NIRAJ ACADEMY FOR EXCELLENCE

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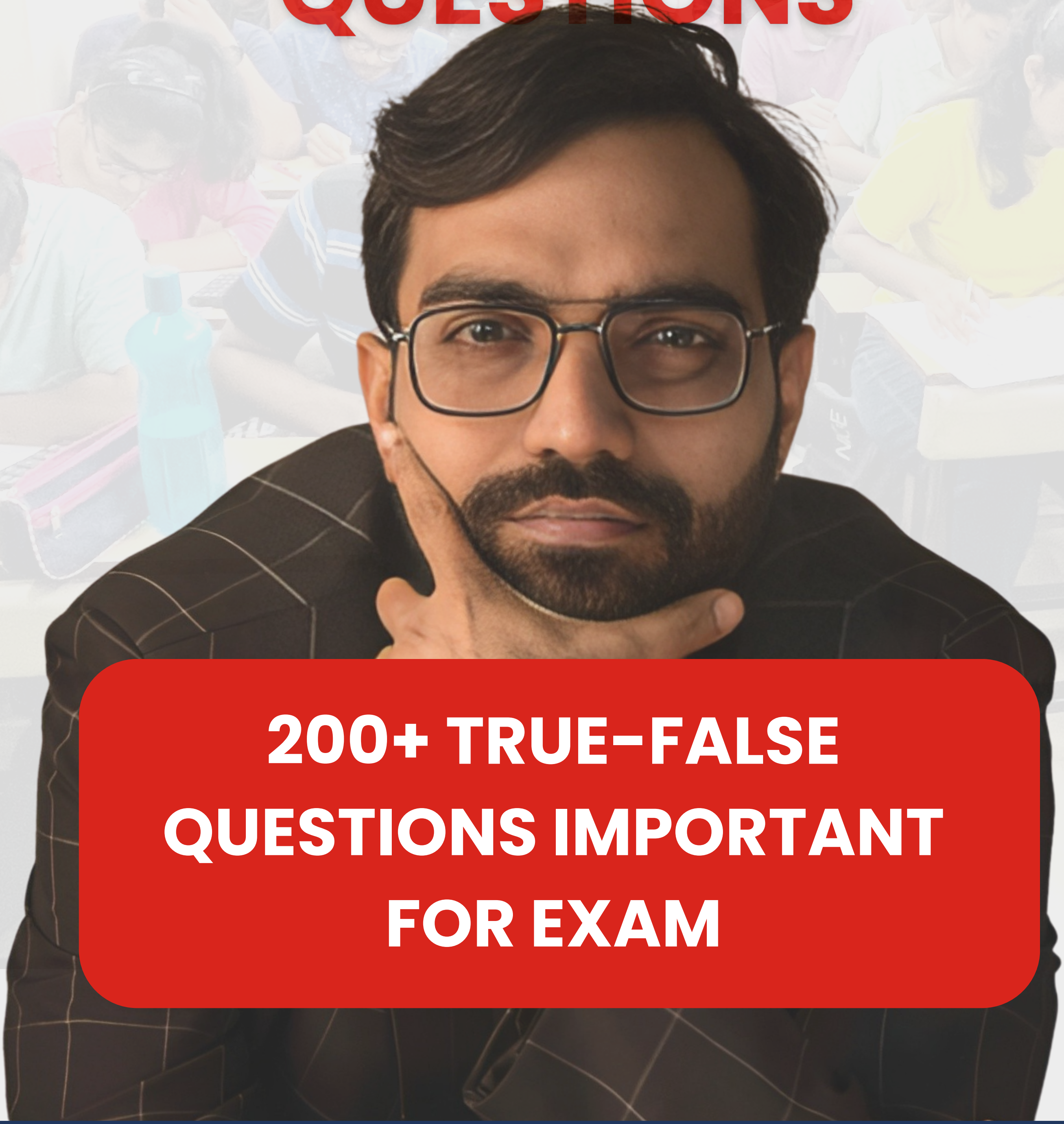
CA FOUNDATION

ACCOUNTS IMP TRUE-FALSE QUESTIONS



200+ TRUE-FALSE QUESTIONS IMPORTANT FOR EXAM

CA CS CMA NIRAJ AGARWAL

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

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

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

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

7. In the calculation of average due date, only the due date of first transaction must betaken as the base date.

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

9. 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 arrearof shares forfeited.

10. Accrual concept implies accounting on cash basis.

11. When shares are forfeited, the share capital account is debited with called up capitalof shares forfeited and the share forfeiture account is credited with calls in arrearof shares forfeited.

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

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

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

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

16. 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.

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

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

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

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

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

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

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

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

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

29. A withdrawal of cash from the business by the proprietor should be charged to profitand loss account as an expense.

30. Partners can share profits or losses in their capital ratio, when there is noagreement.

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

32. Net income in case of persons practicing vocation is determined by preparing profitand loss account.

33. The problem of red-ink interest arises when the due date of a transaction falls afterthe closing date of account current.

34. Consignment account is of the nature of real account.

35. The balance in petty cash book represents an asset.

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

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

38. “Salary paid in advance” is not an expense because it neither reduces assets nor increases liabilities.

39. Laboratory & library Deposits taken from the students in case of an EducationalInstitution are shown on the liabilities side of the Balance Sheet.

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

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

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

43. Accounting can be viewed as an information system which has its input processingmethods and output.

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

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

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

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

48.A Tallied trial balance means that the books of accounts have been prepared as peraccepted accounting principles.

49. Expenses in connection with obtaining a license for running the Cinema bill ateHallis Revenue Expenditure.

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

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

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

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

54. Interest coverage ratio indicates the firm's ability to pay off current interest and installments.

55. Overhauling expenses for the engine of motor car to get better fuel efficiency isrevenue expenditure.

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

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

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

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

60. 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.

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

62. In case of consignment sale, ownership of goods will be transferred to consignee atthe time of receiving the goods.

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

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

65. Every public company is a listed company.

66. Shares of a private company are not listed on stock exchange.

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

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

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

70. If the shares are fully paid-up by the shareholder, he is subject to no further liability.

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

72. Financial statements of company show the financial position of the business.

73. Schedule I gives proforma of Balance Sheet.

74. Debenture holder are the owners of the company.

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

76. Registered debentures are transferable by delivery.

77. 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

78. Debenture's suspense account appears on liability side of balance sheet.

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

80. At the time of liquidation, debenture holders are paid off after the shareholders.

81. Convertible debentures can be converted into equity shares.

82. Redeemable debentures are not payable during the life time of the company.

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

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

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

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

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

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

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

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

91. non-participating preference shareholders enjoy voting rights.

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

93. Loss on reissue should exceed the forfeited amount.

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

95. When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.

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

97. Any appreciation in the value of an asset is credited to Revaluation account.

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

99. New partner is entitled to have share in reserves appearing in the balance sheet prior to his admission.

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

101. New partner brings necessary amount as his capital.

102. New partner is entitled to share in revaluation profit.

103. Business of partnership comes to an end on death of a partner.

104. Legal heir of a deceased partner automatically becomes partner in the firm.

105. A revaluation account is opened in the books of accounts on death of a partner.

106. 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.

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

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

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

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

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

112. In absence of any agreement partners share profits of the business in the ratio of their capital contribution.

113. Profit sharing ratio and capital contribution ratio need not be same.

114. Every partnership firm must register itself with Registrar of firms.

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

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

117. 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.

118. Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed.

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

120. One senior partner is Principal and other partners are his agents.

121. Partners are the agents of the firm and each other.

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

123. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.

124. After retirement of a partner, profit sharing ratio of continuing partners remains the same.

125. If any partner wants to retire from the business, he must retire on 1st day of the accounting year.

126. Retiring partner has to forego his share of goodwill in the firm.

127. 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.

128. If the firm has taken any joint life policy, then it is to be surrendered at the time of retirement of a partner.

129. Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit-sharing ratio.

130. No revaluation account is necessary on retirement of a partner.

131. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.

132. Goodwill is intangible asset therefore it cannot be valued.

133. Goodwill is valued whenever there is change in the profit-sharing ratio among the partners.

134. Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits.

135. At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.

136. Only simple average method can be used for valuation of goodwill.

137. Super profit means excess of actual average profit over normal profit.

138. Normal profit means profit earned by similar companies in the same industry.

139. Normal profit depends upon Normal Rate of Return and past profits.

140. At the time of admission/retirement of a partner, since goodwill cannot be raised in the books of accounts is recorded through capital accounts of the partners.

141. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.

142. By-products valued at cost or net realizable value whichever is lower.

143. The manufacturing account is prepared to ascertain the profit or loss on the goods produced.

144. 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.

145. Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.

146. The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.

147. Overhead is defined as total cost of direct material, direct wages and direct expenses.

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

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

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

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

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

153. 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.

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

155. 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.

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

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

158. The provision for bad debts is debited to Sundry Debtors Account.

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

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

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

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

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

164. Personal purchases included in the purchase's day book are added to the sales account in the Trading account.

165. Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.

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

167. 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

168. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.

169. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.

170. Sale of grass by a sports club is to be treated as sale of an asset.

171. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.

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

173. Adjustments in the form of additional information shall be adjusted in the final accounts of a non-profit organization only in one place.

174. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.

175. For Non-profit organization, Excess of income over expenditure in the Income and Expenditure account is termed as profit.

176. Surplus of non-profit organizations is distributed among its members.

177. Tournament fund, building fund, library fund is based on the fund-based accounting.

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

179. 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.

180. An insurance company is an example of non-profit organization.

181. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.

182. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.

183. Amount received as donation by a Non-profit organisation under the will of a deceased person is termed as legacy.

184. 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.

185. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.

186. All the receipts are of revenue nature in case of Non-profit organisation.

187. There is opening balance of Income and expenditure account.

188. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out in case the business entity sells goods casually on sale on return basis.

189. The customer retains the goods even after the expiry of the mentioned term, but this act does not confirm to sale of goods as there is no express consent given.

190. At the end of the year- those goods on approval basis awaiting approval from the customer are shown as part of sales in the books of the seller.

191. No entry needs to be passed in the books of the seller, when the customer rejects the goods (awaiting approval) after the closing of the books of the seller.

192. The period within which the customer has to reject or accept is fixed by the buyer.

193. Current account and account current are one and the same.

194. The account current is an extension of the average due date concept.

195. Date of transaction or the due date whichever is earlier is considered for computation of the number of days.

196. A is in account current with B- The person rendering the account current is Mr. A.

197. The honored bills of exchange will not be recorded in the account current

198. Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation.

199. A building is considered inventory in a construction business.

200. Inventory is valued as carrying cost less percentage decreases.

201. Management has daily information about the quantity and valuation of closing stock under physical Inventory System.

202. Periodic Inventory System is more suitable for small enterprises.

203. When closing inventory is overstated, net income for the accounting period will be understated.

204. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.

205. Cost of inventories should comprise all cost of purchase.

206. Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only

207. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.

208. Perpetual system requires closure of business for counting of inventory.

209. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

210. The value of ending inventory under simple average price method is realistic as compare to LIFO.

211. The value of stock is shown on the assets side of the balance-sheet as fixed assets.

212. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.

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

214. Valuation of inventory, at cost or net realizable value, whichever less, is based on the principle of Conservatism.

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

216. Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.

217. There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.

218. 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.

219. Debit balance in cash book is same as overdraft as per pass book.

220. Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.

221. Overcasting of the debit side of the cash book is an example of a difference that is due to error.

222. 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.

223. 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.

224. 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.

225. 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.

226. Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000.

227. Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.

228. A cheque for ₹ 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 ₹ 50,000 from the balance in pass book.

229. 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.

230. Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation.

231. The difference between cash book & pass book that relates to errors are those mostly made by Bank.

232. A cheque for ₹ 80,000 that was discounted from bank was dishonored and the bank charged ₹ 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 ₹ 78,400 to reconcile with pass book.

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

234. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.

235. Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book

236. Bills payable account is a nominal account.

237. Promise to pay is included in a bill of exchange.

238. Days of rebate are added to the due date to arrive at the maturity date.

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

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

241. 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.

242. In accounting equation approach, equity + Long-term liabilities = fixed asset + current assets – current liabilities.

243. In the traditional approach a debtor becomes receiver.

244. The rule of nominal account states that all expenses & losses are recorded on credit side.

245. Journal proper is also called a subsidiary book.

246. Capital account has a debit balance.

247. Purchase account is a nominal account.

248. All the personal & real account are recorded in P&L A/c.

249. Asset side of balance sheet contains all the personal & nominal accounts.

250. Capital account is a personal account.

251. Journal is also known as the book of original entry.

252. Cash book is a subsidiary book as well as a principal book.

253. Two column cash book consists of two columns cash column & bank column.

254. Discount column of cash book is never balanced.

255. Contra entry is passed in a two-column cash book.

256. If the bank column is showing the opening balance on credit side, it is an overdraft.

257. A cash book records cash transactions as well as credit transactions.
258. Discount column of cash book records the trade discount
259. A ledger is also known as the principal book of accounts.
260. Cash account has a debit balance.
261. Posting is the process of transferring the accounts from ledger to journal.
262. At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
263. Ledger records the transactions in a chronological order.
264. If the total debit side is greater than the total of credit side, we get a credit balance.
265. Ledger accounts of assets will always be debited when they are increased.
266. Transactions recorded in the purchase book include only purchases of goods on credit transactions.
267. Transactions regarding the purchase of fixed asset are recorded in the purchase book.
268. Cash sales are recorded in the sales book.
269. Subsidiary books are also known as the books of original entry
270. Bills receivable book is a subsidiary book.
271. Return inward book is also known as purchase return book.
272. Purchase of a second-hand machinery will be recorded in purchase book.
273. Total of sales return book is posted to the debit side of sales account.
274. If the sales are on a frequent basis, the transactions are recorded in the sales book.
275. Preparing trial balance is the third phase of accounting process.
276. Trial balance forms a base for the preparation of financial statement.
277. Agreement of Trial balance is a conclusive proof of accuracy.
278. A trial balance will tally in case of compensating errors.
279. A Trial balance can find the missing entry from the journal.
280. Suspense account opened in a trial balance is a permanent account.
281. The balance of purchase returns account has a credit balance
282. The method of rectification of errors depends on the stage at which the errors are detected.
283. In case of error of complete omission, the trial balance does not tally.

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

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

286. Trial balance agrees in case of compensating errors.

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

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

289. 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.

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

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

292. Value of the abnormal loss is debited to the consignment account

293. Sales account and account sales are one and the same.

294. Consignor is the owner of consignment stock.

295. Normal commission is paid to the consignee to bear the risk of the bad debts on sale of the consigned stock.

296. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.

297. Consignment account is a representative personal account.

298. Proforma invoice is sent by the consignee to the consignor giving details about the stock of goods sent on consignment and their cost, invoice price, etc.

299. The bad debts in case of del credere commission shall be debited to the Consignment account

300. Abnormal loss is created out of uncontrollable situations and circumstances.

301. The relationship between the consignor and his consignee is that of a seller and a buyer.

302. Increase in market value of a fixed asset is one of the reasons for depreciation being charged.

303. Depreciation of an asset begins when it is available for use in the location & condition necessary for it to be capable of being operated.

304. Cost of property, plant and equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.

305. Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.

306. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.

307. In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.

308. In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.

309. Akash purchased a machine for ₹ 12,00,000. Estimated useful life is 10 years and scrap value is ₹ 1,00,000. Depreciation for the first year using sum of the years digit method shall be ₹ 2,00,000.

310. Depletion is the allocation of the cost of intangible assets such as patents and copyrights.

311. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life

312. If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.

313. Sum of the years digit method is an example of accelerated method of charging depreciation.

314. Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expense in early years and more depreciation in later years of its life.

315. While depreciating land cost, Straight line method shall give more depreciation than the written down value.
316. Provision for depreciation account is debited at the time of recording the depreciation on an asset.

317. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.

318. 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.

319. 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.

320. 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.

321. Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year.

322. The specific due date excludes the addition of grace days to arrive at the due date.

323. Payment made before the average due date entitles rebate to the customer.

324. Average due date results in loss to the party making the payment.

325. Interest has to be paid by the party making payment exactly on the average due date.

326. Where the due date is a public holiday and the preceding day is Sunday (holiday), then the due date falls on the day preceding Sunday.

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

328. Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.

329. Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred.

330. The Conservatism Concept also states that no change should be counted unless it has materialized.

331. The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting.

332. 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.

333. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.

334. Selection of accounting policy doesn't impact financial performance and financial position of the business

335. A change in accounting policies should be made as and when business like to show result as per their choice.

336. Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy.

337. Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time.

338. 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.

339. Accounting standards can override the statute.

340. Difficulties in making choice between different treatments is one of the benefits of accounting standards.

341. Requirements for additional disclosures is limitation of accounting standards.

342. ASB stands for accounting standardization benchmarking.

343. There is no limitation to accounting standards.

344. The drawer's signed assent on bill of exchange, to the order of the drawee is called an acceptance:

345. That portion of an expenditure whose benefit has been exhausted is called Unexpired Expenditure.

346. 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.

347. Authorized Share capital is sometimes referred to as nominal share capital.

348. Fixed assets less interest on obligations undertaken to purchase asset less accumulated depreciation thereon up-to-date are called Net Fixed Assets.

349. The credit balance in the profit and loss statement is called a deficit.

350. There are four generally accepted measurement bases.
(i) Historical Cost; (ii) Current Cost;
(iii) Realizable Value; (iv) Future Value.

351. Historical Cost means price paid at time acquisition.

352. As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained

by selling the assets in an orderly disposal.

353. 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.

354. ABC purchased a machinery amounting ` 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ` 20,00,000. Historical cost of machine is 20,00,000

355. ABC purchased a machinery amounting ` 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ` 20,00,000. Current cost of machine is ` 20,00,000

356. A contingent liability need not be disclosed in the financial statements.

357. A Provision fails to meet the recognition criteria.

358. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.

359. When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability.

360. Present financial obligation of an enterprise, which arises from past event is termed as contingent liability.

361. The Government of India in consultation with the ICAI decided to adopt IFRSs issued by the IASB.

362. There are many benefits of convergence with IFRSs to the economy, investors, industry etc.

363. There was no need to converge to global accounting standards.
364. International Financial Reporting Standards (IFRSs) are considered a “rules-based” set of standards.

365. Govt of India has taken IASB support to develop Ind AS standards.

366. IASC stands for International Accounting Standards Council.

367. There is no difference between book keeping and accounting, both are same.

368. Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

369. Financial accounting is concerned with internal reporting to the managers of a business unit.

370. Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business

371. Summarizing 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.

372. Balance sheet shows the position of the business on the day of its preparation and not on the future date.

373. Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business

374. 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.

375. All the personal & real accounts are recorded in P&L A/c.

376. Amount spent on the replacement of worn-out part of machine is Capital Expenditure.

377. When closing inventory is overstated, net income for the accounting period will be understated.

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

379. Goodwill is intangible asset therefore it cannot be valued.

380. Interest on calls in arrears is payable by company to shareholders.

381. Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

382. Debenture holders enjoy the voting rights in the company.

383. A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

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

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

386. A partnership firm can acquire fixed assets in the name of the firm.

387. Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

388. The financial statement must disclose all the relevant and reliable information i n accordance with the Full Disclosure Principle.

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

390. Bills receivable and bills payable books are type of subsidiary books.

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

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

393. Sale of office furniture should be credited to Profit and Loss Account.

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

395. A partnership firm can acquire fixed assets in the name of the firm.

396. Debenture holders enjoy the voting rights in the company.

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

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

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

400. 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.

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

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

403. 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.

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

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

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

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

408. The balance in petty cash book represents an asset.

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

410. Subscriptions received for the current year shall be shown in the balance sheet as a current asset.

411. 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.

412. Bills receivable and bills payable books are type of subsidiary books.

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

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

415. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

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

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

418. The concept of conservatism when applied to the balance sheet results in understatement of assets.

419. 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.

420. 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.

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

422. 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.

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

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

425. The firm will receive surrender value of the joint life policy on the death of the partner.

426. 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.

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

428. Wages paid for erection of machinery are debited to Profit and Loss Account.

429. 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.

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

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

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

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

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

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

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

437. Consignment account is of the nature of real account.

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

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

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

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

442. The Sale Book is kept to record both the cash and credit sales.

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

444. Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.

445. Accounting Standards for non-corporate entities in India are issued by the Central Government.

446. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,

447. A Company is not allowed to issue shares at a discount to the public in general.

448. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

449. A person holding preference shares of a company cannot hold equity shares of the same company.

450. Business of partnership comes to an end on death of a partner.

451. Cash book is a subsidiary book as well as a principal book.

452. Any amount spent to minimize the working expenses is revenue expenditure.

453. Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.

454. The provision for bad debts is debited to sundry debtors account.

455. Non-participating preference shareholders enjoy voting rights.

456. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.

457. Discount column of the cash book is never balanced

458. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability. ·

459. At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

460. The specific due date excludes the addition of grace days to arrive at the due date.

461. Any amount spent for replacement of worn out part of a machine is capital expenditure.

462. Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

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

464. Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.

465. Money spent to reduce working expenses is Revenue Expenditure.

466. Legal fees to acquire property is Capital Expenditure.

467. 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.

468. Amount spent for replacement of worn out part of machine is Capital Expenditure.

469. Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.

470. Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.

471. 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.

ABOUT OUR FACULTY

Niraj Agarwal is a Chartered Accountant, Company Secretary, Cost & Management Accountant. He is an All India Rank Holder in all the 3 courses. He has graduated from St. Xavier's College, Kolkata and holds a Master's degree in Commerce too. He believes that learning is a continuous process and hence he is also a ICAI certified IFRS professional, an Associate from Insurance Institute of India and completed 5 papers of Actuarial Science. He is also a visiting Faculty at ICAS, Kolkata

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