Paper 2: Accounting _Syllabus 2008

Basic Concepts

1. Which of the following is not a Fixed Asset?
    a. Building.
    b. Bank balance.
    c. Plant.
    d. Patents.
    e. Goodwill.

Ans:- (b) Fixed asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business. Buildings, Plant, Patents and Goodwill are all fixed assets. However, Bank balance implies balance of funds held by bank on behalf of the company. Balance at bank is a current asset and is highly liquid. It is not a fixed asset.

2. Which of the following is/are not a Revenue Reserve?
    a. General Reserve.
    b. Investment allowance Reserve.
    c. Revaluation Reserve.
    d. Capital Reserve.
    e. Both © and (d) above.

Ans:- (e) Revenue Reserve arises out of revenue profits and can be appropriated to any purpose Revaluation Reserve arises out of Revaluation of fixed assets and is in the nature of Capital Reserve which can be appropriated only for some specific purposes. Capital Reserves arise out of Capital profits and therefore cannot form part of Revenue Reserve.

3. Gross Profit is the difference between
    a. Net Sales and Cost of goods sold.
    b. PAT and Dividends.
    c. Net Sales and Cost of production.
    d. Net Sales and Direct costs of productions.
    e. Net Sales and Net Purchases.

Ans:- (a) Trading account is prepared to find out the Gross Profit due to the operations of a business. It is the difference between the Net Sales (i.e Sales less sales return) and the Cost of goods sold. Cost of goods sold= Opening Stock+ Net Purchases – Closing Stock + Direct expenses.

Hence option (a) is the right option. Option (c) is incorrect because cost of production does not consider the opening stock and closing stock adjustment. Similarly option (d) ignores stock balance adjustment. Option (e) is incorrect because it ignores the direct expenses and the stock balance adjustment.

4. Recording of Capital contributed by the owner as liability ensures the adherence of principle of
    a. Double Entry.
    b. Going Concern.
    c. Separate Entry
    d. Materiality.
    e. Consistency.

Ans:- (c)Recording of capital contributed by the owner as liability ensures the adherence of principle of the "Separate entity or Business entity concept". The concept requires the business to be treated as distinct from the persons who own it; then it becomes possible to record transactions of the business with the proprietor also. Without such a distinction, the affairs of the firm will be mixed up with the private affairs of the proprietor and the true picture of the firm will not be available.

Under the Going concern concept, it is assumed that the business will exit for a long time and transactions are recorded from this point of view. It is this that necessitates distinction between expenditure that will render benefit over a long period and that whose benefit will be exhausted quickly.

Consistency requires that the accounting practices followed should remain the same from one year to another- for instance, it would not be proper to value stock-in-trade according to one method one year and another method next year. If a change becomes necessary, the change and its effect should be stated clearly.

Under Double-entry or Dual aspect concept, each transaction has two aspects, if a business has acquired an asset, it must have resulted in one of the following:

- ❖ Some other asset has been given up.
- ❖ The obligation to pay for it has arisen.
- ❖ There has been a profit, leading to an increase in the amount that the business owes to the proprietor.
- ❖ The proprietor has contributed money for the acquisition of the asset.
- ❖ The concept of Materiality requires all the material items to be recorded and discloses separately.

5. The basic concepts related to Balance Sheet are
    a. Cost Concept.
    b. Business Entity Concept.
    c. Accounting Period Concept.
    d. Both (a) and (b) above
    e. All of the above.

Ans:- (d) Cost concept requires the transactions to be recorded in the books of accounts at the amounts actually involved. Suppose a firm purchases a piece of land for ₹.1,50,000 but considers its worth ₹.3,00,000. The purchase will be recorded at ₹.1,50,000. Business entity concept requires the business to be treated as distinct from the persons who own it; then it becomes possible to record transactions of the business with the proprietor also. Without such a distinction, the affairs of the firm will be mixed up with the private affairs of the proprietor and the true picture of the firm will not be available. Accounting period concept is applicable to the Profit & Loss account which is prepared for the year ending and cannot be applied to Balance Sheet as it is a statement prepared as on a particular date. Therefore, cost and entity concepts are related to Balance Sheet.

6. The basic concepts related to P&L Account are
   a. Realization Concept.
   b. Matching Concept.
   c. Cost Concept.
   d. Both (a) and (b) above
   e. All of (a), (b) and (c) above.

Ans:- (d) Under Realization concept, accounting is a historical record of transactions and unless money has been realized – either cash has been received or a legal obligation to pay has been assumed by the customer- no sale can be said to have taken place and no profit can be said to have arisen. Matching concept requires that all the revenues must be matched with the expenses. Therefore, the above concepts are related to the Profit & Loss account.

7. As per the Double entry concept
   a. Assets+ Liabilities = Capital.
   b. Capital = Assets – Liabilities.
   c. Capital – Liabilities = Assets.
   d. Capital + Assets = Liabilities.
   e. None of the above.

Ans:- (b) Double entry concept
Total Liabilities = Total Assets
Or
Owner's equity+ Outside Liability = Assets.
Or Capital = Assets – Liabilities [as in option (b)]

8. Only the significant events which affect the business must be recorded as per the principle of
   a. Separate Entity.
   b. Accrual.
   c. Materiality.
   d. Going Concern.

e. None of the above.

Ans:- (c) The concept of materiality requires that only the significant events that affect the business must be recorded.

9. P&L Account is prepared for a period of one year by following
    a. Consistency Concept.
    b. Conservatism Concept.
    c. Time Period Concept.
    d. Cost Concept.
    e. None of the above.

Ans:- (c) P&L A/C is prepared for a period of one year by following the concept of Time Period.

10. If the Going Concern concept is no longer valid, which of the following is true?
    a. All prepaid assets would be completely written-off immediately.
    b. Total contributed Capital and Retained Earnings would remain unchanged.
    c. The allowance for Uncollectible Accounts would be eliminated.
    d. Intangible Assets would continue to be carried at net Amortized historical cost.
    e. Land held as an Investment would be valued at its realizable value.

Ans:- (e) Under the going concern concept, it is assumed that the business will exit for a long time and transactions are recorded from this point of view. It is this that necessitates distinction between expenditure that will render benefit over a long period and that whose benefit will be exhausted quickly. If the concept ceases to be valid, then land held as an investment would be valued at its realizable value.

11. Under which of the following concepts are shareholders treated as creditors for the amount they paid on the shares they subscribed to?
    a. Cost Concept.
    b. Duality Concept.
    c. Business Entity Concept.
    d. Going Concern Concept.
    e. Since the shareholders own the business, they are not treated as creditors.

Ans:- (c) Under business entity concept, the shareholders are treated as creditors of the company. It is also known as separate entity concept.

12. The underlying accounting principle(s) necessitating amortization of intangible asset(s) is/are
    a. Cost Concept.
    b. Realization Concept.
    c. Matching Concept.
    d. Both (a) and (c) above.
    e. Both (b) and (c) above.

Ans:- (c) The matching concept requires that all the revenues must be matched with the expenses incurred during the accounting period. The expenses relating to intangible assets are amortized over the periods in which the benefit from intangible assets accrue and therefore the underlying principle is the matching concept.

13. Which of the following practices is not in consonance with the convention of conservatism?
    a. Creating Provision for Bad debts.
    b. Creating Provision for Discount on Creditors.
    c. Creating Provision for Discount on Debtors.
    d. Creating Provision for tax.
    e. None of the above.

Ans;- (b) The principle of conservatism seeks provisions for all the people losses. Creating provision for discount on creditors tantamount to recognition of probable gain in the form of discount and hence it is not in consonance with conservatism.

14. The accounting measurement that is not consistent with the Going Concern concept is
    a. Historical Cost.
    b. Realization.
    c. The Transaction Approach.
    d. Liquidation Value.
    e. Continuity.

Ans:- (d) Liquidation value is the value of the business when the business is wound up and is under liquidation whereas the going concern concept assumes that the business will continue over a long time and therefore the accounting measurement " Liquidation Value" is inconsistent with going concern concept.

15. Which of the following statements is/are true?
    i. The Entity concept of accounting is not applicable to sole trading concerns and partnership concerns.
    ii. Assets are to be shown in the Balance Sheet at their replacement cost on liquidation.
    iii. Money measurement concept takes into account changes in the value of monetary unit.
    iv. When a creditor is paid, this results in decrease of one asset and a corresponding increase in another asset.
        a. Both (i) and (iii) above.
        b. Both (i) and (ii) above.
        c. Both (iii) and (iv) above.
        d. Both (ii) and (iv) above.
        e. All (i), (ii) , (iii) and (iv) are false.

Ans:- (e) The entity concept of accounting is applicable to every business situation. In the case of sole trading concerns and partnership concerns also the business is considered to be separate from its proprietor and in the case of partnership from the partners. Hence statement (i) is false.

Assets are generally shown in the Balance Sheet at their historical cost or replacement cost in some cases, since the going concern concept applies. When the going concern concept cannot be applied further to any entity, then the assets are shown at the liquidation value and not at replacement cost. Hence statement (ii) is false.

If events cannot be quantified in monetary terms then they do not facilitate accounting. The activities and their attributes will be based on the yardstick of whether they are amenable to be translated in currency terms. Money is the standard of exchange and the changes in the purchasing power caused by inflation are ignored for the purpose of accounting because of the assumption about stability of money, notwithstanding its limitation is a necessity, for ensuring a smooth accounting process. Hence Money measurement concept does not take into account the changes in the value of monetary unit. Statement (iii) is false.

When a creditor is paid, the liability decreases and the asset (cash) also decreases. No increase in asset results hence statement (iv) is false.

Hence all the above statements are false.

16. According to AS-2, inventories should be valued at
    a. Realization value.
    b. Lower of Historical cost and Net Realizable value.
    c. Lower of Historical cost and Replacement cost.
    d. Replacement cost.
    e. Market cost.

Ans:- (b) AS-2 states that the inventories should valued at lower of historical cost or Net realizable value.

17. Which of the following is not treated as 'unusual item' by AS-5?
    a. Sale of significant part of the business.
    b. Sale of investment acquired without an intension of resale.
    c. Write-off of inventory due to obsolescence.
    d. Liability arising on account of legislative changes.
    e. Liability arising on account of judicial pronouncements.

Ans:- (c) 'Unusual items' are defined as incomes or expenses arising from transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, not expected to recur frequently or regularly. Writing-off inventory for obsolescence is a prudent accounting practice, which happens regularly and is an ordinary activity and is not an unusual item.

18. Insurance prepaid is shown as
    a. Current Asset.
    b. Current Liability.
    c. Fixed Asset.
    d. Income
    e. Other Liability.

Ans:- (a) Prepaid insurance is the expense relating to the next accounting period but has been paid in the current accounting period and hence it is a current asset. The adjustment would be to deduct it from the respective expense account in the P&L A/c and show it as a current asset in the Balance Sheet.

19. Depreciation appearing in the Trial Balance should be
    a. Debited to P&L A/C.
    b. Shown as liability in Balance Sheet.
    c. Reduced from related asset in Balance Sheet.
    d. Both (a) and (b) above.
    e. Both (a) and (c) above.

Ans:- (a) Any item appearing in the Trial Balance will have one effect i.e., depreciation appearing in the Trial Balance will be debited to the Profit & Loss Account. However, if depreciation is given in the adjustments, it will have double effect i.e, it should be debited to P&L A/C and deducted from the gross fixed asset block in the Balance Sheet also.

20. Which of the following entries is correct in respect of reserve for discounts on accounts payable?
    a. Debit P/L A/C and credit reserve for discount on Accounts Payable A/C.
    b. Debit P/L A/C and credit Accounts Payable A/C.
    c. Debit Accounts Payable A/C and Credit P/L A/C.
    d. Debit reserve for discount on Accounts Payable A/c and credit P/L A/C.
    e. Debit reserve for discount on Accounts Payable A/C and credit Accounts Payable A/C.

Ans:- (d) The entry will be as follows:

Reserve for Discount on Creditors A/C………………………………………………. Dr.
To Profit & Loss A/C

It will be shown on the Credit side as a separate item. And will be shown on the Liabilities side by way of deduction from the Sundry Creditors.

21. Which of the following is not correct?
    a. Errors which affect one account can be errors of posting.

b. Errors of omission arise when any transaction is left to be recorded.
c. Errors of carry forward from one year to another year affect both Personal and Real A/C.
d. Errors of commission arise when any transaction is recorded in a fundamentally incorrect manner.
e. Errors of balancing affect one account.

Ans:- (d) Error of Commission arises because of wrong recording, wrong casting, wrong carry forward, wrong posting, wrong balancing etc.

22. Sundry debtors as per Trial Balance is ₹.43,000 which includes ₹.2,200 due from 'H' in respect of goods sent to him on approval basis, the cost price of which is ₹.1,800. Rectification would involve:
    a. Adding ₹.2,200 to closing stock.
    b. Deducting ₹1,800 from closing stock and deducting ₹.2,200 each from debtors and sales.
    c. Adding ₹.1,800 to closing stock and deducting ₹.2,200 each from debtors and sales.
    d. Deducting ₹.1,800 from debtors.
    e. Deducting ₹.1,800 from sales.

Ans:- (c)

23. Goods in stock worth ₹.800 are destroyed by fire and the Insurance Co. is accepted the claim for ₹.600. Adjustment would involve:
    a. Debit of ₹.800 to Trading Account and credit of ₹.600 and 200 to insurance company and Profit and Loss Account respectively.
    b. Added ₹.800 to closing stock in the trading account.
    c. Deduct the ₹.800 from closing stock in the Trading Account.
    d. Credit insurance company for ₹.600.
    e. Debit of ₹.600 and ₹.200 to insurance company and Profit and Loss Account respectively and credit of ₹.800 to Trading account.

Ans:- (e)

24. Which of the following errors is an error of omission?
    a. Purchase of ₹.2,000 has been recorded in the Sales Return Book.
    b. Repairs to machinery has been debited to machinery accounts.
    c. The total of purchase journal has not been posted to the purchase account.
    d. Legal charges paid to Mr. Lawyer have been debited to his account.
    e. ₹.300 received from Mr. Sudhir has been debited to his account.

Ans:- (c) Error of complete omission arises when a particular transaction is completely or partially omitted to be recorded in the books of accounts.

25. If goods worth ₹.1,750 returned to a supplier is wrongly entered in sales return book as ₹.1,570 , then
    a. Net Profit will increase by ₹.3,500.
    b. Net Profit will decrease by ₹.3,140.
    c. Gross Profit will increase by ₹.3,320.
    d. Gross Profit will decrease by ₹.3,500.
    e. Gross Profit will decrease by ₹.3,320.

Ans:- (e)

26. Which of the following errors is an error of principle?
    a. Total sales figure was taken as ₹.19,373 instead of ₹.19,733.
    b. A discount of ₹.30 allowed to Mr.A was not recorded in the discount allowed account.
    c. Legal charges for acquisition of building for ₹.500 was entered in the legal expenses account.
    d. ₹.1,000 received from Mr.X was posted to the credit of Mr.M.
    e. Sale of furniture for ₹.5,000 was wrongly entered in the machinery account.

Ans:- (c) An error of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.

27. For the past 3 years, DK Ltd. has failed to accrue unpaid wages earned by workers during the last week of the year. The amounts omitted, which were considered material, were as follows:

    March 31,2010 - ₹.56,000.

    March 31, 2011 - ₹.51,000.

    March 31, 2012 - ₹.64,000.

    The entry on March 31,2012 to rectify these omissions would include a
    a. Credit to wage expense for ₹.64,000.
    b. Debit to wage expense for ₹.64,000.
    c. Debit to wage expense for ₹.51,000.
    d. Debit to wage expense for ₹.13,000.
    e. Credit to retained earnings for ₹.64,000.

Ans:- (d).

28. Which of the following errors could result in an overstatement of both current assets and owner's equity?
    a. An understatement of accrued sales expenses.
    b. Non- current account receivable principal is misclassified as a current asset.

c. Annual depreciation on manufacturing machinery is understated.
d. Current account receivable principal is misclassified as a non- current asset.
e. Holiday pay expense for administrative employees is misclassified as manufacturing overhead.

Ans:- (d) Current account receivable mis-classified as a non-current asset is an error of principle. An error of principle results in overstatement of both current assets and owner's equity.

29. Prepaid expenses are valued on the Balance Sheet at
    a. Replacement cost.
    b. Current cost.
    c. Cost to acquire the asset.
    d. Cost to acquire less accumulated amortization.
    e. Cost less expired portion.

Ans:- (e) Prepaid expenses are the expenses which relate to the unexpired portion of the benefit of the expense. Hence, these are valued on the Balance Sheet at the cost less expired portion.

30. The beginnings inventory of the current year is overstated by ₹.5,000 and closing inventory is overstated by ₹.12,000.
    These errors will cause the net income for the current year by
    a. ₹.17,000 (understated).
    b. ₹.17,000 (overstated).
    c. ₹.12,000 (understated).
    d. ₹.7,000 (overstated).
    e. ₹. 7,000 (understated).

Ans:- (d) Overstatement of closing stock results in overstatement of profit and overstatement of opening stock results in understatement of profit. In the instant case, there will be overstatement of profit by ₹12,000-₹5,000= ₹7,000.

31. The accountant of Leo Ltd. recorded a payment by cheque to a creditor for supply of materials as ₹.1,340.56. The bank recorded the cheque at its correct amount of ₹. 3,140.56. The Company has not passed any rectification entries and the error is not detected through the bank reconciliation. The impact of this error is
    a. The Trial Balance will not agree.
    b. The balance of creditors is understated.
    c. The purchases are understated.
    d. The favorable bank balance as per Pass Book is less than the Bank balance as per Cash book.
    e. Both (b) and (c) above.

Ans:- (d) The favourable bank balance as per Pass Book will be less than the bank balance as per Cash Book, since the debit in the bank account is more than the debit in the Cash Book (d).

As debit and credit are for equal amount there is no disagreement of the Trial Balance; Creditors balance is overstated but not understated: The favourable bank balance as per Pass Book will be less than the Bank balance as per Cash Book, since the debit in the Bank account is more than the debit in the Cash book. Purchases are not affected, as it is a payment to the creditor. Thus, the correct answer is (d).

32. Which of the following equations is correct?
    a. Gross Profit+ Sales+ Direct expenses+ Purchases+ Closing stock = Opening stock.
    b. Gross Profit+ Sales+ Direct expenses+ Purchases- Closing stock = Opening Stock.
    c. Gross Profit + Opening Stock + Direct expenses + Purchases- Closing stock = Sales.
    d. Gross Profit – Opening Stock + Direct expenses + Purchases +Closing stock = Sales.
    e. Gross Profit + Purchases – Administrative and other expenses = Net Profit.

Ans:- (c) Sales= Gross Profit + Opening Stock+ Direct expenses + Purchases- Closing stock

33. Which of the following should not be treated as revenue expenditure?
    a. Interest on loans and debentures.
    b. Annual fire insurance premiums on Plant and Equipment.
    c. Sales tax paid in connection with the purchase of office equipment.
    d. Repairs and maintenance on fixed assets like machines.
    e. Small expenditures on long- lived assets, such as ₹.20 for a paper weight.

Ans:- (c) A revenue expenditure is an expenditure whose benefit expires within the current accounting period and is in the nature of recurring and is therefore written off to P&L A/C. Sales tax paid in connection with the purchase of office equipment is a non-recurring expenditure whose benefit is going to last for more than one accounting period and hence not a revenue expenditure.

34. Which of the following is not true with regard to preparation of Profit & Loss account?
    a. Profit & Loss account is prepared for a certain period and hence it is an interim statement.
    b. Profit & Loss account does not disclose the effect of non-financial items.
    c. Net Profits are ascertained on the basis of current costs.
    d. Net Profits as disclosed by P&L account is not absolute.
    e. The T P & L account does not reveal true profit.

Ans;- (a)

35. Capital expenditure is an expenditure which
    a. Benefits the current accounting period.
    b. Will benefit the next accounting period.
    c. Results in the acquisition of a permanent asset.
    d. Results in the acquisition of a current asset.
    e. Results in the acquisition of a current asset or permanent asset.

Ans:- (c) A capital expenditure is a non- recurring expenditure whose benefit lasts for more than one accounting period. Example is the acquisition of a fixed or permanent assets.

36. The Profit and loss account shows the
    a. Financial results of the concern for a period.
    b. Financial position of the concern on a particular date.
    c. Financial position of the concern for a period.
    d. Financial results of the concern on a particular date.
    e. Cost of goods sold during the period.

Ans:-(a) A profit and Loss account is prepared for the period ending which shows the financial or operating results of the concern for a period.

37. Which of the following is not a deferred revenue expenditure?
    a. Expenses in connection with issue of equity shares.
    b. Preliminary expenses.
    c. Preoperative expenses.
    d. Heavy advertising expenses to introduce a new product.
    e. Legal expenses incurred in defending a suit for breach of contract to supply goods.

Ans:- (e) Deferred revenue expenditure is a revenue expenditure whose benefit lasts for more than one accounting periods and is therefore written off during the periods over which the benefit lasts. Legal expenses incurred in defending a suit for breach of contract for supply of goods does not satisfy the prerequisites of a deferred revenue expenditure.

38. Which of the following statements is true?
    a. Provision for doubtful debts represents the amount that cannot be collected.
    b. Interest paid on borrowings is a capital expenditure.
    c. Cash balance on hand shows whether the business has earned Profit or Loss.
    d. Free samples received are business gains.
    e. The WDV of an asset depreciated on the reducing balance method can never become zero.

Ans:- (e)

39. Cash Profit is
    a. Gross Profit- Net profit.
    b. Net profit – Non-trading Profit – Depreciation and provision.
    c. Gross Profit – Non-trading Profit + Depreciation and provision.
    d. Net Profit + Depreciation and provision.
    e. Gross Profit – Operational expenses.

Ans:- (d) Cash Profit is the Net Profit + Depreciation and Provision . Depreciation is a non- cash outflow which is deducted from the profit and therefore, it is added back to the net profit to arrive at the net cash profit.

40. Which of the following is false?
    a. Owners Equity + Outsiders Liability = Assets.
    b. Asset – Capital = Liability
    c. Assets + Capital = Liabilities.
    d. Both (a) and (b) above.
    e. None of the above.

Ans:- (c) The basic accounting equation is
Capital= Assets- Outside liabilities.

41. Tax deducted at source appears in the Balance Sheet
    a. On the assets side under current assets.
    b. On the assets side under loans and advances.
    c. On the liabilities side under current liabilities.
    d. On the liabilities side under provisions.
    e. On the assets side under miscellaneous expenditure.

Ans:- (c)

42. Which of the following statements is false?
    a. Balance Sheet discloses financial position of the business.
    b. Increase in the value of one asset could reduce the value of another asset.
    c. A person who owes to the business is called Debtor.
    d. Decrease in the value of the asset could decrease the value of a liability.
    e. Assets are to be shown in the Balance Sheet at the realizable value.

Ans:- (e) AS-10 on Accounting for Fixed Assets States that fixed assets are to be shown in the Balance Sheet at their actual cost.

43. Which of the following statements is true?
    a. The balance of the goods account shows the value of stock in hand.
    b. Balancing of all accounts must be done at the end of each day.
    c. Balances of nominal accounts are carried forward to the next financial year.
    d. Assets which are to remain in business for continuous use and not meant for conversion into cash are fixed assets.
    e. Balance Sheet discloses income position of the business.

Ans:- (d)

44. Computers taken on hire by a business for a period of twelve months should be classified as
    a. Fixed assets.
    b. Current assets.
    c. Intangible assets.
    d. Deferred revenue expenditure.
    e. Not an asset.

Ans:- (e) Computers taken on hire by a business for a period of twelve months is not an asset because it is not owned by the business to be classified as asset. Thus, the correct answer is (e). Since it is not an asset it cannot be classified as any asset and other alternatives are not the correct answers.

45. Which of the following is not an intangible asset?
    a. Goodwill.
    b. Trade mark.
    c. Franchise.
    d. Accounts Receivable.
    e. Secret Profit.

Ans:- (d) An accounts receivable is not an intangible asset. It is the amount that the business has to receive from its debtors. The other assets mentioned in alternatives a,b,c and e- goodwill, trademark, franchises and secret processes are intangible assets. Hence, the correct answer is (d).

46. Which of the following is a current liability?
    a. Prepaid expenses.
    b. Trademark.
    c. Discount on issue of shares.
    d. Outstanding Salaries.
    e. Fixed deposits.

Ans:- (d) Outstanding salaries are short term obligations expected to be paid off during the short period of time. So, it is a current liability. Fixed deposits are the long-term obligations or long-term liabilities. Prepaid expenses, trademark and discount on issue of shares are assets. Hence, (d) is correct answer.

Chapter Specific questions

Trial Balance and Rectification of Errors

1. ₹ 5101 received from Mohan but credited to Sohan A/c. This is an error of-
a) Principle.
b) Omission.
c) Commission.
d) Compensating.

Ans:- (c).

2. ₹ 500 paid as cartage on new Plant and Machinery, this was debited to Carriage Inward A/c. This is an error of-
a) Principle.
b) Omission.
c) Commission.
d) Compensating.

Ans:- (a).

3. ₹ 4,500 paid to Madan as salary for the month of December'12, this was debited to his A/c, this is a/an ……………………… error of
a) Principle.
b) Omission.
c) Commission.
d) Compensating.

Ans:- (c)

4. XY Associates Trial balance as on 31.03.12 shows the balance of Sales A/c ₹ 1,75,000 While test checking the books of account the following discrepancies were noticed.
a. A sales of ₹ 2,560 was recorded in the sales day book as ₹ 650
b. Total of sales day book for the month of August' 12 was short by ₹ 2,000
c. Sales includes sales proceed of old furniture stock sold ₹ 6,000

From the above details, calculate the actual sales to be shown in Trading A/c.
a) ₹1,80,000
b) ₹1,72,910
c) ₹1,79,290
d) ₹1,81,690

Ans:- (b)

5. While checking the accounts of ABC the following discrepancies were noticed, even though the Trial Balance was made to balance by putting the difference to Suspense A/c.
    a) Sales day book for the month of June'12 was found overcast by ₹ 7,000.
    b) A credit purchase of ₹ 3,000 was omitted to be recorded in the days book.
    c) ₹ 4,300. Received from A credited to A A/c ₹ 3,400.
    d) Purchase of Office Equipment worth ₹ 5,000 included in trading purchases.

From the above details what would have been the difference in Trial Balance which was made to balance by opening Suspense A/c
a) Debit side short by ₹ 9,100
b) Credit side short by ₹ 9,100
c) Debit side more by ₹ 7,900
d) Credit side more by ₹ 6,100
Ans:- (d).

Cash Book

1. Cash account is a –
    a) Personal A/c
    b) Nominal A/c
    c) Real A/c
    d) Dummy

Ans:- (c)

2. Rent outstanding for the month of December'12 will appear on-
    a) Debit side of Cash book.
    b) Credit side of cash book.
    c) Either side.
    d) Nowhere.

Ans:- (d)

3. Goods worth ₹.5000 purchased from A on credit will be recorded on-
    a) Debit side of Cash book.
    b) Credit side of Cash book.
    c) Nowhere in the Cash book.
    d) Either (a) or (b).

Ans:- (c)

4. Which column of Cash book is never balanced.
    a) Discount Column.
    b) Cash.
    c) Bank.
    d) Petty Cash.

Ans:- (a)

5. The total of debit side of discount column of Cash book is-
    a) Balanced with credit side of discount column.
    b) Posted to discount allowed A/c
    c) Posted to discount received A/c
    d) Posted to Profit & Loss A/c

Ans:- (b)

Classification of Accounts

1. Prepaid rent is a –
    a) Nominal A/c
    b) Representative personal A/c
    c) Tangible assets A/c
    d) None

Ans:- (b)

2. Which of the following assets is a fictitious asset.
    a) Goodwill A/c.
    b) Prepaid Rent A/c
    c) Outstanding Salary A/c
    d) Preliminary expenses A/c

Ans:- (d)

3. Nominal A/c represents-
    a) Profit/Gain
    b) Loss/Expenses
    c) None
    d) Both (a) and (b)

Ans:- (d)

4. SBI A/c is a –
    a) Nominal A/c
    b) Artificial personal A/c.
    c) Representative personal A/c.
    d) None.

Ans:- (b)

5. Liability A/c has……………. Balance
    a) Debit
    b) Credit
    c) No balance
    d) Either (a) or (b)

Ans:- (b)

Journalizing Process

1. Which of these is not a process of Accounting-
    a) Printing
    b) Summarizing
    c) Classifying
    d) Journals.

Ans:- (a)

2. An Investment in one asset A/c may lead to –
    a) Increase in liability A/c
    b) Decrease in A/c asset
    c) Each a or b
    d) Both a/b.

Ans:- (c)

3. The process of recording business transaction in a book of original entry is known as-
    a) Journals.
    b) Balance
    c) Posting
    d) None.

Ans:- (a)

4. The type of A/c with a named credit balance is-
    a) Expenses A/c
    b) Assets A/c
    c) Revenue A/c
    d) Suspense A/c

Ans:- (c)

5. Which of these represent a deferral-
    a) Pre-paid expensive A/c
    b) Outstanding expensive A/c
    c) Accumulated Depreciation A/c
    d) Expensive A/c

Ans:- (a)

Revenue and Capital Expenditure

1. Any income or profit derived by carrying on the business or during the course of business is called-
    a) Capital Receipt
    b) Revenue Receipt.
    c) Revenue Gain
    d) Capital Gain

Ans:- (b)

2. Amount received from the proprietors as capital or loan receipt is treated as-
   a) Capital Receipt.
   b) Revenue Receipt
   c) Revenue Income
   d) Capital Income

Ans:- (a)

3. When the benefits of revenue expenditure is available for a period of two or three years, the expenditure is known as-
   a) Revenue Expenditure
   b) Deferred Revenue Expenditure
   c) Capital Expenditure
   d) Depreciation.

Ans:- (b)

4. Endowment fund receipt is traded as-
   a) Casual Receipt.
   b) Revenue Receipt
   c) Loss
   d) Expenses.

Ans:- (a)

5. Legacy are generally-
   a) Capitalized
   b) Treated Loss
   c) Revenue Expenses
   d) Deferred Revenue expenses.

Ans:- (a)

Subsidiary Books and Ledger Posting

1. Interest account will have-
   a) Debit balance only
   b) Credit balance only
   c) Debit or Credit balance
   d) No balance at all

Ans: (c)

2. Purchase A/c will have-
   a) No balance at all
   b) Debit balance
   c) Credit balance
   d) Debit or Credit

Ans:- (b)

3. Depreciation on fixed assets is initially journalized in –
    a) General Journal.
    b) Fixed Assets A/c
    c) Cash Journal
    d) Depreciation A/c

Ans:- (a)

4. Opening entries are generally passed through-
    a) General Journal
    b) Purchase Journal
    c) Profit and Loss A/c
    d) Suspense A/c

Ans:- (a)

5. Cash sales of trading goods is initially journalized in-
    a) Sales A/c
    b) Cash Journal
    c) Trading A/c
    d) Suspense A/c

Ans:- (b)

Preparation of Final Account

1. When a person purchasing goods on credit he becomes a………….. in the books of the seller-
    a) Debtor
    b) Creditor
    c) Defaulter
    d) Offender

Ans:- (a)

2. Which of these is not a Business expense-
    a) Fire Insurance of other building
    b) LIC Premium of proprietor
    c) Interest on Capital
    d) Commission on sales.

Ans:- (b)

3. Cost of goods sold excludes-
    a) Opening Stock
    b) Carriage inward
    c) Wages & Salary
    d) Postage & Stamps

Ans:- (d)

4. Tax deducted at source A/c appears in-
    a) Assets side
    b) Liability side
    c) Profit & Loss A/c
    d) Debited to Capital A/c

Ans:- (a)

5. Investment in own share A/c appears in –
    a) Asset side
    b) Liability side
    c) Netted from Capital
    d) Profit & Loss A/c

Ans:- (a)

Bank Reconciliation Statement

1. Which of these documents is not required for Bank Reconciliation
    a) Bank column of cash book.
    b) Bank pass book
    c) Bank statement.
    d) Trial balance.

Ans:- (d)

2. Which of these will not affect Bank and Cash balance
    a) Cash received from X credited to Y
    b) Cheques issued to A but debited to B
    c) Cheques deposited and cleared on the same date.
    d) All the three.

Ans:- (d)

3. Which of these items are taken into consideration for preparation of adjusted Cash Book
    a) Mistake in Cash book.
    b) Mistake in Pass book.
    c) Cheque issued but not presented for payment.
    d) Cheques deposited but not cleared.

Ans:- (a)

4. Credit balance as per Cash book mean-
    a) Surplus cash
    b) Bank overdraft
    c) Terms deposits with bank
    d) None of these

Ans:- (b)

5. Debit side of Bank Pass book corresponds to –
    a) Credit side of Cash book.
    b) Debit side of Cash book.
    c) Debit side of Trial Balance.
    d) Credit side of Balance Sheet.

Ans: (a)

Inventory Valuation

1. As per AS-2 Inventory is determined by applying method
    a) LIFO
    b) HIFO
    c) FIFO
    d) NIFO

Ans:- (c)

2. Inventory cost excludes which of the following
    a) Transit Insurance
    b) Tax and Duties
    c) Storage cost
    d) Invoice price

Ans:- (c)

3. Which of the following is not a part of inventory
    a) Finished goods
    b) Raw material, components, consumable and supplies.
    c) Work in progress.
    d) Spare parts of Plant and Machinery.

Ans:- (d)

4. Indian GAAP does not recognizes which method of inventory valuation-
    a) LIFO
    b) Base Stock
    c) FIFO
    d) Weighted Average

Ans:- (a)

5. Which of these is a Historical method of Inventory Valuation-
    a) Weighted Average
    b) LIFO
    c) Base price
    d) Standard cost

Ans:- (c)

Depreciation Accounting

1. Provision is created for-
    a) Unknown Liabilities
    b) Known Liabilities
    c) Creation of Secret Reserves
    d) All the Three

Ans:-(b)

2. Which of the following is not a method of charging depreciation
    a) Straight line Method
    b) Written down value Method
    c) Discounted present value Method
    d) Sum of digits Method

Ans:- (c)

3. A second hand car is purchased for ₹ 2,00,000 and sold at ₹ 1,40,000 after two years. If depreciation is charged @ 10% on SLM method, find the profit or loss on sale of the car.
    a) ₹ 20,000 Loss
    b) ₹ 20,000 Profit
    c) ₹ 10,000 Loss
    d) ₹ 10,000 Profit

Ans:- (a)

4. In question No.3 if the depreciation is charged @10% on written down value method, find the profit or loss on sale of the Second hand car.
    a) Loss of ₹ 20,000.
    b) Loss of ₹ 22,000.
    c) Loss of ₹ 11,000
    d) Profit of ₹ 11,000.

Ans:- (b)

5. The term “ Reserve” has been defined in ----- of the Companies Act, 1956
    a) Part III Schedule VI
    b) Part III Schedule V
    c) Part II Schedule VI
    d) Part I Schedule I

Ans:- (a)

Consignment Accounting

1. Sudhir of Simla consigned 100kg of vegetables to D of Delhi for ₹ 1500. He spent ₹0.75 on transportation. 10kg were found unfit for resale due to weather conditions and of the remaining 85 kg were sold for ₹ 1675. Find the value of closing stock.
   a) ₹ 87.50
   b) ₹ 75.00
   c) ₹ 80.00
   d) ₹ 90.00

Ans:- (a)

2. Sudhir of Simla consigned 100kg of vegetables to D of Delhi for ₹ 1500. He spent ₹0.75 on transportation. 10kg were found stolen during transit and of the remaining 85 kg were sold for ₹ 1675. Find the value of closing stock.
   a) ₹ 87.50
   b) ₹ 78.50
   c) ₹ 80.00
   d) ₹ 90.00

Ans:- (b)

3. Loss of goods in transit is borne by—
   a) Consignee
   b) Consignor
   c) Both (a) and (b) proportionately
   d) Insurance company

Ans:- (b)

4. A consignor is entitled to ……………………
   a) Profit on consignment
   b) Commission on Sales
   c) Reimbursement of expenses
   d) Interest on capital

Ans:- (a)

5. A consignee is entitled to ………………………
   a) Commission on sales
   b) Reimbursement of the expenses
   c) Del credere commission.
   d) All of these.

Ans:- (d)

Joint Venture

1. What does the balance in Memorandum Joint Venture A/c shows-----
    a) Profit or Loss
    b) Closing Stock
    c) Balance due from other Co-venturer
    d) Difference in Trial Balance

Ans :- (a)

2. Which of these is not a part of double entry system.
    a) Joint Bank A/c
    b) Memorandum A/c
    c) Joint Venture A/c
    d) Joint Venture with other co-venturer A/c

Ans:- (b)

3. Loss on Joint venture is-
    a) Credited to Profit and Loss A/c
    b) Debited to co-venturers capital A/c
    c) Credited to Capital Fund A/c
    d) Debited to Suspense A/c

Ans:- (b)

4. Stock left over taken by a Co- venturer is---
    a) Debited to joint Venture A/c
    b) Credited to Co-venturer A/c
    c) Credited to Joint Venture A/c
    d) Credited to Joint Bank A/c

Ans:- (c)

5. Joint Bank A/c is a----------
    a) Nominal A/c
    b) Personal A/c
    c) Real A/c
    d) Dummy A/c

Ans:- (b)

Bill of Exchange

1. How many parties are generally found in a Bill of Exchange
    a) 4
    b) 2
    c) 3
    d) 5

Ans :- (c)

2. X draws a Bill of Exchange on Y for ₹ 10,000 on 1-1-2011 for 3 months. The due date of the bill will be --------
   a) 4-4-2011
   b) 3-4-2011
   c) 1-4-2011
   d) 31-3-2011

Ans:- (a)

3. When a B/R is endorsed by the Drawer what entry is passed by the Drawee-----
   a) B/R A/c Dr to Drawer A/c Cr
   b) B/P A/c Dr to Drawer A/c Cr.
   c) 3rd Party's A/c Dr to B/P A/c cr.
   d) No entry at all.

Ans:- (d)

4. When a B/R is discounted, what entry is passed by the Drawee---
   a) Bank A/c Dr to B/R A/c Cr
   b) Drawer A/c Dr to B/R A/c Cr
   c) B/R A/c Dr to B/P A/c Cr
   d) No entry

Ans :- (d)

5. Noting charges are ultimately borne by-----
   a) Drawee
   b) Drawer
   c) Payee
   d) None.

Ans:- (a)

Sale of Goods on Approval Basis

1. Under sales on return or approval basis, the ownership of goods is passed only------------
   a) When the buyer gives his consent.
   b) When the goods are not returned within the specified time.
   c) When the buyers retains the goods beyond specified time.
   d) In all the three cases

Ans :- (d)

2. When the goods are returned by the customers within the specified time, they are initially recorded in--------
   a) Sale or Return Day Book
   b) Sales Book
   c) Purchase Day Book
   d) Customers Day Book

Ans: - (a)

3. Goods lying with the customers pending approval are treated as….. at the time of preparing Final A/c----
   a) Sales
   b) Expected Sales
   c) Part of closing stock lying with the customers
   d) Goods sent on consignment.

Ans :- (c)

4. Goods lying with the customs awaiting approval are shown as-----
   a) Closing stock
   b) Sales
   c) Goods in transit
   d) Deducted from Purchase

Ans:- (a)

5. Goods lying with the custom are valued at------
   a) Cost price
   b) Market price
   c) Net realizable value
   d) Least of cost or net realizable value

Ans :- (d)

Partnership Accounts

1. Interest on capital of a partner is a -----
   a) Loss to the firm
   b) Profit to the firm
   c) Loss of Income tax
   d) None

Ans:- (a)

2. The additional amount brought in by the incoming partner at the time of his admission is called-----
   a) Goodwill
   b) Bonus
   c) Royalty
   d) Commission

Ans :- (a)

3. In the absence of specific provision in the partnership deed partners are allowed…….. % interest on the advance given to the firm-----
   a) 6%
   b) 5%
   c) 8%
   d) 9%

Ans:- (c)

4. There are three partners A,B,C in a firm. D is admitted for a ¼ share of profit with a guaranteed profit of ₹.30,000. During the year 2011-12 the firm reported profit of ₹.1,00,000. Find the profit to be given to D------
   a) ₹.30,000
   b) ₹.25,000
   c) ₹.22,000
   d) ₹.28,000

Ans:- (a)

5. There are three partners A,B,C in a firm. D is admitted for a ¼ share of profit with a guaranteed profit of ₹.30,000. During the year 2011-12 the firm reported profit of ₹.1,50,000. Find the profit to be given to D-----
   a) ₹.30,000
   b) ₹.37,500
   c) ₹.22,000
   d) ₹.28,000

Ans:- (b)

Admission of Partner

1. A,B and C are three partners in a firm sharing profit and loss equally, D is admitted for ¼ th share of the profit what is the new profit sharing ratio---
   a) 1:2:1:2
   b) 1:1:1:1
   c) 2:1:1:1
   d) 1:1:2:2

Ans:- (b)

2. A,B and C are three partners in a firm sharing profit and loss equally, D is admitted for ¼ th share of the profit which he purchased from C, what is sacrificing ratio-----
   a) 1:2:1:2
   b) 1:1:1:1
   c) 2:1:1:1
   d) Only C sacrificed, he will get full share of goodwill brought in by D.

Ans:- (d)

3. A,B and C are three partners in a firm sharing profit and loss equally, D is admitted for ¼ th share of the profit which he purchased from C, what is the new profit sharing ratio-----
   a) 1:2:1:2
   b) 4:4:1:3
   c) 2:1:1:1
   d) 1:1:2:2

Ans:- (b)

4. A,B and C are three partners in a firm sharing profit and loss equally, D is admitted for ¼ th share of the profit which he purchased from B and C equally, what is the new profit sharing ratio-----
   a) 1:2:1:2
   b) 12:12:1:12
   c) 8:5:5:6
   d) 1:1:2:2

Ans:- (c)

5. Which of these is not a determinant of goodwill of a firm----
   a) Age of the partner
   b) Location of business
   c) Customs relationship
   d) Quality of services

Ans:- (a)

Retirement and Death of a Partner

1. Retiring partner is liable:-
   a) For firms all liabilities
   b) For liability incurred with his consent
   c) For liability before his retirement
   d) Not liable at all

Ans:- (c)

2. A,B,C and D are four partners sharing profit and loss equally. D retires find the gaining ratio----------
   a) 1:1:1
   b) 2:1:2
   c) 2:2:1
   d) 1:2:1

Ans:- (a)

3. A,B,C and D are four partners sharing profit and loss equally. D retires find the new profit sharing ratio-----------
   a) 1:1:1:1
   b) 2:1:2:1
   c) 2:2:1:1
   d) 1:2:1:1

Ans:- (a)

4. A,B,C, D are four partners sharing profit and loss in the ratio of 2:1:1:2, D retires . His share of profit is taken over by B and C equally. Find the new profit sharing ratio-----
   a) 2:2:1
   b) 1:1:1

c) 2:1:2
d) 1:2:1

Ans:- (b)

5. At what rate interest is allowed on the outstanding loan of the retired or deceased partner as per Partnership Act---
    a) 8%
    b) 5%
    c) 6%
    d) 10%

Ans:- (c)

6. The amount due to the deceased partner is paid to his/her----
    a) Spouse
    b) Executor
    c) Successor
    d) New Partner

Ans:- (b)