

**50 Questions    50 Marks    60 Minutes**

**Select the best choice to answer the following questions:**

- Which of the following statement is/are correct?
  - A separate suspense account should be opened for each error in the ledger
  - A suspense account is sometimes opened to complete posting while more information is sought on a transaction
  - Neither (i) nor (ii)
  - (i) only
  - (ii) only
  - (i)&(ii)
- A purchase on credit Rs. 5,000 from X was credited in error to Y's ledger account. Which journal entry correct this error?
  - Debit Y, credit X Rs. 5,000
  - Debit X, Credit Y Rs. 5,000
  - Debit suspense, credit X Rs. 5,000
  - Debit Y, credit suspense Rs. 5,000
- In the year to 31<sup>st</sup> March, 2007, Sania paid Rs. 2,500 for building repairs. Her book-keeper treated this as capital expenditure. What is the effect of this error on Sania's profit for the year to 30<sup>st</sup> March, 2007 and the value of her assets at that date?

Profit	Assets
a. Understated	Overstated
b. Understated	Understated
c. Overstated	Overstated
d. Overstated	Understated

- Sourav paid for office cleaning in cash. He made the following entries in his general ledger.  
 Debit: Creditors and Credit: Office Cleaning Expenses  
 Which accounts require a correct entry?
  - Office cleaning expenses and cash only
  - Office cleaning expenses and creditors only
  - Cash and creditors only
  - Office cleaning expenses, cash and creditors
- A repair bill of a private car has been included as a business expenses. The journal entry required to correct the error is:

Debit	Credit
a. Motor car account	Capital A/c
b. Capital Account	Motor car A/c
c. Drawings A/c	Motor running expenses A/c
d. Motor running expenses A/c	Motor car A/c

- An item of capital expenditure had been incorrectly treated as revenue expenditure in the accounts of a business. What is the effect of this error on the accounts?

Assets	Profit
a. Overstated	Overstated
b. Overstated	Understated
c. Understated	Overstated
d. Understated	Understated

- An item of revenue expenditure has been incorrectly treated as capital expenditure in the accounts of a business. What effect will the correction of this error have on the accounts?

Net profit	Net assets
a. Decrease	Decrease
b. Decrease	Increase
c. Increase	Decrease
d. Increase	Increase

- Which of the following is not true?
  - An error that does not affect the trial balance is not corrected through the suspense account
  - The first entry in a suspense account is the difference on a trial balance
  - Errors of principle are not usually disclosed by the trial balance
  - No double entry is passed for suspense account
- At the end of the year it was discovered that sales had been overcast by Rs. 70. A Suspense account had been opened: Which entries will correct this error?

Account debited	Account credit
a. Sales	Debtors
b. Sales	Suspense
c. Debtors	Sales
d. Suspense	Sales

- After which error will a trial balance still balance?
  - A rent payment of Rs. 150 was entered correctly in the bank account but debited to the rent account as Rs. 250
  - Discount received Rs. 378 was debited to the discount allowed account
  - Sales of Rs. 230 were entered in the sales journal as Rs. 320
  - The purchase journal was overcast by Rs. 100
- A book keeper mistakenly treats a revenue expenditure item as capital expenditure. What is the effect of this error?
  - Gross profit is overstated
  - Net profit is understated
  - Total assets are overstated
  - Total assets are understated
- A transport business owned by a sole proprietor purchases a motor vehicle. This is charged to the motor vehicles running costs account.
  - Fixed assets understated and current assets understated
  - Fixed assets overstated and current assets overstated
  - Fixed assets overstated and capital overstated
  - Fixed assets understated and capital understated
- Which of the following errors would be found by extracting a trial balance?
  - A transaction has been completely missed in the accounts
  - The double entries have been made the wrong way round

- c) Different figures have been entered in the debit and credit entries  
d) An expenses item has been posted to a fixed asset account
14. The debit side of a company's trial balance totals Rs. 800 more than the credit side.  
Which of the following errors would fully account for the difference?  
a) Rs. 400 paid for plant maintenance has been correctly entered in the cash book and credited to the plant account  
b) Discount received Rs. 400 has been debited to discount allowed account  
c) A receipt of Rs. 800 for commission receivable has been omitted from the records  
d) The petty cash balance of rs. 800 has been omitted from the trial balance
15. A trial balance extracted from a sole traders' records failed to agree, and a suspense account was opened for the difference.  
Which of the following errors would require an entry in the suspense account in correcting them?  
1) Discount allowed was wrongly debited to discount received account  
2) The balance of rent account was omitted from the trial balance  
3) Goods taken over by the proprietor for personal use had been recorded by crediting trading account and debiting purchases account  
a) All three items  
b) only (1)  
c) (1) & (2)  
d) only (2)
16. A public limited company issued 50,000 equity shares of Rs. 25 each at a premium of Rs. 5 each. The cash received was correctly recorded in the cash book but the full amount was Credited to Equity shares Capital Account.  
Which of the following journal entry is needed to rectify this error?  
a) Securities premium A/c Dr. 25,00,000  
To Equity share capital A/c 25,00,000  
b) Equity share capital A/c Dr. 25,00,000  
To Securities Premium A/c 25,00,000  
c) Equity share capital A/c Dr. 37,50,000  
To Securities premium A/c 37,50,000  
d) Equity share capital A/c Dr. 25,00,000  
To cash A/c 25,00,000
17. Which of the following journal entries may be accepted as being correct according to their narration?  
1) Wages A/c Dr. 40,000  
Purchase A/c Dr. 30,000  
(Being labour and materials used in construction of extension to factory)  
To Building A/c 70,000  
2) Suspense A/c Dr. 1,00,000  
To Sales A/c 1,00,000  
(Being correction of error in addition-total of credit side of sales account Rs. 1,00,000 undercast)  
a) Both (1) & (2)  
b) only (1)  
c) Only (2)  
d) neither (1)&(2)
18. A ltd.'s trial balance does not balance. Which one of the following errors may be the cause of this failure to balance?  
a) The purchase of a machine had been debited to the machinery repairs account  
b) A cheque from B- a customer had been credited to D Account  
c) Goods returned inwards had been debited to debtors account  
d) The depreciation charge on machinery had been credited to the cost of machinery account
19. X Ltd. received an invoice for the purchase of a furniture which was credited to the correct supplier's ledger account but debited to the furniture repair account, instead of the furniture account. The effect of not correcting this error would be:  
a) Profit would be overstated and fixed assets would be understated  
b) Profit would be overstated and fixed assets would be overstated  
c) Profit would be understated and capital would be overstated
20. Which of the following entries would not effect the agreement of the total in the trial balance?  
(i) An invoice for Rs. 3,000 for purchase has not been recorded  
(ii) A cash sales has been recorded as debit: cash sales, credit: Cash  
(iii) An invoice for vehicle expenses has been charged to the motor car A/c  
(iv) A credit note for Rs. 500 for goods returned by a customer had been recorded in the correct ledger but as Rs. 5,000  
a) (i) only  
b) (i) & (ii) only  
c) (i), (ii) & (iii)  
d) all of them
21. Wages paid to workers for extension of office building debited to Wages A/c will affect \_\_\_\_\_  
a) Gross profit only  
b) Net profit only  
c) Both gross profit and net profit  
d) Neither gross profit nor net profit
22. Purchases day book is overcast by Rs. 1,000. This will \_\_\_\_\_  
a) Increase gross profit  
b) Decrease net profit  
c) Decrease gross profit only  
d) Decrease gross profit as well as net profit
23. In the books of account of a trader, the following errors have been deducted for the financial year 2006-07:  
(i) Depreciation-Rs. 11,000 overstated  
(ii) Accrued expenses-Rs. 7,000 understand  
The impact of this on the report net profit for the year ending on 31<sup>st</sup> March, 2007 is \_\_\_\_\_  
a) Rs. 18,000 overstated  
b) Rs. 11,000 overstated  
c) Rs. 7,000 overstated  
d) Rs. 4,000 understated
24. After profit and loss account for X Ltd. had been prepared, it was found that accrued expenses of Rs.

- 1,500 had been omitted and that closing stock had been overvalued by Rs. 500.  
The effect of these errors is an \_\_\_\_\_
- a) Overstatement of net profit of Rs. 1,000  
b) Overstatement of net profit of Rs. 2,000  
c) Understatement of net profit of Rs. 1,000  
d) Understatement of net profit Rs. 2,000
25. A company's profit and loss account for the year ended 31<sup>st</sup> December, 2006 showed a net profit of Rs. 83,600 was later found that Rs. 18,000 paid for purchase of motor van had been debited to motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight line basis, with a full year's charge in the year of acquisition.  
After rectification of errors, the net profit will be \_\_\_\_\_
- a) Rs. 1,06,100                      b) Rs. 70,100  
c) Rs. 97,100                        d) Rs. 1,01,600
26. A cheque for Rs. 1,000 received from a debtor had been credited to the sales account and debited to the bank account. This will \_\_\_\_\_.
- a) Increase gross profit by Rs. 50,000  
b) Decrease gross profit by Rs. 45,000  
c) Decrease net profit by Rs. 50,000  
d) Decrease net profit by Rs. 45,000
27. Purchase of machinery for Rs. 50,000 had been debited to the machinery repairs account. Machinery is depreciated at 10% on cost and no residual value is assumed.  
This will \_\_\_\_\_.
- a) Increase gross profit by Rs. 50,000  
b) Decrease gross profit by Rs. 45,000  
c) Decrease net profit by Rs. 50,000  
d) Decrease net profit by Rs. 45,000
28. M Ltd.'s trial balance did not agree on 31<sup>st</sup> March, 2007. The following errors were detected:
- (i) Insurance of Rs. 500 prepaid on 31<sup>st</sup> March, 2006 had not been brought down as an opening balance on the insurance account:  
(ii) Wages of Rs. 5,000 had been incorrectly debited to the purchases account.  
(iii) The book-keeper had failed to pass an entry for outstanding telephone bills of s. 500  
The difference in the trial balance was Rs. \_\_\_\_\_
- a) 500                                      b) 800  
c) 5,500                                    d) 5,800
29. X Ltd's trial balance did not agree on 31<sup>st</sup> March, 2007. The following errors were detected:
- (i) Returns outward book was undercast by Rs. 1,500  
(ii) Rs. 150 being the total of the discount column on the credit side of the cash book was not posted in the general ledger.  
The difference in the trial balance was \_\_\_\_\_
- a) Rs. 1,650(Dr.)                        b) Rs. 1,350(Dr.)  
c) Rs. 1,650(Cr.)                        d) Rs. 1,350(Cr.)
30. The following errors were detected after finalization of account for the year 2006. The net profit for the year was Rs. 1,00,000.
- (i) Closing stock was overvalued by Rs. 10,000, being casting error in the schedule of inventory  
(ii) Goods sold for Rs. 6,000 were returned by the customers, but not record of the return was made in the books although the returned goods were included in the stock at their cost price of Rs. 4,000.  
After correction, the net profit will be \_\_\_\_\_
- a) Rs. 90,000                            b) Rs. 94,000  
c) Rs. 84,000                            d) Rs. 86,000
31. A sales invoice for Rs. 3,450 was recorded in Ram's ledger as follows:  
Debit: Sales A/c-Rs. 3,450; Credit: Debtor A/c-Rs. 3,540  
If the errors are not corrected before the final accounts are drafted, how will Ram's net profit be affected?
- a) Understated by s. 7,080  
b) Overstated by Rs. 90  
c) Understated by Rs. 6,990  
d) Overstated by Rs. 6,990
32. Satish bough stationery on credit for Rs. 4,300 but recorded it as Rs. 3,400. When he extracted his trial balance, the total of debit balance was Rs. 2,10,100. When the error is corrected, what is the revised total of the debit balance was Rs. 2,10,000.  
When the error is corrected, what is the revised total of the debit balance?
- a) Rs. 2,10,100                            b) Rs. 2,09,200  
c) Rs. 2,11,000                            d) Rs. 2,05,800
33. Sunil has prepared his draft final accounts, which shows a net profit of Rs. 24,952 and closing capital of Rs. 75,841. He has now found that a supplier's invoice for Rs. 250 for advertising expenses was not recorded in his general ledger.  
When the error is corrected, what are the revised figures for net profit and capital?
- |    | <b>Net profit</b> | <b>Capital</b> |
|----|-------------------|----------------|
| a. | 25,202            | 75,591         |
| b. | 25,202            | 76,091         |
| c. | 24,702            | 76,091         |
| d. | 24,702            | 75,591         |
34. When Mohan's trial balance was extracted, the total of the debit balances was Rs. 500 more than the total of the credit balances.  
Which of the following errors is a possible explanation for the difference?
- a) A cash sale for Rs. 250 had not been recorded  
b) A cash sale for Rs. 250 had been recorded twice  
c) A cash sale for Rs. 250 had been posted to the credit side of both sales account and the cash account  
d) A cash sale for Rs. 250 had been posted to the debit side of both the cash sale account and the cash account
35. Rahul's trial balance include a suspense account with a debit balance of Rs. 900. He has discovered that:
- (i) A supplier's invoice for Rs. 16,700 was posted to the correct side of the purchases account as Rs. 17,600 (the correct entry was posted to the creditors account); and  
(ii) A cheque for Rs. 900 has not been recorded.

What is the balance on the suspense account after these errors are corrected?

- a) Nil  
 b) Rs. 900  
 c) Rs. 1,800  
 d) Rs. 7,200

36. When the purchase of stationery of Rs. 650 was posted to general ledger, it was posted to the wrong side of the stationery account.

Which of the following will correct the error on the stationery account?

- a) A debit entry of Rs. 650  
 b) A debit entry of Rs. 1,300  
 c) A credit entry of Rs. 1,300  
 d) A credit entry of Rs. 650

37. Kamal's trial balance includes a suspense account with a credit balance of Rs. 280. He has discovered that a supplier's invoice for Rs. 140 was entered twice in the purchases day book.

What is the balance on the suspense account after the error is corrected?

- a) Nil  
 b) Rs. 140 Credit  
 c) Rs. 280 Credit  
 d) Rs. 420 Credit

38. A trial balance failed to agree and a suspense account was opened. It was then found that rent received of Rs. 500 had been debited to the rent payable account. Which entries are required to correct this error?

Rent received A/c	Rent Payable A/c	Suspense A/c
a. Cr. 500	Cr. 500	Dr. 1,000
b. Cr. 500	Dr. 500	No entry
c. Dr. 500	Cr. 500	Dr. 1,000
d. Dr. 500	Cr. 500	No entry

39. Total of the sales day book for one month is Rs. 9,160. It has been entered in the sales account as Rs. 9,610. Which entries are required to correct the error?

Debit	Credit
a. Sales A/c Rs. 450	Sales day book Rs. 450
b. Sales Day book Rs. 450	Sales A/c Rs. 450
c. Sales A/c Rs. 450	Suspense A/c Rs. 450
d. Suspense A/c Rs. 450	Sales A/c Rs. 450

40. An invoice for repairs to machinery Rs. 500, has been entered in the Machinery account. Which entries are required to correct the error?

Debit	Credit
a. Machinery A/c 500	Repairs to machinery A/c 50
b. Repairs to machinery A/c 500	Machinery A/c 500
c. Repairs to machinery A/c 500	Suspense A/c 500
d. Suspense A/c 500	Machinery A/c 500

41. When Sachin' trial balance was extracted, the total of the debit balances was Rs. 450 less than the total of the credit balances so a suspense account was opened. After checking he found that:

- i) A supplier's invoice for Rs. 225 had been debited to both the expenses account and the creditors' control account.

ii) A cash sale for Rs. 900 had been omitted from the accounting records. When these errors are corrected, what is the balance on the suspense A/c?

- a) Rs. 900 debit  
 b) Rs. 900 Credit  
 c) Rs. 1,800 Debit  
 d) Rs. 1,800 Credit

42. A book-keeper has made the following errors:

- (i) A cash transaction of Rs. 100 has not been entered in the books at all.  
 (ii) A discount received of Rs. 30 was entered in the debit side of the discounts allowed and correctly posted to the creditors account.  
 (iii) Rs. 300 cash drawings were entered in the repair expense account and correctly recorded in the cash book

What would be the balance on the suspense account before these errors were corrected?

- a) Rs. 30 (Cr.)  
 b) Rs. 100 (Dr.)  
 c) Rs. 300 (Cr.)  
 d) Rs. 60 (Cr.)

43. After calculating your company's profit for 2006, you discover the following:

- a) A fixed asset costing Rs. 50,000 has been included in the purchases account  
 b) Stationery costing Rs. 10,000 has been included as closing stock of raw materials, instead of stock of stationery.

The two errors have had the effect of:

- a) Understating gross profit by Rs. 40,000 and understating net profit by Rs. 50,000  
 b) Understating both gross profit and net profit by Rs. 40,000  
 c) Understating gross profit by Rs. 60,000 and understating net profit by Rs. 50,000  
 d) Overstating both gross profit and net profit by Rs. 60,000

44. An organization's year end is 30 September on 1.1.2006. The organization book out a loan of Rs. 1,00,000 with annual interest of 12%. The interest is payable in equal installments on the first day of April, July, October and January in arrears. How much should be charged to the profit and loss account for the year ended 30 September, 2006 and how much should be accrued on the Balance Sheet?

Profit & Loss A/c	Balance sheet
a. Rs. 12,000	Rs. 3,000
b. Rs. 9,000	Rs. 3,000
c. Rs. 9,000	Nil
d. Rs. 3,000	Rs. 9,000

45. The trial balance of a business does not agree. The difference has been entered in a suspense account. The error was caused by a cheque for Rs. 400 from X being debited to X's account.

What is the journal entry to correct this?

Debit	Credit	With
a. Bank	Suspense	Rs. 400
b. Suspense	X	Rs. 400
c. Suspense	X	Rs. 800
d. Suspense	Bank	Rs. 800

46. A company's trial balance failed to agree and a suspense account was opened for the difference. Subsequent checking revealed that discount allowed Rs. 12,500 has been credited to discount received account.

Which of the following journal entry will correct the errors?

- a) Discount Allowed A/c Dr. 12,500  
    To Discount Received A/c 12,500
- b) Discount Allowed A/c Dr. 12,500  
    Discount Received A/c Dr. 12,500  
    To Suspense A/c 25,000
- c) Suspense A/c Dr. 12,500  
    To Discount Account 12,500
- d) Suspense A/c Dr. 25,000  
    To Discount Allowed A/c 12,500  
    To Discount Received A/c 12,500

47. What action should be taken to ensure that the debit and credit total of the trial balance agree?

- a) Open a suspense account with a debit balance of Rs. 1,500
- b) Open a suspense account with a debit balance of Rs. 1,600
- c) Open a suspense account with a debit balance of Rs. 3,100
- d) Net profit will be overstated by Rs. 1,000

48. If the error is not corrected before the final accounts are prepared, how will the net profit be affected?

- a) Net profit will be correct
- b) Net profit will be overstated by Rs. 100
- c) Net profit will be overstated Rs. 1,500
- d) Net profit will be overstated by Rs. 1,000

**The following information is relevant to Question 49 and 50:**

A company's draft financial statements for 2006 showed a profit of Rs. 6,30,000. However, the trial balance did not agree and a suspense account appeared in the company's draft balance sheet.

- (i) The cost of an item of plant Rs. 48,000, had been entered in the cash book and in the plant account as Rs. 4,800. Depreciation @ 10% p.a. (Rs. 480) had been charged.
- (ii) Bank charges of Rs. 440 appeared in the bank statement in December, 2006 but had been entered in the company's records.
- (iii) The payment side of the cash book had been understated by Rs. 10,000.

49. Which of the above items would require an entry to the suspense account in correcting them?

- a) All three items      b) (i)&(iii) only
- c) (i) & (ii) only      d) (iii) only

50. What would the company's profit become after the correction of the above errors?

- a) Rs. 6,334,760      b) Rs. 6,24,760
- c) Rs. 6,25,240      d) Rs. 6,25,440

