Multiple Choice Questions

Accounting- An Introduction

- Prudence is a concept to recognize unrealized Profit and not Losses. **(False)**
- Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash – Current Liabilities. **(False)**
- Finished goods are normally valued at cost or market price whichever is higher. **(False)**
- Accrual concept implies accounting on cash basis. **(False)**
- It is on the basis of going concern concept that the assets are valued at market price. **(False)**
- In accounting, all business transactions are recorded as having dual aspect. **(True)**
- Accounting is concerned with monetary and non-monetary transactions. **(False)**
- Money Measurement concept takes into account changes in the value of monetary unit. **(False)**
- Assets are to be shown in the balance sheet at the values realizable on liquidation. **(False)**
- Patent is an example of current assets. **(False)**
- Companies can keep their accounts under cash basis. **(False)**
- Capital is all assets less fictitious assets. **(False)**
- Accrual concept implies accounting on cash basis. **(False)**
- Accounting involves communication. **(True)**
- Patent right is in the nature of real account. **(True)**
- Capital is equal to assets less external liabilities. **(True)**
- Accounting can be viewed as an information system which has its input processing methods and output. **(True)**

Accounting Standards & Accounting Policies

- The accounting standards are in nature of laws but not laws. **(True)**
- The accounting standards are issued under the authority of the 'Accounting Standards Board'. **(True)**
- The Accounting Standards Board was established in 1923. **(False)** 21st April,1977
- The accounting standards may be issued with retrospective effect. **(False)**
- International Accounting Standards (IAS) will be considered before issuance of accounting standards by the Institute of Charted Accountants of India (ICAI). **(True)**
- It is not necessary for the Indian Companies to make their financial statements according to the provisions of the accounting standards. **(False)**

Journal, Ledger and Trial Balance

- Error of principle will affect Trial Balance. **(False)**
- When we buy furniture on cash we debit cash account. **(False)**
- The allowance made for prompt payment is called trade discount. **(False)**
- The trial balance ensures the arithmetical accuracy of the books. **(True)**
- Trial balance is prepared after preparing the Profit & Loss Account. **(False)**
- Sale of office furniture should be credited to sales account. **(False)**
- Any type of error affects the agreement Trial Balance. **(False)**
- Patent right is in the nature of Nominal Account. **(False)**
- The trial balance checks the honesty of the book-keeper. **(False)**
- The debts written off as bad, if recovered subsequently, are credited to debtor's account. **(False)**
- Freight and Cartage expenses paid on purchases of goods is added to the amount of purchases. **(True)**
- Goodwill is the nature of personal account. **(False)**
- Nominal accounts are balances in the end of the accounting year. **(True)**
- Transactions are recorded first of all in the ledger. **(False)**
- Ledger is a set of accounts. **(True)**
- Outstanding expenditure is a nominal account. **(False)**
- The purchase day book is a part of ledger. **(False)**
- Goodwill is a fictitious asset. **(False)**
- Patent-right is in the nature of Real account. **(True)**
- Sale of office furniture should be credited to sales account. **(False)**
- The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumption. **(False)**
- The return of goods by a customer should be debited to Return Outward account. **(False)**
- The balance of an account is always known by the side which is shorter. **(False)**
- Trial Balance is an absolute proof of the accuracy of the books of accounts. **(True)**
- Over-riding commission is calculated on credit sales only. **(False)**
- Rent paid account is a nominal account whereas, Rent receives account is a real account. **(False)**
- Petty cash is an expense. **(False)**

Subsidiary Books

- The balance in the Petty Cash Book represents expense. **(False)**
- The Sales Day Book is a part of the Ledger. **(False)**
- The balance in the cash book shows net income. **(False)**
- Purchases book records all purchases of goods. **(False)**
- Discount allowed should be balanced in the cash book. **(False)**
- Sales Book is used for recording cash sales. **(False)**
- Subsidiary books are also called books of original entry. **(True)**
- Credit note is sent to a customer when goods sold are returned by him. **(True)**
- Debit note is sent to the supplier of the goods when the goods are returned. **(True)**
- The purchase of machinery for the business is recorded in purchases book. **(False)**
- Sales book is kept to record both cash & credit is sales. **(False)**
- Debit note issued are used to prepare sales return book. **(False)**
- Closing entries are recorded is Journal proper. **(True)**
- When Subsidiary books are maintained Journal is not required. **(True)**

Bank Reconciliation Statement

- Bank Reconciliation Statement is prepared to arrive at the Bank Balance. **(False)**
- Interest charged by the bank will be deducted when the overdraft as per Cash Book is made the starting point for making the Bank Reconciliation Statement. **(False)**
- Interest charged by the bank will be deducted when the overdraft as per Pass Book is the starting point for preparing the Bank Reconciliation Statement to arrive at the balance as pe Cash Book at the end. **(False)**
- The balance as shown by the bank Pass Book and the balance as shown by the bank column of Cash Book are always equal. **(False)**
- When money is withdrawn from the bank, the bank credits the amount of customer. **(False)**
- Favorable balance as per Cash Book means debit balance in the bank column of the cash book. **(True)**
- Bank Reconciliation Statement is not prepared to arrive at the Bank Balance. **(False)**
- A crossed cheque is always payable across the bank counter. **(False)**
- If the balance as per Cash Book and Pass Book are the same, there is no need to prepare a Reconciliation Statement. **(True)**

- If a cheque received is further endorsed, it must be entered on both sided of the Cash Book. **(False)**

Bills Of Exchange

- A bill given to a creditor is called Bill Payable. **(False)**
- A promissory note can be made payable to bearer. **(True)**
- Discount at the time of retirement of a bill is a gain for the drawee. **(True)**
- No cancellation entry is required when a bill is renewed. **(False)**
- Bill is drawn by the creditor and accepted by the debtor. **(True)**
- An accommodation bill is drawn and accepted for trade transactions. **(False)**
- No entry is needed in the case of a bill which is endorsed in favour of creditors. **(False)**
- A promissory note cannot be made payable to bearer. **(False)**
- Cancellation old bill and drawing new bill is called Renewal of bill. **(True)**
- A cancellation entry is required, when a bill is renewed. **(True)**
- A bill given to a creditor is called bill Receivable. **(True)**
- Discount at the time of retirement of a bill is a gain for the drawer. **(False)**
- Refusal by the acceptor to make payment of the bill on the maturity date is called retirement of the bill. **(False)**

Depreciation, Provision and Reserve

- Depreciation is an amortized expenditure. **(True)**
- Reducing Balance Method of Depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together. **(True)**
- Providing depreciation ensures sufficient cash for asset replacement. **(True)**
- Providing depreciation in the accounts reducing the amount of profit available for dividend. **(True)**
- Depreciation can't be provided in case of loss, in a financial year. **(False)**
- M/s Ram & Co. didn't provide any depreciation on plant and machinery, as its market value is much higher than the cost of purchasing. **(False)**
- There exists different between the written down value method and diminishing balance method of depreciation. **(False)**
- The expressions- depreciation is to be charged at 10% and 10% p.a. of furniture and fittings carry the same meaning. **(False)**

- Higher depreciation will not affect cash profit of the business. **(True)**
- Capital Reserve is used for dividend. **(False)**
- In case of diminishing balance method, the assets get reduced to zero. **(False)**
- There is no different between the written down value method and diminishing balance method of depreciation. **(True)**
- Land is also depreciable assets. **(False)**
- Depreciation is cash expenditure like other normal expenditure. **(False)**
- Depreciation is process of allocation of fixed assets. **(True)**
- Depreciable amount refers to the difference between historical cost and the market value of assets. **(False)**

Rectification of Errors

- Rectification of mistakes is necessary to tally the Trial Balance. **(False)**
- If the amount is posted in the wrong account or it is written on the wrong side of an account, it is called error of commission. **(True)**
- Wrong casting of subsidiary books does not affect the trial balance. **(False)**
- Rectification of errors will not necessarily balance a trial balance. **(False)**
- Purchase of office furniture has been debited to general expenses account. It is a compensating error. **(False)**
- Error of carry forward of totals of purchase journal affects two accounts. **(False)**
- Error of principle involves an incorrect allocation of expenditure or receipt between Capital and Revenue. **(True)**
- If the amount is posted in the wrong account or it is written on the wrong side of an account, it is called error of omission. **(False)**
- Error of omission does not affect the agreement of Trial Balance. **(True)**
- Tallying of the trail balance only proves arithmetical accuracy. **(True)**
- Travelling expenses of Rs.80,000 paid to technician for the installation of a new machine is debited to Profit and Loss Account. **(False)**
- Incorrect allocation of expenditure or receipt between capital and revenue is an error of commission. **(False)**
- Sales of office Furniture should be credited to sales Account. **(False)**

Final Account

- Net Profit is reflected in higher Cash balances and Net Loss is reflected in lower Net Worth. **(False)**
- Profit and Loss Account shows the financial position of the concern. **(False)**
- Fixed cost remains relatively unaffected in a defined period of time. **(True)**
- A withdrawal of cash from the business by the proprietor should be charged to Profit and Loss account as an expense. **(False)**
- Fixed assets are started in the Balance Sheet at their market value. **(False)**
- A Profit and Loss account is a point statement whereas a Balance Sheet is a period statement. **(False)**
- Contingent liability is an ascertained liability but its amount and due date are indeterminate. **(False)**
- The proprietor of a shop feels that he has made a loss due to closing stock being zero. **(False)**
- The provision for discount on debtor is calculated before deducting the provision for doubtful debts from debtors. **(False)**
- Goodwill is not a fictitious asset. **(True)**
- Goodwill is a current asset. **(False)**
- Stock at the end if appears in the Trial Balance, is taken only to Balance Sheet. **(True)**
- The term 'Current Liabilities' is used to denote those liabilities which are payable after a year. **(False)**
- A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles. **(False)**
- Provision for bad debts is debited to Sundry Debtors Account. **(False)**
- Freight paid on purchase of goods is added to the amount of purchase. **(True)**
- The debit balance in the Profit and Loss Account shows surplus. **(False)**
- Capital is all assets less fictitious assets. **(False)**
- Under the 'liquidity approach' assets which are most liquid are presented at the bottom of the Balance Sheet. **(False)**
- The Provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors. **(True)**

Capital & Revenue—Expenditure & Receipts

- Pre-operative expenses are revenue expenses. **(False)**
- Heavy expenditure incurred on advertisement at the time of introducing a new product is deferred revenue expenditure. **(True)**

- Expenses incurred to keep the machine in working condition is a capital expenditure. **(False)**
- An expenditure intended to benefit the current period is revenue expenditure. **(True)**
- Months written off from the cost of fixed asset, is capital expenditure. **(False)**
- Wages paid to workers to produce a tool to be captively consumed is capital expenditure. **(True)**
- Deferred Revenue expenditure is current year's revenue expenditure to be paid in later years. **(False)**
- Expenditure which results in acquisition of a permanent asset is a capital expenditure. **(True)**
- Wages paid for erection of machinery are debited to Profit & Loss Account. **(False)**
- Amount paid for acquiring Goodwill is deferred revenue expenditure. **(False)**
- Overhaul expenses of second-hand machinery purchased are revenue expenditure. **(False)**
- Major repair charges including replacement of certain wornour parts incurred before using a second- hand car purchased recently is a capital expenditure. **(True)**
- The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business. **(True)**
- Expenses incurred on white-washing of factory building done after every six months is revenue expenditure. **(True)**
- Amount spent for replacement of worn out part of a machine is capital expenditure. **(False)**
- Temporary shed put up at project site to house material is a capital expenditure. **(True)**
- Heavy advertisement to introduce a new product is capital expenditure. **(False)**
- Legal fees paid to acquire a property is capital expenditure. **(True)**
- Expenditure on renovation of a theatre which has increased the seating capacity by 10% is deferred revenue expenditure. **(False)**
- Wages paid for erection of new machinery are debited to Machine Account. **(True)**
- Expenditure, which results in acquisition of a permanent asset, is revenue expenditure. **(False)**

Accounts of Non-Trading Concern & Professional People

- Scholarships granted to students out of funds provided by govt. will be debited to Income & Expenditure Account. **(False)**
- Receipt & Payments Account is summary of all capital receipt and payment. **(False)**
- The Receipt & Payment Account records receipts and payments of revenue nature only. **(False)**
- If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account. **(False)**
- Receipt and Payment account is a real account. **(True)**

- Income and Expenditure account is a nominal account. **(True)**
- Receipts & Payments account is prepared on accrual basis. **(False)**
- Payment of honorarium to secretary is treated as a capital expenditure. **(False)**
- Day-to Day transactions of a club are recorded in Income and Expenditure account. **(False)**
- Receipts and Payment Account generally shows: **(A Debit balance)**
- Income and Expenditure Account records transactions of: **(Revenue nature only)**
- Income and Expenditure Account reveals: **(Surplus or Deficiency)**
- Donation received for a special purpose: **(Should be credited to separate account and shown in the Balance Sheet)**
- Subscription received by a school for organizing annual function is treated as: **(Capital Receipt i.e., Liability)**
- Amount received from sale of grass by a club should be treated as: **(Revenue Receipt)**
- If there is a 'Match Fund', then match expenses and incomes are transferred to: **(Liabilities side of balance Sheet)**
- Subscription received in advance during the current year is: **(A Liabilities)**
- Subscription received in cash during the year amounted to Rs. 40,000; subscription outstanding at the end of previous year was Rs. 1,500 and outstanding at the end of current year was Rs. 2,000. Subscription received in advance for next year was Rs. 800. The amount credited to Income & Expenditure Account will be: **(Rs. 39,700)**
- Subscription received in cash during the year amounted to Rs. 60,000; subscription received in advance for next year was Rs. 3,000 and received in advance during previous year was Rs.2,000. Subscription in arrear at the end of current year was Rs. 5,400. The amounted credited to Income & Expenditure Account will be: **(Rs. 64,400)**
- The opening balance of Prize Fund was Rs. 32,800. During the year, donations received towards this fund amounted to Rs. 15,400; amount spent on prizes was Rs. 12,300 and Interest received on prize fund investment was Rs. 4,000. The closing balance of Prize Fund was: **(Rs. 39,900)**
- Salary paid in cash during the current year was Rs. 80,000; outstanding salary at the end was Rs. 4,000; Salary paid in advance last year pertaining to the current year was Rs. 3,200; paid in advance during current year for next year was Rs. 5,000. The amount debited to Income and Expenditure Account will be: **(Rs. 82,200)**
- Receipt and Payment account is a **real** account.
- Income and Expenditure Account is a **nominal** account.
- Life membership fee received by an institution is a **capital** receipt.
- Subscription received by an institution is a **revenue** receipt.
- Payment of honorarium is treated as **revenue** expenditure.
- Entrance fee is treated as **revenue** receipt.

- Income and Expenditure Account is prepared by **non-trading** concerns.
- Excess of expenditure over income is **deducting from** capital fund in the balance sheet.
- Life membership fee received by a club are shown on the **Balance sheet**.
- Subscriptions outstanding in case of a club are shown on the **assets** side of the Balance sheet.
- Receipt and Payment Account is a summary of all capital receipt and payments. **(False)**
- If there appears a sports fund, the expenses incurred on sports activities will be shown on the debit side of Income and Expenditure Account. **(False)**
- A credit balance of Income and Expenditure Account denotes excess of expenses over incomes. **(False)**
- Scholarships granted to students out of funds provided by government will be debited to Income and Expenditure Account. **(False)**
- Receipts and Payment Account records the receipts and payments of revenue nature only. **(False)**
- Donations for specific purpose are always capitalized. **(True)**
- Opening balance sheet is prepared when the opening balance of capital fund is not given. **(True)**
- Surplus of Income and Expenditure Account is deducting from the capital/ general fund. **(False)**
- Receipt and Payment Account is equivalent to profit and loss account. **(False)**
- Receipt and Payment Account does not make any difference between capital and revenue receipts. **(True)**
- Not-for-Profit organizations need not maintain proper accounts. **(False)**
- A public library is a non-profit seeking entry. **(True)**
- Receipt and Payment Account records only those items which relate to current accounting period. **(False)**
- Not-for-Profit organizations do not maintain any Capital Account. **(True)**
- Non-Cash items are not shown in Income & Expenditure Account. **(False)**
- The surplus of Not-for-Profit organization is distributed among members. **(False)**
- Income and Expenditure Account is just like a Profit & Loss Account of a business enterprise. **(True)**
- A non-profit organization never undertakes trading activities. **(False)**
- Amount received as 'Legacy' is credited to Income and Expenditure Account. **(False)**
- Proceeds from the sale of old newspapers and periodicals is taken as other income. **(True)**

Receipts from the sale of old assets are treated as income. **(False)**

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