CRACK D TEST SERIES

CA FOUNDATION

Compiler of Most Important Correct & Incorrect Qs

दक्षिणामूर्ति प्रकाशन

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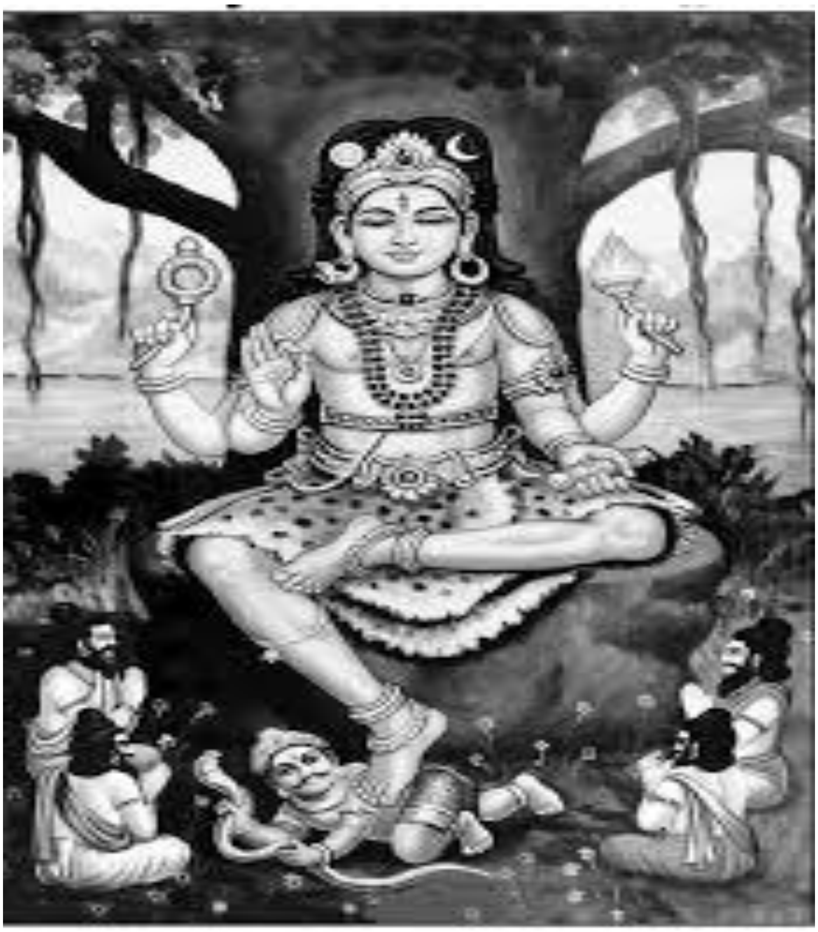
॥ ॐ श्री दक्षिणामूर्तये नमः ॥



॥ गुरोस्तु मौनं व्याख्यानं शिष्यास्तुच्छिन्नसंशयाः॥

दक्षिणामूर्ति प्रकाशन

Correct & Incorrect Statements

A] FROM MTPS & RTPS OF THE ICAI:-

1. The debit notes issued are used to prepare sales return book.
False: The debit notes issued are used to prepare purchases return book.

2. Sale of office furniture should be credited to Profit and Loss Account.
False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

3. Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
False: It shall be disclosed as a current liability in the opening balance sheet.

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

5. The results and position disclosed by final accounts are not exact.
True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

6. In case of a public holiday, the due date of the bill falls on the next working day.
False: In case of a public holiday, the due date of the bill falls on the preceding working day.

7. Goodwill is intangible asset therefore it cannot be valued.
False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

8. Where a Non-Profit organization is a separate trading activity, the profit / loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.
True: Where in case of the trading activities for Non-Profit organization, the profit/loss from such activity is to be transferred to the Income and Expenditure Account at the time of consolidation.

9. The firm will receive surrender value of the joint life policy on the death of the partner.
False: the firm will receive full value of sum assured of the joint life policy on the death of the partner.

10. Company X Ltd. is incurring huge losses; the Board of Directors are of the opinion that in case of losses, there is no need to pay interest to debenture holders.
False: Even if the company incurs losses, it has to pay interest on debentures. Debenture being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

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

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

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

14. Finished goods are normally valued at cost or market price whichever is less.
Correct.

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

16. Discount at the time of retirement of a bill is a gain for the drawee.
True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

17. A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

18. Partners can share profits or losses in their capital ratio, when there is no agreement.
False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

19. Receipts and Payments Account highlights total income and expenditure.**False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

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

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

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

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

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

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

23. Goods worth Rs. 600 taken by the proprietor for personal use should be credited to drawings 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.

24. 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.

25. When there is no agreement among the partners, the profit or loss of the firm will be shared equally.

Ans:- Correct. 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.

26. 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.

27. 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.

28. 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.

29. Straight line method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
Ans:- Incorrect. It is uniform in reducing balance method.

30. 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.

31. 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.

32. The debit notes issued are used to prepare purchase Return Book.
Ans: -Correct.

33. 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.

34. 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.

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

36. 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.
37. 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.

38. "Salary paid in advance" is an expense..
Ans:- Incorrect. 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.

39. 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.

40. Accrual concept implies accounting on mercantile basis.
Ans: - Correct.

41. 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.

42. Cash book records cash & credit sales.
Ans: - Incorrect. Cash book records cash sales only.

43. Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.
Ans: - Incorrect. Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.

44. 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.

45. 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.

46. 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.

47. 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.

48. The balance in petty cash book represents an asset.
True - The balance represents the cash physically in existence and is therefore an asset.

49. Finished goods are normally valued at cost or market price whichever is higher.
False - Finished goods are normally valued at cost or net realizable value whichever is lower.

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

False - Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.

51. 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.

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

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

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

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

True - Yes they are types of subsidiary books which is alternate to the journals.

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

False: Such wages being related to capital asset should be debited to the machinery account.

55. 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.

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

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

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

57. 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.

True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

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

False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

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

False: Debenture interest is payable before the payment of any dividend on shares.

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

False - Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

61. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
True - Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

62. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
True - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

63. Discount at the time of retirement of a bill is a gain for the drawee.
True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

64. Business of partnership comes to an end on death of a partner.
False - Surviving partners may continue to carry on the business in case of partnership.

65. Receipts and Payments Account highlights total income and expenditure.
False - Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

66. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
True: Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

67. In the balance sheet of Angel Limited, preliminary expenses amounting to ` 15 lakhs and securities premium account of ` 105 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
True: According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ` 15 lakhs.

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

69. In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

False: In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

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

False: The debit notes issued are used to prepare purchases return book.

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

False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

72. Financial statements are part of book keeping.

Ans :- Incorrect. Financial statements are not part of book keeping but part of accounting.

73. Employees provide risk capital to the business. They need information to assess whether to buy, hold or sell their investment.

Ans:- Incorrect. Investors provide risk capital to the business.

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

Ans: -Correct

75. Financial statements are free from subjectivity.

Ans: - Incorrect The financial statements are never free from subjectivity factor as these are largely the outcome of personal judgment, estimation and assumption of the accountant with regard to accounting policy.

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

Ans: - Incorrect. Accrual means recognition of revenue and costs as **they are earned or incurred and not as money is received or paid.**

77. Golden rule of current assets valuation - 'cost or market price whichever is lower' originated from realization concept.

Ans: - Incorrect. Golden rule of current assets valuation - 'cost or market price whichever is lower' originated **from conservatism concept.**

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

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

79. A bank reconciliation statement is a part of pass book

Ans: - Incorrect. A bank reconciliation statement is not a part of pass book but memorandum statement

80. Total depreciable amount is equal to cost of assets plus salvage value, if any.

Ans: - Incorrect. Salvage value shall be reduced from the cost of asset to arrive at depreciable value.

81. If Asset is properly maintained, there is no need to provide depreciation.

Ans: - Incorrect. Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.

82. The provision for bad debts is credited to Sundry Debtors Account.

Ans: - Incorrect. The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the Debtors.

83. 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.

Ans: - Correct. The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.

84. Sale of scrap is debited to Manufacturing Account.

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

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

Ans:- Incorrect. The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.

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

Ans:- Incorrect. It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.

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

Ans: Incorrect. In absence of any agreement partners share profits equally and not in capital contribution ratio.

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

Ans: Correct. Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.

89. 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.

90. 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.
Ans:- Incorrect. If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.

91. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.
Ans:- Incorrect. Profit on revaluation is credited to all the partners in their profit sharing ratio.

92. Perpetual system requires closure of business for counting of inventory.
Ans:- Incorrect. Periodic system requires closure of business for counting of inventory.

93. Every public company is a listed company.
Ans:- Incorrect. Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.

94. The rate of dividend on preference shares may vary From year to year.
Ans:- Incorrect. Rate of preference dividend is always fixed.

95. As per table F, rate of interest on calls in arrears is 12%.
Ans:- Incorrect. As per table F, rate of interest on calls in arrears is 10% but rate of interest on calls in advance is 12%.

96. 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.

97. Capital redemption reserve cannot be used for issue of bonus shares.
Ans. Incorrect. Company can use Capital redemption reserve for issuing fully paid bonus shares.

98. Revaluation reserve can be used for issuing fully paid bonus shares.
Ans. Revaluation Reserve represents unrealized Gain & cannot be applied in issuing Bonus Shares as per the Bonus Issue Guidelines

99. Company can give dividend out of capital redemption reserve.
Ans. False. Capital redemption reserve is not a free reserve. So company cn not issue dividend out of CRR. Company can issue fully paid bonus shares out of capital redemption reserve.

100. A company can purchase its debentures from open market for cancellation/ redemption.
Ans. Correct.

2. PAST EXAMS PAPERS OF THE ICAI

A] Sept 2024

1. Nominal Accounts are balanced at the end of the Accounting Year.
False: At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

2. Overhaul Expenses of second-hand machinery purchased are Revenue Expenditure.
False: Overhauling expenses are incurred to bring asset in a ready to use condition. So such expenses should be capitalized.

3. Valuation of inventory at cost net realizable value is based on Principle of Conservatism.
True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

4. A Promissory Note can be payable to the Bearer.
False:- A promissory note cannot be made payable to bearer as it is similar to currency note.

5. The Receipts and payment account for a non – profit organization follows the accrual concept of accounting
False :- The receipts and payment account records inflow and outflow of cash & bank balance. It is prepared on actual receipt and payment basis.

6. Legal heirs of a deceased partner are entitled to his capital account balance only.
False. Legal heirs of a deceased partner are entitled to all the dues of deceased partner & not capital account balance only.

A] JUNE 2024

7. If Closing Stock appears in the Trial Balance then it does not enter in Trading Account. It is shown only in the Balance Sheet.
True: If closing stock appears in the trial balance then it is not entered in the trading account but it is shown only in the balance sheet because it has already been adjusted to purchase account.

8. 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.
False: 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 commission and not error of Principle.

9. Accounting Standards can override the statute.

False: Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

10. Promissory Note is different from Bill of Exchange because the amount is paid by maker in case of former and by the acceptor in the later.
True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

11. All errors are rectified by means of journal entries.
False: Errors not affecting the trial balance can be rectified by passing a rectification journal entry. While other errors that affect one account of trial balance cannot be rectified by passing journal entries. Totalling errors cannot be rectified by passing journal entries

12. Revaluation Account is also known as Profit and Loss Adjustment Account.
True: Revaluation is also called as profit and loss adjustment account. It is used to record the gain/loss arising from the revaluation of assets and liabilities of a firm at the time of reconstitution.

A] DEC 2023

13. The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle.
True: The financial statement must disclose all the reliable and relevant information about the business enterprise to the management and also to their external users for which they are meant, which in turn will help them to take a reasonable and rational decision. The disclosure should be full and final as per AS – 1**,** so that users can correctly assess the financial position of the enterprise.

14. The gain from sale of capital assets is added to revenue to ascertain the net profit of the business.
True: Gains from the sale of capital assets are considered as the revenue of the business. But this revenue is not in the ordinary course of business so it is capital receipts.

15. Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.
False: Depreciation is non-cash but operating expenses which are to be provided for whether there are profits or losses in the financial year.

16. Sum of the year's digit method is an example of accelerated method of charging depreciation.
True: Sum of year digit method is an example of accelerated method of charging depreciation. Higher depreciation is charged in earlier years sum of year's digit method.

17. Inauguration expenses of ` 10 lakhs incurred on the new unit in an existing business is a capital expenditure.

False: Inauguration expenses incurred on the opening of a new unit may help to explore more customers This expenditure is revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.

18. Discount column of cash book records the trade discount.

False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

B] JUNE 2023

19. As per concept of conservatism the accountant should provide for all possible losses but should not anticipate income.

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

20. Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.

False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense and hence it is to be capitalised. Such expenses are amortised over a period of time.

21. Under or over - casting of a subsidiary book is an example of error of commission.

True: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.

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

True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.

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

False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages and expenses cannot be directly linked to unit produced.

C] NOV 2022

24. The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.

False: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

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

True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

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

True: According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

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

False :-If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle, compensating errors, errors of complete omission which can be rectified without opening a suspense account.

28. Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

True: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

29. A fixed charge generally covers all the assets of the company including future one.

False: A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

D] MAY, 2022

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

False:A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

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

False: At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

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

True: Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.

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

False: Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.

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

False: Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

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

False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.

E] DECEMBER, 2021

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

False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

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

True: Repairs for the first time of an old building are incurred to put the building in usable condition.

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

False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

39. Non-participating preference shareholders enjoy voting rights.

False: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

40. Discount column of the cash book is never balanced.

True: Discount column is totalled and transferred to the discount allowed or received account.

F] JULY, 2021

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

False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

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

True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares.

43. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.
False: Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs.

44. A person holding preference shares of a company cannot hold equity shares of the same company.
False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

45. Business of partnership comes to an end on death of a partner.
False: Surviving partners may continue to carry on the business in case of partnership.

46. Cash book is a subsidiary book as well as a principal book.
True:

G] JANUARY, 2021:-

47. Re-issue of forfeited shares is allotment of shares but not a sale.
False; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.

48. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
True. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

49. The Sale Book is kept to record both the cash and credit sales.
50. **False**; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

51. Accounting Standards for non-corporate entities in India are issued by the Central Government.
False; Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

H] NOVEMBER, 2020:-

52. In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit-sharing ratio.
False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

53. In the balance sheet of X Limited, preliminary expenses amounting to Rs.5 lakhs and securities premium account of Rs.35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
True; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company.

54. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
True; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

55. Purchase of office furniture & fixtures of Rs.2,500 has been debited to General Expense Account. It is an error of omission.
False; When a transaction is recorded in contravention of accounting principles, it is an error of principle.

56. A concern proposes to discontinue its business from December 2020 and decides to dispose of all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.
False; If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

I] NOVEMBER – 19

57. Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.
False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

58. M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was Rs. 30,000 and was treated as a revenue expenditure.
False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

59. Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.
True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

60. In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

61. A Partnership firm cannot own any Assets.
True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

62. Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

J]MAY 2019

63. 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.

64. 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".

65. 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.

K] NOVEMBER 2018:-

66. 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.

67. 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.
68. Capital reserve and reserve capital both are same.

Ans:- Incorrect. Capital reserve is a profit where as reserve capital is a part of capital that can be called up at the time of liquidation.

69. 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.

70. 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.

L] MAY 2018:-

71. 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.

72. 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.
Ans: -: Correct. This can be understood from the following example- where August 15th is the due date, then the revised due date is 14th- which is Sunday (holiday), then the due date becomes 13th (preceding working day).

73. 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.

74. 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.

75. 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.