizable value whichever is lower.
- 4) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 5) False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- 6) False- Receipts & payments account is a classified summary of cash receipts & payments over a certain period together with cash and bank balances at the beginning and close of the period.

Question-17

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

- 1) 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.
- 2) Discount at the time of retirement of a bill is a gain for the drawee.

- 3) Receipts and Payments Account highlights total income and expenditure.
- 4) $\text{Capital} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} + \text{Cash} - \text{Current Liabilities}$.
- 5) Partners can share profits or losses in their capital ratio, when there is no agreement.
- 6) Accrual concept implies accounting on cash basis.

Answers:

- 1) 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.
- 2) True - Discount at the time of retirement of a bill is a gain for drawee and loss for the drawer.
- 3) False- Receipts & payments account is a classified summary of cash receipts & payments over a certain period together with cash and bank balances at the beginning and close of the period.
- 4) 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 $\text{Equity} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}$
- 5) False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- 6) 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.

Question-18

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

- 1) The balance in petty cash book represents an asset.
- 2) Finished goods are normally valued at cost or market price whichever is higher.
- 3) Subscriptions received for current year shall be shown in the balance sheet as a current asset.

- 4) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
- 5) Discount at the time of retirement of a bill is a gain for the drawee.
- 6) Bills receivable and bills payable books are type of subsidiary books.

Answers:

- 1) True - The balance represents the cash physically in existence and is therefore an asset.
- 2) False - Finished goods are normally valued at cost or net realizable value whichever is lower.
- 3) False - Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.
- 4) False - When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
- 5) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 6) True - Yes, they are types of subsidiary books which is alternate to the journals.

Question-19

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

- 1) The concept of conservatism when applied to the balance sheet results in understatement of assets.
- 2) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- 3) Discount at the time of retirement of a bill is a gain for the drawee.
- 4) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.
- 5) 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.

- 6) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

Answers:

- 1) True - Conservatism states that the accountant I entity should not anticipate any future income. However, they should provide for all possible I probable losses. Imprudent use of concept of conservatism may lead to understatement of income and assets.
- 2) 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
- 3) True - Discount at the time of retirement of a bill is a gain for drawee and loss for the drawer.
- 4) False -If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.
- 5) 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.
- 6) 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.

Question-20

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

- 1) 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.
- 2) Finished goods are normally valued at cost or market price whichever is higher.

- 3) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
- 4) The firm will receive surrender value of the joint life policy on the death of the partner.
- 5) Where a non-profit organization separate trading activity, the profit/loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.
- 6) $\text{Capital} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} + \text{Cash} - \text{Current Liabilities}$.

Answers:

- 1) 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.
- 2) False: Finished goods are normally valued at cost or net realizable value whichever is lower.
- 3) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- 4) False: The firm will receive full value of sum assured of joint life policy on death of the partner.
- 5) True: When in case of trading activities for a Non- Profit-Organization, the profit/loss from such activity is to be transferred to the Income & Expenditure A/c at the time of consolidation.
- 6) 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 $\text{Equity} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}$.

Question-21

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

- 1) Wages paid for erection of machinery are debited to Profit and Loss Account.
- 2) 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.

- 3) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
- 4) In the calculation of average due date, only the due date of first transaction must be taken as the base date.
- 5) The business of partnership must be carried on by all the partners.
- 6) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Answers:

- 1) False: Such wages being related to capital Asset should be debited to the machinery account.
- 2) 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.
- 3) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- 4) False: Due date may be the due date of the first transaction or the due date of the last transaction or any other due date between the first and the last but preferably earlier due date may be taken.
- 5) False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
- 6) False: Debenture interest is payable before the payment of any dividend on shares.

Question-22

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

- 1) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
- 2) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- 3) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
- 4) Consignment account is of the nature of real account.
- 5) Partners can share profits or losses in their capital ratio, when there is no agreement.

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

Answers:

- 1) 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.
- 2) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- 3) True: If closing stock appears in trial balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.
- 4) False: Consignment account is a nominal-cum-personal account
- 5) False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- 6) True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Question-23

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

- 1) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- 2) Accrual concept implies accounting on cash basis.
- 3) Consignment account is of the nature of real account.
- 4) 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.
- 5) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.
- 6) 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.

Answers:

- 1) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- 2) 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.
- 3) False: Consignment account is a nominal account.
- 4) 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.
- 5) 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.
- 6) 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.

Question-24

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

- 1) Prior Period Items need not be separately disclosed in the current statement of profit and loss.
- 2) $\text{Capital} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} + \text{Cash} - \text{Current Liabilities}$.
- 3) The sale value of the by-product is credited to Trading Account.
- 4) Discount at the time of retirement of a bill is a gain for the drawee.
- 5) If a partner retires, then other partners have a gain in their profit-sharing ratio.
- 6) Net income in case of persons practicing vocation is determined by preparing profit & loss account.

Answers:

- 1) False: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.
- 2) 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
$$\text{Equity} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}$$
- 3) False: The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.
- 4) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- 5) True: If a partner retires, his share of profit or loss will be shared by the other partners in their profit-sharing ratio.
- 6) False: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

Question-25

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

- 1) Overhauling expenses of the engine of a truck to get better fuel efficiency is revenue expenditure.
- 2) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- 3) The sale value of by-product is credited to Trading Account.
- 4) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
- 5) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
- 6) In Not for Profit (NPO) organizations, the excess of total assets over total outside liabilities is known as Capital Fund.

Answers:

- 1) False: Overhauling expenses incurred for the engine of a truck to derive better fuel efficiency reduces the running cost in future and thus the benefit is in form of endurable long-term advantage. So, this expenditure should be capitalised.
- 2) 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.
- 3) False: The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.
- 4) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
- 5) False: Debenture interest is payable before the payment of any dividend on shares.
- 6) True: The capital fund represents the amount contributed by members through legacies, special donations entrance fee and accumulated surplus over the years.

Question-26

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

- 1) Overhauling expenses for engine of motor car to get better fuel efficiency is revenue expenditure.
- 2) Depreciation is a non-cash expense and does not result in any cash outflow.
- 3) Fees received for Life Membership is a revenue receipt as it is of recurring nature.
- 4) 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.
- 5) Inventory Turnover Ratio is also known as Stock Turnover Ratio.
- 6) If del-credere commission is paid to consignee, loss of bad debts is to be borne by the consignor.

Answers:

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- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) True: Inventory Turnover Ratio is also known as Stock Turnover Ratio. It establishes the relationship between cost of goods sold during the year & average inventory held during year.
- 6) 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.

Question-27

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

- 1) 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.
- 2) 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.
- 3) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.
- 4) 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.
- 5) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

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

Answers:

- 1) 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.
- 2) 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”.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) False: The relationship between sales & fixed assets is expressed as fixed assets turnover ratio.

Question-28

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

- 1) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.
- 2) M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.
- 3) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

- 4) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.
- 5) A Partnership firm cannot own any Assets.
- 6) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Answers:

- 1) False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.
- 2) False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, the renovation expense is capital expenditure in nature.
- 3) True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.
- 4) False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person
- 5) True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.
- 6) True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Question-29

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

- 1) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit-sharing ratio.
- 2) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
- 3) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

- 4) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.
- 5) A Limited is sending goods costing ₹ 50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.
- 6) A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.

Answers:

- 1) False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- 2) True; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.
- 3) True; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
- 4) False; When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.
- 5) False; Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.
- 6) False; If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

Question-30

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

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

- 2) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
- 3) The Sale Book is kept to record both the cash and credit sales.
- 4) There are two ways of preparing an account current.
- 5) Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.
- 6) Accounting Standards for non-corporate entities in India are issued by the Central Govt.

Answers:

- 1) False; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.
- 2) True; Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
- 3) False; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.
- 4) False; There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.
- 5) True; Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.
- 6) False; Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

Question-31

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

- 1) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out.
- 2) A Company is not allowed to issue shares at a discount to the public in general.
- 3) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

- 4) A person holding preference shares of a company cannot hold equity shares of same company.
- 5) Business of partnership comes to an end on death of a partner.
- 6) Cash book is a subsidiary book as well as a principal book.

Answers:

- 1) False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.
- 2) 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).
- 3) False: Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e., until and unless storage is required as a part of process of production of inventory like in case of wine.
- 4) False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
- 5) False: Surviving partners may continue to carry on the business in case of partnership.
- 6) True: Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account & bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.

Question-32

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

- 1) Any amount spent to minimize the working expenses is revenue expenditure.
- 2) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.
- 3) The provision for bad debts is debited to sundry debtor's account.
- 4) Non-participating preference shareholders enjoy voting rights.

- 5) There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.
- 6) Discount column of the cash book is never balanced.

Answers:

- 1) False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So, this is capital expenditure.
- 2) True: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.
- 3) False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.
- 4) 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.
- 5) True: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.
- 6) True: Discount column is totalled and transferred to the discount allowed or received account.

Question-33

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

- 1) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability. ·
- 2) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
- 3) The specific due date excludes the addition of grace days to arrive at the due date.
- 4) Any amount spent for replacement of worn-out part of a machine is capital expenditure.
- 5) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

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

Answers:

- 1) False: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.
- 2) False: At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.
- 3) True: Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.
- 4) False: Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.
- 5) False: Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.
- 6) False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.

Question-34

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

- 1) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.
- 2) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
- 3) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.
- 4) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.
- 5) Both revenue & capital nature transactions are recorded in the Receipts & Payments Account.
- 6) A fixed charge generally covers all the assets of the company including future one.

Answers:

- 1) False: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.
- 2) True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.
- 3) True: According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained.
- 4) False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle, compensating errors, errors of complete omission which can be rectified without opening a suspense account.
- 5) True: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.
- 6) False: A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

Question-35

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

- 1) As per concept of conservatism the accountant should provide for all possible losses but should not anticipate income.
- 2) Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.
- 3) Under or over - casting of a subsidiary book is an example of error of commission.
- 4) If Del-credere commission is paid to consignee, loss of bad debts is to be borne by consignor.
- 5) Perpetual debentures are payable at the time of liquidation of the company.
- 6) Overhead is defined as the total cost of direct material, direct wages and direct expenses.

Answers:

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

- 2) False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense and hence it is to be capitalised. Such expenses are amortised over a period of time.
- 3) True: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.
- 4) 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.
- 5) True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.
- 6) False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages and expenses cannot be directly linked to unit produced.

Question-36

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

- 1) The Sales book is kept to record both cash and credit sales.
- 2) If a partner retires, then other partners have a gain in their profit-sharing ratio.
- 3) 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.
- 4) Accrual concept implies accounting on cash basis.

Answers:

- 1) 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.
- 2) True- If a partner retires, his share of profit or loss will be shared by the other partners in their profit-sharing ratio.

- 3) 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.
- 4) 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.

Question-37

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

1. Accounting Standards for non-corporate entities in India are issued by the Central Government.
2. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
3. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
4. Discount at the time of retirement of a bill is a gain for the drawee.
5. Business of partnership comes to an end on death of a partner.
6. Receipts and Payments Account highlights total income and expenditure.

Answers:

1. False - Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
2. True - Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
3. 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.

4. True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
5. False - Surviving partners may continue to carry on the business in case of partnership.
6. 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.

Question-38

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

1. Wages paid for erection of machinery are debited to Profit and Loss Account.
2. 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.
3. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
4. 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.
5. The business of partnership must be carried on by all the partners.
6. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Answers:

1. False: Such wages being related to capital asset should be debited to the machinery account.
2. 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.
3. False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
4. 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.

5. False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
6. False: Debenture interest is payable before the payment of any dividend on shares.

Question-39

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

1. The balance in petty cash book represents an asset.
2. Finished goods are normally valued at cost or market price whichever is higher.
3. Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
4. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
5. Discount at the time of retirement of a bill is a gain for the drawee.
6. Bills receivable and bills payable books are types of subsidiary books.

Answers:

1. True - The balance represents the cash physically in existence and is therefore an asset.
2. False - Finished goods are normally valued at cost or net realizable value whichever is lower.
3. False - Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.
4. False - When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
5. True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
6. True - Yes, they are types of subsidiary books which is alternate to the journals.

Question-40

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

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

2. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
3. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
4. Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.
5. Nominal Accounts are kept under Single Entry System.
6. A person holding preference shares of a company cannot hold equity shares of the same company.

Answers:

1. True: Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
2. False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
3. True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
4. 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
5. 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.
6. False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.