State with reasons - whether the following statements are correct or incorrect:

1. Accounting is the art of recording, classifying, summarizing, analyzing, interpreting and communicating transactions and events of business.

Ans:- Correct.

2. Both monetary and non-monetary transactions and events are recorded in accounts.

Ans: - Incorrect. As per money measurement concept, only monetary transactions are recorded but non – monetary transactions are not recorded.

3. As per going concern concept, life of the business is limited.

Ans: - Incorrect. As per going concern concept, it is assumed that life of the business is unlimited.

4. Matching concept is relevant for ascertaining Profit or Loss of the business.

Ans: - Incorrect. As per going concern concept, it is assumed that life of the business is unlimited.

5. Dual aspect concept is concerned with recording transactions and events as per double entry system.

Ans: -Correct

6. As per full disclosure concept contingent liabilities are recorded as footnote.

Ans: -Correct

7. Resources of an accounting entity are called Assets.

Ans: -Correct

8. Assets, which are expected to be converted into cash or to be used in the business operations within one year, are known as fixed assets.

Ans:- Incorrect. Assets, which are expected to be converted into cash or to be used in the business operations within one year, are known as current assets.

9. In a business enterprise ownership interest is known as equity.

Ans: -Correct

10. Cash basis of accounting recognizes revenue as earned, when sale is completed.

Ans:- Incorrect. Cash basis of accounting recognizes revenue as earned, when amount is received. Accrual basis of accounting recognizes revenue as earned, when sale is completed.

11. Mercantile system of accounting is based on concept of accrual.

Ans: -Correct

12. As per dual aspect concept, Assets + Liabilities = Capital.

Ans:- Incorrect. As per dual aspect concept, Assets – liabilities = capital.

13. Accounting standards are issued by the Institute of Chartered Accountants of India.

Ans: -Correct

14. Any change in Accounting Policy should be disclosed while preparing Financial Statement.

Ans: -Correct. As per full disclosure concept, any change in accounting policy should be disclosed while preparing financial statements.

15. Accounting Policy once adopted may be changed at any time.

Ans:- Incorrect. Accounting policy may be changed in following cases:-
(i) due to change in law, or (ii) due to change in Accounting Standard or (iii) to ensure more appropriate presentation of financial statement so as to give Correct and fail view of the state of affairs of the business enterprise.

16. Goods taken out of the business for personal use of the proprietor, given as charity and used as samples are credited to P & L account.

Ans:- Incorrect. Goods taken out of the business for personal use of the proprietor, given as charity and used as samples are credited purchase/trading account.

17. The documents on the basis of which transactions are recorded in the account books are known as 'Source documents'.

Ans: -Correct

18. Debit balance of a Personal Account shows amount receivable and credit balance as amount payable.

Ans: -Correct

19. Debit balance of Nominal Account is Income or Gain and credit balance is Expenses or loss.

Ans:- Incorrect. Debit balance of Nominal Account is Expenses or loss and credit balance is Income or gain.

20. Trade Discount is allowed for prompt payment.

Ans:- Incorrect. Trade discount is allowed due to business custom or relationship. Cash discount is allowed for prompt payment.

21. Payment of personal expenses of the proprietor is debited to cash account.

Ans: - Incorrect. Payment of personal expenses of the proprietor is debited to drawings account and credited to cash account.

22. The document related to sale return is debit note.

Ans:- Incorrect. The document related to sale return is credit note.

23. The document related to purchase return is credit note.

Ans:- Incorrect. The document related to purchase return is debit note

24. The person, who has to receive money from other person, draws the Bill. He is known as 'Drawee'.

Ans: - Incorrect. The person, who has to receive money from other person, draws the Bill. He is known as 'drawer.

25. The person, who has to pay money to other person, accepts Bill of Exchange. He is known as 'Drawer'.

Ans: - Incorrect. The person, who has to receive money from other person, draws the Bill. He is known as 'drawee'.

26. Bill is drawn by the creditor and bill is accepted by the debtor.

Ans: - Correct.

27. Bill may be endorsed by drawer to his debtor.

Ans: - Incorrect. Bill is endorsed by drawer to his creditor.

28. Ultimate burden of noting charges falls on the drawee/acceptor.

Ans: - Correct.

29. Noting charges are paid to have evidence of presentation of Bill and non-payment.

Ans: - Correct.

30. If Bill is paid before due date, rebate is allowed to Drawee. Such rebate is calculated for the unexpired period.

Ans: - Correct.

31. In case of insolvency of drawee, Bill is treated as dishonored.

Ans: - Correct.

32. If due date falls on a holiday, due date will be the preceding day.

Ans: - Correct.

33. In case of sudden holiday due date shall be the following day.

Ans: - Correct.

34. Trade Bill may be drawn for the financial assistance of drawer only or drawer and drawee, both.

Ans: - Incorrect. Accommodation bill may be drawn for the financial assistance of drawer only or drawer and drawee both. Trade bill presupposes the liability.

35. BRS is prepared to find the reasons, which create difference between balance as per bank column of cash book and balance as per Pass Book/Bank Statement

Ans: - Correct.

36. Pass Book is the copy of customer's account maintained by bank.

Ans: - Correct.

37. BRS is prepared by the Bank.

Ans: - Incorrect. BRS is prepared by the businessman.

38. For preparation of BRS all those items which have been recorded in cash and bank column of the cash book should be taken into consideration.

Ans: - Incorrect. For preparation of BRS all those items which have been recorded in bank column of the cash book should be taken into consideration.

39. For calculation of adjusted balance of cash book, only those items are considered which have been recorded in pass book, but not recorded in cash book. Further, errors in cash book are corrected.

Ans: - Correct.

40. While preparing adjusted cash book, errors in passbook shall also be recorded.

Ans: - Incorrect. While preparing adjusted cash book, errors in passbook shall not be recorded but errors in cashbook shall only be considered.

41. BRS can be prepared taking either cash book balance or pass hook balance as the starting point.

Ans: - Correct.

42. Depreciation is the process of allocation of cost of assets over the useful life of asset.

Ans: - Correct.

43. Total depreciable amount is equal to cost of assets less salvage value, if any.

Ans: - Correct.

44. Depreciation is charged to comply matching concept.

Ans: - Correct.

45. Depreciation should be charged only after asset is ready for use.

Ans: - Correct.

46. Depreciation is a charge. Therefore, depreciation should be charged, even if there is insufficient profit or there is loss.

Ans: - Correct.

47. Land is treated as Non-Depreciable Asset.

Ans: - Correct.

48. Depreciation is charged over the period of physical life of asset. instead of physical life of asset.

Ans: - Incorrect. Depreciation is charged over the period of useful life of asset instead of physical life of asset.

49. Final Accounts are prepared before preparation of Trial Balance.

Ans:- Incorrect. Final Accounts are prepared after preparation of Trial Balance.

50. Balance sheet is prepared for knowing profit or loss made in a business during the particular year.

Ans: - Incorrect. Balance sheet is prepared for knowing financial position of the business. For knowing profit and loss, P & L account is prepared.

51. Manufacturing Account, Trading Account and Profit and Loss Account are Nominal Accounts.

Ans: - Correct.

52. Manufacturing Account shows gross profit.

Ans: - Incorrect. Manufacturing account shows cost of goods manufactured. Trading account shows gross profit.

53. Trading Account reveals cost of goods manufactured.

Ans: - Incorrect. Manufacturing account shows cost of goods manufactured. Trading account shows gross profit.

54. Cost of goods sold is = Opening stock + Purchases + Direct expenses on purchases - Closing stock

Ans: - Correct.

55. Closing Stock given in the Trial Balance is shown in trading account and Balance Sheet.

Ans: - Incorrect. Closing Stock given in the Trial Balance is shown in Balance Sheet only.

56. Sale of scrap is debited to Manufacturing Account.

Ans: - Incorrect. Sale of scrap is credited to Manufacturing Account.

57. Prepaid insurance given in trial balance is deducted from insurance expenses and shown on asset side of balance sheet.

Ans: - Incorrect. Prepaid insurance given in trial balance is shown on asset side of balance sheet. No entry shall be given in P & L account.

58. Provision for bad debts is calculated on sundry debtors before adjustment of bad debts.

Ans: - Incorrect. Provision for bad debts is calculated on sundry debtors after adjustment of bad debts.

59. Provision for Discount on Sundry Debtors is calculated on sundry debtors before deducting provision for bad debts from sundry debtors.

Ans: - Incorrect. Provision for discount on debtors is calculated on sundry debtors after deducting provision for bad debts.

60. Creation of Provision for bad debts and provision for discount on Debtors is done in compliance with conservatism concept of accounting.

Ans:- Correct.

61. Creation of Reserve for Discount on Creditors is against the Realization Principle of accounting.

Ans:- Correct.

62. Relationship between consignor and consignee is that of principal to principal.

Ans: - Incorrect. Relationship between consignor and consignee is that of principal to agent.

63. A proforma invoice is sent by consignor to consignee giving description and value of goods sent.

Ans:- Correct.

64. No accounting entry is made by consignee on receipt of such goods.

Ans:- Correct.

65. If Del – Credere commission is paid by consignor to consignee, loss of bad debts will be borne by consignor.

Ans: - Incorrect. If consignee receives del credere commission, loss of bad debt will be borne by consignee.

66. Nature of consignment account is Nominal Account

Ans:- Correct.

67. Consignor prepares Consignee's Account to find out amount receivable from consignee. Nature of consignee's account is personal account.

Ans:- Correct.

68. Any loss occurred due to natural calamities, theft or negligence is treated as normal loss.

Ans: - Incorrect. Any loss occurred due to natural calamities, theft or negligence is treated as abnormal loss. Any loss which is occurred due to inherent characteristics of goods shall be treated as normal loss.

69. Loss of stock due to inherent characteristics of the goods is abnormal loss.

Ans: - Incorrect. Any loss occurred due to natural calamities, theft or negligence is treated as abnormal loss. Any loss which is occurred due to inherent characteristics of goods shall be treated as normal loss.

70. Normal loss is unavoidable.

Ans:- Correct. Any loss which is occurred due to inherent characteristics of goods shall be treated as normal loss and hence it is unavoidable.

71. Abnormal loss is debited in the General Profit and Loss Account of the consignor.

Ans:- Correct.

72. Consignment profit is not reduced by the amount of abnormal loss.

Ans:- Correct. As abnormal loss is debited in the General Profit and Loss Account of the consignor, it does not affect consignment profit.

73. No accounting entry is required for normal loss of stock but value of closing stock is inflated proportionately due to such normal loss.

Ans:- Correct.

74. Closing stock of consignment remains in the possession of consignee, but it is the property of consignor.

Ans:- Correct.

75. Consignment stock is valued at cost or net realizable value, whichever is higher.

Ans: - Incorrect. Consignment stock is valued at cost or net realizable value, whichever is lower.

76. Proportionate direct expenses, whether incurred by consignor & consignee like loading, unloading, freight etc. are included while valuing closing stock on consignment.

Ans:- Correct.

77. While valuing closing stock, all expenses of consignee whether recurring or non recurring i.e direct and indirect should be considered.

Ans: - Incorrect. While valuing closing stock, only non recurring / direct expenses of consignee should be considered.

78. In consignment transaction, ownership of goods remains with consignee but possession of goods remain with the consignor.

Ans: Incorrect. In consignment transaction, ownership of goods remains with consignor but possession of goods remain with the consignee.

79. Consignor and Consignee shares profits equally in consignment transaction.

Ans: Incorrect. In consignment transaction, consignor is entitled for commission and consignee is entitled for commission.

80. A statement is sent by consignee to consignor showing details of sales, his expense and commission and net amount payable to consignor. Such statement is known as 'Accounts Sales'

Ans:- Correct.

81. In the absence of any agreement, partners are entitled for 6% interest on capital or interest on drawings.

Ans: Incorrect. In the absence of any agreement, partners are not entitled for any interest on capital or interest on drawings.

82. In the absence of any agreement, partners are entitled to share profit or loss of the business equally.

Ans:- Correct.

83. If dates of drawings are not given, interest on drawings will be calculated for 3 months on total drawings.

Ans: Incorrect. If dates of drawings are not given, interest on drawings will be calculated for 6 months on total drawings.

84. If equal monthly drawings are made at the end of each month, interest in drawings will be calculated for 5.5 month on total drawings.

Ans:- Correct.

85. Super Profit is the excess of future maintainable profit over normal profit.

Ans:- Correct.

86. Annuity method of goodwill valuation represents future value of super profit.

Ans: Incorrect. Annuity method of goodwill valuation represents present value of super profit.

87. Current Account of a partner may have either debit balance or credit balance.

Ans:- Correct.

88. All profits and losses up to the date of admission should be transferred to capital accounts of old partners in new profit sharing ratio

Ans: Incorrect. All profits and losses up to the date of admission should be transferred to capital accounts of old partners in old profit sharing ratio

89. Existing balance of reserves and profit and loss account will be transferred to capital accounts of old partners in old ratio.

Ans:- Correct.

90. If goodwill account is written off after admission, total value of goodwill is debited to capital accounts of all the partners in new ratio.

Ans:- Correct.

91. If amount of goodwill is paid privately by new partner, no accounting is made in the books of firm.

Ans:- Correct.

92. Any profit or loss on revaluation of asset and liabilities is transferred to capital accounts of old partners in old ratio.

Ans:- Correct.

93. In case of retirement of a partner, total value of the Joint Life Policy is taken into consideration.

Ans:- Incorrect. In case of retirement of a partner, surrender value of the Joint Life Policy is taken into consideration.

94. In case of death of a partner, total value of policy is taken into consideration.

Ans:- Correct.

95. Debenture holders are owners of the Company.

Ans:- Incorrect. Debenture holders are creditors of the Company. Shareholders are the owners of the company.

96. Debentures may be issued at par or at a premium but not at a discount.

Ans:- Incorrect. Debentures may be issued at par or at a premium or at a discount. Shares cannot be issued at discount.

97. Interest on Debentures is treated as charge against profits. It means interest will be debited to profit am loss account whether there is profit or loss.

Ans:- Correct.

98. Tax deducted at source from interest on Debentures is payable to Government. Therefore, it is a liability for company.

Ans:- Correct.

99. Discount on issue of Debentures should be written off in P & L account in the year of issue.

Ans:- Incorrect. Discount on issue of Debentures should be written off over the period, during which amount of debentures is used by the company.

100. Premium on redemption of debentures is capital loss for the company. This loss is recorded at the time of redemption of debentures.

Ans:- Incorrect. Premium on redemption of debentures is capital loss for the company. This loss is recorded at the time of issue of debentures as per the conservatism concept of accounting.

101. When debentures are issued as collateral security interest is not to be paid on such debentures.

Ans:- Correct

A] From RTPs:-

RTP Nov. 2019

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

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

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

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

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

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

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

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

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

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

RTP May 2019

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

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

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

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

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

Ans:- Correct. In the early periods of useful life of a fixed asset, repairs and maintenance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ans: - Incorrect. Net income in case of persons practicing vocation is determined by preparing Income and expenditure account.

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

Answer:- Correct

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

Answer: - Incorrect. Consignment account is of the nature of nominal account

 # RTP Nov 18

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

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

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

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

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

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

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

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

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

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

RTP May 18

124. Accrual concept implies accounting on cash basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mock test paper for Nov 2019

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

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

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

Ans:- Incorrect: Consignment account is a nominal account

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

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

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

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

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

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

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

Incorrect: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

Past papers

May 19

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

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

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

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

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

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

143. 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.

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

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

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

Nov 18

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

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

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

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

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

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

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

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

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

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

May 18

150. Expenses in connection with obtaining a license for running the Cinema Hall are revenue expenditure.

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

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

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

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

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

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

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

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

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