

1. INTRODUCTION TO ACCOUNTING

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) The term Book Keeping and Accounting can be used interchangeably.
- (ii) Accounting deals with quantifiable information.
- (iii) Accounting is the language of business.
- (iv) Accounting aims to communicate financial information to investors only.
- (v) Transactions are posted into ledger account from Journal book.
- (vi) Cost of goods manufactured is determined by management accounting.
- (vii) The objective of book keeping is to maintain complete record of financial transactions.
- (viii) Government is the internal user of accounting information.
- (ix) Management of the business enterprise is internal user of financial statements.
- (x) Two primary qualitative characteristics of financial statements are: Understandability and Materiality.

[Ans.: (i) False; (ii) True; (iii) True; (iv) False; (v) True;
(vi) False; (vii) True; (viii) False; (ix) True; (x) False.]

2. Fill-in-the blanks with appropriate words:

- (i) Scope of accountancy is _____ than that of Book Keeping.
- (ii) Book Keeping is a systematic record of _____ transactions.
- (iii) Accounting records can be produced as _____ in the court of law.
- (iv) Information in financial reports is based on _____ transactions and _____.
- (v) The process of accounting starts with _____ and ends with _____.
- (vi) Accounting measures the business transactions in terms of _____ units.
- (vii) Identified and measured economic events should be recorded in _____ order.
- (viii) In every transaction, _____ aspects are involved.

[Ans.: (i) wider; (ii) financial; (iii) evidence; (iv) financial, events; (v) identifying the transactions, communicating information; (vi) monetary; (vii) chronological; (viii) two.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Book keeping is concerned with

- (a) recording financial data relating to business transactions.
- (b) designing for systems recording, classifying, and summarizing recorded data.
- (c) interpreting data for internal and external users.
- (d) All of the above.

2. The last step in accounting as a process of information is

- (a) recording the transaction.
- (b) preparation of financial statements.
- (c) communication of information.
- (d) All of these.

3. Basic function of accounting is
 - (a) to record all business transactions.
 - (b) to interpret financial data.
 - (c) to assist the management in performing functions effectively.
 - (d) None of the above.
4. Which of the following will not be recorded in the books of account?
 - (a) Purchased a LED TV for personal use, amount paid from personal account
 - (b) Purchased machinery of ₹ 1,00,000
 - (c) Purchased goods for ₹ 25,000
 - (d) Paid Salaries and Wages
5. Accounting is
 - (a) A process concerned with summarising of the recorded transactions.
 - (b) Not the language of business.
 - (c) An art of recording, classifying and summarising financial transactions in a significant manner.
 - (d) All of the above.
6. Which of the following is the objective of Accounting?
 - (a) Systematic Recording
 - (b) Comparison and Evaluation
 - (c) Solvency Position
 - (d) Forecasting
7. Which of the following is not the user of accounting information?
 - (a) Short-term creditors
 - (b) Debtors
 - (c) Government
 - (d) Owners
8. Which one is the advantage of accounting?
 - (a) Replacement of memory
 - (b) Shows the present value of the business
 - (c) Accounting does not record price level changes
 - (d) Accounting is not fully exact
9. Out of the following which is the branch of Accounting?
 - (a) Financial Accounting
 - (b) Cost Accounting
 - (c) Management Accounting
 - (d) All of these
10. Two primary qualitative characteristics of financial statements are
 - (a) Understandability and materiality.
 - (b) Relevance and reliability.
 - (c) Relevance and Materiality.
 - (d) All of these.

[Ans.: 1. (a); 2. (c); 3. (a); 4. (a); 5. (c); 6. (a); 7. (b); 8. (a); 9. (d); 10. (b).]

2. BASIC ACCOUNTING TERMS

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Goodwill is a tangible Asset.
- (ii) A person who owes money to the firm against goods sold is a debtor.
- (iii) A person to whom money is owed by a firm for purchase of goods is a creditor.
- (iv) Stock is valued at Cost or Net Realisable Value (Market Value), whichever is higher.
- (v) Machinery used in production is not a fixed asset.
- (vi) Rent Payable is a liability.
- (vii) Purchases is a revenue.
- (viii) Trade discount is recorded in the books.
- (ix) Goods taken by the owner for personal use is debited to capital account.
- (x) 'Goods' means physical item of trade.
- (xi) Debtors, Stock, Bank Balances are examples of fictitious assets.
- (xii) A person who is not in a position to pay his debts is known as insolvent.

[Ans.: (i) False; (ii) True; (iii) True; (iv) False; (v) False; (vi) True; (vii) False; (viii) False; (ix) False; (x) True; (xi) False; (xii) True.]

2. Fill-in-the blanks with appropriate words:

- (i) A person to whom a firm owes money for purchase of goods is a _____.
- (ii) Amount invested by the owner in business is termed as _____.
- (iii) Amount of debts _____ from the debtors are termed as bad debts.
- (iv) A person who owes money to the firm for sale of goods is a _____.
- (v) The nature of capital is a _____.
- (vi) The nature of accrued income is _____.
- (vii) Bad Debts recovered is a _____ receipt.
- (viii) Purchases means purchase of goods for _____.
- (ix) Bank-Overdraft is a _____ liability.
- (x) Amount at which an asset appears in the books of account is _____.
- (xi) Fall in the value of an asset due to its use is termed as _____.
- (xii) A liability arises because of _____ transactions.

[Ans.: (i) creditor; (ii) capital; (iii) irrecoverable; (iv) debtor; (v) liability; (vi) asset; (vii) revenue; (viii) resale; (ix) current; (x) book value; (xi) depreciation; (xii) credit.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Amount paid or payable against purchase of goods is
 - (a) revenue expenditure.
 - (b) capital expenditure.
 - (c) Both (a) and (b).
 - (d) None of these.
2. Expenditure of revenue nature that gives benefit for more than one accounting period is categorised as
 - (a) Capital Expenditure.
 - (b) Revenue Expenditure.
 - (c) Deferred Revenue Expenditure.
 - (d) None of these.
3. Which of the following is not a business transaction?
 - (a) Bought furniture of ₹ 25,000 for business
 - (b) Paid for salaries of employees, ₹ 20,000
 - (c) Cash withdrawn from personal bank account, ₹ 10,000 for personal use
 - (d) All of the above
4. Which of the following is not a fixed asset?
 - (a) Building
 - (b) Plant and Machinery
 - (c) Balance with bank
 - (d) Goodwill
5. Which of the following is a business transaction?
 - (a) Goods purchased on credit
 - (b) An employee being dismissed
 - (c) Proprietor purchasing a car for own use
 - (d) Sale of personal asset by the proprietor
6. Which of the following is not a long-term liability?
 - (a) Creditors
 - (b) Term loan
 - (c) Debentures
 - (d) Bank loan
7. Income is
 - (a) Revenue Less Expense.
 - (b) Expense Less Revenue.
 - (c) Sales Less Cost of goods Sold.
 - (d) Purchase Less Purchase Return.
8. Prepaid expense is expense
 - (a) Paid in Advance.
 - (b) Still to be paid.
 - (c) Both (a) and (b).
 - (d) None of these.
9. Excess of income over its related expenses which arises from its normal business activity is
 - (a) Gain.
 - (b) Profit.
 - (c) Revenue.
 - (d) Loss.

10. Liability in which obligation to pay, depends on happening of an event is
 (a) Contingent Liability. (b) Long term Liability.
 (c) Short term Liability. (d) None of these.
11. Assets which have a finite life depending upon the value of natural resources extracted is
 (a) Fictitious Assets. (b) Wasting Assets.
 (c) Fixed Assets. (d) None of these.
12. Reduction in amount payable allowed by the seller of goods after the goods have been sold is
 (a) Rebate. (b) Trade Discount.
 (c) Cash Discount. (d) None of these.

[Ans.: 1. (a); 2. (c); 3. (c); 4. (c); 5. (a); 6. (a); 7. (a); 8. (a); 9. (b); 10. (a); 11. (b); 12. (a).]

3. THEORY BASE OF ACCOUNTING, ACCOUNTING STANDARDS AND IND-AS

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Business Entity Concept is not applicable to sole trading concerns and partnership concerns.
- (ii) Money Measurement Concept takes into account changes in the value of monetary unit.
- (iii) The principle of consistency is particularly valuable when alternative accounting method is equally acceptable.
- (iv) The essence of Conservatism Concept is to anticipate no profit and provide for all possible losses.
- (v) According to the Realisation Concept, revenue should be accounted only when it is received.
- (vi) Accounting principles are rules of action or conduct which are adopted by the accountants universally while recording accounting transactions.
- (vii) Accounting Standards are not mandatory in nature.
- (viii) According to the Cost Concept, assets are recorded at the value paid for acquiring them.
- (ix) According to the Going Concern Concept, assets are recorded at realisable value and are depreciated over their estimated useful life.
- (x) According to the Convention of Consistency, accounting policies and practices once adopted should be consistently followed.
- (xi) According to Principle of Conservatism, closing stock is valued at Historical cost or net realisable value (market value) whichever is higher.
- (xii) Transaction between the firm and proprietor is accounted in the books of account because of Business Entity Principle.
- (xiii) Quality of Manpower is not shown in the Financial Statements because of Revenue Principle.
- (xiv) The financial statements under Ind-AS include a statement of financial position.

[Ans.: (i) False; (ii) False; (iii) True; (iv) True; (v) False; (vi) True; (vii) False; (viii) True; (ix) False; (x) True; (xi) False; (xii) True; (xiii) False; (xiv) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Business Entity Concept implies that a business unit is _____ from the persons who supply capital to it.
- (ii) According to the _____ Concept, revenue is considered as being earned on the date on which it is earned.
- (iii) The _____ Concept requires that the same accounting method should be used from one accounting period to next.
- (iv) Transactions between owner and business are recorded due to _____ Concept.
- (v) Going Concern Concept assumes that business will be carried on for _____ period.

- (vi) Withdrawal of money by the owner is not an expense but a reduction of _____ and _____.
- (vii) The _____ Concept requires that accounting transactions should be free from the bias of accountants and others.
- (viii) Going concern is a _____ accounting assumption.
- (ix) Total of debit side and credit side of trial balance matches because of _____ principle.
- (x) Ind-AS are _____ based accounting standards.

[Ans.: (i) *separate*; (ii) *Realisation*; (iii) *Consistency*; (iv) *Business Entity*; (v) *indefinite*; (vi) *cash; capital*; (vii) *Verifiable Objective (Evidence)*; (viii) *Fundamental*; (ix) *Dual Aspect*; (x) *Principle*.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- The Concept of Conservatism takes into account
 - all prospective profits and all prospective losses.
 - all prospective profits and leaves all prospective losses.
 - all prospective losses but not the prospective profits.
 - None of the above.
- According to Going Concern Concept, a business is viewed as having
 - a limited life.
 - a very long life.
 - an infinite life.
 - None of these.
- According to which of the following concepts, in determining the net income, all costs which are applicable to earn the revenue of the period should be charged against that revenue?
 - Matching Concept
 - Money Measurement Concept
 - Cost Concept
 - Dual Aspect Concept
- Lower of cost or net realisable value is an example of
 - Consistency Concept.
 - Prudence (Conservatism) Concept.
 - Realisation Concept.
 - Matching Concept.
- X Ltd. follows the Written Down Value Method of depreciating machinery year after year due to
 - comparability.
 - convenience.
 - consistency.
 - All of these.
- An employee of the enterprise suffers an injury at work and the enterprise decides to pay him ₹ 50,000 as compensation. Should the enterprise pass an entry even though it has not paid it?
 - Yes, because of Accrual Concept.
 - No, because it is not paid.
 - No, because the employee has not accepted.
 - None of these.
- Ind-AS are based on
 - Rules.
 - Principles.
 - Both (a) and (b).
 - None of these.
- Ind-AS apply to
 - Companies listed on Stock Exchange.
 - Companies having net worth of ₹ 250 crores or more.
 - Subsidiaries, Holding, Joint Ventures and Associates of above two categories of Companies.
 - All of the above.

[Ans.: 1. (c); 2. (c); 3. (a); 4. (b); 5. (c); 6. (a); 7. (b); 8. (d).]

4. BASES OF ACCOUNTING

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Under cash basis of accounting, entries in the books of account are passed when cash is received or paid.
- (ii) Cash basis of accounting is incompatible with the Matching Principle.
- (iii) Accrual basis is a more appropriate basis for determining profits as expenses are matched against revenue earned in relation thereto.
- (iv) Accrual basis of accounting gives a true and fair view of the results of operations of business and financial position of the business.
- (v) Cash basis considers the revenue as realised when the goods are sold.

[Ans.: (i) True; (ii) True; (iii) True; (iv) True; (v) False.]

2. Fill-in-the blanks with appropriate words:

- (i) There is a need for adjustment of prepaid/outstanding expenses in _____ basis of accounting.
- (ii) Adjustment is made for accrued income/income received in advance under _____ basis of accounting.
- (iii) Accrual basis of accounting is more reliable than _____ of accounting.
- (iv) Cash basis of accounting does not require adjustment regarding outstanding/prepaid expenses and _____.
- (v) The profit/loss under _____ of accounting will be different from profit/loss under Accrual Basis of Accounting.

[Ans.: (i) accrual; (ii) accrual; (iii) cash basis;
(iv) accrued income/income received in advance; (v) cash basis.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. Under Cash Basis of Accounting, expenses are recorded
 - (a) on payment.
 - (b) on being incurred.
 - (c) Both (a) and (b).
 - (d) None of these.
- 2. Under Accrual Basis of Accounting, expenses are recorded
 - (a) on payment.
 - (b) on being incurred.
 - (c) Both (a) and (b).
 - (d) None of these.
- 3. Accrual Basis of Accounting
 - (a) does not give a true and fair view of profit and financial position.
 - (b) gives a true and fair view of profit and financial position.
 - (c) may or may not give a true and fair view of profit and financial position.
 - (d) None of the above.
- 4. Accrual Basis of Accounting recognises
 - (a) Outstanding and Prepaid Expenses.
 - (b) Accrued Incomes and Incomes Received in Advance.
 - (c) Both (a) and (b).
 - (d) None of these.
- 5. Under Accrual Basis of Accounting
 - (a) both Cash and Credit transactions are recorded.
 - (b) only cash transactions are recorded.
 - (c) only credit transactions are recorded.
 - (d) None of these.

[Ans.: 1. (a); 2. (b); 3. (b); 4. (c); 5. (a).]

5. ACCOUNTING EQUATION

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Accrued Income will Increase Assets and Capital.
- (ii) Purchasing car for personal use by proprietor will Increase Assets and Capital.
- (iii) Vinod's capital is ₹ 2,30,000 and liabilities are 90,000. His fixed and current assets are in the ratio of 3 : 1. His fixed and current assets will be ₹ 1,72,500 and ₹ 57,500.
- (iv) If ₹ 920 is received from debtors of ₹ 1,000 in full settlement, Capital will be decreased by ₹ 80.
- (v) Outstanding expenses are shown on Assets side of Balance Sheet.

[Ans.: (i) True; (ii) False; (iii) False; (iv) True; (v) False.]

2. **Fill-in-the blanks** with appropriate words:

(i) Determine the missing amounts on the basis of the Accounting Equation:

	Assets	=	Liabilities	+	Capital
(a)	₹ 20,000	=	₹ 15,000	+	_____
(b)	_____	=	₹ 5,000	+	₹ 10,000
(c)	₹ 10,000	=	_____	+	₹ 8,000

(ii) Determine the missing amounts on the basis of the Accounting Equation:

	Assets	Liabilities	Capital
(a)	_____	₹ 30,000	₹ 70,000
(b)	₹ 1,50,000	₹ 30,000	_____
(c)	₹ 1,75,000	_____	₹ 1,00,000

[Ans.: (i) (a) ₹ 5,000; (b) ₹ 15,000; (c) ₹ 2,000; (ii) (a) ₹ 1,00,000; (b) ₹ 1,20,000; (c) ₹ 75,000.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. The correct accounting equation is
 - (a) Assets = Liabilities – Capital.
 - (b) Assets = Liabilities + Capital.
 - (c) Liabilities = Assets + Capital.
 - (d) Capital = Assets + Liabilities.
2. Payment of Rent to Shekhar will
 - (a) Decrease Assets and Liabilities.
 - (b) Increase Assets but Reduce Capital.
 - (c) Decrease Assets and Capital.
 - (d) Increase Assets and Reduce Liabilities.
3. Harshad commenced business with capital of ₹1,50,000. At the end of the year his assets were ₹ 2,50,000 and creditors were ₹ 25,000. His closing capital and profit/loss for the year will be
 - (a) ₹ 2,75,000 and ₹ 75,000.
 - (b) ₹ 2,25,000 and ₹ 75,000.
 - (c) ₹ 2,75,000 and ₹ 50,000.
 - (d) ₹ 2,75,000 and ₹ 1,25,000.
4. Owner's capital in beginning was ₹ 45,000. Creditors at the end were ₹ 30,000. Revenue during the period was ₹ 65,000. Expenses during the period were ₹ 40,000. Total equity at the year end will be
 - (a) ₹ 1,00,000.
 - (b) ₹ 1,20,000.
 - (c) ₹ 80,000.
 - (d) None of these.
5. Financial position of Surbhi as on 1st April, 2022 was as under: Plant ₹ 22,000; Stock ₹ 45,000; Creditors ₹ 12,500; Bank overdraft ₹ 28,800; Cash ₹ 15,700; Debtors ₹ 27,900; Outstanding Expenses ₹ 9,800; Investments ₹ 30,000; Buildings ₹ 80,000. Her capital at the year end will be
 - (a) ₹ 2,57,000.
 - (b) ₹ 51,100.
 - (c) ₹ 3,08,600.
 - (d) ₹ 1,69,500.

6. Interest on Drawings charged is ₹ 1,500. In accounting equation, it will be shown as
 (a) Increase capital by ₹ 1,500 and decrease cash by ₹ 1,500.
 (b) Increase and Decrease capital by ₹ 1,500.
 (c) Increase capital and Interest on Drawings by ₹ 1,500.
 (d) Decrease capital and cash by ₹ 1,500.
7. An expansion of accounting equation is shown as
 (a) Profit & Loss Account. (b) Trading Account.
 (c) Manufacturing Account. (d) Balance Sheet.
8. Owner's Equity is
 (a) Balance of Capital A/c. (b) Balance of Creditors A/c.
 (c) Balance of Cash A/c. (d) Balance of Drawings A/c.
9. Find opening capital when
 Assets = ₹ 4,00,000; Profit = ₹ 25,000 and Creditors = ₹ 2,55,000.
 (a) ₹ 1,20,000 (b) ₹ 1,45,000
 (c) ₹ 1,70,000 (d) ₹ 3,75,000

[Ans.: 1. (b); 2. (c); 3. (b); 4. (a); 5. (d); 6. (b); 7. (d); 8. (a); 9. (a).]

6. ACCOUNTING PROCEDURES—RULES OF DEBIT AND CREDIT

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Debit means an increase in liability.
- (ii) Credit means an increase in asset.
- (iii) Sale of goods to Ram for cash is debited to Cash Account.
- (iv) Withdrawal of cash from business by the proprietor is credited to Drawings Account.
- (v) Drawings Account is a Personal Account.
- (vi) Goodwill account is a Real Account.

[Ans.: (i) False; (ii) False; (iii) True; (iv) False; (v) True; (vi) True.]

2. **Fill-in-the blanks** with appropriate words:

- (i) Debit the receiver, Credit the _____ is the rule for Personal Accounts.
- (ii) Salary Outstanding A/c on the basis of classification of accounts is a _____.
- (iii) Increase in capital is credited to _____.
- (iv) Dr. stands for _____ and Cr. stands for _____.
- (v) Debit what comes in and credit what goes out is the rule of _____ Account.
- (vi) Cash or goods withdrawn by the proprietor for his personal use is debited to _____ Account.
- (vii) Debit in relation to Asset Accounts and Expense Accounts means an _____ but in relation to Liability Accounts, Capital Accounts and Revenue Accounts means a _____.
- (viii) Debit all expenses and losses and credit all incomes and gains is the rule of _____ Accounts.

[Ans.: (i) giver; (ii) personal account; (iii) capital account; (iv) debit, credit; (v) Real; (vi) Drawings; (vii) increase, decrease; (viii) nominal.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Bank account is a
 (a) Personal Account. (b) Real Account.
 (c) Nominal Account. (d) None of these.

2. Which of the following accounts has a credit balance?
 (a) Carriage Inward (b) Discount Received
 (c) Carriage Outward (d) Discount Allowed
3. Sundry Creditors Account is a
 (a) Revenue Account. (b) Capital Account.
 (c) Liability Account. (d) None of these.
4. Sales Account is a
 (a) Revenue Account. (b) Liability Account.
 (c) Capital Account. (d) None of these.
5. Salaries Account is
 (a) an Expense Account. (b) an Asset Account.
 (c) a Liability Account. (d) None of these.
6. 'Machinery Purchased' is a
 (a) Real Account. (b) Nominal Account.
 (c) Personal Account. (d) None of these.
7. 'Discount allowed' is classified as a
 (a) Real Account. (b) Nominal Account.
 (c) Personal Account. (d) None of these.
8. 'Patents' are classified as a
 (a) Asset Account. (b) Liability Account.
 (c) Capital Account. (d) Revenue Account.
9. 'Outstanding Expenses' are classified as
 (a) Liability Account. (b) Asset Account.
 (c) Revenue Account. (d) Capital Account.
10. Interest Received is classified as
 (a) Asset Account. (b) Revenue Account.
 (c) Capital Account. (d) Liability Account.
11. 'Purchases' are classified as
 (a) Expense Account. (b) Asset Account.
 (c) Capital Account. (d) Revenue Account.
12. 'Carriage Inward' is classified as
 (a) Asset Account. (b) Expense Account.
 (c) Capital Account. (d) Liability Account.

[Ans.: 1. (a); 2. (b); 3. (c); 4. (a); 5. (a); 6. (a); 7. (b); 8. (a); 9. (a); 10. (b); 11. (a); 12. (b).]

7. ORIGIN OF TRANSACTIONS—SOURCE DOCUMENTS AND PREPARATION OF VOUCHERS

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Cash memo is a source voucher for purchaser of goods on credit.
- (ii) Invoice is a source voucher for seller of goods on credit.
- (iii) Accounting voucher is prepared from source voucher.
- (iv) If seller receives back the goods sold, he prepares Credit Note.
- (v) Accounting Voucher is prepared for Cash and Credit purchases.

[Ans.: (i) False; (ii) True; (iii) True; (iv) True; (v) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Cash memo is prepared when goods are sold against _____.
- (ii) Invoice is a source voucher for purchaser of goods on _____.
- (iii) If purchaser of goods returns the goods, he will prepare a _____.
- (iv) Cash Memo is a _____ voucher.
- (v) When goods are sold on credit the seller prepares an _____.
- (vi) When goods are purchased against cash, the purchaser will get _____.

[Ans.: (i) cash; (ii) credit; (iii) Debit Note; (iv) source; (v) invoice; (vi) Cash Memo.]

Multiple Choice Questions (MCQs)

1. Books of Account are written on the basis of
 - (a) Source Document.
 - (b) Accounting Vouchers.
 - (c) Both (a) and (b).
 - (d) None of these.
2. Credit Note is prepared
 - (a) when credit is given to the account.
 - (b) when debit is given to the account.
 - (c) both (a) and (b).
 - (d) None of these.

[Ans.: 1. (b); 2. (a).]

8. JOURNAL

Objective Type Questions

1. State whether the following statements are *True* or *False*:

- (i) Sale of old furniture to Paresh for cash should be debited to Paresh's Account.
- (ii) Increases in assets are debited and decreases in assets are credited.
- (iii) Cash Discount allowed to customer is an expense for business.
- (iv) Increases in capital are credited and decreases in capital are debited.
- (v) Debit the giver and credit the receiver is the rule of Personal Accounts.
- (vi) Some of the transactions may have only one account.
- (vii) For every debit, there is a corresponding credit of equal amount.
- (viii) Left hand side of an account is called the debit side.
- (ix) Wages, when paid, are credited to Wages Account.
- (x) Narration should not be written in a Journal.

[Ans.: (i) False; (ii) True; (iii) True; (iv) True; (v) False; (vi) False; (vii) True; (viii) True; (ix) False; (x) False.]

2. Fill-in-the blanks with appropriate words:

- (i) Receiver's Account is _____.
- (ii) Sold goods to Ram—Ram's Account will be _____.
- (iii) Received interest—Interest Account will be _____.
- (iv) Trade discount is _____ in the books.
- (v) A Journal is known as a book of _____ entry.
- (vi) Business transactions are recorded in the order in which they _____.
- (vii) A Journal entry may have more than one debit or more than one _____.
- (viii) Journal provides an explanation of the _____.
- (ix) Machinery Account is neither a _____ Account nor a _____ Account.
- (x) _____ Discount is allowed to encourage timely payment.
- (xi) _____ Discount is allowed to encourage large purchases.
- (xii) _____ Discount is shown separately in the books of account.

- (xiii) _____ Discount is not shown separately in the books of account.
 (xiv) _____ Discount is not reduced from the invoice price.
 (xv) _____ Discount is reduced from the invoice price.
 (xvi) Cash Discount is allowed @ 10% on ₹ 15,500; the amount paid will be _____.
 (xvii) Catalogue price is ₹ 600. Trade Discount allowed @ 10% will be _____ and Cash Discount @ 5% will be _____.

[Ans.: (i) debited; (ii) debited; (iii) credited; (iv) not recorded; (v) original; (vi) occur; (vii) credit; (viii) transactions; (ix) Personal, Nominal; (x) Cash; (xi) Trade; (xii) Cash; (xiii) Trade; (xiv) Cash; (xv) Trade; (xvi) ₹ 13,950; (xvii) ₹ 60, ₹ 27.]

Multiple Choice Questions (MCQs)

- Journal is called a book of
 - primary entry.
 - secondary entry.
 - final entry.
 - None of these.
- Rent paid is a
 - Personal Account.
 - Real Account.
 - Nominal Account.
 - All of these.
- Robert's Account is a
 - Personal Account.
 - Real Account.
 - Nominal Account.
 - All of these.
- Business transactions are recorded
 - in chronological order.
 - weekly.
 - at the end of the month.
 - All of these.
- A compound Journal entry
 - has equal debits and credits.
 - generally extends to several pages.
 - does not require narration.
 - All of these.
- Which of the following accounts will be credited on giving cash donation?
 - Cash A/c.
 - Donation A/c.
 - Purchases A/c.
 - None of these.
- Sale of goods to Ram for cash is debited to
 - Ram's A/c.
 - Cash A/c.
 - Sales A/c.
 - None of these.
- Withdrawal of goods from business by the proprietor is credited to
 - Drawings A/c.
 - Capital A/c.
 - Purchases A/c.
 - None of these.
- Trade Discount allowed is deducted from the gross sales. Sales is recorded in the books of account at:
 - Gross Sales and Trade Discount separately.
 - Net Sales Invoice.
 - None of the above.
 - Any of (a) and (b).
- Trade Discount received on purchases is recorded in the books of account as follows:
 - Trade Discount is credited to Discount Received Account.
 - Trade Discount is deducted from the Invoice Price and recorded at net value.
 - None of the above.
 - Any of (a) and (b).
- Cash Discount allowed is recorded in the books of account as follows:
 - Cash Discount is debited to Discount Allowed Account.
 - Cash Discount is reduced from the Invoice Price.
 - None of the above.
 - Any of (a) and (b).

12. Cash Discount received is recorded in the books of account as follows:
- Cash Discount is credited to Discount Received Account.
 - Cash Discount is reduced from the Invoice Price.
 - None of the above.
 - Any of (a) and (b).
13. Journal entry for Stock left unsold at the end of the year is:
- Dr. Closing Stock A/c and Cr. Trading A/c
 - Dr. Trading A/c and Cr. Closing Stock A/c
 - Dr. Profit & Loss A/c and Cr. Closing Stock A/c
 - Dr. Closing Stock A/c and Cr. Profit and Loss A/c
14. Cheque of ₹ 1,000 received from Ramesh was dishonored. Journal entry will be:
- Dr. Sales Return A/c and Cr. Ramesh by ₹ 1,000
 - Dr. Ramesh and Cr. Bank A/c by ₹ 1,000
 - Dr. Sales Return A/c and Cr. Suspense A/c by ₹ 1,000
 - None of the above
15. Journal entry for wood (goods) of ₹ 2,000 used for making office furniture is:
- Dr. Furniture A/c and Cr. Cash A/c by ₹ 2,000
 - Dr. Cash A/c and Cr. Furniture A/c by ₹ 2,000
 - Dr. Furniture A/c and Cr. Purchases A/c by ₹ 2,000
 - None of the above
16. Journal entry for payment of income tax ₹ 5,000 by the proprietor is:
- Dr. Income Tax A/c and Cr. Purchases A/c by ₹ 5,000
 - Dr. Purchases A/c and Cr. Drawings A/c by ₹ 5,000
 - Dr. Drawings A/c and Cr. Income Tax A/c by ₹ 5,000
 - Dr. Drawings A/c and Cr. Cash A/c by ₹ 5,000
17. Journal entry for selling old machinery with book value ₹ 5,000 for ₹ 3,500 is:
- Dr. Cash A/c by ₹ 5,000 and Cr. Profit and Loss A/c by ₹ 1,500 and Sales A/c by ₹ 3,500
 - Dr. Sales A/c by ₹ 3,500 and Profit and Loss A/c by ₹ 1,500 and Cr. Cash A/c by ₹ 5,000
 - Dr. Cash A/c and Cr. Sales A/c by ₹ 3,500
 - Dr. Cash A/c by ₹ 5,000 and Cr. Machinery A/c by ₹ 3,500 and Profit and Loss A/c by ₹ 1,500
- [Ans.: 1. (a); 2. (c); 3. (a); 4. (a); 5. (a); 6. (a); 7. (b); 8. (c); 9. (b); 10. (b); 11. (a); 12. (a) 13. (a); 14. (b); 15. (c); 16. (d); 17. (d).]**

9. LEDGER

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- If the Goods are sold or supplied from Delhi to Gurugram, it is Inter-State Supply.
- Ledger is the principal book of account.
- Ledger is not prepared from a Journal.
- A Ledger is called a book of final entry.
- Balancing a Ledger is necessary.

[Ans.: (i) True; (ii) True; (iii) False; (iv) True; (v) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Ledger provides a true picture of a group of similar _____.
- (ii) Balance of Personal Account is carried _____.
- (iii) Every account has _____ sides, debit and credit.
- (iv) Balances of nominal accounts are transferred to Trading Account or _____ Account.
- (v) The book in which every account is maintained is known as _____.

[Ans.: (i) transactions; (ii) forward; (iii) two; (iv) Profit and Loss; (v) Ledger.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. Ledger is called a book of
 - (a) primary entry.
 - (b) secondary entry.
 - (c) final entry.
 - (d) None of these.
- 2. Ledger Account is prepared from
 - (a) events.
 - (b) transactions.
 - (c) Journal.
 - (d) Any of these.
- 3. Business transactions are recorded
 - (a) in chronological order.
 - (b) weekly.
 - (c) at the end of the month.
 - (d) Any of these.
- 4. Ledger is a book in which
 - (a) Real and Nominal Accounts are maintained.
 - (b) Real and Personal Accounts are maintained.
 - (c) Real, Personal and Nominal Accounts are maintained.
 - (d) None of the above.

[Ans.: 1. (c); 2. (c); 3. (a); 4. (c).]

10. SPECIAL PURPOSE BOOKS I— CASH BOOK

Objective Type Questions

1. State whether the following statements are *True* or *False*:

- (i) Cash Book is both a Subsidiary Book and Principal Book.
- (ii) Cash Column of Cash Book cannot have a debit balance.
- (iii) Payments are shown in the debit side of the Cash Book.
- (iv) Receipts are shown in the credit side of the Cash Book.
- (v) Contra entries are not posted into Ledger Accounts.
- (vi) In case of Bank Overdraft, 'Bank Column' in Cash Book will show credit Balance.
- (vii) Cheque received but not deposited into Bank on the same day is debited to Cheques-in-Hand Account.
- (viii) Bank Column in Cash Book may show Credit Balance.
- (ix) In a two-column Cash Book, both Cash column and Bank column are balanced.
- (x) Cash withdrawn from bank for personal use is a Contra Entry.
- (xi) Cheque received and endorsed is entered in Journal Proper.
- (xii) Balance of Petty Cash Book is an expense.
- (xiii) Balance in the petty cash book is an asset.

(xiv) Sale of goods by Mohan to Sohan for ₹ 1,000 will be recorded in the Sales Book.

[Ans.: (i) True; (ii) False; (iii) False; (iv) False; (v) True; (vi) True; (vii) True; (viii) True; (ix) True; (x) False; (xi) True; (xii) False; (xiii) True; (xiv) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Cash Book records _____ transactions.
- (ii) Credit transactions are recorded in _____ proper.
- (iii) Cash Column in the Debit side of Cash Book shows cash _____.
- (iv) Cash Column in the Credit side of Cash Book shows cash _____.
- (v) Balance of Cash Book means _____.
- (vi) Bank Column of Cash Book may have _____ or _____ balance.
- (vii) Bank Overdraft in Cash Book means _____ balance.
- (viii) Bank Balance in Cash Book means _____ balance.
- (ix) Cash Account is an _____ Account.
- (x) Bank Account may be _____ Account or _____ Account.

[Ans.: (i) cash; (ii) Journal; (iii) receipts; (iv) payments; (v) cash in hand; (vi) debit, credit; (vii) credit; (viii) debit; (ix) Asset; (x) Asset, Liability.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. Transaction posted in the ledger from two column Cash Book is
 - (a) Cash deposited into bank.
 - (b) Cash withdrawn from Bank.
 - (c) Cash withdrawn from bank for personal use.
 - (d) None of these.
- 2. Transaction not posted in the ledger from two column Cash Book is
 - (a) Withdrawal from bank for office use.
 - (b) Withdrawal from bank for personal use.
 - (c) Cheque issued for purchase of asset.
 - (d) None of these.
- 3. If both debit and the credit aspects of a transaction are recorded in the cash book itself, it is called
 - (a) an opening entry.
 - (b) a compound entry.
 - (c) a transfer entry.
 - (d) a contra entry.
- 4. A cheque received but not deposited the same day into bank, is entered in
 - (a) Cash column on the debit side.
 - (b) Bank column on the debit side.
 - (c) Cash column on the credit side.
 - (d) Journal Proper.
- 5. Cheque returned dishonored, it is recorded in
 - (a) Cash column on the credit side.
 - (b) Cash column on the debit side.
 - (c) Bank column on the Credit side.
 - (d) Journal Proper.
- 6. Petty Cash Book records
 - (a) payments of small amounts.
 - (b) receipts of small amounts.
 - (c) Both (a) and (b).
 - (d) All cash receipts and payments.
- 7. Payments made through Petty Cash Book
 - (a) are not posted into Ledger Accounts.
 - (b) are posted into Ledger Accounts.
 - (c) Both (a) and (b).
 - (d) None of these.
- 8. Petty Cash Receipts are recorded in
 - (a) Petty Cash Book.
 - (b) Journal Proper.
 - (c) Cash Book.
 - (d) None of these.
- 9. Petty Cash Book will have a
 - (a) credit balance.
 - (b) debit balance.
 - (c) debit or nil balance.
 - (d) credit or nil balance.

10. If Shyam has sold goods to Ramesh for cash, the entry will be recorded in the
 (a) Cash Book. (b) Sales Book.
 (c) Journal. (d) Purchase Book.
11. Ram has purchased goods from Param for cash, the entry will be recorded in the
 (a) Cash Book. (b) Sales Book.
 (c) Journal. (d) Purchases Book.
12. If Ramesh has sold goods for cash, the entry will be recorded
 (a) in the Cash Book. (b) in the Sales Book.
 (c) in the Journal Proper. (d) None of these.
13. The Cash Book records
 (a) all cash receipts and payments. (b) cash and credit sale of goods.
 (c) Both (a) and (b). (d) None of these.

[Ans.: 1. (c); 2. (a); 3. (d); 4. (d); 5. (c); 6. (a); 7. (b); 8. (c); 9. (c); 10. (a); 11. (a); 12. (a); 13. (a).]

11. SPECIAL PURPOSE BOOKS II— OTHER BOOKS

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Sales Journal is used for recording cash as well as credit sales.
- (ii) Journal Proper records purchase and sales of assets on credit.
- (iii) Adjustment entries are passed at the end of the accounting period.
- (iv) Closing entries are used for closing of accounts relating to expenses and revenues.
- (v) Sales Return Book has a debit balance.
- (vi) Purchases Return Book has a debit balance.

[Ans.: (i) False; (ii) True; (iii) True; (iv) True; (v) True; (vi) False.]

2. Fill-in-the blanks with appropriate words:

- (i) Total of Purchases Book is posted to the _____ of Purchases Account.
- (ii) Total of Sales Book is posted to the _____ of Sales Account.
- (iii) Journal Proper records transactions of the nature for which _____ Journal is not maintained.
- (iv) Sales Book is prepared from the _____ invoice.
- (v) Closing entries are passed at the _____ of the accounting period.
- (vi) In Journal Proper, only _____ discount is recorded.

[Ans.: (i) debit; (ii) credit; (iii) Special; (iv) sales; (v) end; (vi) cash.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Sales Book
 (a) is a part of the Journal. (b) is a part of the Ledger.
 (c) is a part of the Balance Sheet. (d) None of these.
2. Total of the Sales Book is posted to
 (a) credit of the Sales Account. (b) credit of the Purchases Account.
 (c) credit of the Capital Account. (d) credit of Customers' Accounts.
3. Periodic total of Sales Return Journal is posted to the
 (a) Sales Account. (b) Goods Account.
 (c) Sales Return Account. (d) Any of these.

4. Param purchased goods from Dev. It will be recorded in
 - (a) Purchases Book.
 - (b) Cash Book.
 - (c) Purchases Return Book.
 - (d) None of these.
5. Purchase of Machinery by Amit, a dealer in machinery from Yogesh for ₹ 1,00,000 is recorded in
 - (a) Cash Book.
 - (b) Sales Book.
 - (c) Purchase Book.
 - (d) Journal Proper.
6. Purchase of Machinery by Abhay, a dealer in stationery from Yogesh for ₹ 1,00,000 is recorded in
 - (a) Cash Book.
 - (b) Sales Book.
 - (c) Purchase Book.
 - (d) Journal Proper.
7. Sale of Machinery by Amit, a dealer in machinery for ₹ 1,20,000 is recorded in
 - (a) Cash Book.
 - (b) Sales Book.
 - (c) Purchase Book.
 - (d) Journal Proper.
8. Sale of Machinery by Suresh, a dealer in stationery to Sumit for ₹ 1,20,000 is recorded in
 - (a) Cash Book.
 - (b) Sales Book.
 - (c) Purchase Book.
 - (d) Journal Proper.
9. Purchases Account in the ledger shows
 - (a) All purchases of goods.
 - (b) Credit purchases.
 - (c) Cash purchases of goods.
 - (d) Credit purchases of assets other than goods.
10. Sales Account in the ledger shows
 - (a) All sales of goods.
 - (b) Credit sales.
 - (c) Cash sales of goods.
 - (d) Credit sales of assets other than goods.
11. Closing entries are recorded in
 - (a) Cash Book.
 - (b) Ledger.
 - (c) Journal Proper.
 - (d) Balance Sheet.
12. Debit Note for ₹ 1,000 issued to Suresh for goods returned by us is accounted in
 - (a) Sales Book.
 - (b) Purchases Book.
 - (c) Journal Proper.
 - (d) Purchases Return Book.
13. Rectifying entry for the error of a credit purchase of goods of ₹ 10,000 recorded as credit sale to Ravi detected two months later is passed in
 - (a) Journal Proper.
 - (b) Sales Book.
 - (c) Cash Book.
 - (d) Purchases Book.

[Ans.: 1. (a); 2. (a); 3. (c); 4. (a); 5. (c); 6. (d); 7. (b); 8. (d); 9. (a); 10. (a); 11. (c); 12. (d); 13. (a).]

12. ACCOUNTING OF GOODS AND SERVICES TAX (GST)

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) If the Goods are sold or supplied from Lucknow, UP to Kanpur, UP, it is Inter-State Supply.
- (ii) If the Goods are sold or supplied from Gorakhpur, UP to Kolkata, West Bengal, it is Intra-State Supply.
- (iii) GST paid (Input GST) can be set off against GST Collected (Output GST). It is not a cost but an asset.
- (iv) Input Credit of GST paid is not allowed on goods given as donation.
- (v) Input Credit of GST paid on Food and Beverages is not allowed. It, therefore, is a cost.
- (vi) GST is not levied on Salaries and Wages.

[Ans.: (i) False; (ii) False; (iii) True; (iv) True; (v) True; (vi) True.]

2. **Fill-in-the blanks** with appropriate words:

- (i) GST is an _____ tax.
- (ii) GST is charged by a _____ tax payer.

- (iii) Sale made within the state is _____ sale.
- (iv) GST paid by the purchaser of Goods and/or Services is _____ GST.
- (v) GST collected by the seller of Goods and/or Services is _____ GST.
- (vi) GST paid on purchase of assets to be used in business is allowed as _____ credit.
- (vii) When GST is not charged by the seller of Goods and/or Services but is paid into the Government Account directly by the purchaser of Goods and/or Services, it is termed as _____.
- (viii) GST collected is a _____.

[Ans.: (i) indirect; (ii) registered; (iii) intra-state; (iv) Input; (v) Output; (vi) input; (vii) Reverse Charge; (viii) liability.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Out of the following, which is the objective of GST?
 - (a) Developing Common National Market by having One Indirect Tax.
 - (b) Ease of Doing Business.
 - (c) Simplifying Compliance of Indirect Taxes.
 - (d) All of the above.
2. On intra-state (i.e., within the state) purchase of goods, which of the following GST is levied?
 - (a) CGST and IGST
 - (b) CGST and SGST
 - (c) SGST and IGST
 - (d) None of these
3. On inter-state (i.e., outside the state) purchase of goods, which of the following GST is levied?
 - (a) IGST.
 - (b) IGST and CGST.
 - (c) CGST and IGST.
 - (d) None of these.
4. Input Credit of GST paid directly into Government Account under Reverse charge is
 - (a) not allowed.
 - (b) allowed.
 - (c) may or may not be allowed.
 - (d) None of these.

[Ans.: 1. (d); 2. (b); 3. (a); 4. (b).]

13. BANK RECONCILIATION STATEMENT

Objective Type Questions

1. State whether the following statements are **True** or **False**:
 - (i) Bank Reconciliation Statement is not a part of the Double Entry System.
 - (ii) Bank balance as per Bank Statement is shown in the Balance Sheet at the end of the year.
 - (iii) Bank Reconciliation Statement is prepared at the end of the accounting year only.
 - (iv) Cheque issued but not presented for payment will reduce the balance as per the Pass Book.
 - (v) Pass Book is the Statement of Account of the customer maintained by the bank.
 - (vi) Bank Reconciliation Statement is prepared by the account holder and not by the bank.
 - (vii) Bank Reconciliation Statement is a part of Cash Book.
 - (viii) Bank Reconciliation Statement is a part of Bank Account.
 - (ix) Bank Reconciliation Statement may be prepared at any time of the accounting period.
 - (x) Bank Reconciliation Statement brings out the reasons for difference in the Pass Book and Cash Book balances.

[Ans.: (i) True; (ii) False; (iii) False; (iv) False; (v) True; (vi) True; (vii) False; (viii) False; (ix) True; (x) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Cheques deposited but not yet cleared are _____ when Bank Reconciliation Statement is prepared starting with debit bank balance as per Cash Book.
- (ii) Cheques issued but not yet presented are _____ to Debit Cash Book balance when Bank Reconciliation Statement is prepared.
- (iii) Charges charged by bank and not recorded in the books of account are _____ to Credit Cash Book balance when Bank Reconciliation Statement is prepared.
- (iv) Interest allowed by bank and not recorded in the books of account are _____ from Credit Cash Book balance when Bank Reconciliation Statement is prepared.
- (v) Interest allowed by bank and not recorded in the books of account are _____ to Debit Cash Book balance to prepare Bank Reconciliation Statement.
- (vi) A Bank Reconciliation Statement is prepared to _____.
- (vii) When bank column of a Cash Book shows a debit balance, it means _____.
- (viii) When Pass Book shows a credit balance, it means _____.
- (ix) When bank column of a Cash Book shows a credit balance, it means _____.
- (x) When Pass Book shows a debit balance, it means _____.

[Ans.: (i) deducted; (ii) added; (iii) added; (iv) deducted; (v) added; (vi) reconcile bank balance; (vii) balance lying with bank; (viii) balance lying with bank, i.e., amount due from the bank; (ix) overdraft, i.e., amount due to the bank; (x) overdraft as per Pass Book.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. Which of the following will not require adjustment in the Cash Book balance?
 - (a) Error in Pass Book
 - (b) Cheque issued but not presented for payment
 - (c) Cheque deposited but not cleared
 - (d) All of these.
- 2. Which of the following will not require adjustment in the Cash Book balance?
 - (a) Cheque issued but not presented for payment.
 - (b) Cheque deposited but not cleared.
 - (c) Cheque wrongly credited by bank.
 - (d) All of the above.
- 3. A cheque of ₹ 5,000 received from a debtor recorded in the cash book but omitted to be banked. When balance as per cash book is the starting point
 - (a) ₹ 5,000 to be added.
 - (b) ₹ 5,000 to be subtracted.
 - (c) No adjustment is required.
 - (d) None of these.
- 4. A cheque of ₹ 10,000 received from a debtor deposited but omitted to be recorded in the cash book. When balance as per cash book is the starting point
 - (a) ₹ 10,000 to be added.
 - (b) ₹ 10,000 to be subtracted.
 - (c) No adjustment is required.
 - (d) None of these.
- 5. A cheque of ₹ 1,120 received from a debtor recorded twice in the Cash Book. When balance as per Cash Book is the starting point
 - (a) ₹1,120 to be added.
 - (b) ₹ 1,120 to be subtracted.
 - (c) No adjustment is required.
 - (d) None of these.
- 6. A cheque received from a debtor for ₹ 1,023 recorded as ₹ 1,032 in the cash column in the cash book. When the balance as per cash book is the starting point
 - (a) ₹ 1,023 to be added.
 - (b) ₹ 1,032 to be added.
 - (c) ₹ 9 to be subtracted.
 - (d) ₹ 1,023 to be subtracted.

7. A cheque of ₹ 3,500 issued and recorded in the Cash Book but was not sent to creditor. When balance as per Cash Book is the starting point
 (a) ₹ 3,500 to be added. (b) ₹ 3,500 to be subtracted.
 (c) No adjustment is required. (d) None of these.
8. The payment side of the Cash Book (Bank Column) was undercast by ₹ 10,000. When the balance as per Cash Book is the starting point
 (a) ₹ 10,000 to be added. (b) ₹ 10,000 to be subtracted.
 (c) No adjustment is required. (d) None of these.
9. The receipt side of the Cash Book (Bank Column) was overcast by ₹ 5,000. When the balance as per Cash Book is the starting point
 (a) ₹ 5,000 to be added. (b) ₹ 5,000 to be subtracted.
 (c) No adjustment is required. (d) None of these.
10. Withdrawal column of the Pass Book showed a wrong entry of ₹ 1,200. When the balance as per Cash Book is the starting point
 (a) ₹ 1,200 to be added. (b) ₹ 1,200 to be subtracted.
 (c) No adjustment is required. (d) None of these.
11. A cheque of ₹ 2,345 issued was recorded in deposit column as ₹ 2,435. To ascertain the balance as per Cash Book
 (a) ₹ 2,345 should be added to the balance as per Pass Book.
 (b) ₹ 2,435 should be subtracted from the balance as per Pass Book.
 (c) ₹ 4,780 should be subtracted from the balance as per Pass Book.
 (d) ₹ 10 should be added to the balance as per Pass Book.
12. Cash Book showed Bank overdraft of ₹ 3,000. But the Pass Book made up on the same date showed that cheques of ₹ 200, ₹ 100 and ₹ 250 respectively had not been presented for payments; and the cheque of ₹ 800 paid into account had not been cleared. The balance as per the cash book will be
 (a) ₹ 2,200. (b) ₹ 4,350.
 (c) ₹ 3,250. (d) ₹ 2,750.

[Ans.: 1. (a); 2. (d); 3. (b); 4. (a); 5. (b); 6. (c); 7. (a); 8. (b); 9. (b); 10. (b); 11. (c); 12. (c).]

14. TRIAL BALANCE

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Trial Balance is a statement not an account.
- (ii) Opening Stock appears in a Trial Balance.
- (iii) Closing Stock is usually given as an additional information or adjustment outside the Trial Balance.
- (iv) Trial Balance is not a conclusive proof of correctness of the books of account.
- (v) Trial Balance is prepared for a particular period.
- (vi) Trial Balance is a part of the Ledger.
- (vii) Trial Balance is a result of posting into ledger accounts and its balancing.
- (viii) The main purpose of preparing a Trial Balance is to check the arithmetical accuracy of double entry.
- (ix) Trial Balance is prepared on the basis of balances in the Ledger.
- (x) If the Trial Balance tallies, it is proved that there are no errors.
- (xi) Trial Balance is always prepared at the end of each month.

[Ans.: (i) True; (ii) True; (iii) True; (iv) True; (v) False; (vi) False; (vii) True; (viii) True; (ix) True; (x) False; (xi) False.]

2. Fill-in-the blanks with appropriate words:

- (i) Debit balances of accounts are recorded in _____ column of Trial Balance.
- (ii) Credit balances of accounts are recorded in _____ column of Trial Balance.
- (iii) _____ are prepared from the Trial Balance.
- (iv) _____ and _____ balances of a Trial Balance if in agreement, proves at least the arithmetical accuracy.
- (v) Trial Balance is not a part of the double entry system of _____.
- (vi) Trial Balance is a _____ of debit and credit balances in Ledger at a particular date.

[Ans.: (i) debit; (ii) credit; (iii) Final accounts; (iv) Debit, credit; (v) book keeping; (vi) statement.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. An Asset Account shows a
 - (a) Credit balance.
 - (b) Debit balance.
 - (c) Debit or Credit balance.
 - (d) None of these.
- 2. Preparation of Trial Balance is
 - (a) compulsory.
 - (b) optional.
 - (c) compulsory or optional.
 - (d) None of these.
- 3. Trial Balance shows
 - (a) only credit balance.
 - (b) only debit balance.
 - (c) both debit and credit balances.
 - (d) either debit or credit balance.
- 4. Trial Balance is prepared
 - (a) before Journal is written.
 - (b) after Journal is written.
 - (c) after Journal is posted into ledger accounts.
 - (d) after financial statements have been prepared.
- 5. Trial Balance can be prepared
 - (a) at any time of the year.
 - (b) at the end of the year.
 - (c) in the beginning of the year.
 - (d) None of these.
- 6. If Trial Balance matches, it means
 - (a) arithmetical accuracy.
 - (b) books are accurate.
 - (c) Both (a) and (b).
 - (d) None of these.
- 7. Trial Balance is prepared from the balances taken from
 - (a) Day Books.
 - (b) Journal.
 - (c) Balance Sheet.
 - (d) Ledger Accounts.
- 8. Discount Received has
 - (a) Debit balance.
 - (b) Credit balance.
 - (c) Both (a) and (b).
 - (d) None of these.
- 9. If Closing Stock appears in the Trial Balance, it means
 - (a) purchases are adjusted against opening and closing stocks.
 - (b) purchases are adjusted against closing stock.
 - (c) Both (a) and (b).
 - (d) None of the above.
- 10. Trial Balance is prepared from
 - (a) Ledger.
 - (b) Ledger and Journal Book.
 - (c) Ledger and Cash Book.
 - (d) None of these.

[Ans.: 1. (b); 2. (b); 3. (c); 4. (c); 5. (a); 6. (a); 7. (d); 8. (b); 9. (a); 10 (c).]

15. DEPRECIATION

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Depreciation is not provided in case of loss in a financial year.
- (ii) Depreciation is the process of valuation of asset.
- (iii) The main objective of providing depreciation is to calculate the correct profit.
- (iv) Under Straight Line Method, the depreciation charge is constant every year.
- (v) Depreciation is charged only on Tangible fixed assets except land.
- (vi) Depreciation is decline in the market value of tangible fixed assets.
- (vii) Under the Diminishing Balance Method, depreciation is calculated on the original cost of the asset.
- (viii) Depreciation is a non-cash expense.
- (ix) Depreciation is charged on the amount paid for the asset, including GST Paid.

[Ans.: (i) False; (ii) False; (iii) True; (iv) True; (v) True; (vi) False; (vii) False; (viii) True; (ix) False.]

2. Fill-in-the blanks with appropriate words:

- (i) Depreciation means _____ in the book value of fixed assets.
- (ii) Depreciation is provided on _____ assets.
- (iii) Scrap value of an asset means the _____ that will be realised on sale at the end of its _____.
- (iv) Temporary rise or fall in the price of an asset is called _____.
- (v) Depreciation provides funds for _____.

[Ans.: (i) decrease; (ii) fixed Tangible; (iii) amount or value, useful life; (iv) fluctuation; (v) replacement.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. Depreciation arises because of
 - (a) Wear and Tear.
 - (b) Inflation.
 - (c) Fall in the value of the asset.
 - (d) None of these.
- 2. The Diminishing Value Method means a method by which
 - (a) the rate of Depreciation falls year by year.
 - (b) the amount on which Depreciation is calculated falls year by year.
 - (c) the rate as well as the Amount to which it is applied fall year by year.
 - (d) None of the above.
- 3. Straight Line Method of Depreciation is that method under which
 - (a) Depreciation is charged at a fixed percentage on the book value of the asset.
 - (b) Depreciation is charged at a fixed percentage on the original cost of the asset.
 - (c) Depreciation is charged on original cost of asset but the depreciation rate changes.
 - (d) None of the above.
- 4. The Amount of Depreciation charged on machinery is debited to
 - (a) Depreciation Account.
 - (b) Machinery Account.
 - (c) Provision for Depreciation Account.
 - (d) None of these.

5. A Machinery which costs ₹ 2,00,000 is depreciated at 25% per year using the Written Down Value Method. At the end of three years, it will have a net book value of
 (a) ₹ 1,50,000. (b) ₹ 84,375.
 (c) ₹ 1,12,500. (d) ₹ 1,00,000.
6. Depletion method is adopted in the case of
 (a) Wasting assets like mines and quarries. (b) Land and building.
 (c) Goodwill. (d) Plant and machinery.
7. The Journal entry to record a gain (profit) on the sale of fixed assets is:
If Asset Disposal Account is not maintained:
- | <i>Debit</i> | <i>Credit</i> |
|-----------------------------|-------------------------|
| (a) Fixed Asset Account | Profit and Loss Account |
| (b) Bank Account | Profit and Loss Account |
| (c) Profit and Loss Account | Fixed Asset Account |
8. The Journal entry to record a gain (profit) on the sale of fixed assets is:
If Asset Disposal Account is maintained:
- | <i>Debit</i> | <i>Credit</i> |
|-----------------------------|-------------------------|
| (a) Asset Disposal Account | Profit and Loss Account |
| (b) Fixed Asset Account | Profit and Loss Account |
| (c) Profit and Loss Account | Asset Disposal Account |
9. Charging depreciation is
 (a) compulsory. (b) voluntary.
 (c) dependent on the condition of assets. (d) None of these.
10. Depreciation is a
 (a) Reserve. (b) Provision.
 (c) Both (a) and (b). (d) None of these.
11. Depreciation is not provided on
 (a) Machinery. (b) Building.
 (c) Computers. (d) Land.
12. Depreciation is
 (a) Revenue Expenditure. (b) Capital Expenditure.
 (c) Deferred Revenue Expenditure. (d) None of these.

[Ans.: 1. (a); 2. (b); 3. (b); 4. (a); 5. (b); 6. (a); 7. (a); 8. (a); 9. (a); 10. (b); 11. (d); 12. (a).]

16. PROVISIONS AND RESERVES

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Reserves can be specific or general.
- (ii) Reserves appear on the liabilities side of the Balance Sheet.
- (iii) Capital reserves are not freely distributed as profits.
- (iv) Reserves are not the items of the owners' equity.
- (v) Secret reserves are disclosed in the Balance Sheet.
- (vi) A specific reserve can be created for any purpose.
- (vii) General Reserve is created to meet contingent liability.
- (viii) Revenue reserves are created out of revenue profits of the business.

[Ans.: (i) True; (ii) True; (iii) True; (iv) False; (v) False; (vi) True; (vii) True; (viii) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Reserves arising from capital receipts are _____ reserve.
- (ii) Provisions are _____ transactions.
- (iii) A provision is a _____ against profits.
- (iv) If the amount of any known liability cannot be determined with substantial accuracy, _____ is created.
- (v) If the amount of any known liability can be determined with substantial accuracy, _____ is created.

[Ans.: (i) capital; (ii) internal; (iii) charge; (iv) provision; (v) liability.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Reserves arising from capital receipts are
 - (a) Capital Reserve.
 - (b) Reserve Fund.
 - (c) General Reserve.
 - (d) None of these.
2. Reserves
 - (a) are part of proprietor's equity.
 - (b) are not part of proprietor's equity.
 - (c) are Liabilities of the Firm.
 - (d) None of these.
3. Provisions are
 - (a) liabilities with known Amount.
 - (b) liabilities with estimated Amount.
 - (c) Both (a) and (b).
 - (d) None of these.
4. Provision is
 - (a) an appropriation out of Profit.
 - (b) A charge against the profit.
 - (c) Both (a) and (b).
 - (d) None of these.
5. If amount of any known liability is not known, it is accounted in the Books of Account as
 - (a) a Liability.
 - (b) a provision.
 - (c) a reserve.
 - (d) None of these.
6. If amount of any known liability is known, it is accounted in the Books of Account as
 - (a) a Liability.
 - (b) a provision.
 - (c) a reserve.
 - (d) None of these.

[Ans.: 1. (a); 2. (a); 3. (b); 4. (b); 5. (b); 6. (a).]

17. RECTIFICATION OF ERRORS

Objective Type Questions

1. State whether the following statements are True or False:

- (i) Error of principle is not disclosed by the Trial Balance.
- (ii) Error of complete omission is disclosed by the Trial Balance.
- (iii) Compensating error is disclosed by the Trial Balance.
- (iv) A Trial Balance will be in agreement when a transaction is recorded on the wrong side of an account.
- (v) Errors of principle affect only one account.
- (vi) All accounting errors affect the agreement of Trial Balance.
- (vii) Difference in Trial Balance is debited or credited to the Suspense Account, which is transferred to Profit and Loss Account.
- (viii) The errors are credited or debited to the Suspense Account in the next year and the balance, if any, is transferred to the Capital Account.

[Ans.: (i) True; (ii) False; (iii) False; (iv) False; (v) False; (vi) False; (vii) False; (viii) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Undercasting of Sales Book is corrected by _____ Sales Account.
- (ii) Rectifying entries are passed in _____.
- (iii) Disagreement of Trial Balance indicates that an _____ has been committed.
- (iv) Compensating errors are of a _____ nature.
- (v) An asset has been purchased for the firm. However, the amount was debited to Purchases Account. It is an error of _____.
- (vi) An item of ₹ 53 has been debited to a personal account as ₹ 35. It is an error of _____.

[Ans.: (i) crediting; (ii) Journal Proper; (iii) error; (iv) neutralising;
(v) principle; (vi) commission.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. ₹ 2,000 paid as wages for installing a machine should be debited to
 - (a) Wages Account.
 - (b) Machinery Account.
 - (c) Capital Account.
 - (d) Any of these.
- 2. On purchase of old furniture, the amount of ₹ 1,000 spent on its repairs should be debited to
 - (a) Repairs Account.
 - (b) Furniture Account.
 - (c) Cash Account.
 - (d) Any of these.
- 3. Goods of ₹ 500 given as charity should be credited to
 - (a) Charity Account.
 - (b) Sales Account.
 - (c) Purchases Account.
 - (d) Any of these.
- 4. Goods of ₹ 1,000 taken by the proprietor for personal use should be credited to
 - (a) Sales Account.
 - (b) Proprietor's Personal Expenses Account.
 - (c) Purchases Account.
 - (d) Drawings Account.
- 5. Errors of complete omission permit
 - (a) correct totalling of the Balance Sheet.
 - (b) correct totalling of the Trial Balance.
 - (c) the Trial Balance to agree.
 - (d) None of these.
- 6. The preparation of a Trial Balance helps in
 - (a) preparation of Balance Sheet.
 - (b) correct totalling of the Trial Balance.
 - (c) locating errors of principle.
 - (d) None of these.
- 7. ₹ 200 received from Smith whose account was previously written off as Bad Debt should be credited to
 - (a) Bad Debts Recovered Account.
 - (b) Smith's Account.
 - (c) Cash Account.
 - (d) Sales Account.
- 8. Purchase of office furniture of ₹ 1,200 has been debited to the General Expenses Account. It is
 - (a) a clerical error.
 - (b) an error of principle.
 - (c) an error of omission.
 - (d) Compensating Error.
- 9. Errors of Principle
 - (a) can be known from the Trial Balance.
 - (b) cannot be known from the Trial Balance.
 - (c) may or may not be known from the Trial Balance.
 - (d) None of these.
- 10. Errors of Complete Omission
 - (a) are reflected in the Trial Balance.
 - (b) are not reflected in the Trial Balance.
 - (c) Both (a) and (b).
 - (d) None of these.
- 11. Suspense Account appears in the Trial Balance because of
 - (a) one sided errors.
 - (b) compensating errors.
 - (c) errors of principle.
 - (d) None of these.

12. Compensating errors are
 (a) combination of more than one errors.
 (b) errors committed in one transaction.
 (c) errors committed by applying incorrect accounting principles.
 (d) None of the above.
13. Suspense Account will give the
 (a) Debit balance. (b) Credit balance.
 (c) Debit or Credit balance, as the case may be. (d) Nil balance.
14. Rectification entries are normally passed in
 (a) Journal Proper. (b) Cash Book.
 (c) Day Books. (d) None of these.
15. In case a Trial Balance does not agree, the difference is placed in
 (a) Suspense Account. (b) Drawing Account.
 (c) Capital Account. (d) Trading Account.

[Ans.: 1. (b); 2. (b); 3. (c); 4. (c); 5. (c); 6. (a); 7. (a); 8. (b); 9. (c);
 10. (b); 11. (a); 12. (a); 13. (c); 14. (a); 15. (a).]

18. FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Capital Expenditure and Revenue Expenditure should be distinguished to determine net profit.
- (ii) Capital Receipts and Revenue Receipts need not be distinguished to determine net profit.
- (iii) Insurance claim received for loss of goods is a revenue receipt.
- (iv) Purchase of machinery for production is a revenue expenditure.
- (v) Computers purchased for office use is a revenue expenditure.
- (vi) Insurance premium paid to insure the machinery is a revenue expenditure.
- (vii) Alok's Trial Balance shows Opening stock ₹ 20,000, it will be debited to the Profit & Loss Account.

[Ans.: (i) True; (ii) False; (iii) True; (iv) False; (v) False; (vi) True; (vii) False.]

2. Fill-in-the blanks with appropriate words:

- (i) Revenue Expenditure is transferred to _____.
- (ii) Revenue is transferred to _____.
- (iii) Closing Stock in the Trial Balance is transferred to _____.
- (iv) Capital expenditure is shown in _____.
- (v) Capital Receipts are shown in _____.
- (vi) Prepaid wages ₹ 2,500, appears in a Trial balance. It will be shown in _____.
- (vii) Income tax paid by proprietor of ₹ 30,000. It will be _____.

[Ans.: (i) Profit and Loss Account; (ii) Profit and Loss Account; (iii) Balance Sheet;
 (iv) Balance Sheet; (v) Balance Sheet; (vi) Balance Sheet;
 (vii) deducted from capital as drawings.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

1. Returns Inward in the Trial Balance are deducted from
 - (a) purchases.
 - (b) sales.
 - (c) returns outward.
 - (d) None of these.
2. Bhuvan's Trial Balance has following entries, besides others: Bad Debts ₹ 1,000; Provision for Doubtful Debts ₹ 1,500. Provision for Doubtful Debts of ₹ 2,000 should be at the end of the year. The amount to be debited to the Profit & Loss Account will be
 - (a) ₹ 4,500.
 - (b) ₹ 5,000.
 - (c) ₹ 1,500.
 - (d) ₹ 3,500.
3. Dravid's Trial Balance gives following information: Discount Allowed ₹ 500, Provision for Discount on Debtors ₹ 1,100. Provision for Discount on Debtors should be ₹ 1,800 at the end of the year. Amount that should be debited to Profit & Loss Account will be
 - (a) ₹ 1,200.
 - (b) ₹ 3,200.
 - (c) ₹ 700.
 - (d) ₹ 2,200.
4. I's Trial balance has the following information: 12% Bank loan ₹ 40,000, interest paid ₹ 3,800. Interest debited to the Profit & Loss Account is
 - (a) ₹ 4,800.
 - (b) ₹ 5,000.
 - (c) ₹ 5,500.
 - (d) ₹ 1,000.
5. Opening stock ₹ 40,000; purchases ₹ 3,60,000; closing stock ₹ 1,30,000, sales ₹ 3,80,000; carriage inward ₹ 6,000; Freight inward ₹ 4,000; Wages and salaries ₹ 50,000, Returns inwards ₹ 20,000; Returns outward ₹ 40,000. The market value of closing stock was ₹ 1,20,000. Gross Profit of the year is
 - (a) ₹ 60,000.
 - (b) ₹ 70,000.
 - (c) ₹ 90,000.
 - (d) None of these.
6. Adjusted purchases ₹ 6,63,600; sales ₹ 7,44,000; Closing Stock ₹ 50,400; Freight & Cartage Inward ₹ 3,600; Wages ₹ 2,400; Freight & Cartage outward ₹ 1,800. Gross Profit for the Year is
 - (a) ₹ 76,200.
 - (b) ₹ 74,400.
 - (c) ₹ 1,24,800.
 - (d) None of these.
7. Cost of Goods Sold ₹ 6,69,600; Sales ₹ 7,44,000; Closing Stock ₹ 50,400. Gross Profit for the year is
 - (a) ₹ 1,24,800.
 - (b) ₹ 74,400.
 - (c) ₹ 5,25,000.
 - (d) None of these.
8. Opening Stock ₹ 1,00,000; Sales ₹ 5,00,000; Gross Profit @25% on sales; Purchases ₹ 5,00,000. Closing stock is
 - (a) ₹ 1,25,000.
 - (b) ₹ 2,25,000.
 - (c) ₹ 3,00,000.
 - (d) ₹ 3,25,000.
9. Opening Stock ₹ 1,00,000; Sales ₹ 5,00,000; Gross profit @ 25% on cost; Purchases ₹ 6,00,000. Closing Stock is
 - (a) ₹ 1,25,000.
 - (b) ₹ 3,00,000.
 - (c) ₹ 8,00,000.
 - (d) ₹ 3,25,000.

[Ans.: 1. (b); 2. (c), 3. (a); 4. (a); 5. (a); 6. (b); 7. (b); 8. (b); 9. (b).]

19. ADJUSTMENTS IN PREPARATION OF FINANCIAL STATEMENTS

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Depreciation is debited to Profit and Loss Account and deducted from the fixed assets in the Balance Sheet.
- (ii) Closing stock is included in Trading Account and on the assets side of the Balance Sheet.
- (iii) Interest received on loan is an income for the business.
- (iv) Provision for doubtful debts is debited to the Bad Debts Account.
- (v) Closing stock if it appears in the Trial Balance, it is taken to Trading Account.
- (vi) Income tax paid on behalf of the proprietor is debited to the Profit and Loss Account.
- (vii) The expression depreciation at 10% and 10% p.a. convey the same meaning.
- (viii) Prepaid rent appearing in the Trial Balance is taken only to the Profit and Loss Account.
- (ix) Provision for Discount on Debtors is shown in the Balance Sheet as deduction from Debtors.

[Ans.: (i) True; (ii) True; (iii) True; (iv) False; (v) False; (vi) False; (vii) False; (viii) False; (ix) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Income received in advance is debited to _____ account and credited to Income Received in Advance Account while making adjustment entries.
- (ii) If outstanding salary appears in the Trial Balance, it is taken to the _____.
- (iii) If the adjustment related to bad debts is given outside the Trial Balance then it is adjusted by debiting _____ and crediting _____.
- (iv) Unearned income means income received in _____.
- (v) Prepaid expenses are _____ of the business.
- (vi) Expenses incurred but not yet paid are accounted because of _____.
- (vii) Wages paid for installation of machine is added to the cost of machine because of _____.
- (viii) Prepaid Insurance in the Trial Balance is shown in the Balance Sheet on the assets side because of _____.
- (ix) Indirect Expenses are debited to _____.
- (x) Prepaid Rent appearing in the Trial Balance is transferred to _____.

[Ans.: (i) Income; (ii) Balance Sheet; (iii) Bad Debts Account, Sundry Debtors Account; (iv) Advance; (v) Assets; (vi) Accrual Concept; (vii) Cost Principle; (viii) Accrual Concept; (ix) Profit and Loss Account; (x) Balance Sheet.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. Unearned income means
 - (a) Income received in advance.
 - (b) Income earned but not received.
 - (c) Income of the firm in the year of receipt.
 - (d) None of these.
- 2. Wages and Salaries Account is shown in
 - (a) Trading Account.
 - (b) Profit and Loss Account.
 - (c) Balance Sheet.
 - (d) None of these.
- 3. Salaries and Wages Account is shown in
 - (a) Trading Account.
 - (b) Profit and Loss Account.
 - (c) Balance Sheet.
 - (d) None of these.

4. Outstanding income is
 - (a) an asset.
 - (b) a liability.
 - (c) an expense.
 - (d) All of these.
5. The Manager is entitled to commission of 5% on profits before deducting the commission. The profit is ₹ 2,100, therefore, the commission will be
 - (a) ₹ 100.
 - (b) ₹ 105.
 - (c) ₹ 110.53.
 - (d) None of these.
6. Stock is valued at
 - (a) cost price.
 - (b) Net realisable value (market price).
 - (c) cost or net realisable (market price) whichever is less.
 - (d) None of these.
7. Closing Stock given as adjustment is shown in
 - (a) Trading Account.
 - (b) Balance Sheet.
 - (c) Profit and Loss Account.
 - (d) Both (a) and (b).
8. Closing Stock appearing in the Trial Balance is shown in
 - (a) Trading Account.
 - (b) Balance Sheet.
 - (c) Profit and Loss Account.
 - (d) Both (a) and (b).
9. The adjustment entry passed for interest on capital is:
 - (a) Debit Profit and Loss Account and Credit Drawings Account
 - (b) Debit Profit and Loss Account and Credit Capital Account
 - (c) Debit Profit and Loss Account and Credit Interest on Capital Account
 - (d) Debit Interest on Capital Account and Credit Profit and Loss Account
10. The adjustment entry passed for Provision for Doubtful Debt is:
 - (a) Debit Provision for Doubtful Debts Account and Credit Profit and Loss Account
 - (b) Debit Profit and Loss Account and Credit Provision for Doubtful Debts Account
 - (c) Debit Debtors Account and Credit Profit and Loss Account
 - (d) Debit Profit and Loss Account and Credit Debtors Account
11. Undervaluation of Closing Stock will
 - (a) Understate Cost of Goods manufactured.
 - (b) Overstate Current Assets.
 - (c) Overstate Gross Profit.
 - (d) Understate Net Income.
12. If sales are ₹ 60,000 and the rate of Gross Profit on Cost of Goods Sold is 25%, Cost of Goods Sold will be
 - (a) ₹ 45,000.
 - (b) ₹ 50,000.
 - (c) ₹ 48,000.
 - (d) None of these.
13. Which of the following statement is not correct?
 - (a) Provision for Doubtful Debts Account is amount payable to debtors.
 - (b) Bad Debts can be more than the amount of Provision for Doubtful Debts.
 - (c) Bad Debts can be less than the amount of Provision for Doubtful Debts.
 - (d) Provision for Doubtful Debts is shown in the Balance Sheet.
14. Sales is equal to
 - (a) Cost of Goods Sold – Gross Profit.
 - (b) Cost of Goods Sold + Gross Profit.
 - (c) Gross Profit – Cost of Goods Sold.
 - (d) Cost of Goods Sold + Net profit.

[Ans.: 1. (a); 2. (a); 3. (b); 4. (a); 5. (b); 6. (c); 7. (d); 8. (b); 9. (c); 10. (b); 11. (d); 12. (c); 13. (a); 14. (b).]

20. ACCOUNTS FROM INCOMPLETE RECORDS—SINGLE ENTRY SYSTEM

Objective Type Questions

1. State whether the following statements are **True** or **False**:

- (i) Accounts from incomplete records is an unscientific method of accounting as it does not follow Dual Aspect Concept.
- (ii) Under Double Entry System, one aspect of each transaction is recorded.
- (iii) Statement of Affairs is prepared from incomplete records.
- (iv) Net worth of an organisation means the excess of its total assets over total liabilities.
- (v) Net profit is equal to Capital at the end + Drawings – Additional capital introduced – Capital in the beginning.

[Ans.: (i) True; (ii) False; (iii) True; (iv) True; (v) True.]

2. Fill-in-the blanks with appropriate words:

- (i) Statement of affairs shows only the _____ financial position of the business.
- (ii) Capital in the beginning and capital at the end are usually ascertained as the balancing figures of _____ prepared on the relevant accounting dates.
- (iii) The difference of the capital at the end and the capital in the beginning will show _____ provided that there are neither drawings nor additional capital introduced during the year.
- (iv) The Statement of Affairs in the beginning reveals _____.
- (v) Total Sales = _____ + _____.

[Ans.: (i) estimated; (ii) Statement of Affairs; (iii) Profit earned; (iv) capital in the beginning; (v) Cash Sales, Credit Sales.]

Multiple Choice Questions (MCQs)

Select the correct alternative:

- 1. In case of net worth method of Single Entry System, profit is ascertained by
 - (a) comparing the capital in the beginning and capital at the end of the accounting period.
 - (b) Preparing a Profit and Loss Account.
 - (c) Preparing a Balance Sheet.
 - (d) None of the above.
- 2. From incomplete records, it is possible to prepare
 - (a) Ledger Accounts.
 - (b) Trial Balance.
 - (c) Statement of Affairs.
 - (d) None of these.
- 3. Trial Balance cannot be prepared from Accounts from Incomplete Records because
 - (a) Dual Aspect Principle is not followed.
 - (b) Matching Principle is not followed.
 - (c) Both (a) and (b).
 - (d) None of these.
- 4. The capital in the beginning of the accounting year is ascertained by preparing:
 - (a) Debtors' Account.
 - (b) Cash Account.
 - (c) Opening Statement of Affairs.
 - (d) Creditors' Account.
- 5. Profit = Capital at the end + ? – Additional capital introduced – Capital in the beginning.
 - (a) Sales.
 - (b) Drawings.
 - (c) Net Purchases.
 - (d) Expenses.

[Ans.: 1. (a); 2. (c); 3. (a); 4. (c); 5. (b).]