

# True / False

## All Chapters

CA FOUNDATION  
ACCOUNTS



TRUE



FALSE

All Chapter  
Covered

# 100 ME 100

CA HARDIK  
MANCHANDA

Ch 1 to 11

+

PYQs / RTPs / MTPs

3-4 hours

## Redemption of Debentures

1. Amounts credited to the debenture redemption reserve may be utilised by the company for any purpose. False
2. All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any Debenture Redemption Reserve (DRR). True
3. Under payment in instalments method, the payment of entire debenture is made in one lot. False
4. At redemption of debentures, DRR should be transferred to general reserve. True.

2 Marks  
└─ 1 Mark. True / False  
└─ 1 Mark. True → 3-4 Lines

## Redemption of Preference Shares

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

**LCRR**

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

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

4. Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses. **True**

## Bonus & Right Issue

1. Earning per share gets <sup>dec.</sup> increased after bonus issue. **False**
2. Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital. **False**  
less
3. Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue. **True**  
less
4. ~~Right~~ Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue **F**  
less

$$\text{EPS} = \frac{\text{Earning av. for SH}}{\text{No. of sh.}} \quad \uparrow$$

EPS ↓

# Issue of Debentures

1. Debenture holder are the creditors of the company. **F**
2. Perpetual debentures are payable at the time of liquidation of the company. **T**
3. Registered debentures are transferable by delivery. **F**  
Bearer
4. When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures. **T**
5. Debentures suspense account appears on liability side of balance sheet. **F**  
Dr. Asset
6. If a company incurs loss, then it does not pay interest to the debenture holders. **False**
7. At the time of liquidation, debenture holders are paid off after the shareholders. **F**
8. Convertible debentures can be converted into equity shares. **True**
9. Redeemable debentures are not payable during the life time of the company. **False**
10. Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc. **True**

## Issue of Shares

2 App

FV = 10

8x

Issue price = 20

18 ✓

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

Issue

Notes to A/c

T

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

3. The rate of dividend on preference shares may vary From year to year. False

4. A company may issue shares at a discount to the public in general. False. Sweat equity

5. Sweat equity shares are those which are issued to employees & directors at a discount. True.

6. As per table F, rate of interest on calls in arrears is 12%. 10% F

7. As per Table F, rate of interest on calls in advance is 10%. F

8. Non-participating preference shareholders enjoy voting rights. False

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

10. Loss on reissue should exceed the forfeited amount.

Discount

not

## Dissolution of a Firm

1. Books of accounts are closed in dissolution of partnership. <sup>Firm</sup> ~~False~~
2. On the dissolution of a partnership firm, firstly, the assets of the firm are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders. True.
3. In event of the dissolution of the firm, the business ceases to end. In event of dissolution of the partnership, the partnership is reconstituted and the business discontinues. False  
Continues Debit
4. Expenses of dissolution on realization of assets are credited to the Realization Account. F
5. Revaluation Account is prepared at the time of dissolution of partnership but Realisation Account is prepared at the time of dissolution of partnership firm. True.

Real. Dr.  
↓  
To Cash

## Death of a Partner

1. Business of partnership comes to an end on death of a partner. **False**
2. Legal heir of a deceased partner automatically becomes partner in the firm. **False**
3. A revaluation account is opened in the books of accounts on death of a partner. **True**
4. Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners capital account in their profit sharing ratio. **True**
5. Legal heirs of a deceased partner are entitled to his capital account balance only. **False**. *all the dues*
6. It is not necessary to adjust goodwill on death of a partner. **False**
7. On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio. **True**
8. On death of a partner, the firm gets surrender value of the joint life policy. **Sum Assured**
9. Only legal heirs of deceased partner are entitled to amount received from joint life policy. **False**

## Retirement of a Partner

1. Business of a partnership has to be closed if any one of the partners retires. **False**
2. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet. **False**
3. After retirement of a partner, profit sharing ratio of continuing partners remains the same. **False**
4. If any partner wants to retire from the business, he must retire on 1st day of the accounting year. **False** **entitled ✓**
5. Retiring partner has to forego his share of goodwill in the firm. **False**
6. If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement. **False**
7. If the firm has taken any joint life policy then it is to be surrendered at the time of retirement of a partner. **True**
8. Any joint life policy **reserve** appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio. **True**
9. No revaluation account is necessary on retirement of a partner. **False**
10. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation. **False**

## Admission of a Partner

1. A newly admitted partner does not have same rights as old partners. **False**
2. When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio. **True.**
3. Revaluation account is also called as Profit and Loss Adjustment Account. **True.**
4. Any appreciation in the value of an asset is credited to Revaluation account. **True.**
5. All the partners may decide not to change the values of assets and liabilities in the books of accounts. **True.**
6. New partner is entitled to have share in reserves appearing in the balance sheet prior to his admission. **False**
7. If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally. **False**
8. New partner brings necessary amount as his capital. **True**
9. New partner is entitled to share in revaluation profit. **False**

old part old Ratio

## Treatment of Goodwill

1. Goodwill is intangible asset therefore it cannot be valued. **False**
2. Goodwill is valued whenever there is change in the profit sharing ratio among the partners. - **True**
3. Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits. **True**
4. At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset. **False**
5. Only simple average method can be used for valuation of goodwill. **F**
6. Super profit means excess of actual average profit over normal profit. **True**
7. Normal profit means profit earned by similar companies in the same industry. **True**
8. Normal profit depends upon Normal Rate of Return and past profits. **False X X**
9. At the time of admission/retirement of a partner, since goodwill can not be raised in the books of accounts is recorded through capital accounts of the partners. **True**
10. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners. **False**

↓ Sac ratio      Sac partners

## Introduction to Partnership Accounts

1. In absence of any agreement partners share profits of the business in the ratio of their capital contribution. Equally False
2. Profit sharing ratio and capital contribution ratio need not be same. True.
3. Every partnership firm must register itself with Registrar of firms. False
4. A partner can advance loan to the partnership firm in addition to capital contributed by him. True.
5. A partner can demand interest on capital even if it is not provided in the partnership deed. - False
6. If a partner does not take part in day to day business activities of the firm then he is not entitled to any share of profit. False
7. Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed. True.
8. Husband and wife cannot be partners in the same firm. False
9. One senior partner is Principal and other partners are his agents. F
10. Partners are the agents of the firm and each other. True.

## Incomplete Records

1. A Trial Balance cannot be drawn up from books kept under Single Entry. **True.** *Personal / Real*
2. Nominal Accounts are kept under Single Entry System. **False**
3. Single Entry System can be adopted by small firms. **True**
4. Profit under single entry system is always correct and accurate. **False**
5. Profits computed under single entry system by different business entities are not comparable. **True.**

## Non Profit Organisations

1. The Receipts and payment account for a non-profit organization follows the <sup>Cash</sup> accrual concept of accounting. **False**
2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account. **False**
3. Sale of grass by a sports club is to be treated as sale of an asset. **False**
4. Subscriptions outstanding for the current year are disclosed under the <sup>Current</sup> Fixed assets side of the Balance sheet. **False**
5. Receipts and payments account gives the details about the expenses outstanding for the year. **False**
6. Adjustments in the form of additional information shall be adjusted in the final accounts of a Non- profit organisation only in one place. **False**

7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet. **False**
8. For Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit. **Surplus - False**
9. Surplus of non-profit organizations is distributed among its members. **F**
10. Tournament fund, building fund, library fund is based on the fund based accounting. **True**
- 11) Subscription fees refers to the one-time fees paid by the members to get admission for the benefits of the club. **Regular False**
12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium. **True**
13. An Insurance company is an example of non-profit organization. **False**
- 14) Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account. **False**
15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account. **False**
16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy. **True**
- 17) Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation. **True**
18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues. **False**
19. All the receipts are of revenue nature in case of Non-profit organisation. **False**
20. There is opening balance of Income and expenditure account. **False**

**X**

## Final Accounts of Non Manufacturing

1. The income statement shows either net profit or net loss for a particular period. **T**
2. Gains from the sale or exchange of assets are not considered as the revenue of the business. **False** - P&L A/c - Cr
3. The salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities. **True.**
4. A loss is an expenditure which does not bring any benefit to the concern. **True.**
5. All liabilities which become due for payment within the year are classified as long-term liabilities. **False**
- 6) The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year. **True.**
7. An asset gives rise to expenditure when it is acquired and to an expense when it is consumed. **True.**
8. If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expense. **True.**
9. Sales less cost of goods sold = gross profit. **True.**
- 10) If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit. **False**  
**Loss**

P&L  
To prov

P&L A/c F

11. The provision for bad debts is debited to Sundry Debtors Account.
- 12) The provision for discount on creditors is often not provided in keeping with the principle of conservatism. True
13. The debts written off as bad, if recovered subsequently are credited to Debtors Account. Bad debt Rec.
- 14) The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account. F
15. Premium paid on the life policy of a proprietor is debited to profit and loss account. False
16. Depreciation account appear in the trial balance is taken only to profit and loss account. True.
17. Personal purchases included in the purchases day book are added to the sales account in the Trading account. False.
18. Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account. True
- 19) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account. False
20. If Closing Stock appears in the Trial Balance, the Closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet. True

Draw  
To Purch A/c

## Final Accounts of Manufacturing

1. By-products valued at cost or net realisable value whichever is lower. **False**
2. The manufacturing account is prepared to ascertain the profit or loss on the goods produced. **False**
3. If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account. **True**, <sup>wip</sup>
4. Raw Material Consumed = Opening inventory of Raw Materials + Purchases - Closing inventory of Raw Materials. **True**.
- 5) The Trading Account will show the quantities of finished goods, raw materials and work-in-progress. **False** <sup>x</sup>
6. Overhead is defined as total cost of direct material, direct wages and direct expenses. **False**
7. Manufacturing A/c is prepared by an enterprise engaged in trading activities. **False** <sub>1</sub>

M/g.

## Bills of Exchange

Personal Ak

1. Bills payable account is a nominal account. **False**
2. Promise to pay is included in a bill of exchange. **False**
3. Days of rebate are added to the due date to arrive at the maturity date. **False** True.
4. Discount at the time of retirement of a bill is a gain for the drawee. **T**
5. Foreign bill is drawn in the country and payable outside the country. **T**
6. 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. **T**
7. A has drawn a bill on B. B accepts the same and endorses the bill to C. **False** <sup>x</sup>
8. A bill given to a creditor is called bills payable. **True**

# Depreciation

Dec.

1. Increase in market value of a fixed asset is one of the reasons for depreciation being charged. **False**
2. Depreciation is a cash expenditure like other normal expenses. **False**
3. Cost of property, plant and equipment includes purchase price, **non-refundable taxes** & import duties after deducting any discount or rebate. **False**
- 4) Cost of fixed asset should also include cost of opening a new facility such as inauguration costs. **False**
5. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method. **True**
- 6) In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued. **True.**
7. In case the carrying amount of an asset is decreased due to revaluation, **Rev. Res.** such decrease should always be recognized in the Profit and Loss account. **False**
8. (8) Akash purchased a machine for Rs. 12,00,000. Estimated useful life is 10 years and scrap value is Rs. 1,00,000. Depreciation for the first year using sum of the years digit method shall be Rs. 2,00,000. **True**
9. Depreciation cannot be provided in case of loss, in a financial year. **F**
10. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.

Dep Dr.  
To prov. for Dep.

**True**

WDV 850,000

O.C!

11. If the equipment account has a balance of Rs. 12,50,000 and the accumulated depreciation account has a balance of Rs. 4,00,000, the written down value of same shall be Rs. 16,50,000. **False**
12. Sum of the years digit method is an example of accelerated method of charging depreciation. **True**.
- 13) Over the life of an asset subject to depreciation, the accelerated method will result in <sup>more</sup> less Depreciation Expense in early years and more depreciation in later years of its life. **False** <sub>less</sub>
14. While depreciating land cost, Straight line method shall give more depreciation than the written down value. **False** <sub>credited</sub>
15. Provision for depreciation account is debited at the time of recording the depreciation on an asset. **False**
16. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation. **False**
17. When a property, plant or equipment is sold then provision for depreciation account is debited, asset account is credited and any gain or loss is recorded to profit and loss account. **True**.
18. While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life is reduced from its cost. **False**
19. Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards. **True**.
20. An intangible asset is a non identifiable, non monetary asset. **False**

Prov. for Dep Dr  
To Asset

Asset 100,000 x

## Inventory Valuation

Prod Cr ↑  
By dr ↑

1. Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation. **True.**
2. A building is considered inventory in a construction business. **True.**
3. Inventory is valued as carrying cost less percentage decreases. **False**
4. Management has daily information about the quantity and valuation of closing stock under physical Inventory System. **False**
5. Periodic Inventory System is more suitable for small enterprises. **True.**
6. When closing inventory is overstated, net income for the accounting period will be understated. **False**
7. Closing inventory = Opening inventory + Purchases + Direct expenses  $\ominus$  Cost of goods sold. **Cost of Goods av. for sale - CoGS**
8. Cost of inventories should comprise all cost of purchase. **False**
- 9) Inventory by-products, should be valued at net realisable value where cost of by products can be separately determined. **False**
10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories. **False**
11. Perpetual system requires closure of business for counting of inventory. **F**
12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count. **True.**
13. The value of closing inventory under simple average price method is realistic as compare to LIFO. **True.**

X

1/9 100    4/9 120    10/9 150    FIFO ✓

14. The value of stock is shown on the assets side of the balance-sheet as fixed assets. **False** ✓

15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold. **False** ✓

16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur. **F**

17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism. **True.**

18. Finished goods are normally valued at cost or market price whichever is higher. **Lower - False**

## Bank Reconciliation Statement

1) Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book. **Bank False**

2) There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors. **True.**

3) Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year. **False**

4) Debit balance in cash book is same as overdraft as per pass book. **True Credit F**

5) Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation. **False**

- 6) Overcasting of the debit side of the cash book is an example of a difference that is due to error. **True.**
- 7) When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book. **True.** **added**
- 8) The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book. **False**
- 9) When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets. **True.**
- 10) While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted. **False**
- 11) Cash book shows a debit balance of Rs. 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for Rs. 60,000 but not yet presented for payment. The balance as per pass book should be Rs. 1,10,000. **True.**
- 12) Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance. **False**
- 13) A cheque for Rs. 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of Rs. 50,000 from the balance in pass book. **True.**

$$\begin{array}{r}
 50,000 \\
 - 25,000 \\
 \hline
 25,000
 \end{array}
 \begin{array}{l}
 \text{Dr} \\
 25,000
 \end{array}
 \begin{array}{l}
 \text{Cr} \\
 25,000
 \end{array}$$

## Passbook

14) A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book. **T**

15) Bank Reconciliation Statement can be prepared in two formats - "Balance" presentation and "Plus & Minus" presentation. **T**  
and "Plus & Minus" presentation.

16) The difference between cash book & pass book that relates to errors are those mostly made by Bank. **False**

17) A cheque for Rs. 80,000 that was discounted from bank was dishonoured and the bank charged Rs. 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct Rs. 78,400 to reconcile with pass book. **F** **81600**

18) Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank. **F**

19) A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement. **True**.

20) Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book **F**

24/11

↓ 80,000 ↓ 81,600  
↓ 1,600

## Rectification of Errors

- 1) The method of rectification of errors depends on the stage at which the errors are detected. **True**
- 2) In case of error of complete omission, the trial balance does not tally. **False**
- 3) When errors are detected after preparation of trial balance, suspense account is opened. **True**
- 4) When purchase of an asset is treated as an expense, it is known as error of principle. **True**
- 5) Trial balance agrees in case of compensating errors. **True**
- 6) When amount is written on wrong side, it is known as an error of principle. **commission - False**
- 7) On purchase of old furniture, the amount spent on repairs should be debited to <sup>Furn</sup>repairs account. **False**
- 8) 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period. **False**
- 9) Rent paid to landlord of the proprietors house, must be debited to 'Rent account'. **False**
- 10) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. **False**

One sided

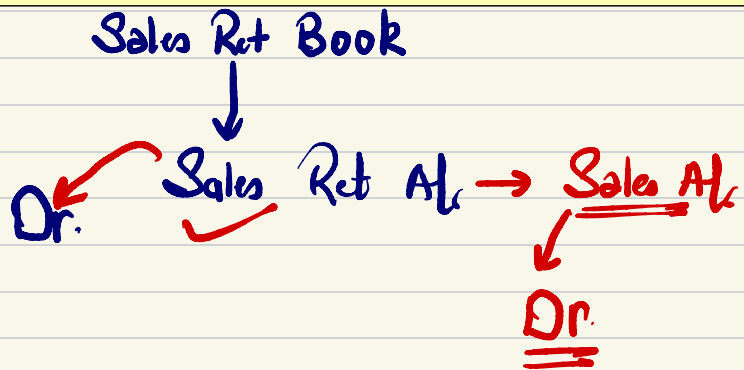
## Cash book

1. Cash book is a subsidiary book as well as a principal book. **True**
2. Two column cash book consists of two columns cash column & bank column. **Cash & Disc.** **LF**
3. Discount column of cash book is never balanced. **True**
4. Contra entry is passed in a two column cash book. **True**
5. If the bank column is showing the opening balance on credit side, it is an overdraft. **True**
6. A cash book records cash transactions as well as credit transactions. **False**
7. Discount column of cash book records the trade discount. **False**

↓  
**Cash & Discount**

## Subsidiary Book

1. Transactions recorded in the purchase book include only purchases of goods on credit transactions. <sup>T</sup> <sub>goods</sub>
2. Transactions regarding the purchase of fixed asset are recorded in the purchase book. <sup>F</sup> <sub>Credit</sub>
3. Cash sales are recorded in the sales book. <sup>-</sup> <sub>F</sub>
4. Subsidiary books are also known as the books of original entry. <sup>T</sup>
5. Bills receivable book is a subsidiary book. <sup>T</sup>
6. Return inward book is also known as purchase return book. <sup>F</sup>
7. Purchase of a second hand machinery will be recorded in purchase book. <sup>F</sup> <sub>J.P</sub>
8. Total of sales return book may be posted to the debit side of sales account. <sup>True</sup>
9. If the sales are on a frequent basis, the transactions are recorded in the sales book. <sup>-</sup> <sub>T</sub>



## Trial Balance

- 1) Preparing trial balance is the third phase of accounting process. **T**
- 2) Trial balance forms a base for the preparation of Financial statement. **T**
- 3) Agreement of trial balance is a conclusive proof of accuracy. **F** *Arithmetical Accuracy*
- 4) A trial balance will tally in case of compensating errors. **T**
- 5) A trial balance can find the missing entry from the journal. **F**
- 6) Suspense account opened in a trial balance is a permanent account. **F** *Cr. Temporary*
- 7) The balance of purchase returns account has a credit balance. **T**

## Ledger

- 1) A ledger is also known as the principal book of accounts. **T**
- 2) Cash account has a debit balance. **T** *Journal*
- 3) Posting is the process of transferring the accounts from ledger to journal. **F** *Ledger - F*
- 4) At the end of the accounting year, all the nominal accounts of the ledger book are balanced. **F** *Journal*
- 5) Ledger records the transactions in a chronological order. **F** *Analytic*
- 6) If the total debit side is greater than the total of credit side, we get a credit balance as opening balance. **False**
- 7) Ledger accounts of assets will always be debited when they are increased. **T**

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

## Journal

1. In accounting equation approach, equity + Long-term liabilities = fixed asset + current assets - current liabilities. **T**
2. In the traditional approach, for an entity a debtor will be receiver after sale of goods. **F** giver
3. The rule of nominal account states that all expenses & losses are recorded on credit side. **False** Dr
4. Journal proper is also called a subsidiary book. **T**
5. Capital account has a debit balance. **F** Cr
6. Purchase account is a nominal account. **T**
7. All the personal & real account are recorded in P&L A/c. **F** x
8. Asset side of balance sheet contains all the personal & nominal accounts. **F** Real
9. Capital account is a personal account. **T**
10. Journal is also known as the book of original entry. **T**

## Capital & Revenue Expenditure

1. The nature of business is not an important criteria in separating an expenditure between capital and revenue. **F**
- 2) Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature. **False**
3. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure. **False**
4. Amount spent for replacement of worn-out part of machine is Capital Expenditure. **False**
5. Legal fees to acquire property is Capital Expenditure. **T**
6. 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. **T**
- 7) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure. **F**
- 8) Money spent to reduce working expenses is Revenue Expenditure. **Cap F**
- 9) Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses. **False**
- 10) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure. **T**

**Intangible Asset**

# Accounting Principles

- entity
- 1) The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept. **F**
  - 2) Entity concept means that the enterprise is liable to the owner for capital investment made by the owner. **T**
  - 3) Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred. **F**
  - 4) The Conservatism Concept states that no change should be counted unless it has materialised. **Realisation F**
  - 5) The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting. **F**
  - 6) The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc. **False**
  - 7) Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made. **False**

## Contingent Assets & Liability

1. A contingent liability need not be disclosed in the financial statements. **False** ✓
2. A Provision fails to meet the recognition criteria. **F**
3. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability. <sup>Asset</sup> **F**
4. When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability. **Provision F**
5. Present financial obligation of an enterprise, which arises from past event is termed as contingent liability. **Liability**

## Accounting Policy

1. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances. **F**
2. Selection of accounting policy doesn't impact financial performance and financial position of the business **F**
3. A change in accounting policies should be made as and when business like to show result as per their choice. **F**
4. Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy. **True**
5. Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time. **F** under/over

# Accounting Standards

1. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements. **T** **can not**
2. Accounting standards can override the statute. **F**
3. Difficulties in making choice between different treatments is one of the benefits of accounting standards. **F** **benefit**
4. Requirements for additional disclosures is limitation of accounting standards. **F**
5. **ASB** stands for Accounting standardisation benchmarking. **F** **Accounting Standard Board**
6. There are no limitation to accounting standards. **F**

# Accounting as a Measurement Discipline

1. There are four generally accepted measurement bases.

(i) Historical Cost;

(ii) Current Cost;

(iii) Realizable Value;

(iv) Future Value. **Present** **F**

2. Historical Cost means price paid at time acquisition. **T**

~~3.~~ As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the **F**  
assets in an orderly disposal. - **Realisable** **Discounted**

~~4.~~ At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business. **F** ✓

5. ABC purchased a machinery amounting Rs. 10,00,000 on 1st April, 2001. On 31st March, 2022, similar machinery could be purchased for Rs. 20,00,000. Historical cost of machine is 20,00,000 **False**

~~6.~~ ABC purchased a machinery amounting Rs. 10,00,000 on 1st April, 2001. On 31st March, 2022, similar machinery could be purchased for Rs. 20,00,000. Current cost of machine is Rs. 20,00,000 **T**

~~7.~~ Change in accounting estimate has to be given retrospective effect. **F** **Prospective**

## Meaning & Scope of Accounting

- 1) There is no difference between book keeping and accounting, both are same. **F**
- 2) <sup>Finan</sup>Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts. **F**
- 3) Financial accounting is concerned with <sup>Manag.</sup>internal reporting to the managers of a business unit. **F**
- 4) Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business **F**
- 5) <sup>Rec.</sup>Summarising is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account. **✓ F**
- 6) Balance sheet shows the position of the business on the day of its preparation and not on the future date. **T**
- 7) Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.

**L. True.**

## Other Important Questions (RTP / PYQ / MTP)

- 1) A fixed charge generally covers all the assets of the company including future one. **F**
- 2) The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors. **F**
- 3) A partnership firm cannot own any Assets **True**
- 4) Prior period items need not be separately disclosed in the current statement of profit & loss. **F**
- 5) Net income in case of persons practicing vocation is determined by preparing profit & loss account. **F** *98E Alc*
- 7) The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle, **True**.
- 8) The debit notes are used to prepare Sales Return Book. **False** *Credit*
- 9) 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. **T**
- 11) The concept of conservatism when applied to Balance sheet results in understatement of assets. **T**
- 12) The business of partnership must be carried on by all the partners. **False**
- 13) Reducing balance method of depreciation is followed to have a **T**  
uniform charge for depreciation and repairs and maintenance together

*wov*  
 Dep  $\downarrow$   $\downarrow$   
 Rep & Main  $\downarrow$   $\uparrow$  } **uniform**

15) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend, **F**

16) Warehouse rent paid for storage of finished inventory should be included in the cost of Finished inventory. **F**

17) A person holding preference shares of a company cannot hold equity shares of the same company **False** ✓ **F**

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

19) Accounting standards for non-corporate entities in India are issued by the central government. **ICAI - F**

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

21) In the balance sheet of Angel Limited, preliminary expenses amounting to 15,00,000 rupees and security premium account of ₹105,00,00 are appearing. The accountant can use the balance in securities premium account to write off preliminary expenses. **True**

22) A concern proposes to discontinue its business from December 2023, and decides to dispose of all its plants within a period of three months, the balance sheet as on 31 December 2023 should continue to indicate the plants at its historical cost as the assets will be disposed of after the balance date. **F** **NRV**

23) Accounting standards for non-corporate entities in India are issued by the central government.

24) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out. **False** ✓

25) Matching concept is based on accrual concept. **True**

