Introduction to Accounting
Select the best choice to answer the following questions.

1. Which of the following is/are a sub-field(s) of accounting?
   a) Financial accounting
   b) Cost accounting
   c) Management accounting
   d) All the above

2. Which of the following is not an internal user of financial statement?
   a) Board of directors  
   b) Managers
   c) Officers
   d) Lenders

3. Accounting information must possess some qualitative characteristics. For example, 
   i) Reliability
   ii) Relevance
   iii) Understandability
   Which of the above is/are correct?
   a) (i) & (ii) only  
   b) (i) only
   c) (ii) & (iii) only  
   d) all the above

4. Which of the following is not an external user?
   a) Investor
   b) government agencies
   c) Partners
   d) Labour union

5. Which of the following is true?
   a) Book-keeping requires special skill and knowledge
   b) Accounting does not require any special skill or knowledge
   c) Book keeping has no branch
   d) Financial statements are prepared from book keeping records

6. Which of the following is true?
   a) Accounting is the recording phase of past happening
   b) Accounting reflects the current financial position or worth of a business
   c) Accounting statements always present comparable data
   d) Accounting statements show the impact of data

7. Which of the following is true?
   a) Human resources accounting is the accounting for the human resources of an enterprise that are included in the financial statements
   b) Social responsibility accounting is the reporting of cost and benefits relating to socially responsible actions by business enterprises
   c) Cost accounting is a division of financial accounting
   d) Financial accounting is not concerned with external reporting

8. Which of the following is not true?
   a) Accounting principles are not static or unchanged
   b) The objectives of accounting include providing reliable information about economic measures and obligations.
   c) Financial statements tend to match current revenues with current costs.
   d) One of the functions of financial accounting is to manage the resources held by specific entities

9. Which of the following is an advantage of accounting?
   a) Accounting provides information useful for making economic decisions
   b) Accounting provides comparable data for comparison
   c) Accounting provides information useful for predicting uncertainty
   d) Accounting information is useful in judging managements ability

10. Which of the following is not a limitation of accounting?
    a) Accounting information is historical in nature
    b) Accounting information does not show the impact of inflation
    c) Accounting reflects those increases in net assets that are realized
    d) Accounting information must possess some qualitative characteristics

11. Which of the following is not true?
    a) Accounting standards are not mandatory in nature
    b) Accounting standards are intended to apply only to items which are material
    c) Accounting standards are accounting rules and procedures relating to measurement valuation and disclosure
d) Accounting standards have a direct effect on the working results and the financial position of a business unit.

12. Which of the following is not true?
   a) Book does not require any special skill or knowledge
   b) Personal judgment of the bookkeeper is not required
   c) Financial statements are prepared from accounting
   d) Legal formalities cannot be complied with the help of accounting

13. Which of the following is not true?
   a) Financial accounting is primarily for external user
   b) Management accounting is primarily for internal user
   c) Financial accounting provides an overall view of the business enterprise
   d) Cost accounting does not give a detailed analysis of all aspects of the business unit

14. Which of the following is not true?
   a) Financial accounting emphasizes on the type of expenses and revenues
   b) Cost accounting emphasizes on the products, process and department
   c) Management accounting emphasizes on the stewardship aspect of accounting
   d) Management accounting is tailored to suit the needs of the users

15. Accounting has been referred to as the ____ of business.
   a) Book keeping    b) language
   c) Record         d) blood

16. Accounting is based on a careful and efficient _____ system
   a) Book keeping    b) recording
   c) Classifying     d) communicating

17. _____ is the record making phase of accounting
   a) Analysing       b) Summarising
   c) Book keeping    d) classifying

18. _____ is a whole of which _____ is a part
   a) Accountancy, book keeping
   b) Accounting, book keeping
   c) Accountancy, accounting

19. Book-keeping is the ____ phase of an accounting system
   a) Analyzing       b) recording
   c) Classifying     d) communicating

20. Accounting is the recording of ______ happening
   a) Present       b) past
   c) Past & present d) past & future

21. Accounting is _____ in nature
   a) Biased         b) neutral
   c) Historical     d) unbiased

22. Valuation is ascribing a monetary amount to _____
   a) An asset only
   b) A liability only
   c) An asset as well as a liability
   d) Neither an asset nor a liability

23. Management accounting generally includes ______ accounting
   a) Cost            b) financial
   c) Social responsibilities
   d) Human resource

Answers

TEST NO. 2:
Accounting Concept, Principles & Conventions
MCQ

Select the best choice to answer the following question:

1. The owner of a business paid his private telephone bill from the business bank account. The amount was debited to his Drawing Account. Which concept was applied?
   a) Business entity  b) Matching  c) Prudence  d) Realization

2. A trader has included rent, which is due but not paid, in his profit and loss account. Which accounting concept has been applied?
   a) Historical cost  b) Matching  c) Money measurement  d) Prudence

3. What accounting principles is described by the following statement?
   a) Materiality  b) Going concern  c) Prudence  d) Business entity

4. Outstanding telephone bill at the end of the financial year is added to a business’s expenses in the profit and loss account. Which accounting principle is being applied?
   a) Business entity  b) matching  c) Historical cost  d) Money measurement

5. Accrual concept is one of the consequences of the
   a) Money measurement concept  b) Dual aspect concept  c) Going concern concept  d) Periodicity concept

6. Matching concept results from
   a) Accrual  b) going concern  c) Dual aspect  d) periodicity

7. Horizontal consistency means

8. Third dimensional consistency means
   a) The consistency within a given set of statements of a firm at specific date and for a specific time
   b) The intra-firm consistency between different financial statements
   c) The intra-firm consistency between different accounting periods
   d) The inter-firm consistency between a particular organization and other organizations in similar industry or trade

9. Insurance prepaid at the end of the financial year is deducted from a business’s expenses in the profit and loss account. Which accounting concept is being applied?
   a) Business entity  b) historical cost  c) Matching  d) Money measurement

10. Two companies buy identical computer equipment. The larger company writes it off immediately. But the smaller company treats it as a fixed asset. Which accounting concept are the companies applying?
    a) Business entity  b) going concern  c) Materiality  d) Money measurement

11. Which accounting concept assumes a business will continue in the foreseeable future?
    a) Going concern  b) historical cost  c) Matching  d) materiality

12. A capital account shows the amount owed by a business to its owner. Of which concept is this an example?
    a) Business entity  b) consistency  c) Matching  d) Prudence

13. How is owner’s capital calculated?
14. A very large company has prepared final accounts without including very small items of furniture in its fixed assets. What accounting concept has the company applied?
   a) Business entity  b) dual aspect  
   c) Materiality  d) prudence

15. Of which concept is the writing off of a bad debt an example?
   a) Going concern  b) Matching  
   c) Prudence  d) Substance over form

16. What does the going concern concept mean?
   a) A business is profitable  
   b) A business will continue to operate for the foreseeable future  
   c) The assets of a business exceed its liabilities  
   d) The assets of a business should be valued at disposal value

17. When a businessman introduces capital into his business, the transaction is debited in the cash book and credited to his Capital Account. Of which accounting concept is this an example?
   a) Business entity  b) going concern  
   c) Matching  d) prudence

18. A company does not include the value of skills gained by its employees from training programmes in its financial statements. Which accounting concept is being applied?
   a) Consistency  b) materiality  
   c) Money measurement  d) Substance over form

19. There is great uncertainty about the continuance of a business. This has caused the proprietor to make a large reduction in the valuation of the year-end stock. Which accounting concept does this illustrate?

20. The treasurer of club has decided not to include subscriptions owing by members in the Balance sheet at the year end. Which accounting concept is being applied?
   a) Accrual  b) going concern  
   c) Money measurement  d) Prudence

21. What is an example of the prudence concept?
   a) Accrued expenses are treated as a liability  
   b) Drawings are deducted from capital  
   c) Profit is not over-stated  
   d) Only items with a monetary value are included in accounting

22. A trader who sells food does not include food that is past its ‘sell by’ date in his stock in the balance sheet. Which concept is being applied?
   a) Matching  b) prudence  
   c) Realization  d) going concern

23. A business is about to be closed down as it has insufficient funds to pay its creditors. The owner places a very low value on his stock in the Balance sheet. Which concept is being applied?
   a) Going concern  b) materiality  
   c) Money measurement  d) Matching

24. Two values of closing stock are given, i.e., the cost is Rs. 40,000 and the market value is Rs. 45,000, the lower value, i.e., the cost of Rs. 40,000 will be chosen in favour of the market value of Rs. 45,000 so that the profit will not be over-stated. The choice is the reverse if the market value is lower than the cost. Which concept is being applied?
   a) Realization  b) Historical cost  
   c) Conservatism  d) consistency

25. The monthly rent of a shot is Rs. 1,000. The yearly rental expenses recorded in the books of account should be Rs. 12,000 (Rs. 1,000X12) although the actual payment made on rental was only Rs. 10,000. Rental expenses of Rs. 2,000 are considered expenses incurred but not yet paid and must be accrued and added to the amount
paid (Rs. 10,000+ Rs. 2,000) to arrive at the total expenses incurred for the period under review.
Which accounting concept is being adopted?

a) Consistency  
b) realization  
c) Accrual  
d) Money measurement

26. A company purchases a machinery on hire purchase over four years but does not own the machinery until the final payment has been made. At the end of year 1 the company shows the machinery in its balance sheet as a fixed asset and also records the liability for the amount still owed. Which accounting concept is being applied?

a) Consistency  
b) materiality  
c) Prudence  
d) Substance over form

27. State which accounting concept the accountant should follow in dealing with the following:
The managing director wishes the company’s good industrial relations to be reflected in the accounts.

a) Accrual  
b) Money measurement  
c) Business entity  
d) Historical cost

28. State which accounting concept the accountant should follow in dealing with the following:
The long-term future success of the company is extremely uncertain.

a) Going concern  
b) accrual  
c) Money measurement  
d) Realization

29. State which accounting concept the accountant should follow in dealing with the following:
Although the sales have not yet actually taken place, some realisable customers of the company have placed several large orders that are likely to be extremely profitable.

a) Consistency  
b) conservatism  
c) Historical cost  
d) realization

30. State which accounting concept the accountant should follow in dealing with the following:
One of the owners of the company has invested his drawings in some stocks and shares.

a) Accrual  
b) business entity  
c) Money measurement  
d) Conservatism

31. State which accounting concept the accountant should follow in dealing with the following:
At the year end, an amount is outstanding for electricity that has been consumed during the accounting period.

a) Conservatism  
b) historical cost  
c) Accrual  
d) realization

32. State which accounting concept the accountant should follow in dealing with the following:
Fixed assets would now cost a great deal more than they did when they were originally purchased.

a) Historical cost  
b) materiality  
c) Consistency  
d) conservatism

33. State which accounting concept the accountant should follow in dealing with the following:
During the year, the company purchased Rs. 100 worth of pencils; these had all been issued from stock and were still in use at the end of the year.

a) Realisation  
b) Conservatism  
c) Materiality  
d) accrual

34. State which accounting concept the accountant should follow in dealing with the following:
The company has had a poor trading year, and the owners believe that a more balanced results could be presented if a weighted average stock valuation method was adopted, instead of present FIFO method.

a) Materiality  
b) consistency  
c) Going concern  
d) A/cing period

35. State which accounting concept the accountant should follow in dealing with the following:
A debtor who owes a large amount to the company is rumoured to be going into liquidation.

a) Conservation  
b) historical cost  
c) Materiality  
d) accrual

36. State which accounting concept the accountant should follow in dealing with the following:
The company owns some shares in a quoted company which the accountant thinks are worthless.

a) Consistency  
b) conservatism  
c) Realization  
d) materiality
37. ______ concept assumes that the business will continue operating under the same economic conditions and in the same general environment.
   a) Money measurement
   b) Going concern
   c) Accounting period
   d) Business entity

38. The ______ concept results from the accounting period concept.
   a) Accrual  b) duality  
   c) Materiality  d) consistency

39. ______ is an idea about the basis on which assets should be valued in the amount that was paid for them.
   a) Business entity
   b) Money measurement
   c) Historical cost
   d) Accounting period

40. ______ concept is built around the fact that every time something is given, someone (or something) else receives it.
   a) Prudence  b) accrual  
   c) Consistency  d) duality

41. The ruling about _____ applies where a change in method could result in a change in profits.
   a) Consistency  b) accrual
   c) Duality  d) prudence

42. ______ concept requires that assets and profits should not be over-stated.
   a) Going concern  b) Prudence
   c) Duality  d) A/cing period

43. The concept of _____ is the basis for recognizing a transaction in the accounting process.
   a) Consistency  b) business entity
   b) Materiality  d) duality

44. Under _____ concept, only those transactions which can be measured in terms of money are to be recorded.
   a) Going concern  b) A/cing period
   b) Money measurement
   c) Business entity

45. ______ concept arises from the going concern concept.
   a) Accounting period
   b) Business entity
   c) Money measurement
   d) Consistency

46. ______ concept starts with the fact that the business unit is a separate entity with its own identity.
   a) Money measurement
   b) Business entity
   c) Accounting period
   d) Going concern
47. Final accounts are prepared at fixed intervals called_____.
   a) Accounting period
   b) Prudence concept
   c) Going concern concept
   d) Business entity concept

48. The concept which does not over-state profits and assets is the ____.
   a) Business entity concept
   b) Conservatism concept
   c) Money measurement concept
   d) Accounting period

49. The concept which maintains the same methods and practices for all accounting periods is the _______.
   a) Conservatism concept
   b) Business entity concept
   c) Consistency concept
   d) Realization concept

50. The concept which assumes that there is a cause and effect relationship between expense and revenue is the ________.
   a) Matching concept
   b) Consistency concept
   c) Conservation concept
   d) Money measurement concept

51. The______ concept means that amounts are included in accounts in the period they are earned or incurred, not received or paid.
   a) Realization  b) consistency
   c) Accrual  d) materiality

52. The ____ concept means that accounts deal only with items to which monetary value can be attributed.
   a) Going concern
   b) Materiality
   c) Prudence
   d) Money measurement

53. The_____ concept means that where there is uncertainty, appropriate caution is exercised when recognizing transactions.
   a) Materiality  b) prudence
   c) Consistency  d) going concern

54. The _____ concept means that similar items in a set of accounts should be given similar accounting treatment and it should be applied from one period to another.
   a) Going concern  b) prudence
   c) Consistency  d) materiality

55. The______ concept states that a matter is material if its misstatement would reasonably influence the decision of a user of accounts.
   a) Prudence  b) materiality
   b) Consistency  d) accruals

The following information is related to question no. 56 to 59

The stages of production and sale of a product are as follows (all figures in rupees):

<table>
<thead>
<tr>
<th>Stage</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Raw materials</td>
<td>Work in progress</td>
<td>Finished products</td>
<td>For sale</td>
<td>Sale agreed</td>
<td>Delivered</td>
<td>Paid for</td>
<td></td>
</tr>
<tr>
<td>Cost to date</td>
<td>10,000</td>
<td>12,000</td>
<td>15,000</td>
<td>17,000</td>
<td>17,000</td>
<td>17,000</td>
<td>18,000</td>
<td></td>
</tr>
<tr>
<td>Net realisable value</td>
<td>8,000</td>
<td>13,000</td>
<td>19,000</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
<td></td>
</tr>
</tbody>
</table>

56. State the stage and which you think revenue will be recognized?
   a) Stage E  b) stage F
   c) Stage G  d) stage H

57. How much would be the gross profit?
   a) Rs. 12,000  b) Rs. 13,000
   c) Rs. 14,000  d) Rs. 18,000

58. How much would be the net profit?
   a) Rs. 12,000  b) Rs. 13,000
   c) Rs. 14,000  d) Rs. 15,000

59. Stages F, G and H could not be reached before the end of the accounting period. How much would have been the value of closing stock?
   a) Rs. 30,000  b) Rs. 18,000
60. A business has total assets of Rs. 85,000 and capital is Rs. 35,000. The amount of liability is:
   a) Rs. 85,000  b) Rs. 50,000  c) Rs. 35,000  d) Rs. 40,000

61. Plant and machinery is Rs. 1,00,000; land and building Rs. 2,00,000; stock Rs. 50,000; cash in hand Rs. 10,000; cash at bank Rs. 40,000; sundry debtors Rs. 50,000; and sundry creditors Rs. 1,00,000. The amount of capital is:
   a) Rs. 3,50,000  b) Rs. 4,50,000  b) Rs. 2,50,000  d) Rs. 3,00,000

62. Which of the following statements about accounting concept(s) is/are correct?
   1) In order to achieve comparability it may sometimes be necessary to override the prudence concept.
   2) The money measurement concept is that item in accounts which are initially measured at their historical cost.
   3) Substance over form is an accounting concept whereby transactions and other events are accounted for and presented in accordance with their economic reality rather than legal form.
   a) (1) only  b) (2) only  b) (3) only  d) (2) & (3)

63. The balances in a sales ledger is Rs. 16,000. A debtor who owes Rs. 800 is in financial difficulty. The figure of debtors shown in the balance sheet is Rs. 15,200. Which concept has been applied?
   a) Matching  b) prudence  c) Realization  d) historical cost

64. A trader sends goods on sale or return to a customer. When the trader prepares his balance sheet at 31st March 2006 the customer has still not indicated that he has accepted the goods. Which concept should the trader apply when he prepares his accounts at 31st March 2006?
   a) Consistency  b) matching  c) Prudence  d) realization

65. In time of rising prices as in case of building what effect does the use of historical cost concept have on a company’s asset values and profit?
   a) Asset value and profit both are under-stated

66. In times of falling prices as in case of computers what effect does the use of historical cost concept have on a company’s asset value and profit?
   a) Asset value & profit both are overstated
   b) Asset value is overstated & understated
   c) Asset value & profit both are under-stated
   d) Asset value is understated and profits overstated

67. Which of the following statement explain prudence concept most closely?
   a) All legislation and accounting standards have been complied with
   b) Understatement of assets or gains and overstatements of liabilities or losses
   c) Revenue and profit are not recognized until realized and provision is made for all known liabilities
   d) The application of a degree of caution in exercising judgement under conditions of uncertainty

68. Which of the following statements about accounting concepts are correct?
   1) The money measurement concept is that only items capable of being measured in monetary terms can be recognized in financial statement
   2) The prudence concept means that understating of assets and overstating of liabilities is desirable in preparing final settlements
   3) The historical cost concept is that assets are initially recognized at their transaction cost
   a) (1) & (2)  b) (1) & (3)  b) (2) & (3)  d) (2) only

69. Which of the following statement(s) about accounting concepts and conventions is/are correct?
   1) The money measurement concept means that only assets capable of being reliably measured in monetary terms can be included in the balance sheet of a business.
2) Use of historical cost accounting tends to understate assets and profit when prices are rising.
3) The entity concept requires that a business is treated as being separate from its owners.
   a) (1) & (2)  b) (2) & (3)  
c) (3) only  d) (1) & (3)

70. Where there is tension between the concepts of accruals and prudent
   a) Accruals must prevail
   b) Seek help from external auditors
   c) Prudence must prevail
   d) A neutral approach must be adopted that ensures a true and fair view.

Answers:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a</td>
<td>2</td>
<td>b</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>d</td>
<td>6</td>
<td>d</td>
<td>7</td>
</tr>
<tr>
<td>9</td>
<td>c</td>
<td>10</td>
<td>c</td>
<td>11</td>
</tr>
<tr>
<td>13</td>
<td>a</td>
<td>14</td>
<td>c</td>
<td>15</td>
</tr>
<tr>
<td>17</td>
<td>a</td>
<td>18</td>
<td>c</td>
<td>19</td>
</tr>
<tr>
<td>21</td>
<td>c</td>
<td>22</td>
<td>b</td>
<td>23</td>
</tr>
<tr>
<td>25</td>
<td>c</td>
<td>26</td>
<td>d</td>
<td>27</td>
</tr>
<tr>
<td>29</td>
<td>d</td>
<td>30</td>
<td>b</td>
<td>31</td>
</tr>
<tr>
<td>33</td>
<td>c</td>
<td>34</td>
<td>b</td>
<td>35</td>
</tr>
<tr>
<td>37</td>
<td>b</td>
<td>38</td>
<td>a</td>
<td>39</td>
</tr>
<tr>
<td>41</td>
<td>a</td>
<td>42</td>
<td>b</td>
<td>43</td>
</tr>
<tr>
<td>45</td>
<td>a</td>
<td>46</td>
<td>b</td>
<td>47</td>
</tr>
<tr>
<td>49</td>
<td>c</td>
<td>50</td>
<td>a</td>
<td>51</td>
</tr>
<tr>
<td>53</td>
<td>b</td>
<td>54</td>
<td>c</td>
<td>55</td>
</tr>
<tr>
<td>57</td>
<td>b</td>
<td>58</td>
<td>a</td>
<td>59</td>
</tr>
<tr>
<td>61</td>
<td>a</td>
<td>62</td>
<td>c</td>
<td>63</td>
</tr>
<tr>
<td>65</td>
<td>c</td>
<td>66</td>
<td>b</td>
<td>67</td>
</tr>
<tr>
<td>69</td>
<td>d</td>
<td>70</td>
<td>d</td>
<td></td>
</tr>
</tbody>
</table>
1. Which of the following is not a source document?
   a) Invoice  
   b) credit note  
   c) Voucher  
   d) petty cash voucher

2. An invoice is prepared when goods are sold
   a) For cash only  
   b) On credit only  
   c) Both for cash and credit  
   d) None of the above

3. When goods are returned by the customers, a document is prepared called
   a) Debit note  
   b) Credit note  
   c) Voucher  
   d) none of the above

4. Voucher is entered in the books of original entry after
   a) It is prepared by the clerk  
   b) It is sent to accounts department  
   c) It is approved by the executive authority  
   d) None of the above

5. Bank account is a
   a) Nominal A/c  
   b) personal A/c  
   c) Real A/c  
   d) valuation A/c

6. Goodwill account is a
   a) Real A/c  
   b) personal A/c  
   c) Nominal A/c  
   d) Fictitious A/c

7. Which of the following statement is true?
   a) All transactions are events and all events are not transactions
   b) Only cash transactions are recorded in the books of account
   c) Only credit transactions are recorded in the books of account
   d) None of the above

8. Which of the following is a transaction?
   a) Received pass book from the bank
   b) Received price list from B
   c) Received interest from bank Rs. 1,000
   d) Received free sample Rs. 500

9. Liability arises because of

10. Which of the following equation is correct?
    a) Total assets-liabilities=capital – profit
    b) Total assets- liabilities= capital + Profit
    c) Total asset+ profit=capital+ liabilities
    d) Total assets+ liabilities=capital-profit

11. Romesh buys goods on credit from Lara but finds that some of them are faulty. What document would Romesh return to Lara with the faulty goods?
    a) Statement  
    b) sales invoice  
    c) Purchase invoice  
    d) debit note

12. What business document provides proof of payment for a business transaction?
    a) Debit note  
    b) invoice  
    c) Receipt  
    d) credit note

13. Robin introduces his car into his business. Which parts of the business accounting equation will change?
    a) Capital and liability  
    b) Liabilities and assets  
    c) Capital and profit  
    d) Assets and capital

14. Ashok sends a debit note to one of his suppliers. In which of Ashoke’s books of primary entry would this be recorded?
    a) Sales day book  
    b) Purchases day book  
    c) Purchases returns day book  
    d) Sales returns day book

15. Which of the following documents should accompany a payment made to a supplier?
    a) Sales invoice  
    b) purchase invoice  
    c) Remittance advice  
    d) Supplier statement

16. Which of the following equation is wrong?
    a) Net assets=proprietor’s fund  
    b) Net assets=capital+ profit+ drawings

---

Accounting Process

20 Questions       20 Marks    25 Minutes

---

Ashok Stambh   College Road .   98220 26393, 2571545
c) Net assets = capital + profit - drawings

d) Fixed assets + net current assets = capital + profit - drawings

17. Which of the following is a correct version of the ‘fundamental accounting equation’?
   a) Assets = capital less liability
   b) Assets = liabilities
   c) Assets plus liabilities = capital
   d) Assets = capital + liabilities

18. GAAP stands for
   a) Generally Accepted Accounting Principle
   b) Generally Accepted Accounting Practice
   c) Generally Accepted Auditing Practice
   d) Generally Accounting and Audit Practice

19. Consider the following statements:
   (i) Double entry book-keeping means that two sets of records are maintained.
   (ii) In double entry book-keeping we have a basic check on the accuracy of the entries as the total value of the debit entries should be equal.

Are the statements true or false?

<table>
<thead>
<tr>
<th>Statement (i)</th>
<th>Statement (ii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>True</td>
</tr>
<tr>
<td>B</td>
<td>True</td>
</tr>
<tr>
<td>C</td>
<td>False</td>
</tr>
<tr>
<td>D</td>
<td>False</td>
</tr>
</tbody>
</table>

20. A business borrowed Rs. 60,000 from its bank, and used the cash to buy a new computer. How is accounting equation affected by these transactions?

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Unchanged</td>
<td>Decreased</td>
</tr>
<tr>
<td>B</td>
<td>Unchanged</td>
<td>Increase</td>
</tr>
<tr>
<td>C</td>
<td>Increased</td>
<td>Increased</td>
</tr>
<tr>
<td>D</td>
<td>Increased</td>
<td>Decreased</td>
</tr>
</tbody>
</table>

Answers

1. c  2. b  3. b  4. c
5. b  6. a  7. a  8. c
9. b  10. b  11. d  12. c
13. d  14. c  15. c  16. b
17. d  18. b  19. c  20. c
Journal and Ledger

Select best choice to answer each question below:

1. The first book in which the transactions of a business unit are recorded is called
   a) A journal  b) a ledger
c) A trial balance
d) None of the above

2. Journal records all transactions in
   a) Alphabetical order
   b) Random manner
   c) Chronological order
   d) None of the above

3. Journal is a
   a) Memorandum record
   b) Primary record
c) Secondary record
d) None of the above

4. A journal records
   a) Only debit part of a transaction
   b) Only credit part of a transaction
c) Both debit part and credit part of a transaction without narration
d) Both debit part and credit part of a transaction with narration

5. In its usual form, a journal is divided by vertical lines into five columns in the following order
   a) (i) Date; (ii) Ledger Folio; (iii) Particulars; (iv) Debit amount; (v) Credit Amount
   b) (i) Date; (ii) Particulars; (iii) Journal Folio; (iv) Debit amount; (v) Credit Amount
c) (i) Date; (ii) Particulars; (iii) Ledger Folio; (iv) Credit amount; (v) Debit Amount
d) (i) Date; (ii) Particulars; (iii) ledger folio; (iv) Debit amount; (v) Credit Amount

6. Compound journal entry contains
   a) More than one debit entry only
   b) More than one credit entry only
c) More than one debit entry or more than one credit entry or both
d) No narration

7. How is the distribution of goods as free samples recorded in the journal?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Trading A/c</td>
<td>Sales A/c</td>
</tr>
<tr>
<td>b. Advertisement A/c</td>
<td>P&amp;L A/c</td>
</tr>
<tr>
<td>c. Advertisement A/c</td>
<td>Purchase A/c</td>
</tr>
<tr>
<td>d. Purchase A/c</td>
<td>Advertisement A/c</td>
</tr>
</tbody>
</table>

8. Cash sale of old assets (without profit or loss) is recorded in the journal by passing the following entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Cash A/c</td>
<td>Sales A/c</td>
</tr>
<tr>
<td>b. Buyer’s A/c</td>
<td>Assets A/c</td>
</tr>
<tr>
<td>c. Assets A/c</td>
<td>Cash A/c</td>
</tr>
<tr>
<td>d. Cash A/c</td>
<td>Assets A/c</td>
</tr>
</tbody>
</table>

9. How is bad debt recorded in the journal?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Bad debt A/c</td>
<td>Cash A/c</td>
</tr>
<tr>
<td>b. Bad debt A/c</td>
<td>Bad debt recovery A/c</td>
</tr>
<tr>
<td>c. Cash A/c</td>
<td>Bad debts recovery A/c</td>
</tr>
<tr>
<td>d. Bad debts recovery A/c</td>
<td>Cash A/c</td>
</tr>
</tbody>
</table>

10. A debit entry in the Purchases Account is matched by a credit entry in ITC Ltd Account. What do these entries record?
    a) Purchase of goods for cash from ITC Ltd.
b) Purchase of goods on credit from ITC Ltd.
c) Purchase Return to ITC Ltd.
d) None of the above

11. The process of transferring the accounts from the journal to the ledger is called____
    a) Journalizing  b) posting
c) Balancing  d) Casting

12. A ledger is called a book of ____ entry
    a) Primary  b) Secondary
    c) Memorandum
    d) Both primary and secondary

13. All accounts of suppliers are kept in the ___ ledger
    a) General  b) debtors
c) Creditors  d) Private

14. All accounts of credit customers are kept in the _____ ledger
15. Office furniture sold to Mohan on credit for Rs. 2,000. Mohan’s account will be kept in the ___ ledger.
   a) General   b) Debtors   c) Creditors   d) Private

16. Cash Account is maintained in the____
   a) General ledger   b) Debtors ledger   c) Creditors’ ledger   d) Cash book

17. Bank A/c is generally maintained in the _____
   a) General ledger   b) Debtors’ ledger   c) Cash book   d) Creditors ledger

18. Private ledger is used to maintain accounts of ______ nature
   a) Capital   b) Revenue   c) Confidential   d) Abnormal

19. Building A/c is maintained in the _____ ledger
   a) Nominal   b) General   c) Debtors   d) Creditors

20. Where the total of debit side exceeds the total of the credit side, the account is said to have _____ balance.
   a) Debit   b) credit   c) No   d) Negative

21. A sole trader took some goods costing Rs. 1,000 from stock for his own use. The normal selling price of the goods is Rs. 1,500.
   Which of the following journal entries would correctly record his?
   a. Drawing A/c   Dr. 1,500
      To sales A/c   1,500
   b. Drawings A/c   Dr. 1,500
      To Purchase A/c   1,500
   c. Drawings A/c   Dr. 1,000
      To Purchases A/c   1,000
   d. Sales A/c   Dr. 1,000

22. Mountain sells goods on credit to Hill. Hill receives a 10% trade discount from Mountain and a further 5% cash discount if paid within 15 days. Hill bought goods with a list price of Rs. 2,00,000 from Mountain.
   Which of the following journal entry would correctly record the sale in the books of Mountain?
   a. Hill A/c   Dr. 1,70,000
      To Sales A/c   1,70,000
   b. Hill A/c   Dr. 1,80,000
      To Sales   1,80,000
   c. Hill A/c   Dr. 1,90,000
      To Sales   1,90,000
   d. Hill A/c   Dr. 2,00,000
      To Sales   1,70,000
      To discount A/c 30,000

23. Anil sells goods on credit to Sunil. Sunil receives a 10% trade discount from Anil and a further 6% cash discount if paid within 7 days. Sunil bought goods with a list price of Rs. 3,00,000 from Anil. VAT is 4%. What amount should be included in Anil’s debtors ledger for this transaction?
   a) Rs. 2,70,000   b) Rs. 2,62,000
   c) Rs. 2,80,000   d) Rs. 3,12,000

24. X buys goods from Y on 30 days credit terms. Alternatively, a 10% cash discount is available on any payment received within 15 days. During April, the following transactions took place:
   April 2 X buys goods of Rs. 32,000
   April 10 X buys Y a cheque of Rs. 14,400
   What is the balance of X’s A/c in Y’s Debtors ledger on 30th April?
   a) Rs. 14,400   b) Rs. 16,000
   c) Rs. 17,600   d) Rs. 19,400

25. A gives his customers individual trade discounts from the list price and a general 5% cash discount for all invoice settled within 7 days of issue. A new customer, N negotiates a 25% trade discount. His transactions during January are:
   Jan 10 Buys goods with a Rs. 5,000 list price
   Jan 12 Returns goods with a Rs. 1,000 list price as faulty
   Jan 14 Pays half of the net balance on his account.
How much does N owe A at the end of January?

a) Rs. 1,425  
b) Rs. 1,500  
c) Rs. 2,000  
d) Rs. 2,840

26. K has just started up a business. He introduced Rs. 4,00,000 of his own savings, equipment Rs. 1,00,000 and obtained a bank loan of Rs. 40,000. What is the correct balance on K’s Capital Account following the transactions?

a) Rs. 4,00,000  
b) Rs. 5,40,000  
c) Rs. 5,00,000  
d) Rs. 4,40,000

27. Which of the following is the correct entry to record a cash purchase of Rs. 3,000 from Amar?

a) Debit: Purchases Rs. 3,000; Credit: Amar Rs. 3,000 
b) Debit: Amar Rs. 3,000; credit: Purchases Rs. 3,000 
c) Debit: Purchases Rs. 3,000; Credit: Cash Rs. 3,000 
d) Debit: Cash Rs. 3,000; Credit: Purchases Rs. 3,000

28. North buys goods from East on credit for Rs. 6,250 less trade discount of 20%. Which one of the following is the correct double entry for this transaction in North’s books?

a) Debit Purchases Rs. 6,250; Credit East Rs. 6,250 
b) Debit Purchases Rs. 5,000; Credit East Rs. 5,000 
c) Debit: Cash Rs. 5,000; Credit purchases Rs. 5,000 
d) Debit East Rs. 5,000; Credit Purchases Rs. 5,000

29. Ram has a balance of Rs. 5,00,000 on its creditors ledger control account at the end of March. What does this mean?

a) He has bought Rs. 5,00,000 of goods in March 
b) He owed Rs. 5,00,000 by his customers 
c) He owes Rs. 5,00,000 to his suppliers 
d) He has paid Rs. 5,00,000 to his suppliers in March

30. Which journal entry correctly records the credit purchase of Plant and Equipment for Rs. 4,00,000?

a) Dr. Suppliers’ personal A/c Rs. 4,00,000 
Cr. Plant and Equipment A/c Rs. 4,00,000 
b) Dr. Bank Account Rs. 4,00,000 
Cr. Plant & Equipment A/c Rs. 4,00,000 
c) Dr. Plant & Equipment A/c Rs. 4,00,000 
Cr. Suppliers’ Personal A/c Rs. 4,00,000 
d) Dr. Plant & Equipment A/c Rs. 4,00,000 
Cr. Bank A/c Rs. 4,00,000

31. An employee stole away- Cash Rs. 2,000 and goods worth Rs. 1,000. Which journal entry correctly records the above transactions?

a) Employee A/c Dr. 3,000 
To Cash A/c 2,000 
To Purchases A/c 1,000 
b) Abnormal loss A/c Dr. 3,000 
To cash A/c 2,000 
To purchases A/c 1,000 
c) Cash A/c Dr. 2,000 
Purchases A/c Dr. 1,000 
To Abnormal A/c 3,000 
d) No entry is required.

32. Received Rs. 1,000 from Dinesh in full settlement against the amount due from his Rs. 1,050. Which journal entry correctly records the above transaction?

a) Cash A/c Dr. 1,050 
To Dinesh A/c 1,050 
b) Cash A/c Dr. 1,000 
To Dinesh A/c 1,000 
c) Cash A/c Dr. 1,000 
Discount Allowed A/c Dr. 50 
To Dinesh A/c 1,050 
d) Cash A/c Dr. 1,000 
Discount Received A/c Dr. 50 
To Dinesh A/c 1,050

33. A started a business with cash and goods worth Rs. 50,000 and Rs. 10,000 respectively. Which journal entry correctly records the above transactions?

a) Cash A/c Dr. 50,000 
To Capital A/c 50,000 
b) Cash A/c Dr. 60,000 
To Capital A/c 60,000 
c) Cash A/c Dr. 50,000 
Purchases A/c Dr. 10,000 
To Capital A/c 60,000
d) Purchases A/c  Dr. 60,000
To Capital A/c  60,000

Answers

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a</td>
<td>2</td>
<td>c</td>
</tr>
<tr>
<td>4</td>
<td>d</td>
<td>5</td>
<td>d</td>
</tr>
<tr>
<td>7</td>
<td>c</td>
<td>8</td>
<td>d</td>
</tr>
<tr>
<td>10</td>
<td>b</td>
<td>11</td>
<td>b</td>
</tr>
<tr>
<td>13</td>
<td>c</td>
<td>14</td>
<td>b</td>
</tr>
<tr>
<td>16</td>
<td>d</td>
<td>17</td>
<td>c</td>
</tr>
<tr>
<td>19</td>
<td>b</td>
<td>20</td>
<td>a</td>
</tr>
<tr>
<td>22</td>
<td>b</td>
<td>23</td>
<td>c</td>
</tr>
<tr>
<td>25</td>
<td>b</td>
<td>26</td>
<td>c</td>
</tr>
<tr>
<td>28</td>
<td>b</td>
<td>29</td>
<td>c</td>
</tr>
<tr>
<td>31</td>
<td>b</td>
<td>32</td>
<td>c</td>
</tr>
</tbody>
</table>
1. Why does a business prepare a trial balance?
   a) To provide a list of all its assets and Liabilities
   b) To calculate its profit or loss
   c) To check the accuracy of its ledger entries
   d) To check its bank balance

2. The totals of a trial balance do not agree. Which type of error causes this?
   a) A compensating error
   b) An error of casting
   c) An error of omission
   d) An error of principle

3. An error of principle would occur if
   a) Plant and machinery purchased was credited to a fixed assets account
   b) Plant and machinery purchased was debited to the purchases account
   c) Plant and machinery purchased was debited to the equipment account
   d) Plant and machinery purchased was debited to the equipment account
   e) Plant and machinery purchased was debited to the correct account but with the wrong amount.

4. Which of the following is not a characteristic of a trial balance?
   a) It proves the arithmetical accuracy account
   b) It can be prepared any time during the accounting period
   c) It is a part of the double entry system of book keeping
   d) It is a list of balances of all ledger accounts and cash book

5. Which of the following error is not detected by the trial balance?
   a) Wrong totaling of subsidiary books
   b) Omission of account balance
   c) Errors in recording a transaction on the correct side of a wrong account
   d) Debit are wrongly posted as credits

6. Which is not shown in the heading of a trial balance?
   a) The date on which the trial balance is prepared
   b) The name of the organization for which the trial balance is prepared
   c) The name of the person who has prepared the trial balance
   d) The name of the person for whom the trial balance is prepared

7. In a trial balance, which one of the following items would be correctly shown as a debit balance?
   a) Returns outwards
   b) Discount received
   c) Returns inward
   d) Bank overdraft

8. In a trial balance, which one of the following items would be correctly shown as a credit balance?
   a) Carriage inwards
   b) Carriage outwards
   c) Discount allowed
   d) Discount received

9. Which of the following is shown on the debit side of the trial balance?
   a) Discount received
   b) Capital
   c) Sales returns
   d) bank overdraft

10. If R. Singh were to post Rs. 1,000 to the debit of S. Ganguli’s account instead of to the credit of S. Ganguli’s account, this would be known as an error of
    a) Principle
    b) Commission
    c) Omission
    d) Compensation

11. Which one of the following is an error of principle?
    a) A gas bill credited to gas account and debited to the bank account
    b) The purchase of a fixed asset credited to the asset account at cost and debited to the creditor’s account
    c) The purchase of a fixed assets debited to the purchases account and credited to the creditor’s account
d) The payment of wages debited and credited to the correct accounts, but using the wrong amount.

12. Which of the following will cause a difference on a trial balance?
   a) An invoice omitted from the sales day book
   b) An invoice for Rs. 415 entered in the sales day book as Rs. 451
   c) An invoice for Rs. 600 entered in the sales day book not included in the monthly total
   d) A credit note entered to the sales day book

13. After which error will a trial balance still balance?
   a) Wages paid Rs. 1,500, was entered correctly in the bank account but debited to the wages account as Rs. 2,500
   b) Rent receivable of Rs. 200 was debited to the rent payable account
   c) Goods returned to supplier Rs. 150 were entered in purchases returns day book as Rs.105
   d) The sales day book was undercast by Rs. 200

14. Which of the following does not affect the equality of the trial balance?
   a) The purchase of goods on credit is debited to the purchases account and credited to the cash account
   b) The purchase of office equipment is debited to both the purchases account and cash account
   c) Rs. 500 cash drawings is debited to the drawings account with Rs. 500 and credited to the cash account with Rs. 50
   d) Both the purchases account and wages account are overcast by Rs. 1,000.

15. Which of the following affects the equality of the trial balance?
   a) Payment of Rs. 800 to a creditor is debited to the creditor’s account with Rs. 80 and credited to the cash account with Rs. 80
   b) Purchase of furniture Rs. 900 is debited to the cash account and credited to the furniture account
   c) Payment of Rs. 1,000 for wages is debited to the wages account with no corresponding credit entry in the cash account
   d) Drawings of goods by owner are completely omitted from the accounts

16. The following are errors not revealed by the trial balance except for one. Which one is that?
   a) Error of omission
   b) Error of transposition
   c) Error of commission
   d) Error of principle

17. Which of the following shown on the credit side of the trial balance?
   a) Wages paid         b) Sales returns
   c) Drawings             d) Provision for bad debts

18. Which of the following error is not disclosed by the trial balance?
   a) Cash sales of Rs. 450 is recorded correctly in the cash account but posted to the sales account as Rs. 465
   b) Both purchases and sales returns are understated by Rs. 300
   c) Total of the debits is wrongly calculated
   d) Payment of Rs. 800 for wages is recorded as Rs. 1,000 and receipt of Rs. 2,000 for sales is recorded as Rs. 2,200

19. An error of omission is one where
   a) A transaction has not been recorded
   b) One side of a transaction has been recorded in the wrong account and that account is of a different class to the correct amount
   c) A transaction has been recorded using the wrong amount

20. Where a transaction is entered into the correct ledger accounts, but the wrong amount is used, the error is known as error of
   a) Omission         b) Posting
   c) Casting            d) Principle
21. Sachin knowns that number of error were made when his day. Books were posted to the general ledger. Which of the following errors will be detached when a trial balance is extracted?
   (i) Error of transposition
   (ii) Error of principle
   (iii) Error of complete omission
   (iv) Error of casting
   a) All four b) (i) & (iii)
   c) (i) & (iv) d) (ii) & (iv)

22. Which of the following statements about a trial balance is/are correct?
   (i) If the total of the debit balances equals the total of the credit balances, no errors have been made in posting to the general ledger
   (ii) The trial balance always records fixed assets at market value
   a) (i) only b) (ii) only
   c) Both (i) & (ii) d) Neither i nor (ii)

23. Two types of common errors in book-keeping are:
   Errors of principle
   Errors of transposition
   Which of the following correctly states whether or not these errors will be revealed by extracting a trial balance?

<table>
<thead>
<tr>
<th>Errors of principle</th>
<th>Errors of transposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Will be revealed</td>
<td>Will not be revealed</td>
</tr>
<tr>
<td>b. Will be revealed</td>
<td>Will be revealed</td>
</tr>
<tr>
<td>c. Will not be revealed</td>
<td>Will not be revealed</td>
</tr>
<tr>
<td>d. Will not be revealed</td>
<td>Will be revealed</td>
</tr>
</tbody>
</table>

24. In Sourav’s profit and loss account for the year ended 31st March, 2007 the charge for motor repairs was Rs. 2,850. This included an accrual of Rs. 220. When Sourav’s opening trial balance at 1st April, 2007 is prepared, what is the correct balance on motor repairs account?
   a) Rs. 220 (debit) b) Rs. 220 (credit)
   c) Rs. 2,850 (debit) d) Rs. 2,850 (credit)

25. Robin made one error when he posted the total purchases from the purchases day book to the general ledger. He posted Rs. 62,74,865 to the debit side of the purchases account. The correct amount was Rs. 2,74,685.

How the trial balance is affected by this error?
   a) The total of debit balances and total of credit balance will agree, but will be over-stated
   b) Total of debit balances and total of credit balances will agree, but will be under-stated
   c) Total of debit balances will exceed the total of credit balances
   d) Total of credit balances will exceed the total of debit balances

26. A trial balance _____
   a) Is an account
   b) Shows the financial position of a business
   c) Determines the profit and loss of a business
   d) Is a list of all accounts in the ledger at a given time

27. A book-keeper extracts a trial balance which fails to agree. He places the difference in a/an _____
   a) Asser account b) Expenses A/c
   c) Revenue A/c d) Suspense A/c

28. A suspense A/c is a _______
   a) Temporary A/c b) Permanent A/c
   c) Loan A/c d) Liability A/c

29. Goods invoiced to T Das for Rs. 256 had been wrongly posted to T Das account as Rs. 265. This type of error is known as ___.
   a) Error of compensation
   b) Error of principle
   c) Error of transposition
   d) Error of omission

30. Which of the following is correct about the suspense account?
   a) It can be debited
   b) It can be credited
   c) It can either be debited or credited
   d) It can neither be debited nor credited

31. Error of overcasting means ________.
   a) Errors of over-valuation of goods
   b) Errors of over-valuation of net profit
   c) Errors of over-adding of figures
   d) Errors of over-adding the debtors
32. When both entries are made on the same side of both the accounts, correction of the error will require _______.
   a) An amount double the original error  
   b) An amount of the original error   
   c) Transfer to the correct account  
   d) Cancellation of the wrong account

33. The total of the sales returns book is posted to the _______.
   a) Sales A/c  
   b) Returns outwards A/c  
   c) Return inwards A/c  
   d) Creditor’s A/c

34. In a trial balance, debit balances may be summarized as_______.
   a) Assets and liabilities  
   b) Assets and income  
   c) Incomes and expenditures  
   d) Assets and expenditures

35. A trial balance is a ________ evidence of arithmetical accuracy of records.
   a) Concrete  
   b) Real  
   c) Prima facie  
   d) Permanent

36. A trial balance is a _________.
   a) List of the assets, liabilities and capital of the business on a certain date  
   b) Summary of all the business’s transactions for the year end  
   c) Summary of the financial position of the business at the year end  
   d) List of balances remaining on the business’s books on a certain date

37. A cheque received from C. Gupta was credited to the account of G. Gupta. It is an error of _________.
   a) Omission  
   b) Casting  
   c) Principle  
   d) Posting

38. A trial balance can be used to _________.
   a) Help planning and decision making  
   b) Evaluate the performance of the business  
   c) Provide a summary for the preparation of final accounts  
   d) Disclose transactions which have been omitted from the recording process

39. An invoice from a supplier of office equipment has been debited to the stationery account. This error is known as _________.
   a) An error of commission  
   b) An error of original entry  
   c) A compensating error  
   d) An error of principle

40. Where a transaction is credited to the correct ledger account, but debited incorrectly to the repairs and renewals account instead of to the plant and machinery account, the error is known as an error of _________.
   a) Omission  
   b) Commission  
   c) Principle  
   d) Original entry

41. At 30 November, 2006, Ram had a bank of Rs. 8,500 and a balance of Rs. 678 at his bank account. How should these amounts be recorded on Ram’s opening trial balance at 1st December, 2006?
   a) Debit Rs. 7,822  
   b) Credit Rs. 7,822  
   c) Credit Rs. 8,500 & Debit Rs. 678  
   d) Debit Rs. 8,500 & Credit Rs. 678

42. If drawings of goods Rs. 200 for personal use are wrongly credited to the cash account instead of the purchases account, what is the effect on the trial balance?
   a) No effect  
   b) Total debits increased by Rs. 200  
   c) Total debits decreased by Rs. 200  
   d) Total credits decreased by Rs. 200

43. A suspense account was opened when a trial balance failed to agree. The following errors were later discovered
   (i) A gas bill of Rs. 420 had been recorded in the gas account as Rs. 240
(ii) A discount of Rs 50 given to a customer had been credited to discounts received

(iii) Interest received of Rs. 70 had been entered in the bank account only
The original balance on the suspense account was
a) Debit Rs. 210  b) Credit Rs. 210

c) Debit Rs. 160  d) Credit Rs. 160

44. A difference on a trial balance was entered to a suspense account. It was later found that:
(i) Rent paid Rs. 1,500 was entered on the credit side of the rent account
(ii) A payment of Rs. 840 for telephone was debited in the telephone account as Rs. 940.
What is the total difference in the suspense account?
 a) Rs. 1,400 Cr.  b) Rs. 2,340 Dr.
 c) Rs. 2,900 Dr.  d) Rs. 3,840 Cr.

45. Discount allowed of Rs. 160 for one month have been posted to the credit of the discount received account. What effect has this had on the trial balance?
a) Rs. 160 too much credit
b) Rs.100 too little debit
c) Rs. 160 too little debit and Rs. 160 too much Credit
d) Rs. 320 too much credit

46. After which error will a trial balance still balance?
a) An invoice for Rs. 400 in sales journal not posted in the customer’s account to the sales ledger
b) A purchase of goods from Ratna for Rs. 1,000 Credited to Ravin’s account in the purchase ledger
c) Payment of Rs. 60 to Josan entered correctly in the bank account and credited to Josan’s Account
d) Rent paid Rs. 660 entered correctly in cash book but posted to rent payable account as Rs. 600

47. If a purchase return of Rs. 48 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the supplier’s account, the total of the trial balance would show:
a) The credit side to be Rs. 48 more than the debit side
b) The debit side to be Rs. 48 more than the credit side
c) The credit side to be Rs. 96 more than the debit side
d) The debit side to be Rs. 96 more than the credit side

48. A suspense account shows a credit balance of Rs. 130. This could be due to:
a) Omitting a sale of Rs. 130 from recording in the books of account
b) Recording a purchase of Rs. 130 twice in the books of account
c) Failing to write off a bad debt of Rs. 130
d) Recording an electricity bill paid of Rs. 65 by debiting the bank account and crediting the electricity account.

49. An organization restores its petty cash balance to Rs. 500 at the end of each month. During January, the total column in the petty cash book was recorded as being Rs. 420 and hence the imprest was restored by this amount. The analysis columns, which had been posted to the nominal ledger, totaled only Rs. 400. This error would result in
a) No imbalance in the trial balance
b) The trial balance being Rs. 20 higher on the debit side
c) The trial balance being Rs. 20 higher on the credit side
d) The petty cash balance being Rs. 20 lower than it should be

50. A credit balance in the sum of Rs. 93 has been omitted from the list of balances extracted from the sales ledger. What is the effect on the trial balance?
a) The credit side is understated by Rs. 93
b) The credit side is overstated by Rs. 93
c) The debit side is understated by Rs. 93
d) The debit side is overstated by Rs. 93
51. A credit note for Rs. 46 sent to A. Mason’s has been debited to A. Mason’s account in the sales ledger. What effect will this have on the trial balance?

<table>
<thead>
<tr>
<th>Debit total</th>
<th>Credit total</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. None</td>
<td>None</td>
</tr>
<tr>
<td>b. Rs. 46</td>
<td>Rs. 46 understated</td>
</tr>
<tr>
<td>c. None</td>
<td>Rs. 92 understated</td>
</tr>
<tr>
<td>d. Rs. 92</td>
<td>None</td>
</tr>
</tbody>
</table>

52. A trial balance does not balance and a suspense account is opened; subsequently the following errors are found and the suspense account is cleared.

(i) A sales invoice for Rs. 1,240 had been omitted from the books
(ii) Rent paid Rs. 2,600 was entered correctly in cash book but incorrectly as Rs. 6,200 in rent account
(iii) The purchases journal was undercast by Rs. 1,980

What was the original balance on the suspense account?

a) Rs. 1,620 credit b) Rs. 4,340 debit c) Rs. 5,580 credit d) Rs. 5,580 debit

53. A day’s total sales of Rs. 1,200 was posted from the day book to the debit of the sales account. As a result, the balance of the sales account was

a) Understated by Rs. 1,200 b) Overstated by Rs. 1,200 c) Understated by Rs. 2,400 d) Overstated by Rs. 2,400

54. A company’s trial balance total were:
Debit- Rs. 3,87,642; Credit-Rs. 3,79,511
A suspense account was opened for the difference. Which one of the following errors would have the effect of reducing the difference when corrected?

a) No entry has been made to record cash sales of Rs. 25,000
b) He petty cash balance of Rs. 500 has been omitted from the trial balance
c) Rs. 4,000 received from rent of part of the office sublet has been correctly recorded in the cash book and debited to rent account

Answers:

1. c 2. b 3. b
4. c 5. c 6. c
7. c 8. d 9. c
10. b 11. c 12. c
13. c 14. a 15. c
16. b 17. d 18. d
19. a 20. b 21. c
22. d 23. d 24. b
25. c 26. d 27. d
28. a 29. c 30. c
31. c 32. a 33. c
34. d 35. c 36. d
37. d 38. c 39. d
40. c 41. c 42. a
43. a 44. c 45. c
46. b 47. d 48. b
49. c 50. a 51. b
52. a 53. c 54. c
Select the best choice to answer the following Questions:

1. Purchases day book is used to record
   a) Credit purchase of stationery
   b) Credit purchase of goods for resale
   c) Credit purchase of furniture
   d) All cash purchases

2. Sales day book is used to record
   a) Credit sale of goods for resale
   b) Credit sale of furniture
   c) Credit sale of miscellaneous items
   d) Cash sale of goods for resale

3. The sale of a business asset on credit is recorded in the
   a) Sales day book
   b) End k b) cash book
   c) General journal
   d) None of the above

4. The total of the purchases day book is posted periodically to the
   a) Debit of sales account
   b) Credit of purchases account
   c) Debit of purchases account
   d) Debit of the cash book

5. The total of the sales day book is posted periodically to the
   a) Credit of sales account
   b) Credit of purchases account
   c) Debit of purchases account
   d) Debit of cash book

6. Credit card sales are recorded originally in the
   a) Sales day book
   b) Cash book-cash column
   c) Journal proper
   d) Cash book- bank column

7. Debit card sales are recorded originally in the
   a) Sales day book
   b) Journal proper
   c) Cash book-cash column
   d) Cash book-bank column

8. When goods are returned by the customers a document is prepared by the firm called
   a) Credit note  b) Debit note
   c) Invoice    d) Voucher

9. Adjusting entries are made at the
   a) Beginning of the year

10. Journal proper record transactions of
    a) Similar nature
    b) Different nature
    c) Capital nature
    d) Exceptional nature

11. Journal proper/general journal is used for making the original record of
    a) Cash transactions
    b) Credit transactions f all nature
    c) Those transaction which do not find a place in any of the day books
    d) Internal

12. The purchase of stationery on credit is originally recorded in the
    a) Purchases day book
    b) Purchases return book
    c) Journal proper
    d) Cash book

13. Sale of old furniture on credit is originally recorded in the
    a) Sales day book
    b) Purchases day book
    c) Cash book
    d) Journal proper

14. Sales day book is prepared from
    a) Inward invoice
    b) Cash memo
    c) Outward invoice
    d) Credit note

15. Purchases day book is prepared from
    a) Cash memo
    b) Inward invoice
    c) Outward invoice
    d) Debit note

16. Purchases return day book is prepared from
    a) Inward invoice
    b) Outward invoice
    c) Credit note
    d) Debit note

17. Sales return book is prepared from
    a) Inward invoice
    b) Credit note
    c) Debit note
    d) Outward invoice

18. Which of the following information can only be obtained from the subsidiary ledger?
    a) Balance of furniture account
    b) Amount due from a customer
    c) Cost of goods sold during period
    d) None of the above
19. Which of the following is not true for trade discount?
   a) It represents an allowance which is made by the manufacturer to wholesalers.
   b) It is usually deducted from the catalogue price.
   c) Special journal entry is required to record it.
   d) No account is opened in the ledger.

20. X received a cheque of Rs. 10,000 from Y in full settlement of dues of Rs. 10,500. The cheque was dishonoured. The reversal of discount allowed by X will be recorded in the
   a) Cash book
   b) Journal proper
   c) Ledger directly
   d) None of the above

21. A trader discovered that a credit customer had been undercharged for his last purchases. Which document should the trader send to the customer?
   a) Cheque
   b) Credit note
   c) Debit note
   d) Receipt

22. Which should be recorded in the journal proper (general journal) before it is entered in the ledger?
   a) Cash sales
   b) Furniture purchased by cheque
   c) Bad debt written off
   d) Purchase returns

23. A business keeps a full set of books of prime entry. Which book is written up from the copies of credit notes issued by the business?
   a) Purchases day book
   b) Purchases return day book
   c) Sales day book
   d) Sales return day book

24. Y returns goods to X. which document will Y send to X?
   a) Credit note
   b) Debit note
   c) Invoice
   d) Receipt

25. Which transaction is entered in the general journal (journal proper)?
   a) Payment for computer operator’s wages
   b) Payment for printer ink
   c) Purchase on credit of a computer for office use
   d) Purchase on credit of stock for resale

26. Where is the total of the purchase day book posted?
   a) Credit of purchases account
   b) Debit of purchases account
   c) Credit of trading account
   d) Debit of trading account

27. Which book of prime entry is part of double entry system?
   a) Journal proper
   b) Cash book
   c) Purchase day book
   d) Sales day book

28. Which is entered into the journal proper?
   a) Cash payment to an employee for expenses
   b) Cash purchase of goods for resale
   c) Correction of an error
   d) Credit purchase of goods for resale

29. Dravid allows Dhoni trade discount of 25% and cash discount of 5% if invoices are paid within 15 days. Dhoni purchases goods with a list price of Rs. 1,200 from Dravid. Which amount will be entered in Dhoni’s purchases day book?
   a) Rs. 840
   b) Rs. 855
   c) Rs. 900
   d) Rs. 1,200

30. Sachin returns goods to Sourav. How is this recorded in Sachin’s books?
   ![Table]

<table>
<thead>
<tr>
<th>Book of prime entry</th>
<th>Account to be debited</th>
<th>Account to be credited</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Purchases returns day book</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Purchases returns day book</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Sales returns day book</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Sales returns day book</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   Answers
   
   1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30.
The Cash Book

Select the best choice to answer the following questions:

1. A debit entry in the cash account is matched by a credit entry in T. Porwal’s Account. What do these entries record?
   a) Goods sold to T.Porwal for cash
   b) Payment of cash to T.Porwal
   c) Purchase of goods from T.Porwal for cash
   d) Receipt of cash from T.Porwal

2. Joy occupies part of Natasha’s business premises. Which entry in Natasha’s books records the rent Joy pays her?
   Debit Account | Credit Account
   a. Bank | Rent payable
   b. Bank | Rent Receivable
   c. Rent payable | Bank
   d. Rent receivable | Bank

3. A trader withdraws money from his bank account for personal expenses. Which entry records this in his books?
   Debit Account | Credit Account
   a. Bank | Capital
   b. Bank | Drawings
   c. Capital | Bank
   d. Drawings | Bank

4. Which is both a book of journal and a ledger?
   a) Cash Book
   b) General Journal
   c) Purchases Journal
   d) Sales journal

5. How is the cash purchase of goods for resale entered in books of account?
   Debit Account | Credit Account
   a. Cash | Purchases
   b. Cash | Creditors
   c. Purchases | Cash
   d. Creditors | Cash

6. A owes Rs. 1,000 for goods bought on Credit. A pays B the amount owed by cheque, less 2.5% cash discount. Which entry in A’s book records this?

7. Discount allowed is an
   a) Expense   b) Income
   c) Receipt   d) Payment

8. A credit balance of Rs. 10,000 in the bank column of the cash book shows that
   a) The amount received exceeds the amount paid out by Rs. 10,000
   b) Rs. 10,000 has been lost
   c) The accounts clerk has made mistakes
   d) The bank account has been overdrawn

9. If the bank account shows a credit balance of Rs. 1,000, the accountholder deposits Rs. 400 and draws a cheque for Rs. 300, the balance in the bank account should be
   a) Rs. 900 debit   b) Rs. 1,100 debit
   c) Rs. 900 credit   d) Rs 1,100 credit

10. A debit balance of Rs. 5,000 in the cash column of the cash book shows that
    a) Rs. 5,000 has been paid out
    b) Rs. 5,000 is owing
    c) The amount received exceeds the amount paid by Rs. 5,000
    d) Rs. 5,000 has been credited into the bank account

11. Yasmin purchased some office equipment for use in her business. The equipment was faulty and she returned it to the supplier who refunded the cost to Yasmin. Which entries in Yasmin's books record the return of the equipment?
   Debit Account | Credit Account
   a. Bank | Purchase Return
   b. Bank | Office Equipment
   c. Purchase Returns | Bank
12. A trader returns goods to the supplier and received a refund. Which entries record the refund in the trader’s books?

<table>
<thead>
<tr>
<th>Debit Account</th>
<th>Credit Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Bank</td>
<td>Rent payable</td>
</tr>
<tr>
<td>b. Bank</td>
<td>Rent Receivable</td>
</tr>
<tr>
<td>c. Rent payable</td>
<td>Bank</td>
</tr>
<tr>
<td>d. Rent receivable</td>
<td>Bank</td>
</tr>
</tbody>
</table>

13. Discount allowed in the cash book should be
   a) Balanced
   b) Posted to the respective account in the ledger
   c) Posted to the respective side of the same discount
   d) Ignored

14. The words ‘Account Payee Only’ are written as part of a crossing on a cheque. What does this mean?
   a) It can be encashed by the named payee
   b) It may be paid into any account at any bank
   c) It must be credited to an account at the bank on which it is drawn
   d) It must be credited to the bank account of the named payee

15. Which of the following is not treated as cash?
   a) Money order
   b) Bank Drafts
   c) Post-dated cheques
   d) Coins

16. The bank account maintained by the enterprise is a
   a) Real Account
   b) Nominal A/c
   c) Personal A/c
   d) Valuation A/c

17. How is the credit card sale recorded in the books of account?
   a) Recording in the sales day book as credit sales
   b) Debiting cash account and crediting sales account in the cash book
   c) Debiting bank account and crediting sales account in the cash book
   d) Debiting customers’ account and crediting sales account.

18. Which of the following phrase represents discount received?
   a) It is a reduction from a stated amount
   b) It is a deduction against the amount owed by a debtor in order to encourage early payment
   c) It is a discount deducted by a debtor from the invoiced price of goods sold
   d) It is a discount deducted by an enterprise from the amount due to him for goods purchased

19. Which of the following phrase does not represent cash?
   a) It is accepted by a banker at face value
   b) It is immediately available for the settlement of debts
   c) This is an amount that an enterprise has of notes and coins
   d) It is a bill of exchange which is to be discounted through bank

20. Which of the following is not true?
   a) The cash book is a substitute for cash account in the ledger
   b) A narration is required for a contra entry
   c) The cash book records only one aspect of a transaction
   d) Like ledger, a cash book is also a book of final entry.

21. Which of the following is true?
   a) The cash book performs the function
   b) A debit balance in the bank column of the cash book indicates overdraft
   c) Cash discount is allowed at the time goods are sold
   d) The rate of cash discount depends on the quantities purchased

22. Which of the following will not be entered in the Cash Book?
   a) Dishonoured cheques
   b) Post dated cheques
   c) Notes and coins received
   d) Crossed cheques

23. Which of the following is unlikely to be paid by petty cash?
   a) Payment for a set of spare keys
   b) Payment for a bottle of oil for the squeaking office doors
c) Monthly salary for the office boy  
d) Payment for correction fluid

24. Which of the following is unlikely to be paid by petty cash?  
a) Stationery  
b) Postage  
c) Refreshments  
d) Payment to a creditor by cheque

25. Which of the following is not a source document for entry in the cash book?  
a) Cheque book counter foils  
b) Counterfoil of deposit slip  
c) Wages sheet  
d) Credit note

26. Which of the following phrases has not represented the word ‘imprest’?  
a) It means loan  
b) This amount is advanced by the cashier to the petty cashier  
c) It is the amount that an enterprise keeps in notes and coins  
d) It is a system of controlling petty cash

27. Which of the following is not true?  
a) A petty cash book is not a part of the double entry system  
b) Analytical columns are used in the petty cash book  
c) The petty cash book is an extension of the main cash book  
d) Imprest system is an extension of the main cash book

28. Which of the following correctly describes the imprest system of operating petty cash?  
a) The petty cash float is replenished by regular periodic transfers of equal amount  
b) The petty cash float is replenished by periodic transfers of the actual expenditure in the period  
c) All expenses must be supported by a properly authorized voucher  
d) Petty cash is operated outside the business double entry accounting system

29. What is the purpose of crossing a cheque?

   a) To allow it to be paid into any account, not just the payee’s  
   b) To speed up the time it takes to go through the clearing system  
   c) To stop it being paid into an account other than the payee’s  
   d) To tell the bank to check that there is enough money in the account to pay it

30. Which of the following items would be likely to be paid out of petty cash?  
   (i) Purchase of stationery  
   (ii) Hire purchase payment for a motor car  
   (iii) A payment to a supplier for goods bought on credit  
   (iv) A payment for postage stamp  
a) All of the above  
b) (i) and (iv)  
c) (i), (ii) & (iv)  
d) (ii), (iii) & (iv)

31. J.P., a trader, withdrew Rs. 5,000 from the business bank account for office use. How is this recorded in J.P.’s books?  
   Account to be debited | Account to be credited  
   a. Bank | Cash  
   b. Cash | Bank  
   c. Bank | Drawings  
   d. Drawings | Bank

32. In which book of primary entry would the following transactions be entered?  
   (i) Cash sales Rs. 1,000  
   (ii) Credit sales Rs. 5,000  
a) Journal and cash book  
b) Purchases day book and sales day book  
c) The cash book and sales day book  
d) The petty cash book and sales day book

33. The total of ‘Discount Allowed’ column in the cash book is Rs. 400. How should this item be posted in the ledger?  
   a) Cr. Discount Allowed  
   b) Dr. Discount Allowed  
   c) Cr. Discount Received  
   d) Dr. Discount Received

34. The total of ‘Discount Received’ column in the cash book is Rs. 500. How should this be posted in the ledger?
35. A business maintains a petty cash book using the imprest system. The amount of imprest is Rs. 1,000. The petty cash is restored on the first day of each month. Which statement is true?
   a) The petty cashier ends each month with Rs. 1,000
   b) The petty cashier is given Rs. 1,000 each month by the chief cashier
   c) The petty cashier spends Rs. 1,000 each month
   d) The petty cashier starts each month with Rs. 1,000

36. To an accountant, cash includes_______.
   a) Postage stamp  b) Securities
   c) Bank draft
d) Disohoured cheque

37. Credit card or debit card sale is recorded in the _______.
   a) Sales Day Book  
   b) Cash book
   c) Petty cash book
d) Journal proper

38. The total of the 'discount received' column of the Cash Book is posted to the _______.
   a) Debit side of the Discount Received Account
   b) Credit side of the Discount received account
   c) Credit side of the Debtors' Account
   d) Credit side of the Creditors' Account

39. Discount allowed ______.
   a) Reduce the cash balance
   b) Is given when the customers buy in bulk
   c) Is given by the creditors when we pay our accounts
d) Is given by us when the debtors pay their accounts on time.

40. When money is received for reimbursement of the petty cash fund, the journal entries involved are to _________.

41. If cash is transferred from the owner’s personal bank account to the business bank account, the entries made in the books are to _________.
   a) Debit cash column and credit bank column respectively
   b) Debit bank column and Credit cash column respectively
   c) Debit bank column in the cash book and credit the capital account
d) Debit the business bank account and credit the owner’s personal bank account

42. If the bank account shows a debit balance of Rs. 2,000, the accountholder deposits Rs. 400 and draws a cheque for Rs. 300, the balance in the bank account should be _________.
   a) Rs. 1,800 Debit  b) Rs. 2,100 Dr.
c) Rs. 1,900 Credit  d) Rs. 2,100 Cr.

43. Cash discount ______.
   a) Is allowed to improve cash inflow
   b) Is allowed to reduce cash inflow
   c) Is allowed when the customers buy in bulk
d) Is allowed to known customers only

44. X sold goods to Y for Rs. 4,000, less 10% trade discount and received a cheque after one week after allowing 5% cash discount. The amount of cheque will be _________.
   a) Rs. 3,800  b) Rs. 3,400
c) Rs. 3,420  d) Rs. 3,600

45. A received a cheque from B for Rs. 4,500 after allowing discount of Rs. 500 and it was sent to bank on the same date. After two days bank informed that B's cheque of Rs. 4,500 has been dishonoured. For recording this dishonor of cheques_______.
   a) Both Rs. 4,500 and 500 are to be recorded on the debit side of the Cash book
b) Both Rs. 4,500 and 500 are to be recorded on the credit side of the Cash Book
c) Only Rs. 4,500 is to be recorded on the credit side and Rs. 500 altogether to be ignored
d) Rs. 4,500 is to be recorded on the credit side of the cash book and for Rs. 500 appropriate journal entry is to be passed in the Journal Proper

46. If the petty cash book fund has an imprest amount of Rs. 2,000 and during the week, the amount paid are: general expenses Rs. 230, Stationery Rs. 340, postage Rs. 120, carriage Rs. 180, the amount of reimbursement will be_________.
a) Rs. 2,000        b) Rs. 1,310
c) Rs. 870         d) Rs. 2,870

47. The two column of each side of the double column cash book represent______.
   a) Real and nominal accounts
   b) Real and personal accounts
   c) Real and real account
   d) Nominal and personal accounts

48. If a bearer cheque is encashed over the counter, ______ account is debited
   a) Bank        b) Cash
   c) Discount allowed d) Customer

49. Cash is a ______ asset
   a) Fixed        b) Intangible
   c) Current      d) Contingent

50. Petty cash book is a part of_______.
   a) Cash book     b) Journal
   c) Ledger       d) Journal & ledger

51. Which of the following represents the correct imprest amount in an imprest petty cash system?
   a) Notes & coins in the petty cash book-Vouchers-IOWs
   b) Notes & coins errors in the petty cash book-Vouchers-IOWs
   c) Notes and coins in the petty cash book+ Voucher +IOWs
   d) Notes & Coins in the petty cash book-Vouchers+ IOWs

52. A cheque was drawn on 20\textsuperscript{th} April, 2006. This cheque will become stale on.
   a) 20\textsuperscript{th} April, 2006
   b) 20\textsuperscript{th} January, 2007
   c) 20\textsuperscript{th} October, 2006
   d) 20\textsuperscript{th} April, 2007

53. A debit entry in the cash book will have which effect on the level of a bank overdraft and a bank balance?

<table>
<thead>
<tr>
<th>Bank overdraft</th>
<th>Bank Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>b. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>c. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>d. Decrease</td>
<td>Increase</td>
</tr>
</tbody>
</table>

54. Which of the following postings from cash book payments side is wrong?
   a) The total of the cash paid column to the credit of the cash control account
   b) The total of the discounts column to the credit of the discounts received account.
   c) The total of the discounts column to the debit of the creditors control account.
   d) The total of the cash paid column to the debit of the cash control account.

55. X ltd. operates the imprest system for petty cash. At 1\textsuperscript{st} July, there was a float of Rs. 1,500 but it was decided to increase this to Rs. 2,000 from 1\textsuperscript{st} August. During July, the petty cashier received Rs. 250 from staff for using the telephone for personal purpose and a cheque of Rs. 900 was cashed for an employee. In July, cheque were drawn for Rs. 5,000 for petty cash. How much cash was paid out as cash expenses by the petty cashier in July?
   a) Rs. 4,350          b) Rs. 3,850
   c) Rs.6,150          d) Rs. 5,150

Answers

<table>
<thead>
<tr>
<th></th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>d</td>
<td>b</td>
<td>d</td>
<td>a</td>
</tr>
<tr>
<td>5.</td>
<td>c</td>
<td>a</td>
<td>7.</td>
<td>a</td>
</tr>
<tr>
<td>6.</td>
<td>a</td>
<td>10.</td>
<td>b</td>
<td>d</td>
</tr>
<tr>
<td>8.</td>
<td>d</td>
<td>11.</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>c</td>
<td>12.</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>b</td>
<td>14.</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>c</td>
<td>16.</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>17</td>
<td>c</td>
<td>18</td>
<td>d</td>
<td>19</td>
</tr>
<tr>
<td>21</td>
<td>a</td>
<td>22</td>
<td>b</td>
<td>23</td>
</tr>
<tr>
<td>25</td>
<td>d</td>
<td>26</td>
<td>c</td>
<td>27</td>
</tr>
<tr>
<td>29</td>
<td>c</td>
<td>30</td>
<td>b</td>
<td>31</td>
</tr>
<tr>
<td>33</td>
<td>b</td>
<td>34</td>
<td>c</td>
<td>35</td>
</tr>
<tr>
<td>37</td>
<td>b</td>
<td>38</td>
<td>b</td>
<td>39</td>
</tr>
<tr>
<td>41</td>
<td>c</td>
<td>42</td>
<td>b</td>
<td>43</td>
</tr>
<tr>
<td>45</td>
<td>d</td>
<td>46</td>
<td>c</td>
<td>47</td>
</tr>
<tr>
<td>49</td>
<td>c</td>
<td>50</td>
<td>a</td>
<td>51</td>
</tr>
<tr>
<td>53</td>
<td>d</td>
<td>54</td>
<td>d</td>
<td>55</td>
</tr>
</tbody>
</table>
Bank Reconciliation Statement

Select the best choice to answer the following questions:

1. All Bank Reconciliation Statement is prepared:
   a) At the end of each week
   b) At the end of each month
   c) At the end of the accounting year
   d) Whenever a bank statement is received

2. Which one of the following is not a reason for the disagreement between cash book balance and Bank statement balance?
   a) Unpresented cheques
   b) Direct receipts by the bank
   c) Error(s) in the cash book
   d) Bank overdraft

3. When the receiver can change both the date and the amount of payment, it is known as
   a) Uncredited cheques
   b) Direct debit
   c) Standing order
   d) Credit transfer

4. Which of the following will find a place in the bank reconciliation statement?
   a) Unpresented cheques
   b) Direct debit
   c) Direct receipts by the bank
   d) Credit transfer

5. Which of the following will find a place in the bank reconciliation statement?
   a) Unpresented cheques
   b) Post-dated cheques
   c) Deposit not credited
   d) Credit transfer

6. A current account holder had only Rs. 1,200 in his account and a cheque for Rs. 2,000 issued by him was paid out by the bank. Pick the most appropriate term to describe the above situation.
   a) Bank deficit
   b) Bank deposit
   c) Bank overdraft
   d) Bank loan

7. Which of the following a credit balance in the cash book indicates?
   a) The account is closed
   b) Cash in hand
   c) Cash at bank
   d) Bank overdraft

8. In checking a bank statement against the bank account details in the cash book, that a direct debit for rent has not been entered in the cash book. Do you?
   a) Debit the bank account and credit the rent account
   b) Debit the rent account and credit the bank account
   c) Debit the rent account and credit the bank statement
   d) Not enter the direct debit as it reflects only the bank statement

9. Why is a bank reconciliation statement prepared?
   a) To calculate the bank balance for the balance sheet
   b) To check the amount owing from debtors
   c) To show how much has been paid to creditors
   d) To show the amount of petty cash in hand

10. Which of the following phrases represents credit transfer?
    a) These are fees for bank services
    b) It is a system of periodical payments
    c) A business may receive into its bank account revenue from a variety of sources without direct knowledge of these.
    d) It is another name for standing order.

11. Which of the following does not represent bank reconciliation?
    a) It is based upon the information contained in the bank statement
    b) It should be prepared by a person who neither handles nor records cash
    c) It is an important part of the internal control system over cash balance lying at the bank
    d) The bank column of the cash book finds a place in the trial balance.

12. Which one of the following is a genuine bank reconciliation statement item, as opposed to an error or omission which requires an entry in the cash book?
    a) A credit transfer
    b) Overdraft interest
    c) A standing order
    d) An unpresented cheque

13. Which one of the following item requires an entry in the cash book at the time of preparing bank reconciliation statement under amended cash book method?
    a) Cheque issued but not presented
    b) Cheque deposited but not credited
    c) Bank charges
    d) Cheque received and recorded in the cash book but not yet deposited into the bank

14. A bank reconciliation statements starts at the debit balance shown in the cash book. How are uncredited deposits and unpresented cheques shown in the bank reconciliation statement?

15. Which of the following correctly describe(s) why a bank reconciliation is prepared?
   (i) To identify entries which have been generated by the bank, but not recorded in the cash book
   (ii) To identify errors in the entries in the cash book
16. Katiba pays her mortgage by instructing the bank to make monthly payments of a fixed amount from her current account. When the mortgage rate changes she issues revised instructions to the bank. Which method of payment is Katiba using?
   a) Standing order    b) Payable order
   c) Direct debit       d) Cross cheque

17. Mr. Albert is the Managing Director of Dey’s Medical Ltd. He signs his name on a company cheque for Rs. 25,000 in accordance with the bank mandate. The company name appears on the cheque. If the bank dishonours the cheque as the company has insufficient funds in the account, who is liable for Rs. 25,000?
   a) Mr. Albert    b) the bank
   c) Dey’s Medical Ltd d) no one

18. The bank had agreed to remit periodic payments at a specified date on behalf of his client. Such service provided by the bank is known as______.
   a) Credit transfer   b) Electronic transfer/ECS
   c) Mutual transfer   d) Standing order

19. An entry has been made in the debit column of the bank statement but not recorded in the cash book. Such a record can possibly be______.
   a) Credit transfer   b) Unpresented cheque
   c) Lodgment not credited d) Direct payment

20. Your records show that your current account is Rs. 1,000 overdrawn. When you receive your bank statement, you find that one of your debtors has deposited Rs. 400 into your account and bank charges of Rs. 20 has been debited to your account. Your bank statement balance is______.
   a) Rs. 1,420 (Dr.)   b) Rs. 620 (Dr.)
   c) Rs. 4,300 (Cr.)   d) Rs. 1,700 (Dr.)

21. If the balance in the bank statement shows Rs. 3,000 (Dr.) and there are deposits of Rs. 800 not yet credited and unpresented cheques totaled Rs. 500, the balance in the cash book should be______.
   a) Rs. 3,300 (Cr.)  b) Rs. 2,700 (Cr.)
   c) Rs. 4,300 (Cr.)  d) Rs. 1,700 (Dr.)

22. An entry has been made in the credit column of the bank statement but not recorded in the cash book. Such a record can possibly be______.
   a) Bank Charges     b) direct payment
   c) Credit transfer   d) Unpresented cheque

23. Cheques that have been issued but not yet cashed at the bank are called______ cheques.
   a) Honoured    b) Dishonoured

24. A bank reconciliation statement is prepared on a stated_____.
   a) Week    b) Day
   c) Month   d) Period

25. Under standing order, the date and the amount are______.
   a) Fixed    b) variable
   c) Both fixed and variable d) Neither fixed nor variable

26. In principle, the balance in the cash book and in the bank statement should be______.
   a) Equal    b) Opposite
   c) Equal and opposite d) Equal but not opposite

27. Bank reconciliation statement is just a procedure to prove the______ balance.
   a) Day book    b) cash book
   c) Pass book   d) trial

28. A business receives its bank statement showing the closing balance as Rs. 8,500 overdrawn. It is found that unpresented cheques amounting to Rs. 2,000 and uncredited deposits amounted to Rs. 1,500.
   a) Rs. 5,000    b) Rs. 8,000
   c) Rs. 9,000    d) Rs.12,000

29. Prakash bank reconciliation statement shows cheques deposited but not credited by bank of Rs. 3,800 and cheques issued but not presented by suppliers of Rs. 3,500. His bank balance as per cash book is Rs. 25,000. Balance as per pass book statement is______.
   a) Rs. 25,000    b) Rs. 24,700
   c) Rs. 25,300    d) Rs. 32,300

30. The bank reconciliation statement shows a debit balance of Rs. 1,001 as per cash book, unpresented cheques were Rs. 1,040 and deposits not credited were Rs. 820. What was the balance on the bank statement?
   a) Rs. 1,860    b) Rs.1,121
   c) Rs. 142   d) Rs. 786

31. The cash book balance was Rs. 1,790 (Dr.) when compared with the bank statement, unpresented cheques were Rs. 1,040 and deposits not credited were Rs. 820. What was the balance on the bank statement?
   a) Rs. 70 (Dr.)    b) Rs. 1,570(Cr.)
   c) Rs. 2,010 (Cr.) d) Rs. 3,650 (Cr.)

   a) Rs. 1,000    b) Rs. 1,750
   c) Rs. 2,500    d) Rs. 3,250

33. In the cash book of a firm, the bank account showed a credit balance of Rs. 5,000. There were unpresented cheques amounting to Rs. 1,500. The bank statement showed bank charges of Rs. 700 not in the cash book. What is the balance on the bank statement?
   a) Rs. 3,300 (Cr.)    b) Rs. 4,200 (Dr.)
   c) Rs. 4,200 (Cr.)
34. The balance at bank in X’s cash book at 30 April, 2006 is Rs. 12,460 debit. However, a cheque for Rs. 14,470 received from Y and a cheque for Rs. 1,740 paid to Z appear in the cash book, but not on the bank statement. Bank charges of Rs. 4,500 have not been entered in his cash book. What is the balance shown on the bank statement at 30 April, 2006?
   a) Rs. 4,770 (Cr.)
   b) Rs. 4,770 (Dr.)
   c) Rs. 20,690 (Cr.)
   d) Rs. 20,690 (Dr.)

35. The following details are related to a firm’s banking transactions at 31st March, 2006: Balance as per bank statement Rs. 22,650; Uncleared lodgements Rs. 3,110; Unpresented cheques Rs. 6,290; bank credit recorded twice by bank in error as Rs. 650. Which balance for cash at bank should appear in the balance sheet at 31st March, 2006?
   a) Rs. 18,820
   b) Rs. 20,120
   c) Rs. 25,180
   d) Rs. 26,480

36. Your cash book at 31 December, 2006 shows a bank balance of Rs. 565 overdrawn. On comparing this with your bank statement at the same date, you discover the following:
   A) A cheque for Rs. 57 drawn by you on 29 December, 2006 has not yet been presented for payment.
   B) A cheque for Rs. 92 from a customer, which was paid into the bank on 24 December, 2006 has been dishonoured on 31 December, 2006.

   The correct bank balance to be shown in the balance sheet at 31 December, 2006 is:
   a) Rs. 14 overdrawn
   b) Rs. 657 overdrawn
   c) Rs. 673 overdrawn
   d) Rs. 53 overdrawn

37. The cash book shows a bank balance of Rs. 5,675 overdrawn at 31 August, 2005. It is subsequently discovered that a standing order for Rs. 125 has been entered twice and that a dishonoured cheque for Rs. 450 has been debited in the cash book instead of credited.

   The correct bank balance should be:
   a) Rs. 5,100 overdrawn
   b) Rs. 6,000 overdrawn
   c) Rs. 6,250 overdrawn
   d) Rs. 6,450 overdrawn

38. A business had a balance at the bank of Rs. 2,500 at the start of the month. During the following month, it paid for materials invoiced at Rs. 1,000 less trade discount of 20% and cash discount of 10%. It received a cheque from a debtor in respect of an invoice for Rs. 200, subject to cash discount of 5%. The balance at the bank at the end of the month was:
   a) Rs. 1,970
   b) Rs. 1,980
   c) Rs. 1,990
   d) Rs. 2,000

39. The bank statement on 31 October, 2006 showed an overdraft of Rs. 800. On reconciling the bank statement, it was discovered that a cheque drawn by your company for Rs. 80 had not been presented for payment, and that a cheque for Rs. 130 from a customer had been dishonoured on 30 October, 2006, but that this had not yet been notified to you by the bank.

   The correct bank balance to be shown in the balance sheet at 31 October, 2006 is:
   a) Rs. 1,010 overdrawn
   b) Rs. 880 overdrawn
   c) Rs. 750 overdrawn
   d) Rs. 720 overdrawn

40. X’s bank statement shows a balance of Rs. 825 overdraft. The bank statement includes bank charges of Rs. 50, which have not been entered in the cash book. There are unpresented cheques totaling Rs. 475 and deposits not yet credited of Rs. 600. The bank statement incorrectly shows a direct debit payment of Rs. 160, which belongs to another customer.

   The figure for the bank balance in Balance sheet should be:
   a) Rs. 590 overdrawn
   b) Rs. 540 overdrawn
   c) Rs. 790 overdrawn
   d) Rs. 840 overdrawn

41. Your firm’s bank statement at 31 October, 2006 shows a balance of Rs. 13,400. You subsequently discover that the bank has dishonoured a customer’s cheque for Rs. 300 and has charged bank charges of Rs. 50, neither of which is recorded in your cash book. There are unpresented cheques totaling Rs. 1,400. You further discover that an automatic receipt from a customer of Rs. 195 has been recorded as a credit in your cash book.

   Your cash book balance, prior to correcting the errors and omissions was:
   a) Rs. 11,455
   b) Rs. 11,960
   c) Rs. 12,000
   d) Rs. 12,155

42. Your firm’s cash book shows a credit bank balance of Rs. 1,240 at 30 April, 2006. Upon comparison with the bank statement, you determine that there are unpresented cheques totaling Rs. 450, and a receipt of Rs. 140 which has not yet been passed through the bank account. The bank statement shows bank charges of Rs. 75 which have not been entered in the cash book.

   The balance on the bank statement is:
   a) Rs. 1,005 overdrawn
   b) Rs. 930 overdrawn
   c) Rs. 1,475
   d) Rs. 1,550

43. At 30 April, 2007 the balance in X’s cash book was Rs. 1,740. At the same date the balance on his bank statement was Rs. 2,240. Comparison of the cash book and bank statement showed the following:
   (i) A dividend of Rs. 200 credited to X in the bank statement had not been entered in the cash book;
   (ii) Cheques totaling Rs. 300 sent to suppliers in April had not been entered in the bank statement.

   Which amount should be shown in the balance sheet at 30 April, 2007?
   a) Rs. 1,640
   b) Rs. 1,740
   c) Rs. 1,940
   d) Rs. 2,240
44. A cash book balance at 31st October, 2006 was Rs. 1,600. When the bank statement was received the following were discovered:
   (i) A cheque for Rs. 425 sent to a customer had been entered in the cash book as Rs. 452
   (ii) A cheque for Rs. 375 sent to a customer had not been presented for payment
   (iii) A cheque for Rs. 400 paid into the bank had not been credited in the bank statement.

   What was the balance on the bank statement at 31st October, 2006?
   a) Rs. 1,548  b) Rs. 1,585  c) Rs. 1,602  d) Rs. 1,652

45. Y’s bank statement showed a credit balance of Rs. 2,170 at 31 May, 2007. An examination of the statement showed the following:
   (i) A direct debit for Rs. 300 had been debited twice in the bank statement
   (ii) A cheque for Rs. 1,015 sent to a customer had not been presented for payment
   (iii) A cheque for Rs. 600 paid into the bank had not been credited in the bank statement

   What was the cash book balance at 31st May, 2007?
   a) Rs. 1,455  b) Rs. 2,055  c) Rs. 2,285  d) Rs. 2,885

46. A bank statement at 31st January, 2007 showed a balance of Rs. 1,000 Dr. The following did not appear on the statement:
   (i) Cheques not presented for payment Rs. 230
   (ii) A cheque for Rs. 400 banked on 31st January, 2007
   (iii) Bank charges of Rs. 200 had not been entered in the cash book

   What was the original balance in the cash book at 31st January, 2007 before it was amended?
   a) Rs. 630 Cr.  b) Rs. 630 Dr.  c) Rs. 970 Cr.  d) Rs. 970 Dr.

47. A bank statement showed an overdraft of Rs. 360 at 31 July, 2006. The following discoveries were made:
   (i) Cheques totaling Rs. 2,100 banked in July had not been credited in the bank statement.
   (ii) Cheques drawn for Rs. 875 in the cash book in July had not been entered on the bank statement.

   What was the balance in the cash book at 31 July 2006?
   a) Rs. 865 Cr.  b) Rs. 865 Dr.  c) Rs. 1,585 Cr.  d) Rs. 1,585 Dr.

48. The following bank reconciliation statement has been prepared by a trainee accountant:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdraft as per bank statement</td>
<td>3,860</td>
</tr>
<tr>
<td>Add: Deposits credited after date</td>
<td>16,690</td>
</tr>
<tr>
<td></td>
<td>20,550</td>
</tr>
<tr>
<td>Less: Cheque issued but not</td>
<td>9,160</td>
</tr>
<tr>
<td>presented</td>
<td></td>
</tr>
<tr>
<td></td>
<td>11,390</td>
</tr>
</tbody>
</table>

   What should be the correct balance as per cash book?
   a) Rs. 11,390 overdraft
   b) Rs. 3,670 balance at bank

49. The following bank reconciliation statement has been prepared for X Ltd. by a junior accounts officer:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Overdraft as per bank statement</td>
<td>68,100</td>
</tr>
<tr>
<td>Add: Cheque deposited but not credited</td>
<td>1,41,200</td>
</tr>
<tr>
<td></td>
<td>2,09,300</td>
</tr>
<tr>
<td>Less: Cheque issued but not presented</td>
<td>41,800</td>
</tr>
<tr>
<td>Overdraft as per cash book</td>
<td>1,67,500</td>
</tr>
</tbody>
</table>

   Which of the following should be the correct balance as per cash book?
   a) Rs. 1,67,500 overdraft
   b) Rs. 31,300 overdraft
   c) Rs. 31,300 cash at bank
   d) Rs. 1,14,900 overdraft

50. Listed below are three potential causes of difference between a company’s cash book balance and its bank statement balance:
   (i) Cheque issued before 31 December but not yet presented for payment
   (ii) Bank charges
   (iii) Cheque deposited before 31st December but not yet credited by bank

   Which of the following alternatives correctly analyses these items into those requiring an entry in the cash book and those that would feature in the bank reconciliation statement?

<table>
<thead>
<tr>
<th>Description</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheque issued before 31 December but not yet presented for payment</td>
<td>(i), (ii)</td>
</tr>
<tr>
<td>Bank charges</td>
<td>(i), (iii)</td>
</tr>
<tr>
<td>Cheque deposited before 31 December but not yet credited by bank</td>
<td>(i), (iii)</td>
</tr>
</tbody>
</table>

51. Listed below are three potential causes of difference between a company’s cash book balance and its bank statement balance as at 31st December, 2006:
   1) Interest on overdraft
   2) Cheques paid into bank before 31st December, 2006 but dishonoured by bank
   3) Cheque received and recorded in the cash book but it was not deposited by mistake within 31st December, 2006

   Which of the following alternatives correctly analyses these items into those requiring an entry in the cash book and those that would feature in the bank reconciliation statement?

<table>
<thead>
<tr>
<th>Description</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on overdraft</td>
<td>(1), (2)</td>
</tr>
<tr>
<td>Cheques paid into bank before 31st December, 2006 but dishonoured by bank</td>
<td>(1), (3)</td>
</tr>
<tr>
<td>Cheque received and recorded in the cash book but it was not deposited by mistake within 31st December, 2006</td>
<td>(2), (3)</td>
</tr>
</tbody>
</table>

52. In preparing a company’s bank reconciliation statement at 31st March, 2006, the following items causing the difference between the cash book balance and bank statement balance:
   1) Direct debit Rs. 400
   2) Errors by bank Rs. 1,000 (cheque incorrectly debited to account)
3) Cheque issued by the company and dishonoured Rs. 100

Which of these items will require an entry in the cash book?

a) (1) only  b) (1) & (2)

c) (3) only  d) (1) & (3)

53. In reconciling a business cash book with the bank statement, which of the following items could require a subsequent entry in the cash book?

1) Cheque presented after date
2) A cheque from a customer which was dishonoured
3) Standing order entered in the bank statement

a) (1), (3)  b) (1), (2)

c) (2), (3)  d) (1),(2),(3)

54. Preety is carrying out a reconciliation of the bank account in her general ledger with the balance on her bank statement. She has found the following reasons for the difference between two balances:

(i) Some cheques paid to suppliers have not been presented at the bank
(ii) The bank has made charges on Preety’s account
(iii) A customer has paid Rs. 900 directly into Preety’s bank account

Which of the above items will require an entry in the general ledger?

a) (i) & (ii) only  b) (ii) & (iii) only

c) (i) & (iii) only  d) (i),(ii)&(iii)

55. Which of the following methods of payment is Tariq most likely to use to pay for his weekly food shopping?

a) Standing order  b) direct debit

c) Debit card  d) Bank draft

56. When Nitin checked the entries in his cash book with his bank statement seven cheques with a total value of Rs. 3,259 had not been presented at his bank. Nitin had instructed his bank to cancel two of these cheques but did not make any entries in his cash book. The value of the canceled cheques is Rs. 642. What entry should Nitin make in the bank account in his book to correct his balance?

a) Debit Rs. 642  b) Debit Rs. 2,617

c) Credit Rs. 642  d) Credit Rs.2,617

57. According to Kabir’s records his business bank account is overdrawn by Rs. 26,000, yet the balance shown on his bank statement is only Rs. 12,000. Assuming no errors have been made by kabir or the bank, what could account for this difference?

a) Bank interest of Rs. 14,000 charged by the bank
b) Customer’s cheques totaling Rs. 14,000 paid into bank by Kabir

c) Unpresented cheques posted to suppliers totaling Rs. 14,000

d) Rs. 14,000 increase in the business overdraft facilities

58. You are preparing a clients’ final account. You know that the clients’ accountant has correctly completed a reconciliation of the bank balance as per cash book and bank balance as per bank statement. The balances are:

Cash book balance Rs. 2,358 (credit)
Bank statement balance Rs. 1,053 (debit)

The difference between two balances is explained by unpresented cheques and cheques deposited but not credited.

How should the bank balance be shown in the balance sheet?

a) As a current assets of Rs. 1,053
b) As a current liability of Rs. 1,053

c) As a current assets of Rs. 2,358
d) As a current liability of Rs. 2,358

59. Prakash prepared the following bank reconciliation statement:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as per bank statement</td>
<td>12,548</td>
</tr>
<tr>
<td>(overdrawn)</td>
<td></td>
</tr>
<tr>
<td>Outstanding cheques</td>
<td>3,847</td>
</tr>
<tr>
<td>Cheques deposited but not credited</td>
<td>5,424</td>
</tr>
<tr>
<td>Balance as per cash book</td>
<td>10,971</td>
</tr>
<tr>
<td>(overdrawn)</td>
<td>10,431</td>
</tr>
</tbody>
</table>

What is the correct value of bank overdraft to be reported in the balance sheet?

a) Rs. 12,548  b) Rs. 16,395

c) Rs. 10, 971  d) Rs. 10, 431
### Answers

|   | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. | 15. | 16. | 17. | 18. | 19. | 20. | 21. | 22. | 23. | 24. | 25. | 26. | 27. | 28. | 29. | 30. | 31. | 32. | 33. | 34. | 35. | 36. | 37. | 38. | 39. | 40. | 41. | 42. | 43. | 44. | 45. | 46. | 47. | 48. | 49. | 50. | 51. | 52. | 53. | 54. | 55. | 56. | 57. | 58. | 59. |
|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
|   | d  | d  | b  | a  | b  | c  | 7  | d  | 8  | b  | a  | 10 | c  | 11 | d  | 12 | d  | c  | 14 | c  | 15 | c  | 16 | a  | c  | 18 | d  | 19 | d  | 20 | b  | b  | 22 | c  | 23 | d  | 24 | b  | a  | 26 | c  | 27 | c  | 28 | c  | b  | 30 | b  | 31 | c  | 32 | b  | b  | 34 | b  | 35 | a  | 36 | b  | d  | 38 | a  | 39 | b  | 40 | b  | b  | 42 | a  | 43 | c  | 44 | c  | b  | 46 | a  | 47 | b  | 48 | b  | c  | 50 | d  | 51 | c  | 52 | d  | c  | 54 | b  | 55 | c  | 56 | a  | c  | 58 | d  | 59 | c  |
Inventories

Select the best choice to answer the following questions:

1. At what value is stock stated in a trader’s Balance sheet?
   a) Cost price
   b) Net realizable value
   c) The greater of net realizable value or cost
   d) The lower of net realizable value or cost

2. Which two of the following statements are true?
   (i) In times of inflation, FIFO will give you a higher profit than LIFO
   (ii) In times of inflation, LIFO will give you a higher profit than FIFO
   (iii) FIFO matches revenue with up-to-date costs
   (iv) LIFO matches revenue with up-to-date costs
   a) (i) & (iii)  
   b) (i) & (iv)  
   c) (i) & (iv)  
   d) (ii) & (iv)

3. AS-2 (Inventories) require stock to be valued using acceptable methods. Which of the following is an unacceptable method of valuing stock?
   a) FIFO  
   b) LIFO  
   c) Weighted average  
   d) Specific identification

4. Closing stock is appearing in the balance sheet as
   a) A current liability  
   b) A current asset  
   c) A fixed asset  
   d) a foot note

5. Closing stock is
   a) Debited to Trading Account  
   b) Debited to Profit and loss account  
   c) Credited to trading account  
   d) Credit to profit and loss a/c

6. The periodical inventory system uses
   a) An Inventory Account  
   b) A Stock Account  
   c) A Purchases Account  
   d) Neither inventory account nor purchases A/c

7. In times of inflation, changing from LIFO method is likely to
   a) Have an unpredictable effect on reported profit  
   b) Reduce reported profit  
   c) Have no effect on reported profit  
   d) Increase reported profit

8. A company includes in stock goods received before the year end. But for which invoices are not received until after the year end. This is in accordance with
   a) The consistency concept  
   b) The historical cost convention  
   c) The accrual concept  
   d) Materiality concept

9. When valuing stock at cost, which of the following shows the correct method of arriving at cost?
   a. YES  
   b. NO

10. According to AS-2 (Inventories), which of the following costs should be included in valuing the inventories of a manufacturing company?
   (i) Carriage inwards  
   (ii) Carriage outwards  
   (iii) Depreciation of factory plant  
   (iv) General administrative overheads
   a) All four items  
   b) (i), (ii) & (iv) only  
   c) (i), (iii) and (iv) only  
   d) (i) and (iii) only

11. The following statements relate to raw material pricing:
1) Profit will be lower using FIFO rather than LIFO. 
2) Production cost will be higher using weighted average pricing rather than FIFO.

Are the above statements true or false in a situation where raw material prices are rising consistently over time?

<table>
<thead>
<tr>
<th></th>
<th>Statement 1</th>
<th>Statement 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>False</td>
<td>False</td>
</tr>
<tr>
<td>b</td>
<td>False</td>
<td>True</td>
</tr>
<tr>
<td>c</td>
<td>True</td>
<td>False</td>
</tr>
<tr>
<td>d</td>
<td>True</td>
<td>True</td>
</tr>
</tbody>
</table>

12. Under inflationary situations, ________ method will show highest value of closing stock.
   a) LIFO    b) FIFO
   c) Simple average    d) Weighted average

13. Under _____ method last item purchased is first item sold.
   a) LIFO    b) FIFO
   c) Simple average
   d) Weighted average

14. _____ inventory method is a method where the inventory accounting is kept continuously up to date.
   a) Periodic    b) perpetual
   c) Weighted average (Periodic)
   d) Simple average (periodic)

15. If the closing inventory is understated, the profit of the period will _____
   a) Be overstated    b) Not change
   c) Be understated
   d) None of the above

16. Recording of inventories at the end of the accounting period is_______
   a) An external transaction
   b) A credit transaction
   c) An internal transaction
   d) Not a transaction

17. Under FIFO method, issue of materials are valued____
   a) At cost    b) at market price
   c) At lower of cost and market price
   d) At NRV

18. Inventory account is maintained under _____ inventory system.
   a) Periodical    b) perpetual
   c) Periodical as well as perpetual
   d) None of the above

19. If opening stock is understated, the gross profit will______
   a) Be understated    b) be overstated
   c) Not be affected
   d) Not be affected but net profit will be more

20. Inventory is recorded in the books of account at its ________
   a) Market value
   b) Net realizable value
   c) Cost
   d) None of the above

21. The ultimate objective of accounting for inventories is the proper determination of___
   a) Cost of goods sold    b) Closing stock
   c) Opening stock    d) Profit

22. A company values its inventory using FIFO method. At 1st April, 2006 the company had 700 engines in inventory, valued at Rs. 1,900 each. During the year ended 31st March, 2007 the following transactions took place.
   1.6.2006 Purchased 500 engines @ Rs. 2,200 each
   1.11.2006 Sold 400 engines @ Rs. 2,200 each
   1.2.2007 purchased 300 engines @ Rs. 2,300 each
   11.3.2007 sold 250 engines @ Rs. 5,000 each

   What is the value of the company’s closing inventory of engines at 31st March, 2007?
   a) Rs. 19,55,000    b) Rs. 16,60,000
   c) Rs. 18,85,000    d) Rs. 10,60,000
23. A fire on 30 September, 2006 destroyed some of the company's inventory and its inventory records. The following information is available: (all figures in rupees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory on 1st September, 2006</td>
<td>3,18,000</td>
</tr>
<tr>
<td>Sales for September, 2006</td>
<td>6,12,000</td>
</tr>
<tr>
<td>Purchases for September, 2006</td>
<td>4,12,000</td>
</tr>
<tr>
<td>Inventory in good condition at 30th September, 2006</td>
<td>4,12,000</td>
</tr>
<tr>
<td>Inventory in good condition at 30 September, 2006</td>
<td>2,14,000</td>
</tr>
</tbody>
</table>

Rate of gross profit is 25% on sales. Based on this information, what is the value of inventory lost?

a) Rs. 2,71,000  b) Rs. 96,000  c) Rs. 57,000  d) Rs. 26,400

24. On 30th April, 2007 part of a company’s stock was destroyed by fire. The following information is available: (all figures in Rupees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Stock on 1st April, 2007</td>
<td>1,00,000</td>
</tr>
<tr>
<td>ii. Purchases for April, 2007</td>
<td>2,00,000</td>
</tr>
<tr>
<td>iii. Sale for April, 2007</td>
<td>3,00,000</td>
</tr>
<tr>
<td>iv. Undamaged stock saved</td>
<td>50,000</td>
</tr>
<tr>
<td>v. Gross profit ratio</td>
<td>30%</td>
</tr>
</tbody>
</table>

25. The following information is available from the books of account of Anil, a trader. Purchases were Rs. 8,40,000; sales Rs. 10,00,000; opening stock Rs. 30,000. Anil achieves a mark up of 25%. Value of closing stock is

a) Rs. 40,000  b) Rs. 1,00,000  c) Rs. 70,000  d) Rs. 30,000

26. Based on FIFO (perpetual) method, value of closing stock is

a) Rs. 2,910  b) Rs. 2,915  c) Rs. 2,952  d) Rs. 2,987

27. Based on Weighted Average (periodic) method, value of closing stock is

a) Rs. 2,987  b) Rs. 2,877  c) Rs. 2,952  d) Rs. 2,910

28. Based on FIFO (periodic) method, value of closing stock is

a) Rs. 2,987  b) Rs. 2,952  c) Rs. 2,910  d) Rs. 2,915

29. The value of closing stock on 31st March, 2007 is

a) Rs. 3,85,500  b) Rs. 3,93,900  c) Rs. 3,88,500  d) Rs. 3,70,500

30. Cost of goods sold during March, 2007 is
   a) Rs. 1,60,500  b) Rs. 1,35,500
   c) Rs. 1,17,500  d) Rs. 1,33,000

32. These records were kept for a stock item in May, 2007:
   May 1, 1,000 units in stock @ Rs. 100 each
   May 5, 500 units purchased @ Rs. 100 each
   May 15, 600 units sold
   May 25, 200 units bought @ Rs. 80 each
   May 30, 800 units sold
   The value of stock at May 31 using FIFO is
   a) Rs. 24,000  b) Rs. 30,000
   c) Rs. 16,000  d) Rs. 26,000

33. The following transactions relate to a raw material for a period:
   Day | Transaction | Quantity | Total value (Rs.)
   1   | Balance b/f | 100      | 500
   3   | Issue       | 40       | -
   4   | Receipt     | 50       | 275
   6   | Receipt     | 50       | 300
   7   | Issue       | 70       | -

   The periodic weighted average method is used to price material issues. What is the value of the issue on Day 7?
   a) Rs. 376.25  b) Rs. 382.81
   c) Rs. 402.50  d) Rs. 410.00

34. S Ltd.’s stock was valued at Rs. 1,30,000 and excludes goods supplied to a customer on a
   sale or return basis. The customer has 20 days
   within which to return the stock. The goods on
   sale or return were purchased by S Ltd. for Rs.
   60,000 and were invoiced at a mark-up of
   25%. The value of S Ltd.’s stock should be
   a) Rs. 10,000  b) Rs. 1,90,000
   c) Rs. 2,05,000  d) Rs. 2,10,000

35. X Ltd. has an item in stock which cost Rs.
   10,000 and can be sold for Rs. 12,000.
   However, before it can be sold, it will require to
   be modified at a cost of Rs. 1,500. The
   expected selling expenses of the item are an
   additional Rs. 1,000.

36. Amar restores and sells second hand
   motorcycles. At 31st December, 2006, he had
   one motorcycle in inventory. Details of this
   were:
   Model: Bajaj Boxer
   Details: this item cost Rs. 10,000 and in
   December, 2006 Amar had also spent Rs. 750
   on repairs. He has not yet sold it but is
   confident to sell it in a motorcycle fair in
   February 2007 for at least Rs. 15,000. It will
   cost Amar Rs. 250 to transport motorcycle to
   the fair.
   The value of motorcycle to be included in the
   final account for 2006 is
   a) Rs. 10,000  b) Rs. 15,000
   c) Rs. 10,750  d) Rs. 14,750

37. Amar also holds an inventory of parts, which he
   values on the periodic weighted average basis. During the year 2006 his purchases of parts
   was:
<table>
<thead>
<tr>
<th>Month</th>
<th>Quantity (units)</th>
<th>Cost per unit (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>400</td>
<td>20</td>
</tr>
<tr>
<td>June</td>
<td>500</td>
<td>22</td>
</tr>
<tr>
<td>September</td>
<td>300</td>
<td>24</td>
</tr>
</tbody>
</table>

   At 31st September, 2006 he had 300 units in
   inventory. On 1st January, 2006 he had no
   parts in inventory. The value of inventory of
   parts at 31st December, 2006 is
   a) Rs. 6,600  b) Rs. 6,000
   c) Rs. 7,200  d) Rs. 6,550

38. Following the physical stock taking, the value of
   total stock is Rs. 1,22,357. The auditors find
   the following additional information:
   (i) 370 units of stock which cost Rs. 0.40
       per unit have been valued @ Rs. 4.00
       each
   (ii) The stock value including damaged
       goods at their original cost of Rs. 2,885.
These goods could be sold for Rs. 3,600 after incurring repairing cost of Rs. 921.

The correct value of year end stock is:

a) Rs. 1,20,877  
b) Rs. 1,20,671  
c) Rs. 1,20,819  
d) Rs. 1,21,225

39. The following information is available from the books of account of a trader. Stock which cost Rs. 20,000 can now be replaced for Rs. 14,000. The estimated net realizable value to this stock is Rs. 17,000. It is proposed that the stock should be written down to Rs. 17,000. Give your view:

a) Stock value should remain same, i.e. Rs. 20,000  
b) Stock should be valued at Rs. 14,000  
c) Stock should be written down to Rs. 17,000  
d) Stock can be valued at Rs. 14,000 if certain conditions are satisfied

40. During the stock taking it was found that of the total stock of Rs. 8,35,000, approximately Rs. 93,000 of stock was missing and had been misappropriated. A further Rs. 50,000 of stock was estimated to be obsolete, with very little likelihood of resale. The value of stock should be:

a) Rs. 8,35,000  
b) Rs. 8,78,000  
c) Rs. 7,85,000  
d) Rs. 6,92,000

41. The value of closing stock on 31st March, 2007 is

a) Rs. 10,410  
b) Rs. 10,790  
c) Rs. 11,000  
d) None of the above

42. Value of total issue is

a) Rs. 53,940  
b) Rs. 53,350  
c) Rs. 53,560  
d) None of the above

43. If weighted average (periodical) method would have been used by P Ltd. for pricing the issues, the closing stock on 31st March, 2007 should have been

a) Rs. 11,000  
b) Rs. 10,410  
c) Rs. 10,790  
d) Rs. 10,313

44. X has closing stock which cost Rs. 38,750. This includes some damaged items which cost Rs. 3,660. It will cost X Rs. 450 to repair these he will be able to sell them for Rs. 1,500 after the repairs are completed. What is the correct value of X’s closing stock?

a) Rs. 38,750  
b) Rs. 36,590  
c) Rs. 36,140  
d) Rs. 35,090

45. On 31st March, 2007, inventory code AXN-205 had 1,000 items in inventory. The original cost of this inventory was Rs. 4,600. Alternative valuations were obtained at 31st March, 2007 for this inventory item. Which value should be used in the accounts at 31st March, 2007 as per AS-2?

a) Original cost Rs. 4,600  
b) Replacement cost Rs.3,200  
c) Net realizable value Rs.3,400  
d) Selling price Rs. 5,100
46. On 31\textsuperscript{st} March, 2007, stock consists of 1,500 units of a raw material purchased @ Rs. 8 each, but the unit price of the item has fallen to Rs. 7. The price reduction is apprehended to be permanent. The firm has already decided that if the price reduction lasts longer than six months it will reduce the sale price of the finished goods from Rs. 12 to Rs. 11. The value of closing stock is:
   a) Rs. 16,500  b) Rs. 10,500  
c) Rs. 12,000  d) Rs. 18,000

50. Which of the following inventory valuation method is likely to lead to the highest figure for closing inventory at a time when prices are rising?
   a) Weighted average cost (periodic)  
b) FIFO  
c) Replacement cost  
d) Weighted average cost (perpetual)

51. Which of the following costs may be included when arriving at the cost of finished goods inventory for inclusion in the financial statements of a manufacturing company?
   i) Carriage inwards  
   ii) Carriage outwards  
   iii) Depreciation of factory plant  
   iv) Finished goods storage costs  
   v) Factory supervisor’s salary  
   a) All five  b) (i)&(v) only  
c) All except (iv)  
d) All except (ii) and (iv)

52. At the end of the accounting year 2006, a business has stock of ‘money bags’ and ‘vanity bags’.

<table>
<thead>
<tr>
<th></th>
<th>Money bags</th>
<th>Vanity bags</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number in stock</td>
<td>100</td>
<td>80</td>
</tr>
<tr>
<td>Original purchase</td>
<td>100</td>
<td>120</td>
</tr>
<tr>
<td>price (Rs.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated future</td>
<td>90</td>
<td>150</td>
</tr>
<tr>
<td>selling price per unit (Rs.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated selling</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>expenses per unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Rs.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There value of stock is:
   a) Rs. 19,200  b) Rs. 17,600  
c) Rs. 17,800  d) Rs. 19,600

53. The closing inventory at cost of a company at 31\textsuperscript{st} December, 2006 amounted to Rs. 2,84,700. The following items were included at cost in the total:
   i) 400 T-shirts which had cost Rs. 80 each and normally sold @ Rs. 150 each.
Owing to change in fashion, they were all sold after the Balance Sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(ii) 800 skirts, which had cost Rs. 20 each, because of some manufacturing defect, remedial ork in January 2007 cost Rs. 5 per skirt. They were sold @ Rs. 28 each. Total selling expenses for the batch was Rs. 800

What should be the inventory value according to AS-2 (inventories) after considering the above?

a) Rs. 2,82,800  b) Rs. 2,81,200  c) Rs. 3,29,200  d) None of these

54. At 31 December, 2006 the closing inventory of a company amounted to Rs. 3,86,400. The following items were included in this total at cost.

i) 1,000 items which had cost Rs. 18 each. These items were all sold in January, 2007 @ Rs. 15 each with selling expenses of Rs. 800.

ii) Five items which had been in inventory since 2000, when they were purchased for Rs. 100 each, sold in January, 2007 for Rs. 1,000 each, net of selling expenses.

What figure should appear in the company’s Balance sheet at 31st December, 2006 for inventory?

a) Rs. 3,87,100  b) Rs. 4,00,000  c) Rs. 3,82,600  d) Rs. 3,84,200

55. Raju makes up his annual accounts to 31st December each year. he was unable to take stock of physical inventory till 7th January, 2007 the following transactions took place:

i) Goods cost Rs. 38,400 were received from supplier.

ii) Goods that had cost Rs. 14,800 were sold for Rs. 20,000.

iii) A customer returned some goods which had been sold to him in December for Rs. 600 (cost Rs. 400).

Value of stock on 31st December, 2006 is:

a) Rs. 4,56,900  b) Rs. 5,04,100  c) Rs. 5,06,900  d) Rs. 4,59,700

56. A firm prepares accounts annually up to 31st December and stock taking takes place in the following weekend. In the year 2006, stock taking commenced on 7th January, 2007 when the value of stock on the date was found Rs. 25,000. The following transactions took place between 1st January and 7th January, 2007:

(i) Sales Rs. 1,500  (ii) purchases Rs. 1,000

The rate of gross profit is 20% on sales. In December, goods were sold to a customer on sale or return basis. The sale price was Rs. 1,000. The goods were still returnable by customer on 31st December. The value of stock on 31st December, 2006 is:

a) Rs. 27,000  b) Rs. 26,500  c) Rs. 26,000  d) Rs. 25,200

Answers:

<table>
<thead>
<tr>
<th></th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>c</td>
<td>6.</td>
<td>c</td>
<td>7.</td>
</tr>
<tr>
<td>9.</td>
<td>c</td>
<td>10.</td>
<td>d</td>
<td>11.</td>
</tr>
<tr>
<td>13.</td>
<td>a</td>
<td>14.</td>
<td>b</td>
<td>15.</td>
</tr>
<tr>
<td>17.</td>
<td>a</td>
<td>18.</td>
<td>b</td>
<td>19.</td>
</tr>
<tr>
<td>21.</td>
<td>d</td>
<td>22.</td>
<td>c</td>
<td>23.</td>
</tr>
<tr>
<td>25.</td>
<td>c</td>
<td>26.</td>
<td>c</td>
<td>27.</td>
</tr>
<tr>
<td>29.</td>
<td>c</td>
<td>30.</td>
<td>d</td>
<td>31.</td>
</tr>
<tr>
<td>33.</td>
<td>a</td>
<td>34.</td>
<td>b</td>
<td>35.</td>
</tr>
<tr>
<td>37.</td>
<td>d</td>
<td>38.</td>
<td>c</td>
<td>39.</td>
</tr>
<tr>
<td>41.</td>
<td>b</td>
<td>42.</td>
<td>c</td>
<td>43.</td>
</tr>
<tr>
<td>45.</td>
<td>c</td>
<td>46.</td>
<td>c</td>
<td>47.</td>
</tr>
<tr>
<td>49.</td>
<td>b</td>
<td>50.</td>
<td>c</td>
<td>51.</td>
</tr>
<tr>
<td>53.</td>
<td>b</td>
<td>54.</td>
<td>c</td>
<td>55.</td>
</tr>
</tbody>
</table>
Reserve and Provision

Select the best choice to answer the following questions:

1. Bad debt is
   a) A cash transaction
   b) A credit transaction
   c) An internal transaction
   d) An external transaction

2. Bad debts is
   a) A loss but treated as a loss
   b) An expense but treated as a reserve
   c) Is a provision but treated as a revenue
   d) Is a reserve but treated as a provision

3. Bad debt reduces
   a) Sales and debtors
   b) Debtors and gross profit
   c) Sales and gross profit
   d) Debtors and net profit

4. A bad debts is always
   a) General
   b) specific
   c) Either specific or general
   d) Both specific and general

5. A bad debt
   a) Is an estimate
   b) Never becomes a doubtful debt
   c) Is carried forward to next accounting period
   d) Accounting shows a credit balance

6. A doubtful debt
   a) May become a bad debt
   b) Reduce the book value of debtors
   c) Is treated as a loss
   d) Is always in respect of a particular debtor

7. Which of the following is not true for provision for doubtful debts?
   a) It is shown as a deduction from the book value of debtors
   b) It is for the current as well as future accounting period(s)
   c) It shows the actual value of debtors
   d) It is recorded at the end of the accounting period.

8. A decided to write off a debt due to him from B for goods sold on credit. Which journal entry records this?

<table>
<thead>
<tr>
<th>Account debited</th>
<th>Account credited</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Bad debts</td>
<td>Sales</td>
</tr>
<tr>
<td>b) Bad debts</td>
<td>B</td>
</tr>
<tr>
<td>c) Sales</td>
<td>Bad debts</td>
</tr>
<tr>
<td>d) B</td>
<td>Bad debts</td>
</tr>
</tbody>
</table>

9. Which of the following is true for a reserve?
   a) It is never distributed as profits
   b) It is an accounting entry for an external transaction
   c) It is an appropriation of profit
   d) It is a charge against profit

10. Which of the following appears on the liabilities side of the balance sheet?
    a) Revenue reserve
    b) Specific provision
    c) General provision
    d) Reserve fund investments

11. Which of the following can be specific or general?
    a) Revenue reserve
    b) provision
    c) Reserve fund
    d) capital reserve

12. Which of the following is a provision?
    a) Capital receipts
    b) capital profits
    c) Upward revaluation of fixed assets
    d) Valuation adjustment for fixed assets.

13. Which of the following is represented by earmarking assets?
    a) Reserve fund
    b) reserve
    c) Capital fund
    d) revenue Reserve

14. Which of the following always involves a payment of cash?
    a) Capital reserve
    b) provision
    c) Revenue Reserve
    d) reserve fund
15. Which of the following appears on the assets side of the balance sheet?
   a) Provision for liabilities
   b) Provision for charges
   c) Provision for valuation adjustment of fixed and current assets
   d) Upward revaluation of fixed assets

16. A business creates a provision for doubtful debts. How is this recorded in the ledger?
   a) By crediting the debtor’s A/c
   b) By debiting the debtor’s A/c
   c) By crediting the doubtful debts account
   d) By debiting the doubtful debts account

17. A maintains a bad debt account and a separate provision for doubtful debts account he wishes to write off an amount due from Y that had not been previously provided for. What entry will A make?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Bad debts</td>
<td>Y</td>
</tr>
<tr>
<td>b) Y</td>
<td>Bad debts</td>
</tr>
<tr>
<td>c) Provision for doubtful debts</td>
<td>Y</td>
</tr>
<tr>
<td>d) Y</td>
<td>Provision for doubtful debts</td>
</tr>
</tbody>
</table>
25. Which of the following expenses does not involve any payment of cash?
   a) Wages  b) insurance  
   c) Bad debts   d) general expenses

26. The difference between the opening and closing value of provision for doubtful debts?
   a) Finds a place in the trial balance  
   b) Finds a place in the profit and loss A/c  
   c) Finds a place in the balance sheet  
   d) Is carried forward to next accounting period

27. Which of the following is not true for provision for doubtful debts?
   a) It is shown as a deduction from the book value of debtors  
   b) It is for the current and also for the future accounting period  
   c) It shows the active value of debtors  
   d) It is recorded at the end of the accounting period

28. Provision for discount on debtors is always in respect of?
   a) Trade discount  b) cash discount  
   c) Cash sales  
   d) Both cash and trade discount

29. Provision for discount on debtors is?
   a) The amount of cash discount already allowed  
   b) A form of insurance against possible loss  
   c) A form of charge created for the use of money in advance  
   d) Not calculated after adjusting doubtful debts

30. Which of the following is not true?
   a) Writing off bad debts and recovery of that may fall in two difference accounting periods  
   b) Bad debts is arising from cash sales  
   c) Provision for doubtful debts is shown as a separate figure in the balance sheet  
   d) The full amount of bad debts should be written off to the profit and loss A/c

31. A bad debt is a debt?
   a) Where there is a some hope of getting paid  
   b) Where there is no hope of getting paid  
   c) Which is doubtful  
   d) Where the customer has gone abroad

32. A is owed Rs. 400 by B. A now regards B as a bad debtor. What will be the effect of writing off the bad debt as bad?
   a) No effect on profit, but debtors decrease  
   b) The bank balance goes down and the profits decrease  
   c) Profit decreases, as do current assets  
   d) Profit decreases, but no effect on the balance sheet

33. The creation of a reserve fund involves ______ transactions
   a) One  b) Two  
   c) Three  d) Four

34. A provision is a charge against ______.
   a) Asset  
   b) Liability  
   c) Expense  d) profit

35. A provision can be______.
   a) Specific  
   b) general  
   c) Neither specific nor general  
   d) Specific or general

36. Provision for doubtful debt is a ______ A/c
   a) Real  b) personal  
   c) Valuation  
   d) nominal

37. Bad debts arise for goods sold on______.
   a) Cash  
   b) Credit  
   c) Cash or credit  
   d) Cash as well as Credit

38. A doubtful debt is an anticipated _______ loss
   a) Past  b) present  
   c) Future  
   d) present or future

39. Credit sales create______.
   a) A liability  
   b) a contingent liability  
   c) An expense  
   d) as assets
40. A reserve fund cannot be created without creating a ___________.
   a) Provision  b) provision or reserve
   c) Reserve     d) provision and reserve

41. A specific provision may appear on ______ of the balance sheet.
   a) Either side  b) Asset side
   c) Liabilities side  d) Both side

42. If no provision for doubtful debts is made in the current accounting year, the current profit will be ______.
   a) Overstated  b) understated
   c) Unaffected    d) undermined

43. Creating a provision for doubtful debts shows a more realistic amount of collectible debts at the end of the accounting year. such a practice is in compliance with the_____.
   a) Matching principle  b) Principle of conservatism
   c) Double- entry system  d) Going concern convention

44. The provision for doubtful debts account_______.
   a) Records a sum of money and aside in case the debtors cannot pay
   b) Has a debit balance
   c) Records an amount to be deducted from the debtors in the balance sheet
   d) Records an amount to be debited to the profit and loss account

45. In the trial balance, the provision for doubtful debts is______.
   a) Shown as a debit item
   b) Shown as a credit item
   c) Not shown at all
   d) Sometimes shown as a credit item, sometimes as a debit item

46. If on balance day, the business decided to increase the provision for doubtful debts from Rs. 250 to Rs. 400, the entries in the book would be to_______.
   a) Debit provision for doubtful debts account and credit profit and loss account with Rs. 400
   b) Debit provision for doubtful debts account and credit profit and loss account with Rs. 150
   c) Debit profit and loss account and credit provision for doubtful debts account with Rs. 150
   d) Debit profit and loss account and credit provision for doubtful debts account with Rs. 400

47. At the beginning of the year the balance on the provision for doubtful debts account was Rs. 3,000. At the end of the year it is decided to write off a bad of s. 250 and to have a provision for doubtful debts of Rs. 2,000. What will be the net effect of these decisions on the net profit of the business?
   a) Rs. 750 increase  b) Rs. 1,250 decrease
   c) Rs. 1,750 increase  d) Rs. 2,250 decrease

48. On 1 January 2006, X had a balance on his provision for doubtful debts account of Rs. 600. On 31 December 2006 X's debtors owed Rs. 25,000. He wishes to maintain his provision for doubtful debts at 2% of debtors. what is the entry in the provision for doubtful debts account?
   a) Rs. 100 Credit  b) Rs. 100 Debit
   c) Rs. 500 Credit  d) Rs. 500 Debit

49. On 1 April, 2005, X had a balance on his provision for doubtful debts account of Rs. 6,000. On 31 March, 2006 X’s debtors owed Rs. 2,50,000. He wishes to maintain his provision for doubtful debts at 2% of debtors. what is the entry in the provision for doubtful debts account?
   a) Rs. 1,000 credit  b) Rs. 5,000 credit
   c) Rs. 1000 credit   d) Rs. 5,000 debit

50. A firm has the following balances:
   Debtors at 31.12.2006 Rs. 1,25,400
   Provision for doubtful assets at 1.1.2006 Rs. 1,800
During the year ended 31.12.2006 bad debts of Rs. 20,900 were written off. The firm provides for 5% of debtors at each year end. What is the amount of doubtful debts expense for the year ended 31.12.2006?

a) Rs. 3,445  
b) Rs. 4,470  
c) Rs. 5,245  
d) Rs. 6,270

51. At the end of a financial period, a business has the following balances:
Total debtors balance Rs. 10,620  
Bad debts not yet written off Rs. 260  
Provision for doubtful debts brought forward Rs. 460

a) Decrease the existing provision by Rs. 58  
b) Increase the existing provision by Rs. 58  
c) Decrease the existing provision by Rs. 71  
d) Increase the existing provision by Rs. 71

52. A trial balance at 30.04.2006, before making end of the year adjustments, showed:

<table>
<thead>
<tr>
<th></th>
<th>Dr. (Rs.)</th>
<th>Cr. (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>17,800</td>
<td></td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>580</td>
<td></td>
</tr>
</tbody>
</table>

At 30.4.2006, it was decided to write off a bad debt of Rs. 800 and to make a provision for doubtful debts of 2% of trade debtors. During the year an amount of Rs. 200 was received from a customer relating to a debt that was written off in the year ended 30.6.2005.

What was the total bad and doubtful debts expense for the year ended 30.4.2006?

a) Rs. 360  
b) Rs. 240  
c) Rs. 560  
d) Rs. 1,140

53. A business increases its provision for doubtful debts by Rs. 1,600. What will be the effect of this adjustment on the final accounts?

<table>
<thead>
<tr>
<th>Net profit</th>
<th>Net Debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Decrease by Rs. 1,600</td>
<td>Decrease by Rs. 1,600</td>
</tr>
</tbody>
</table>

54. A business starts its year with Rs. 800 in a provision for doubtful debts. At the end of the year, debtors total Rs. 12,000 of which Rs. 600 are considered doubtful. What is the effect on the final accounts?

a) Rs. 600 is deducted from profit and the balance sheet shows debtors less provision as Rs. 400.  
b) Rs. 1,400 is deducted from profit and the balance sheet shows debtors less provision as Rs. 10,600.  
c) Rs. 800 is added to profit and the balance sheet shows debtors as Rs. 11,400.  
d) Rs. 200 is added to profit and the balance sheet shows debtors less provision as Rs. 11,400

55. The following information is available about a business:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for doubtful debts at 1 April 2005</td>
<td>1,100</td>
</tr>
<tr>
<td>Debtors at 31 March 2006</td>
<td>24,800</td>
</tr>
<tr>
<td>Bad debts included in debtors at 31 March 2006</td>
<td>600</td>
</tr>
<tr>
<td>Charge to profit &amp; loss A/c for bad doubtful debt including bad debt of Rs. 600</td>
<td>1,194</td>
</tr>
</tbody>
</table>

Which percentage was used to calculate the provision for doubtful debts at 31 March, 2006?

a) 6.8  
b) 7  
c) 9.3  
d) 9.5

56. At 31 December, 2005 a business had a provision for doubtful debts at Rs. 1,200. At 31 December, 2006 the provision was adjusted for Rs. 900. How did this affect the final accounts?

<table>
<thead>
<tr>
<th>Net profit</th>
<th>Net debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Decrease Rs. 300</td>
<td>Decrease Rs. 300</td>
</tr>
<tr>
<td>b) Decrease Rs.</td>
<td>Increase Rs. 300</td>
</tr>
</tbody>
</table>
57. Before any end of year adjustments had been made the trial balance of a business at 31 May 2006 included the following:

<table>
<thead>
<tr>
<th></th>
<th>Debit Rs.</th>
<th>Credit Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade debtors</td>
<td>13,400</td>
<td></td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>730</td>
<td></td>
</tr>
</tbody>
</table>

At 31 May 2006 it was found that debtors included a bad debt of Rs. 650. It was decided to adjust the provision for doubtful debts to get 4% of debtors. A debt of Rs. 420, which had been written off as bad in January 2005 was recovered in January 2006. What was the effect of these events on the profit and loss Account for the year ended 31 May, 2006?

a) Credit Rs. 10  
b) Debit Rs. 10  
c) Credit Rs. 36  
d) debit Rs. 36

58. At the beginning of the year the balance of the provision for doubtful debt account was Rs. 3,000. At the end of the year, it is decided to write off a bad debt of Rs. 250 and to have a provision for doubtful debt of Rs. 4,000. What will be the net effect of these decisions on the net profit of the business?

a) Rs. 1,250 decrease  
b) Rs. 1,750 increase  
c) Rs. 750 increase  
d) Rs. 2,250 decrease

59. At 1 April, 2006 X ltd. had a balance for doubtful debts of Rs. 83,000. During the year ended 31 March, 2007 debts totaling Rs. 1,46,000 were written off. At 31 March 2007 it was decided that a doubtful debt balance of Rs. 2,18,000 was required. What figure shoued appear in the company’s profit and loss account for the year ended 31 March, 2007 for bad and doubtful debts?

a) Rs. 64,000  
b) Rs. 11,000

Answers:

<table>
<thead>
<tr>
<th>1. c</th>
<th>2. a</th>
<th>3. d</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. b</td>
<td>5. b</td>
<td>6. a</td>
</tr>
<tr>
<td>7. c</td>
<td>8. b</td>
<td>9. c</td>
</tr>
<tr>
<td>10. a</td>
<td>11. b</td>
<td>12. d</td>
</tr>
<tr>
<td>13. a</td>
<td>14. d</td>
<td>15. c</td>
</tr>
<tr>
<td>16. c</td>
<td>17. a</td>
<td>18. d</td>
</tr>
<tr>
<td>19. b</td>
<td>20. a</td>
<td>21. c</td>
</tr>
<tr>
<td>22. d</td>
<td>23. c</td>
<td>24. d</td>
</tr>
<tr>
<td>25. c</td>
<td>26. b</td>
<td>27. c</td>
</tr>
<tr>
<td>28. b</td>
<td>29. c</td>
<td>30. b</td>
</tr>
<tr>
<td>31. b</td>
<td>32. c</td>
<td>33. b</td>
</tr>
<tr>
<td>34. d</td>
<td>35. d</td>
<td>36. c</td>
</tr>
<tr>
<td>37. b</td>
<td>38. c</td>
<td>39. d</td>
</tr>
<tr>
<td>40. c</td>
<td>41. a</td>
<td>42. a</td>
</tr>
<tr>
<td>43. b</td>
<td>44. c</td>
<td>45. b</td>
</tr>
<tr>
<td>46. c</td>
<td>47. a</td>
<td>48. a</td>
</tr>
<tr>
<td>49. c</td>
<td>50. b</td>
<td>51. b</td>
</tr>
<tr>
<td>52. c</td>
<td>53. a</td>
<td>54. d</td>
</tr>
<tr>
<td>55. b</td>
<td>56. d</td>
<td>57. b</td>
</tr>
<tr>
<td>58. a</td>
<td>59. c</td>
<td>60. d</td>
</tr>
</tbody>
</table>

60. At 1 April, 2006, balance of doubtful debts was Rs. 38,000, which was 5% of the total debtors at that date. At 31 March, 2006 debtors totaled Rs. 8,68,500. It was decided to write off Rs. 28,500 of debts as bad and to keep the same percentage of provision. What should be the change in the profit and loss account for the year ended 31 March, 2007 for bad and doubtful debts?

a) Rs. 33,925  
b) Rs. 70,000  
c) Rs. 42,000  
d) Rs. 32,500  
c) Rs. 2,81,000  
d) Rs. 1,55,000
Final Accounts

Select the best choice to answer the following questions:

1. Current assets include:
   a) Stock, debtors, prepayments
   b) Stock, debtors, accruals
   c) Stock, creditors, prepayments
   d) Stock, creditors, accruals

2. Drawing is shown on the balance sheet as:
   a) An addition to the capital account
   b) A deduction from the capital account
   c) Part of current liabilities
   d) Part of current assets

3. A long-term liability is:
   a) A creditor due for payment within 12 months
   b) A liability where it is not known when it is to be repaid
   c) A creditors due for payment after more than 12 months
   d) The same as an accrual

4. Fixed assets are assets which are:
   a) Likely to last at least a year and are valuable
   b) Not going to be depreciated
   c) Unlikely to last a year
   d) The unsold goods of the business

5. Current assets are assets which:
   a) Keep their value over at least a year
   b) Constantly change their value
   c) Are depreciated
   d) Sometimes change their value

6. Liabilities are usually divided between:
   a) Urgent and non-urgent
   b) Fixed and current
   c) Current and long-term
   d) Medium term and long-term

7. A bank overdraft is usually classified as:
   a) A current asset
   b) A long-term liability
   c) A current liability
   d) Capital

8. Which of the following will not result in a change in capital?
   a) A fixed asset brought by the business for Rs. 10,000
   b) A profit made by the business
   c) A loss made by the business
   d) The owner withdrew Rs. 5,000 from the business

9. Which of these is not an expense?
   a) Carriage inwards
   b) Carriage outward
   c) Discount Received
   d) Discount allowed

10. Relating to the closing stock for an accounting period, which of following is true?
    a) The figure is shown only in the trading account
    b) The figure is shown only in the balance sheet
    c) The figure is shown in the trading account and the balance sheet
    d) The figure is shown as part of purchases in the trading account

11. Depreciation of a delivery van used for carriage inwards and carriage outwards will appear in:
    a) Profit & Loss A/c
    b) Trading A/c
    c) Trading A/c & Profit & Loss A/c
    d) Profit & loss A/c and balance sheet

12. A profit on the disposal of a fixed asset can also be described as:
    a) Over-provision for depreciation on the asset
    b) Increase in fixed assets on the balance sheet
    c) Increase in the bank balance
13. What is the effect of overvaluing closing stock on the current year’s profits?
   a) Decreases the gross profit and net profit
   b) Increases the gross profit but decreases net profit
   c) Decreases the gross profit and increases net profit
   d) Increases the gross profit and net profit

14. Which of the following would appear in a trading account?
   a) Discount allowed
   b) Carriage outward
   c) Carriage inward
   d) Discount received

15. How should a contingent liability be included in a firm’s financial statement if the likelihood of a transfer of economic benefit to settle it is remote?
   a) Disclosed by note with some provisions being made
   b) Disclosed by note with no provision being made
   c) Neither disclosure nor provision is required
   d) Adequate provision is required
   e) Adequate provision should be made

16. Which of the following should be classified as current liabilities?
   (i) Sundry debtors
   (ii) Sales tax payable
   (iii) Sundry creditors
   (iv) Investments
   a) (i) & (ii)  b) (i) & (iv)
   c) (ii) & (iii)  d) (iii) & (iv)

17. Which of the following would be classified as revenue expenditure for a shop?
   (i) Assistant’s wage
   (ii) Trade licence fee paid
   (iii) Purchase of a new shop counter
   (iv) Repainting of the outside of the shop
   a) (i) & (ii)  b) (i) & (iv)
   c) (i) & (iii)  d) (i), (ii) & (iv)

18. Relating to the opening and closing stock for a financial period, which of the following is true?
   a) Both figures are shown in the trading account but only the opening stock is shown in the balance sheet
   b) Only the opening stock is shown in the trading account, but both figures are shown in the balance sheet
   c) Both figures are shown in the trading account but only the closing stock is shown in the balance sheet
   d) Only the closing stock is shown in the trading account, but both figures are shown in the balance sheet

19. Which of the following is capital expenditure?
   a) Cost of installing a new machine
   b) Interest paid on loan borrowed to finance the purchase of a new machine
   c) Cost of replacing parts to maintain the efficiency of a machine
   d) Cost of electricity to run a machine

20. Which of the following is not capital expenditure?
   a) A major overhaul to the motor of a delivery van to extend its useful life
   b) An air-conditioner fixed to a delivery van
   c) Cost of replacing tyres of a delivery van
   d) An extra body is added to a delivery van to increase the carrying capacity

21. Which of the following is not shown in the balance sheet?
   a) Fixed deposit
   b) Opening stock
   c) Mortgage on land
   d) bank overdraft

22. Gross profit is
   a) Sales less purchases
23. Net profit is determined in the
   a) Trial balance   b) balance sheet
   c) Profit & loss A/c   d) Trading A/c

24. Salaries are expenses incurred in making goods into a saleable condition, they should be charged to the
   a) Balance sheet   b) Trading A/c
   c) Profit & Loss A/c   d) Trial balance

25. The accounts of a business have been prepared, but no adjustments have been made for accrued expenses at the end of the year. What effect will these omission have on the accounts?

<table>
<thead>
<tr>
<th>Net profit</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Overstated</td>
<td>No effect</td>
<td>Understated</td>
</tr>
<tr>
<td>b) Understated</td>
<td>No effect</td>
<td>Overstated</td>
</tr>
<tr>
<td>c) Overstated</td>
<td>Understated</td>
<td>No effect</td>
</tr>
<tr>
<td>d) Understated</td>
<td>Overstated</td>
<td>No effect</td>
</tr>
</tbody>
</table>

26. The purchase of an office computer has been debited to Office Expenses instead of to Office Equipment. What effect will this have on the Balance Sheet?

<table>
<thead>
<tr>
<th>Fixed Assets</th>
<th>Profit</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) No effect</td>
<td>Understated</td>
<td>No effect</td>
</tr>
<tr>
<td>b) No effect</td>
<td>Understated</td>
<td>Understated</td>
</tr>
<tr>
<td>c) Understated</td>
<td>No effect</td>
<td>Understated</td>
</tr>
<tr>
<td>d) Understated</td>
<td>Understated</td>
<td>No effect</td>
</tr>
</tbody>
</table>

27. The owner of a business has taken goods for his own use but no entry has been made in the books to record this. What is the effect of this one the Balance sheet?

<table>
<thead>
<tr>
<th>Stock</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) No effect</td>
<td>No effect</td>
</tr>
<tr>
<td>b) No effect</td>
<td>Overstated</td>
</tr>
<tr>
<td>c) Overstated</td>
<td>No effect</td>
</tr>
<tr>
<td>d) Overstated</td>
<td>overstated</td>
</tr>
</tbody>
</table>

28. Which of the following is not shown in the Profit and loss A/c?
   a) Stationery   b) carriage inwards
   c) Annual business registration fee   d) Registration fee for delivery van

29. Net profit is shown on the
   a) Credit side of the balance sheet   b) Credit side of the trading account
   c) Credit side of the profit & loss A/c   d) Creditors side of the capital A/c

30. Accumulated depreciation of a fixed asset is shown as
   a) An expense in the profit and loss A/c   b) A liability in the balance sheet
   c) A deduction of the related fixed asset in the balance sheet   d) An asset in the balance sheet

31. What is the main purpose of a Balance Sheet?
   a) To report the current value of the business   b) To report the personal assets of the business
   c) To report the asset and liabilities of the business   d) To indicate if the business is trading profitably

32. Which of the following is a bank overdraft?
   a) An asset   b) A liability
   c) Revenue   d) Expenses

33. Which of the following statements is incorrect?
   a) Assets= liabilities+ Capital   b) Capital= assets-liabilities
   c) Capital-liabilities=assets   d) Liabilities=assets-capital
34. Which of the following items should be included in the calculation of gross profit?
   a) Carriage outward   b) Carriage inward
   c) Commission to sales manager   d) Discount allowed

35. H is recording the invoice for the purchase of a machinery. As well as the basic cost of the asset, the invoice shows the following items:
   Delivery
   Installation
   Maintenance
Which of the cost should be treated as revenue expenditure?
   a) Delivery only   b) installation only
   c) Maintenance only   d) All of the costs

36. Which of the following correctly calculates cost of sales?
   a) Purchases+opening inventory+closing inventory
   b) Purchase- opening inventory+closing inventory
   c) Purchases-opening inventory-closing inventory
   d) Purchases+ opening inventory-closing inventory

37. Which of the following items should be included in current assets?
   (i) Assets which are not intended to be converted into cash
   (ii) Assets which will be converted into cash in the long run
   (iii) Assets which will be converted into cash in the near future
   a) None   b) (i) only   c) (ii) only   d) (iii) only

38. Ramesh made a mistake in his calculations which resulted in the value of his closing stock at 31st March, 2006 being overstated by Rs. 900. The value was calculated correctly at 31st March, 2007. What was the effect of the error on the profit reported in Ramesh accounts of the two years?

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Overstated by</td>
<td>Not affected</td>
</tr>
<tr>
<td>b)</td>
<td>Overstated by</td>
<td>Understated by</td>
</tr>
<tr>
<td>c)</td>
<td>Understated by</td>
<td>Not affected</td>
</tr>
<tr>
<td>d)</td>
<td>Understated by</td>
<td>Overstated by</td>
</tr>
</tbody>
</table>

39. To what does the term ‘mark-up’ refer?
   a) Gross profit expressed as a percentage of selling price
   b) Gross profit expressed as a percentage of cost price
   c) Net profit expressed as a percentage of selling price
   d) Net profit expressed as a percentage of cost price

40. Where does net profit appear in the final accounts of a business?

<table>
<thead>
<tr>
<th></th>
<th>Trading A/c</th>
<th>Profit &amp; loss A/c</th>
<th>Balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>b. Yes</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>c. No</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>d. No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

41. If expenses owing are not taken into account at the end of the accounting period_______
   a) Profit will be unaffected
   b) Profit will be overstated
   c) Profit will be understated
   d) Assets will be affected

42. If revenues accrued are not adjusted at the end of the accounting period_______
   a) Profit will be unaffected
   b) Profit will be overstated
   c) Profit will be understated
   d) Liabilities will be affected

43. If the closing stock is appearing in the trial balance, it is shown in the _______
   a) Trading account only
44. Outstanding expenses is an item of_____
   a) Current assets 
   b) Non-current assets 
   c) Current liabilities 
   d) Non-current liabilities

45. Total sales during the year is Rs. 16,75,800. All sales were at a mark up of 20%. The cost of sales for the year is_____
   a) Rs. 2,79,300  
   b) Rs. 3,35,160 
   c) Rs. 13,40,064  
   d) Rs. 13,96,500

46. At the beginning of the financial year, Laxman had a prepayment of Rs. 4,900 for telephone expenses. During the year, he paid telephone bills with a total value of Rs. 45,690. At the end of the year he had outstanding expenses of Rs. 2,700. The telephone expenses for the year should be charged to Profit and Loss A/c is_____.
   a) Rs. 38,090  
   b) Rs. 43,490 
   c) Rs. 47,890  
   d) Rs. 53,290

47. At the beginning of the year a business had net assets of Rs. 89,548. During the year the owner withdrew Rs. 17,500. At the end of the year, the net assets had a value of Rs. 95,574. The profit for the year was_____
   a) Rs. 6,026  
   b) Rs. 11,479 
   c) Rs. 17,500  
   d) Rs. 23,526

48. The annual insurance premium of B for the period 1st July, 2006 to 30 June 2007 is Rs. 13,200, which is 10% more than the previous year. Insurance premiums are paid on 1 July. The amount to be charged to profit and loss account for insurance for the year ended 31st December, 2006 is_____
   a) Rs. 11,800  
   b) Rs. 12,540 
   c) Rs. 12,600  
   d) Rs. 13,200

49. Just before his year end, Kamal received a claim for Rs. 30,000 following an accident caused by one of his lorries. He accepted liability and offered to pay Rs. 15,000. His offer was rejected and legal proceedings were started. His legal advisor told him that when the claim goes to court he will be required to pay Rs. 20,000. The amount should be provided in his year end accounts is_____
   a) Nil  
   b) Rs. 15,000 
   c) Rs. 20,000  
   d) Rs. 30,000

50. In the year to 31st March, 2007 Shyam received Rs. 2,98,600 from his customers. At 31st March, 2007 he was still owed Rs. 1,58,650. A year earlier he was owed Rs. 1,65,280. The amount of sales for the year to 31st March, 2007 was_____
   a) Rs. 2,91,970  
   b) Rs. 2,98,600 
   c) Rs. 3,05,230  
   d) Rs. 4,57,250

51. The following figures have been extracted from a trader’s records concerning wages:
   (i) Employees PP contribution Rs. 678 
   (ii) Gross basic wages Rs. 9,900 
   (iii) Income tax deducted Rs.2,000 
   (iv) Employer’s PF contribution Rs. 925

52. Details of a firm’s insurance premium are shown below:
   (i) Premium for year ended 31st March 2006 paid in April 2005- Rs. 10,800  
   (ii) Premium for year ended 31st March 2007 paid in April 2006- Rs. 12,000 
   The amount of premium to be charged to profit and loss account for the year ended 30 June 2006 is_____
   a) Rs. 11,100  
   b) Rs. 11,700 
   c) Rs. 10,800  
   d) Rs. 12,000

53. In October, 2006 X paid Rs. 78,000 for the four months from 1 November, 2006. What should be shown on X’s Balance Sheet at 31st December, 2006?
a) Outstanding rent of Rs. 39,000  
b) Outstanding rent of Rs. 19,500  
c) Prepaid rent of Rs. 39,000  
d) Prepaid rent of Rs. 19,500

54. At 31st December, 2006 the balance on C’s debtors ledger is Rs. 37,890. C has decided to write off balances totaling Rs. 1,570. He wants to maintain 2.5% provision for doubtful debts.

What is the value of sundry debtors which should be shown in C’s Balance sheet at 31st December, 2006?

a) Rs. 37,142  b) Rs. 36,400  c) Rs. 35,642  d) Rs. 35,412

55. When Rakesh prepared his draft accounts, he included Rs. 14,000 as outstanding rent for two months. However, he should have provided for only one month’s rent.

How will Rakesh’s current liabilities be affected when he adjusts the outstanding rent?

a) Increased by Rs. 7,000  b) Reduced by Rs. 7,000  c) Increased by Rs. 14,000  d) Reduced by Rs. 14,000

56. When Neelam prepared her draft accounts, she included her closing stock at a value of Rs. 21,270. She has just found out that some items valued at Rs. 2,150 had not been included in the calculation.

How will net profit and net assets be affected when the closing value is corrected?

<table>
<thead>
<tr>
<th>Net profit</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Reduced by Rs. 2,150</td>
<td>Reduced by Rs. 2,150</td>
</tr>
<tr>
<td>b) Reduced by Rs. 2,150</td>
<td>Increased by Rs. 2,150</td>
</tr>
<tr>
<td>c) Increased by Rs. 2,150</td>
<td>Reduced by Rs. 2,150</td>
</tr>
<tr>
<td>d) Increased by Rs. 2,150</td>
<td>Increased by Rs. 2,150</td>
</tr>
</tbody>
</table>

57. At 31st March, 2007 Z had an outstanding balance of Rs. 24,000 on his bank loan account. The terms of the loan require him to pay Rs. 400 on the first day of each month.

How should the loan be shown in Z’s Balance Sheet at 31st March, 2007?

<table>
<thead>
<tr>
<th>Current liability</th>
<th>Non-current liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Nil</td>
<td>Rs. 24,000</td>
</tr>
<tr>
<td>b) Rs. 24,000</td>
<td>Nil</td>
</tr>
<tr>
<td>c) Rs. 4,800</td>
<td>Rs. 19,200</td>
</tr>
<tr>
<td>d) Rs. 19,200</td>
<td>Rs. 4,800</td>
</tr>
</tbody>
</table>

58. Robin allows customer to return faulty goods with, 548 for sales returns. At 31st in 14 days of purchase. At 31st December, 2005 he made a provision of Rs. 6,548 for sales returns. At 31st December, 2006 he expected that the provision should be Rs. 7,634.

What should be shown in the Profit and loss A/c of Robin for the year ended on 31st December, 2006 in respect of the provision?

a) A change of Rs. 7,634  b) A change of Rs. 1,086  c) A credit of Rs. 7,634  d) A credit of Rs. 1,086

59. What entries should be made in a sole trader’s capital A/c to record a loss for the period and drawings?

<table>
<thead>
<tr>
<th>Loss</th>
<th>Drawings</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>b) Credit</td>
<td>Debit</td>
</tr>
<tr>
<td>c) Debit</td>
<td>Debit</td>
</tr>
<tr>
<td>d) Credit</td>
<td>Credit</td>
</tr>
</tbody>
</table>

60. In the year to 31st December, 2006 Kabir paid Rs. 17,650 for electricity. At 1st January, 2006 he had an accrual of Rs. 2,640 for electricity. At 31st December, 2006 the accrual was Rs. 3,120.

How much to be charged to Profit & Loss A/c for the year ended on 31st December, 2006 in respect of electricity?

a) Rs. 11,890  b) Rs. 23,410  c) Rs. 17,170  d) Rs. 18,130
61. Shiva is preparing his final accounts for the year to 31st March, 2007. The last payment Shiva made for electricity was in February 2007 when he paid Rs. 3,270 for the three months to 31st January 2007. What adjustments does Shiva need to make when preparing his final accounts for the year to 31 March, 2007?

a) A prepayment of Rs. 1,090
b) An accrual of Rs. 1,090
c) A prepayment of Rs. 2,180
d) An accrual of Rs. 2,180

62. In the year to 31st March, 2006 K’s sales were Rs. 1,82,000. All of his sales were made at a mark up of 30%. His opening stock was Rs. 11,800 and closing stock was Rs. 9,700. What is the amount of purchase in the year to 31st March, 2007?

a) Rs. 1,40,000  b) Rs.1,37,900  c) Rs. 1,42,100  d) Rs. 1,25,300

63. The following information has been extracted from a Balance Sheet at 31st December, 2006:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Working capital</td>
<td>30,000</td>
</tr>
<tr>
<td>Long term loan</td>
<td>20,000</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>35,000</td>
</tr>
<tr>
<td>Drawings</td>
<td>25,000</td>
</tr>
</tbody>
</table>

What was the balance on capital account at 31st December, 2006?

a) Rs. 3,00,000  b) Rs. 3,20,000  c) Rs. 3,40,000  d) Rs. 3,50,000

64. On 1.6.2006 A Ltd. pays a rent bill of Rs. 90,000 for the period to 31.5.2007. What are the charges to the profit and loss A/c and the entry in the balance sheet for the year ended 31.12.2006?

a) Rs. 52,500 charge to profit and loss A/c and prepayment of Rs. 37,500 in the balance sheet
b) Rs. 52,500 charge to profit and loss A/c and accrual of Rs. 3,750
c) Rs. 90,000 charge to profit & loss A/c and Nil in the balance sheet
d) Rs. 37,500 charge to profit and loss A/c and prepayment Rs. 52,500 in the balance sheet

65. A machine is bought for Rs. 18,000, plus Rs. 3,000 installation costs. It is to be depreciated on a reducing balance basis using a rate of 60% p.a. What is the depreciation to be charged in the second year of the asset’s ownership?

a) Rs. 12,600  b) Rs.4,320  c) Rs. 5,040  d) Rs. 8,400

66. X’s draft accounts for the year to 31st December, 2006 report a loss of Rs. 1,486. When he prepared the accounts, X did not include an outstanding expenses of Rs. 1,625 and a prepayment of Rs. 834. What is X’s profit or loss for the year to 31st December, 2006 following the inclusion of the outstanding and prepayment?

a) A loss of Rs. 695  b) A loss of Rs. 2,277  c) A loss of Rs. 3,945  d) A profit of Rs. 1,807

67. A trial balance at 31st December, 2006 includes the following balances:

- Sundry debtors Rs. 75,943
- Provision for bad debts Rs. 4,751

How should these balances be shown in the Balance sheet as at 31st December, 2006?

a) A asset of Rs. 71,192  b) An asset of Rs. 75,943 and a liability of Rs. 4,751  c) A liability of Rs. 71,192  d) A liability of Rs. 75,943 and an asset of Rs. 4,751

68. Ram, who is a sole trader, made a profit of Rs. 22,860 in the year to 31st March, 2007. During the year his drawings were Rs. 16,890. On 1st April, 2006 the balance of his capital account was Rs. 68,920.
What is the balance on Ram’s capital account at 31st March, 2007?

a) Rs. 29,170  b) Rs. 62,950  
c) Rs. 74,890  d) Rs. 1,08,670

69. At the beginning of its year, a firm had brought forward a debit balance of Rs. 3,000 on rent account. During the year, the firm paid rent of Rs. 15,000 and carried forward a credit balance of Rs. 2,000. The amount charged to Profit & Loss A/c for rent was

a) Rs. 20,000  b) Rs. 18,000  
c) Rs. 17,000  d) Rs. 15,000

70. If a business has paid gas bills totaling Rs. 34,000 during a financial period but owes Rs. 3,000 for gas by the end of the period, what will be the opening balance in the gas account at the start of the following period?

a) Rs. 37,000 Cr.  b) Rs. 3,000 Dr.  
c) Rs. 31,000 Dr.  d) Rs. 3,000 Cr.

71. If the capital at the end of the accounting period is Rs. 50,000, the net profit for the year is Rs. 15,000 and drawing is Rs. 3,000, what is the capital at the beginning of the period?

a) Rs. 38,000  b) Rs. 62,000  
c) Rs. 32,000  d) Rs. 47,000

72. If sales revenues are Rs. 1,29,000, cost of goods sold is Rs. 1,15,000 and the operating expenses are Rs. 10,000, the gross profit is

a) Rs. 4,000  b) Rs. 14,000  
c) Rs. 24,000  d) Rs. 1,19,000

73. At 31st March, 2006, an electricity ledger account had an accrual of Rs. 3,000 and a credit balance was brought down at 1st April, 2006. During the financial year, electricity invoices totaling Rs. 40,000 were paid, including an invoice of Rs. 6,000 for the quarter ended 27 February, 2007.

What is the profit and loss A/c charge for electricity for the year ended 31st March, 2007?

a) Rs. 37,000  b) Rs. 39,000  
c) Rs. 40,000  d) Rs. 41,000

74. If other incomes received for the year are Rs. 15,000, operating expenses are Rs. 50,000 and the net profit is Rs. 35,000, the gross profit is

a) Rs. 85,000  b) Rs. 50,000  
c) Rs. 70,000  d) Rs. 1,00,000

75. The following information has been extracted from the trial balance of a business:

<table>
<thead>
<tr>
<th>Gross Profit</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Understated by Rs. 1,000</td>
<td>Understated by Rs. 1,000</td>
</tr>
<tr>
<td>b) Overstated by Rs. 1,000</td>
<td>Overstated by Rs. 1,000</td>
</tr>
<tr>
<td>c) Understated by Rs. 1,000</td>
<td>Not affected</td>
</tr>
<tr>
<td>d) Overstated by Rs. 1,000</td>
<td>Not affected</td>
</tr>
</tbody>
</table>

77. Discount received amount to Rs. 10,500 and discount allowed to Rs. 13,000. The discount received has been debited and the discount allowed have been credited in the Profit & Loss A/c.
What has been the effect of these errors on net profit?
- Understated by Rs. 2,500
- Overstated by Rs. 2,500
- Understated by Rs. 5,000
- Overstated by Rs. 5,000

78. Carriage inwards in a trial balance is Rs. 2,300. It has been entered in the trading account as Rs. 3,200. In addition, motor expenses of Rs. 600 have been posted to the motor vans account. What effect has this had on the trading and profit and loss account?

<table>
<thead>
<tr>
<th>Gross profit</th>
<th>Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Understated by Rs. 900</td>
<td>Understate by Rs. 300</td>
</tr>
<tr>
<td>b) Overstated by Rs. 900</td>
<td>Overstated by Rs. 300</td>
</tr>
<tr>
<td>c) Understated by Rs. 900</td>
<td>Understated by Rs. 1,500</td>
</tr>
<tr>
<td>d) Overstated by Rs. 900</td>
<td>Understated by Rs. 1,500</td>
</tr>
</tbody>
</table>

79. The following information relates to stationery:
- Stock at the beginning of the year Rs. 200
- Stock at the end of the year Rs. 150
- Stationery bought during the year Rs. 500
Based on the above information, stationery to be recorded in the profit and loss account should be
- Rs. 200
- Rs. 500
- Rs. 150
- Rs. 550

80. The trial balance shows provision for doubtful debts Rs. 300 and debtors Rs. 9,000. Assuming that provision for doubtful debts is 5% of the debtors, the amount to be recorded in the profit and loss account is
- Rs. 750 (Dr.)
- Rs. 300 (Dr.)
- Rs. 450 (Dr.)
- Rs. 150 (Dr.)

82. A trader prepares his accounts annually to 30th April. He pays annual rent of Rs. 12,000 and makes the payments quarterly in advance on January 1, April 1, July 1 and October 1. Which amount should be included in his accounts for the year ended 30 April, 2004?
- Rs. 1,000 accrual
- Rs. 1,000 prepayment
- Rs. 2,000 accrual
- Rs. 2,000 prepayment

83. A trader commenced business on 1st February, 2006. He paid rent on his premises as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Period</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Feb, 2006</td>
<td>1 Feb-31 Mar</td>
<td>1,200</td>
</tr>
<tr>
<td>1 April 2006</td>
<td>1 Apr-30 Jun</td>
<td>1,800</td>
</tr>
<tr>
<td>1 Jul 2006</td>
<td>1 July-30 Sept</td>
<td>1,800</td>
</tr>
<tr>
<td>1 Oct 2006</td>
<td>1 Oct-31 Dec</td>
<td>2,100</td>
</tr>
<tr>
<td>1 Jan 2007</td>
<td>1 Jan-31 Mar</td>
<td>2,100</td>
</tr>
</tbody>
</table>
Which amount for rent should be shown in the profit and loss A/c for the year ended 31 January, 2007?
- Rs. 6,900
- Rs. 7,600
- Rs. 7,800
- Rs. 9,000

84. A business has an accounting year that ends on 30 September. Its insurance premiums are paid in advance on 1st July each year. Premiums have been paid in the past three years as follows:
- Year 1 Rs. 1,800
- Year 2 Rs. 2,000
- Year 3 Rs. 2,400
How much will be debited in the Profit and Loss A/c for insurance in year 3?
- Rs. 2,000
- Rs. 2,100
- Rs. 2,300
- Rs. 2,400
85. At 31st March, 2006 a firm’s balance of provision for bad debts was Rs. 39,000. At 31st March, 2007 Sundry Debtors totaled Rs. 5,17,000. It was decided to write off debts totaling Rs. 37,000 and to adjust the provision for bad debts to the equivalent of 5% of the sundry debtors based on past events.

What figure should appear in the profit and loss A/c for the year ended on 31st March, 2007 for these items?

a) Rs. 23,850  
b) Rs. 24,000  
c) Rs. 22,000  
d) Rs. 61,000

86. At the time of rising prices, what effect does the use of the historical cost concept have on a company’s asset values and profit?

a) Both asset values and profit understated  
b) Both asset values & profit overstated  
c) Asset values understated and profit understated  
d) Asset values overstated and profit understated

87. The inventory value for the financial statement of X for the year ended 31st March, 2007 was based on an inventory count on 4 April, 2007, which gave a total inventory value of Rs. 8,36,200. Between 31 March and 4 April, 2007, the following transactions took place:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase goods</td>
<td>8,600</td>
</tr>
<tr>
<td>Sales of goods (profit margin 30% on sales)</td>
<td>14,000</td>
</tr>
<tr>
<td>Goods returned by X to supplier</td>
<td>700</td>
</tr>
</tbody>
</table>

What adjusted figure should be included in the financial statements for inventories at 31st March, 2007?

a) Rs. 8,38,100  
b) Rs. 8,53,900  
c) Rs. 8,18,500  
d) Rs. 8,34,500

88. 1st April, 2006, K owed Rs. 2,87,540 to his suppliers. During the year he paid his suppliers a total of Rs. 18,58,440. At 31st March, 2007 he owed Rs. 2,61,890.

What was K’s credit purchases for the year to 31st March, 2007?

a) Rs. 24,07,870  
b) Rs. 18,84,090  
c) Rs. 13,09,010  
d) Rs. 18,32,790

89. You are given the following information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>50,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>12,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>42,000</td>
</tr>
<tr>
<td>Opening stock</td>
<td>13,000</td>
</tr>
<tr>
<td>Returns inwards</td>
<td>300</td>
</tr>
</tbody>
</table>

The value of the closing stock would be

a) Rs. 54,700  
b) Rs. 38,000  
c) Rs. 17,300  
d) Rs. 21,000

90. On 1st September, 2006 Laxman took out a business development loan from HDFC Bank of Rs. 3,00,000. This loan is to be repaid in 10 equal six monthly instalments. Laxman made the first repayment of Rs. 30,000 on 1st March, 2007.

How should outstanding balance of Rs. 2,70,000 be shown in the balance sheet of Laxman as at 31st March, 2007?

a) A change of Rs. 2,000  
b) A credit of Rs. 2,000  
c) A credit of Rs. 500  
d) A change of Rs. 500

91. On 1st September, 2006 Laxman took out a business development loan from HDFC Bank of Rs. 3,00,000. This loan is to be repaid in 10 equal six monthly instalments. Laxman made the first repayment of Rs. 30,000 on 1st March, 2007.

How should outstanding balance of Rs. 2,70,000 be shown in the balance sheet of Laxman as at 31st March, 2007?

<table>
<thead>
<tr>
<th>Current liability</th>
<th>Non-current liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Nil</td>
<td>Rs. 2,70,000</td>
</tr>
<tr>
<td>b) Rs. 60,000</td>
<td>Rs. 2,10,000</td>
</tr>
<tr>
<td>c) Rs. 2,10,000</td>
<td>Rs. 60,000</td>
</tr>
<tr>
<td>d) Rs. 2,70,000</td>
<td>Nil</td>
</tr>
</tbody>
</table>
92. At 31 December, 2006 the following require inclusion in a firm’s balance sheet. On 1st January, 2006 the firm made a loan of Rs. 12,000 to an employee, repayable on 1st January, 2007, along with interest @ 6% p.a. On due date the loan was paid along with interest. How much will be shown as current asset in the Balance Sheet at 31st December, 2006?

a) Nil  b) Rs. 12,000  c) Rs. 720  d) Rs. 12,720

93. A firm receives rent from a large number of properties. Total rent received in the year ended 31st March, 2007 was Rs. 4,81,200. The following were the amounts of rent in advance and in arrear at 31st March, 2006 and 2007:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent received in</td>
<td>28,700</td>
<td>31,200</td>
</tr>
<tr>
<td>advance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent in arrear (all</td>
<td>21,200</td>
<td>18,400</td>
</tr>
<tr>
<td>subsequently received)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What amt of rental income should be credited to the profit and loss A/c for the year ended 31st March, 2007?

a) Rs. 4,86,500  b) Rs. 5,01,500  c) Rs. 4,75,900  d) Rs. 4,60,900

94. Samir prepares its financial statements for the year to 31 March every year. He pays rent for its premises quarterly in advance on 1 December, 1 March, 1 June and 1 September, each year. The annual rent was Rs. 84,000 per year until 31 May, 2006. It was increased from that date to Rs. 96,000 per year. What rent expenses and end if year prepayment should be included in the financial statements for the year 31 March, 2007?

<table>
<thead>
<tr>
<th></th>
<th>Expenses (Rs.)</th>
<th>Prepayment (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>93,000</td>
<td>16,000</td>
</tr>
<tr>
<td>b)</td>
<td>93,000</td>
<td>8,000</td>
</tr>
<tr>
<td>c)</td>
<td>94,000</td>
<td>16,000</td>
</tr>
<tr>
<td>d)</td>
<td>94,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

95. At 31 December, 2006 the following should be included in a firm’s financial statements.

(i) The firm has paid yearly insurance premium of Rs. 9,000 in 2006, covering the period up to 31 August, 2007.

(ii) In January, 2007, the firm received rent from a tenant Rs. 4,000 covering 6 months to 31 December, 2006?

For these items, what total figures should be included in the company’s Balance sheet at 31 December, 2006?

<table>
<thead>
<tr>
<th></th>
<th>Current Assets (Rs.)</th>
<th>Current Liabilities (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>4,000</td>
<td>9,000</td>
</tr>
<tr>
<td>b)</td>
<td>6,000</td>
<td>Nil</td>
</tr>
<tr>
<td>c)</td>
<td>10,000</td>
<td>Nil</td>
</tr>
<tr>
<td>d)</td>
<td>6,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>

96. X is currently defending two legal actions.

a. A competitor is suing X for Rs. 10,000, for violation of copyright. X’s lawyer are contesting the claim and have advised X that competitor’s case is very weak and there is very little chance of X losing.

b. A customer is suing for Rs. 1,00,000, claiming that X’s ‘sunguard’ product damaged their skin and gave no protection from the sun. X’s lawyers are contesting this claim but have advised X that the claim is almost certain to succeed. How much should X provide in its year end accounts for these legal claims?

a) Nil  b) Rs. 10,000  c) Rs. 1,10,000  d) Rs. 1,00,000

97. The following information is available from the books of account of a firm.

(i) The general manager is to be given commission of 10% after charging commission of works manager and his own on net profits.
(ii) The works manager is to be given commission of 5% after charging commission of general manager and his own on net profit.

(iii) Net profit before charging commission = Rs. 82,960. Note: All commission shall be calculated to the nearest multiple of a rupee.

a) Rs. 7,542; Rs. 3,591
b) Rs. 8,296; Rs. 3,733
c) Rs. 3,607; Rs. 7,214
d) Rs. 7,214; Rs. 3,607

Answer Question Nos. 98, 99 & 100 from the following information:

(i) Furniture appearing in the Trial Balance of X as on 31 December, 2006 at Rs. 56,000.

(ii) Rate of depreciation 10% p.a.

(iii) Furniture appearing in the books on 1.1.2006 at Rs. 16,000 was disposed of on 30.6.2006 at Rs. 13,500 in part exchange of a new furniture costing Rs. 15,000. The net invoice for Rs. 1,500 was passed through purchases Day Book.

98. Loss on exchange is:
   a) Rs. 1,500  b) Rs. 2,500
c) Rs. 1,700  d) Rs. 900

99. Total depreciation is to be charged to Profit and loss Account of 2006:
   a) Rs. 4,750  b) Rs. 5,550
c) Rs. 7,100  d) Rs. 6,250

100. Book value of furniture on 31 December, 2006:
   a) Rs. 55,000  b) Rs. 57,500
c) Rs. 50,250  d) Rs. 49, 4
Select the best choice to answer the following questions:

1. Which of the following statement is/are correct?
   (i) A separate suspense account should be opened for each error in the ledger
   (ii) A suspense account is sometimes opened to complete posting while more information is sought on a transaction
   a) Neither (i) nor (ii)   b) (i) only 
   c) (ii) only   d) (i)&(ii)

2. A purchase on credit Rs. 5,000 from X was credited in error to Y’s ledger account. Which journal entry correct this error?
   a) Debit Y, credit X Rs. 5,000
   b) Debit X, Credit Y Rs. 5,000
   c) Debit suspense, credit X Rs. 5,000
   d) Debit Y, credit suspense Rs. 5,000

3. In the year to 31st 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 30st March, 2007 and the value of her assets at that date?
   a) Overstated   b) Understated
   c) Overstated   d) Understated

4. 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?
   a) Office cleaning expenses and cash only
   b) Office cleaning expenses and creditors only
   c) Cash and creditors only
   d) Office cleaning expenses, cash and creditors

5. A repair bill of a private car has been included as a business expenses. The journal entry required to correct the error is:
   a) Debit Motor car account, Credit Capital A/c
   b) Debit Capital Account, Credit Motor car A/c
   c) Debit Drawings A/c, Credit Motor running expenses A/c
   d) Debit Motor running expenses A/c, Credit Motor car A/c

6. 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?
   a) Overstated   b) Understated
   c) Overstated   d) Understated

7. 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?
<table>
<thead>
<tr>
<th>Net profit</th>
<th>Net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>b. Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>c. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>d. Increase</td>
<td>Increase</td>
</tr>
</tbody>
</table>

8. Which of the following is not true?
   a) An error that does not affect the trial balance is not corrected through the suspense account
   b) The first entry in a suspense account is the difference on a trial balance
   c) Errors of principle are not usually disclosed by the trial balance
   d) No double entry is passed for suspense account

9. At the end of the year it was discovered that sales had been overstated by Rs. 70. A Suspense account had been opened:
   Which entries will correct this error?
<table>
<thead>
<tr>
<th>Account debited</th>
<th>Account credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Sales</td>
<td>Debtors</td>
</tr>
<tr>
<td>b. Sales</td>
<td>Suspense</td>
</tr>
<tr>
<td>c. Debtors</td>
<td>Sales</td>
</tr>
<tr>
<td>d. Suspense</td>
<td>Sales</td>
</tr>
</tbody>
</table>

10. After which error will a trial balance still balance?
    a) A rent payment of Rs. 150 was entered correctly in the bank account but debited to the rent account as Rs. 250
    b) Discount received Rs. 378 was debited to the discount allowed account
    c) Sales of Rs. 230 were entered in the sales journal as Rs. 320
    d) The purchase journal was overcast by Rs. 100

11. A book keeper mistakenly treats a revenue expenditure item as capital expenditure.
    What is the effect of this error?
    a) Gross profit is overstated
    b) Net profit is understated
    c) Total assets are overstated
    d) Total assets are understated

12. A transport business owned by a sole proprietor purchases a motor vehicle. This is charged to the motor vehicles running costs account.
    a) Fixed assets understated and current assets understated
    b) Fixed assets overstated and current assets overstated
    c) Fixed assets overstated and capital overstated
    d) Fixed assets understated and capital understated

13. Which of the following errors would be found by extracting a trial balance?
    a) A transaction has been completely missed in the accounts
    b) The double entries have been made the wrong way round
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 vehicle expenses has 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) 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 understated
   The impact of this on the report net profit for the year ending on 31st 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.
25. A company’s profit and loss account for the year ended 31st 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 31st March, 2007. The following errors were detected:

(i) Insurance of Rs. 500 prepaid on 31st 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 31st 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. 75,591. 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?

<table>
<thead>
<tr>
<th>Net profit</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. 25,202</td>
<td>75,591</td>
</tr>
<tr>
<td>b. 25,202</td>
<td>76,091</td>
</tr>
<tr>
<td>c. 24,702</td>
<td>76,091</td>
</tr>
<tr>
<td>d. 24,702</td>
<td>75,591</td>
</tr>
</tbody>
</table>

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.
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?

<table>
<thead>
<tr>
<th>Rent received A/c</th>
<th>Rent Payable A/c</th>
<th>Suspense A/c</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Cr. 500</td>
<td>Cr. 500</td>
<td>Dr. 1,000</td>
</tr>
<tr>
<td>b. Cr. 500</td>
<td>Dr. 500</td>
<td>No entry</td>
</tr>
<tr>
<td>c. Dr. 500</td>
<td>Cr. 500</td>
<td>Dr. 1,000</td>
</tr>
<tr>
<td>d. Dr. 500</td>
<td>Cr. 500</td>
<td>No entry</td>
</tr>
</tbody>
</table>

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 this error?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Sales A/c Rs. 450</td>
<td>Sales day book Rs. 450</td>
</tr>
<tr>
<td>b. Sales Day book Rs. 450</td>
<td>Sales A/c Rs. 450</td>
</tr>
<tr>
<td>c. Sales A/c Rs. 450</td>
<td>Suspense A/c Rs. 450</td>
</tr>
<tr>
<td>d. Suspense A/c Rs. 450</td>
<td>Sales A/c Rs. 450</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Machinery A/c 500</td>
<td>Repairs to machinery A/c 50</td>
</tr>
<tr>
<td>b. Repairs to machinery A/c 500</td>
<td>Machinery A/c 500</td>
</tr>
<tr>
<td>c. Repairs to machinery A/c 500</td>
<td>Suspense A/c 500</td>
</tr>
<tr>
<td>d. Suspense A/c 500</td>
<td>Machinery A/c 500</td>
</tr>
</tbody>
</table>

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.

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 stationary.
   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?

<table>
<thead>
<tr>
<th>Profit &amp; Loss A/c</th>
<th>Balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Rs. 12,000</td>
<td>Rs. 3,000</td>
</tr>
<tr>
<td>b. Rs. 9,000</td>
<td>Rs. 3,000</td>
</tr>
<tr>
<td>c. Rs. 9,000</td>
<td>Nil</td>
</tr>
<tr>
<td>d. Rs. 3,000</td>
<td>Rs. 9,000</td>
</tr>
</tbody>
</table>

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?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
<th>With</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Bank</td>
<td>Suspense</td>
<td>Rs. 400</td>
</tr>
<tr>
<td>b. Suspense</td>
<td>X</td>
<td>Rs. 400</td>
</tr>
<tr>
<td>c. Suspense</td>
<td>X</td>
<td>Rs. 800</td>
</tr>
<tr>
<td>d. Suspense</td>
<td>Bank</td>
<td>Rs. 800</td>
</tr>
</tbody>
</table>
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)&(ii) 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. 6,33,760  b) Rs. 6,24,760
c) Rs. 6,25,240  d) Rs. 6,25,440
15. Consignment Account

Select best choice to answer the following questions:

1. In case of consignments, the person who is sending the goods is called
   a) The consignee  b) the seller  
   c) the consignor  d) the agent

2. An 'account sales' is sent by
   a) The consignor to the consignee 
   b) The consignee to the credit customers 
   c) The consignor to the credit customers 
   d) The consignee to the consignor

3. A proforma invoice
   a) Is a demand for payment  
   b) A not a memorandum invoice  
   c) Is a document giving details of goods sold  
   d) Is a document to show what the invoice would be

4. The balance of the consignment account is transferred to the
   a) Profit & loss on consignment account 
   b) Trading account 
   c) Profit and loss Account 
   d) Capital account

5. Which of the following statement is true?
   a) The receipt of goods by the consignee from the consignor will make the consignee a debitor of the consignor 
   b) Mere receipt of the goods does not make the consignee a debitor of the consignor 
   c) The receipt of goods by the consignee from the consignor will make the consignee liable to pay immediately 
   d) For sale of goods on consignment basis, the consignee is entitled to get a portion of the sale proceeds

6. Stock on consignment is a (an)-
   a) Liability  b) asset  
   c) Expense  d) income

7. Overriding commission is calculated on-
   a) Cash sales  b) credit sales 
   c) Total sales  d) cash received

8. Consignment stock is valued at-
   a) Cost price  b) market price 
   c) Cost or net realizable value (NRV), whichever is higher 
   d) Cost or net realizable value (NRV), which is lower

9. At the end of the financial year, the 'goods sent on consignment account' is closed by passing the following entry:
   a) Purchases Account Dr. 
       To goods sent on consignment account 
   b) Trading Account Dr. 
       To goods sent on consignment A/c 
   c) Goods sent on consignment A/c Dr. 
       To sales A/c 
   d) Goods sent on consignment A/c Dr. 
       To Purchases/Trading Account

10. Overriding commission is allowed by the
    a) Consignor to the buyer 
    b) Consignee to the buyer 
    c) Consignor to the consignee 
    d) Consignor to the debtor

11. Abnormal losses may occur
    a) In transit 
    b) At the consignee’s place 
    c) Either in transit or at the consignee’s place 
    d) Either in consignor’s or consignee’s place

12. The discounting charges should be charged to the
    a) Profit and loss account 
    b) Discount account 
    c) Consignment account 
    d) Consignee A/c

13. In connection with a consignment, consignor and consignee incurred the following expenses:
   i) Freight  
   ii) Loading expenses 
   iii) Unloading expenses 
   iv) Godown expenses

   At the end of the financial year, for valuation of stock on consignment which of the above expenses are to be taken into consideration?
   a) All four  b) i & ii only 
   c) i & ii & iii only  d) i & iv only

14. Which of the following is not true?
    a) There is difference between account sales and sales account. 
    b) There is difference between the normal commission and the del credere commission paid to consignee. 
    c) The dispatch of goods on consignment is not a sale by the consignor 
    d) Discount for bill discounted is not treated as a financial expense and debited to consignment account.
15. Which of the following is not true?
   a) When the goods are sent on consignment, the entry is normally done at market price
   b) For unsold stock lying with the consignee, no entry is made in his books
   c) The relationship between the consignor and the consignee is that of principal and agent
   d) Consignment debtors account is prepared by the consignor when no del credere commission is given.

16. Which of the following is true?
   a) Overriding commission is calculated on credit sales only
   b) The abnormal loss on consignment is credited to profit and loss account.
   c) When the consignee received goods from the consignor, no entry is to be passed in the books of the consignee
   d) The unsold stock on consignment is valued at original cost of the goods.

17. Which of the following is true?
   a) Loss of stock on consignment is said to be normal when it is natural and unavoidable
   b) Del credere commission is allowed to cover normal loss
   c) Discount on bills is debited to consignment account
   d) The consignee can be treated as consignor’s debtors for the goods received on consignment.

18. Which of the following is true?
   a) A loss caused by evaporation is called abnormal loss.
   b) Abnormal loss is debited to consignment account.
   c) When goods are sent on consignment, consignee’s account is debited
   d) Stock on consignment appears in the balance sheet of the consignor.

19. If del credere commission is given to the consignee, the bad debt loss will be borne by
   a) The consignor only
   b) The consignor and consignee equally
   c) The consignee in full
   d) The consignee up to a certain amount

20. Del credere commission is generally paid at a fixed rate on
   a) Credit sales  
   b) cash sales
   c) Total sales  
   d) invoice price

21. Which of the following is true?
   a) An account sales is a statement
   b) A proforma invoice is an account
   c) Consignment account is a personal account
   d) Cost or market price refers to net realizable value.

22. Which of the following is true?
   a) Consignment stock is valued at market price
   b) Abnormal loss is treated separately in the consignment account
   c) Normal loss is treated separately in the consignment account.
   d) Del credere commission is paid on credit sales.

23. Which of the following is not true?
   a) Del credere commission is an additional commission
   b) Del credere commission is a form of credit insurance
   c) Normal loss is eliminated from the consignment account
   d) A consignee may make an advance as a security of the goods.

24. Which of the following is not true?
   a) A proportionate adjustment cannot be made against the advance give by the consignee
   b) For normal loss, there will be no accounting treatment
   c) Abnormal losses reduce the profit on consignment
   d) Overriding commission is extra commission

25. Which of the following is not true?
   a) Profit of the consignment is calculated for each consignment separately
   b) Consignee does not contribute anything as capital
   c) The relationship between the consignor and the consignee is that of partners
   d) For determining profit on consignment, only consignment account is prepared.
26. If the del credere commission is paid to the consignee, the bad debts loss is debited to _____.
   a) Profit & loss  b) commission received  c) Bad debts  d) consignor

27. In case of a consignment, goods remain the property of _____ until they are sold.
   a) The consignee  b) Neither the consignor nor the consignee  c) The consignor  d) Local authority

28. Consignment account is a _____ account.
   a) Real  b) personal  c) Nominal  d) valuation

29. Mere receipt of the goods does not make the consignee a _____ of the consignor.
   a) Creditor  b) debtor  c) Partner  d) payee

30. The consignor sends goods to the consignee along with_____.
   a) An invoice  b) a proforma invoice  c) A debit note  d) a credit note

31. An ‘account sales’ is a (an) _____.
   a) Account  b) statement  c) Payment voucher  d) receipt note

32. When there is no consignment stock remaining unsold, there will be no treatment for _____.
   a) Abnormal loss in transit  b) Normal loss  c) Abnormal loss in godown of the consignee  d) Normal loss and abnormal loss

33. Consignment stock is valued at cost or net realizable value (NVR) which is _____.
   a) Lower  b) higher  c) Acceptable  d) available

34. If the del credere commission is paid to the consignee, in the books of the consignor bad debt is_______.
   a) Ignored  b) Debited to profit and loss account  c) Debited to consignment account  d) Debited to consignee account.

35. Overriding commission is normally granted_______.
   a) For credit sales  b) For prompt payment  c) For cash sales  d) In case sales exceed a specified amount or quantity.

36. From the following information, calculate the amount due from the consignee:
   Stock in hand- Rs. 8,000; Goods received- Rs. 20,000; Goods sold- Rs. 24,000;
   Expenses paid by the consignee- Rs. 600; Commission- 10% of Sales; Remittance by consignee- Rs. 20,000.
   a) Rs. 1,100  b) Rs. 100  c) Rs. 1,000  d) Rs. 2,100.

37. From the following information, calculate the amount due from the consignee:
   Cash sales: Rs. 1,20,000; Credit sales: Rs. 30,000; Bad debts Rs. 500; Ordinary omission: 10% Amount collected by the consignee from the debtors Rs. 25,000.
   a) Rs. 1,30,000  b) Rs. 1,35,000  c) Rs. 1,45,000  d) Rs. 1,25,000

38. From the following information, calculate the amount due from the consignee:
   Cash sales-Rs. 1,20,000; Credit sales- Rs. 30,000; Bad debts-Rs. 5,000; Ordinary omission-Rs. 16,000; Del credere commission- Rs. 6,500
   a) Rs. 1,30,000  b) Rs. 1,27,500  c) Rs. 1,30,500  d) Rs. 1,32,500.

39. From the following information, calculate the value of stock on consignment:
   Value of goods sent-Rs. 1,12,000; Quantity received by the consignee- 10,000 units; Normal loss-100 units; Units sold-8,000 units.
   a) Rs. 21,459  b) Rs. 21,954  c) Rs. 21594  d) Rs. 21,495

40. A consignee is entitled to a commission @ 6% on normal selling price plus 20% of any surplus over and above the normal selling price. From the following information, calculate the amount of commission.
   Sales proceeds- Rs. 1,16,400; Unit sold- 54; Normal selling price per unit-Rs. 1,740.
   a) Rs. 10,126  b) Rs. 10,216
41. From the following, calculate the value of abnormal loss to be transferred to Profit and loss account: Cost of the goods lost: Rs. 750; Proportionate expenses: Rs. 125; Insurance claim received: Rs. 500.
   a) Rs. 735  b) Rs. 375  c) Rs. 573  d) Rs. 537

42. From the following information, calculate the value of consignment stock:
   Cost of goods before loss- Rs. 51,000; Value of goods lost-in-transit-Rs. 5,100; Non-recurring expenses after loss in transit- Rs. 2,000; Goods sent-100 units; Goods lost-10 units; Stock-10 units.
   a) Rs. 5,232  b) Rs. 5,223  c) Rs. 5,322  d) Rs. 5,320

43. From the following information, calculate the final payment made by the consignee;
   Sales- Rs. 5,10,000; Consignee paid: Octroi-Rs. 1,800; Sales expenses-Rs. 600; Commission to the consignee-Rs. 51,000.
   a) Rs. 4,56,600  b) Rs. 4,65,600  c) Rs. 4,66,500  d) Rs. 4,56,500

The following information is relevant to Question Nos. 44 and 45.
Tilak of Tatanagar consigned goods costing Rs. 2,00,000 to his agent Pulak of Patna the invoice was made proforma so as to show a profit of 25% on cost. Tilak paid freight and insurance Rs 4,000. Pulak sold part of the consignment for Rs. 1,76,000 at a uniform price of 10% over invoice price and spent Rs. 6,000 as warehousing charges and Rs. 2,000 as selling expenses. Pulak is entitled to a commission of 5% on sales and 20% of the net profit after charging commission on sales.

44. Value of closing stock at invoice price:
   a) Rs. 90,000  b) Rs. 92,880  c) Rs. 91,440  d) Rs. 94,330

45. Loading on stock on consignment is:
   a) Rs. 50,000  b) Rs. 19,440  c) Rs. 22,320  d) Rs. 18,000

46. D of Delhi consigned 100 cases of goods to L of Lucknow. The cost price of goods was Rs. 200 per case. The consignor’s expenses were:
   a) Rs. 612  d) Rs. 10,261

The following information is relevant to Question Nos. 47, 48 and 49.
Following transactions took place between Allen and Stuart:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2.2007</td>
<td>Allen consigned goods to Stuart costing Rs. 80,000 and incurred Rs. 10,000 on various expenses.</td>
</tr>
<tr>
<td>5.2.2007</td>
<td>Allen came to know that goods costing Rs. 16,000 (original cost) were lost in transit for which the insurance claim was settled for Rs. 12,000.</td>
</tr>
<tr>
<td>8.2.2007</td>
<td>Stuart took delivery of the remaining goods at original cost and incurred Rs. 8,000 on freight and duty.</td>
</tr>
<tr>
<td>12.2.2007</td>
<td>80% of the remaining goods at a profit of 20% on selling price and he was entitled to a commission of 5% on sales.</td>
</tr>
<tr>
<td>16.2.2007</td>
<td>Stuart remitted the balance due to Allen by a bank draft</td>
</tr>
</tbody>
</table>

47. The amount of abnormal loss is:
   a) Rs. 16,000  b) Rs. 6,000  c) Rs. 18,000  d) Rs. 12,000

48. Sale proceeds is:
   a) Rs. 80,000  b) Rs. 61,440  c) Rs. 62,000  d) Rs. 64,000

49. Value of stock on consignment is:
   a) Rs. 18,000  b) Rs. 16,000  c) Rs. 20,000  d) Rs. 22,000

The following information is relevant to Question Nos. 50 and 51.
Debasis Mohanty of Cuttack consigned to Donald of Durbun 200 cricket bats costing Rs. 1,500 each, and paid for Rs. 20,000 as outward charges on transit 5 cricket bats were damaged due to bad handling. Insurance claim of Rs. 7,000 was realized by Mohanty. The consignee took delivery of the rest and incurred carriage expenses Rs.
3,900 and selling expenses of Rs. 2,000. He sold 180 cricket bats at Rs. 3,60,000.

50. Abnormal loss debited to Profit and loss account is:
   a) Rs 500            b) Rs.800
   c) Rs. 1,000          d) Rs. 7,000

51. Value of closing stock is:
   a) Rs. 22,500   b) Rs. 24,000
   c) Rs. 24,293   d) Rs. 24,300.

The following information is relevant to Question Nos. 52, 53 and 54.
Niresh consigns 1,000 bats costing Rs. 500 each to Swaroop for sales and incurs Rs. 4,000 towards freight and Rs. 1,000 for insurance. Swaroop was able to take delivery of 900 bats only and 100 bats were destroyed in transit. Insurance company admitted the claim in full and paid the same. Swaroop will be entitled to a commission of 5% on sales. 2% del credere commission on credit sales only. He will be entitled for additional commission of 25% of the excess if the sale price exceeds the cost price by more than 20%. Swaroop has spent Rs. 2,000 towards sales expenses. The sales account is as under:
500 bats at Rs. 600 per bat cash
200 bats at Rs. 700 per bat credit

52. The amount of abnormal loss is:
   a) Rs. 50,500            b) Rs. 50,000
   c) Rs. 51,000            d) Rs. 52,000.

53. Total commission received by Swaroop:
   a) Rs. 27,000            b) Rs. 22,000
   c) Rs. 24,800            d) Rs. 29,800.

54. Value of closing stock is:
   a) Rs. 1,00,000           b) Rs. 1,01,400
   c) Rs. 1,01,000           d) Rs. 1,01,200.

55. X of Kolkata sent 80 machines to Y of Mumbai on 1st January, 2006 on the following terms:
1) All the machines were to be sold 25% above the cost price of Rs. 20,000 each. Any deficit in selling price was to be borne by Y and 50% of the surplus selling price was to be retained by him.
2) Y would get 3% commission and 2% del credere commission on all sales. X incurred transport charges of Rs. 80,000.

Y sent Account sales on 31st December, 2006 as: (i) 20 machines sold for Rs. 24,000 each; (ii) 40 machines sold for Rs. 30,000 each; (iii) 5 machines sold for Rs. 25,000 each.
The total amount of commission is:
   a) Rs. 1,00,000            b) Rs. 90,250
   c) Rs. 1,90,250            d) Rs. 1,70,250

56. X of Kolkata sent a consignment of 500 toys costing Rs. 100 each to Y of Mumbai. Y was entitled to a commission of Rs. 25 per toy sold plus ¼ of the amount by which gross sales proceeds less total commission theron, exceeded a sum calculated @ Rs. 125 per toy sold.
Y sold in April 2007- 300 toys @ Rs. 160 each
Y sold in June 2007- 150 toys @ Rs. 172 each.
Total commission payable to Y is:
   a) Rs. 11,250            b) Rs. 12,510
   c) Rs. 12,000            d) Rs. 11,000

The following information is relevant for Question Nos. 57, 58, 59 and 60.
P of Kolkata consigned goods costing Rs. 45,000 to Q of Delhi. The invoice was made so as to Show a profit of 33 1/3% on cost. P paid Rs. 300 as carriage and Rs. 1,200 as freight and insurance. Goods costing Rs. 5,000 were destroyed in transit and the insurance company admitted the full claim.
In Delhi, Q paid Rs. 240 as carriage and Rs. 600 as godown rent. Two-thirds of the goods received by Q were sold by him.

57. Value of abnormal loss at invoice price is:
   a) Rs. 6,667            b) Rs. 6,833
   c) Rs. 6,000            d) Rs. 6,500.

58. Sale proceed is:
   a) Rs. 35,000            d) Rs. 36,000
   c) Rs. 35,556            d) Rs. 26,667

59. Value of unsold goods at invoice price:
   a) Rs. 1,822            b) Rs. 20,500
   c) Rs. 18,302            d) Rs. 17,722

60. Loading on goods unsold:
   a) Rs. 5,000            b) Rs. 4,444
   c) Rs. 1,667            d) Rs. 2,667
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>c</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>a</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>c</td>
<td>8</td>
</tr>
<tr>
<td>10</td>
<td>c</td>
<td>11</td>
</tr>
<tr>
<td>13</td>
<td>c</td>
<td>14</td>
</tr>
<tr>
<td>16</td>
<td>c</td>
<td>17</td>
</tr>
<tr>
<td>19</td>
<td>c</td>
<td>20</td>
</tr>
<tr>
<td>22</td>
<td>b</td>
<td>23</td>
</tr>
<tr>
<td>25</td>
<td>c</td>
<td>26</td>
</tr>
<tr>
<td>28</td>
<td>c</td>
<td>29</td>
</tr>
<tr>
<td>31</td>
<td>b</td>
<td>32</td>
</tr>
<tr>
<td>34</td>
<td>a</td>
<td>35</td>
</tr>
<tr>
<td>37</td>
<td>a</td>
<td>38</td>
</tr>
<tr>
<td>40</td>
<td>a</td>
<td>41</td>
</tr>
<tr>
<td>43</td>
<td>a</td>
<td>44</td>
</tr>
<tr>
<td>46</td>
<td>c</td>
<td>47</td>
</tr>
<tr>
<td>49</td>
<td>b</td>
<td>50</td>
</tr>
<tr>
<td>52</td>
<td>a</td>
<td>53</td>
</tr>
<tr>
<td>55</td>
<td>d</td>
<td>56</td>
</tr>
<tr>
<td>58</td>
<td>c</td>
<td>59</td>
</tr>
</tbody>
</table>
Joint Venture Accounts
Select the best choice to answer the following questions:

1. A memorandum joint venture summaries-
   a) Assets and liabilities
   b) Expenses and incomes
   c) Receipts and payments
   d) All transactions

2. Recording of transactions in a separate set of book is made
   a) When the size of the business is small
   b) When double entry system cannot be followed
   c) For better financial control
   d) When co-venturers are residing at distant places

3. In a joint venture, valuation of stock is affected
   a) When there is an abnormal loss
   b) When insurance claim is received for loss of stock
   c) When insurance claim is not received for loss of stock
   d) When there is a normal loss

4. For calculating the profit of a joint venture, abnormal losses are:
   a) Credited to joint venture account
   b) Ignore
   c) Debit to abnormal loss account
   d) Debit to co-venturers’ capital account

5. Any insurance claim received for the loss of stock is
   a) Treated as an income
   b) Deducted from expenses
   c) Debited in the bank account only
   d) Not shown in the books

6. In a joint venture, no distinction is made between normal and abnormal loss when
   a) There is some unsold stock
   b) There is no unsold stock
   c) One venture withdraws some stock
   d) Insurance claim is received in respect of goods lost by fire

7. To make settlement in a joint venture:  
   a) Joint bank account is closed first

b) Joint bank account and venturers’ accounts

c) Joint venture is closed last

d) Joint venture account is closed first and the remaining account are closed simultaneously

8. For determining profit/loss of the joint venture:
   a) Joint venture account is prepared
   b) Memorandum joint venture account is prepared minutes
   c) Joint venture account or memorandum joint venture account is prepared
   d) Joint venture account or memorandum joint venture account is prepared
   e) Joint venture account and memorandum joint venture account is prepared

9. A joint venture will come to an end as soon as
   a) Income is received and payments are made
   b) Income is earned and payments are recognized income is earned and payments are made
   c) The venture is completed.

10. A joint venture is undertaken when the
    a) Respective advantages of the parties are pooled together
    b) Termination is uncertain
    c) Ascertainment of income is simple
    d) Accounting concepts are not applicable

11. A joint venture is a
    a) General partnership
    b) Specific partnership
    c) Limited partnership
    d) Limited liability partnership

12. A joint venture account is a
    a) Real account
    b) Personal account
    c) Nominal account
    d) Valuation account

13. Which of the following is true?
    a) There will be separate treatment for normal loss
    b) There will be separate treatment for abnormal loss
c) There will be separate treatment for both normal and abnormal loss
d) There will be no treatment for normal loss but valuation of unsold stock is affected

14. Which of the following is true?
   a) Profit/loss is shown by the venture, a separate account is opened
   b) For distribution of profit on joint venture, a separate account account is opened
   c) The relationship of the co-venturers is that of partners
   d) In a joint venture, generally a balance sheet is prepared

15. Which of the following is true?
   a) Joint bank account is just like a cash book
   b) Joint venture account is just like a profit and loss account
   c) Joint bank account is closed first of all
   d) Joint bank account is closed first of all

16. Which of the following is true?
   a) Joint venture account is just like a trading account
   b) Joint bank account is opened specially for the venture
   c) Goods taken over by the venturers are not recorded in the venturers’ account
   d) Joint venture account and joint bank account are closed simultaneously.

17. Profit/loss is a joint venture is ascertained-
   a) Any time during an accounting period
   b) At the end of the accounting period
   c) At the end of the venture
   d) At the end of the venture and for each venture separately.

18. In joint venture, many accounting concept are not applicable. For example,
   (i) Money measurement concept
   (ii) Going concern
   (iii) Entity concept
   a) All three are not applicable
   b) (i) & (ii) are not applicable
   c) (ii) is not applicable
   d) (iii) is not applicable

19. Memorandum joint venture account shows:
   a) The cash transaction between the co-venturers
   b) The amount due to co-venturer
   c) Profit or loss on joint venture
   d) The redit as well as cash transactions between the co-venturers

20. In Joint venture, discounting charges of a bill of exchange is
   a) Treated as financial expenses and charged to profit and loss account
   b) Treated as joint venture expense and charged to joint venture account
   c) Treated as personal expenses of the drawee
   d) Treated as personal expenses of the drawer

21. A joint venture business has a definite life and, therefore, does not follow ___ concept.
   a) Matching   b) going concern
   c) Consistency d) conservatism

22. A joint venture does not use a _____.
   a) Bank account b) joint bank A/c
   c) Firm name d) separate set of books

23. In a joint venture, all the ____ are ultimately received in cash and all ____ are paid in cash.
   a) Asset, liabilities
   b) Incomes, expenses
   c) Debtors, creditors
   d) Bills receivable, bills payable

24. Profit is ascertained in a joint venture under______.
   a) Accrual basis
   b) single entry system
   c) cash basis
   d) both cash and accrual basis

25. When purchases are made for the joint venture out of the joint bank account, ______ account is debited.
   a) Joint venture b) joint bank
   c) Venturers’ d) purchases
26. When the expenses are incurred on account of joint venture, they are debited to _____ account.
   a) Expenses       b) joint bank
   c) Creditors      d) joint venture

27. When the venturer recording transactions, makes payment in respect of _____ joint venture account is debited.
   a) Liabilities     b) expenses
   c) Assets         d) losses

28. Joint venture account itself represents _____ account.
   a) Trading        b) Profit and loss
   c) Trading but not profit and loss
   d) Trading as well as profit and loss

29. Which of the following is not true?
   a) Persons agreeing to participate in a joint venture are known as partners
   b) A joint venture business has a definite life
   c) If goods to the joint venture are brought in by a co-venturer, then his capital account is credited
   d) The right and duties of the co-venturers are governed by the Partnership Act.

30. Which of the following is not true?
   a) A joint venture account with account is part of the double entry system
   b) Memorandum joint venture account is not a part of the double entry system.
   c) A joint venture account with account cannot disclose any profit/loss.
   d) A memorandum joint venture account can ascertain profits/losses of a joint venture, through it is not a part of the double entry system.

31. In a joint venture between A and B, A contributed the following:
    Initial capital Rs. 36,000; Paid for advertising Rs. 100
    His share of profit in the venture is Rs. 13,560.
    He withdrew Rs. 45,660 as final settlement.
    How much stock is withdrawn by him?
    a) Rs. 3,000     b) Rs. 4,000
    c) Rs. 3,500     d) Rs. 4,500

32. In a joint between A and B, the joint bank account shows that total receipts is Rs. 1,00,500 and the total payments of Rs. 39,750. As a final settlement, B withdrew Rs 29,750. How much did A withdrew?
   a) Rs. 29, 750    b) Rs. 20,750
   c) Rs. 31,750    d) Rs. 30, 250

33. In a joint venture, goods costing Rs. 5,000 was completely destroyed by fire. Insurance claim in respect of that was received Rs. 2,000.
    How much should be credited the joint venture account?
    a) Rs. 5,000     b) Rs. 3,000
    c) Rs. 7,000     d) Rs. 2,000

34. In a joint venture between A and B, materials purchased Rs. 2,90,000. Material supplied by B Rs 15,000 and materials withdrawn by A Rs. 5,000. If B is entitled to a commission of 1% on the cost of materials used, how much commission he will get?
   a) Rs. 3,000     b) Rs. 4,000
   c) Rs. 5,000     d) Rs. 6,000

35. In a joint venture of purchase and sales of goods, Memorandum Joint venture account is debited with Rs. 5,150. The total profit of the venture is Rs. 850. There is no other income other than sales. What is the value of sales?
   a) Rs. 4,300     b) Rs. 6,750
   c) Rs. 6,000     d) Rs. 6,850

36. B, in a joint venture with A, contributed the following:
    Goods Rs. 4,000; Expenses Rs. 900.
    His share of profit is Rs. 340. He sent to A Rs. 6,760 as final payment. The entire sale proceeds was received by B. what is the value of sales?
    a) Rs. 11,000    b) Rs. 12,000
    c) Rs. 13,000    d) Rs. 11,400

37. In a joint venture among A, B and C, joint bank account shows the following:
    Capital contribution of the venture Rs. 5,10,000
    Sale proceeds Rs. 12,00,000
    Expenses paid out of join bank Rs. 12,45,000
    A brought in as final settlement Rs. 25,000
38. On a joint venture A contributed Rs. 80,000 and withdrew cash Rs. 70,000. His share of profit is Rs. 11,400. He received Rs. 19,400 as final settlement. How much stock did he withdrew?
   a) Rs. 7,900  b) Rs. 6,600  c) Rs. 6,700  d) Rs. 7,600

39. In a joint venture A contributed Rs. 80,000 and withdrew cash Rs. 70,000. His share of profit is Rs. 11,400. He received Rs. 19,400 as final settlement. How much stock did he withdrew?
   a) Rs. 2,000  b) Rs. 4,000  c) Rs. 6,000  d) Rs. 5,400

The following information is relevant for Questions 40 and 41.

A and B enter into a joint venture to prepare a film for the government. The government agrees to pay Rs. 1,00,000. A contributed Rs. 10,000 and B contributed Rs. 15,000. The profit will be shared in the ratio of capital contribution. Total expenses paid out of joint bank amounting to Rs. 73,000. On completion the film was found defective and government made a deduction of Rs. 10,000.

40. The share of profit will be distributed as:
   a) A-Rs. 6,000; B- Rs. 11,000
   b) A-Rs. 6,800; B-Rs. 10,200
   c) A-Rs. 10,200; B-Rs.6,800
   d) A-Rs. 11,000; B-Rs.6,000

41. Final payment to B:
   a) Rs. 21,000  b) Rs. 21,800
   c) Rs. 26,000  d) Rs. 25,200

The following information is relevant for questions 42 to 44:

X and Y entered into joint venture to construct a building for a new company. Profits and losses were to be shared in the ratio of 3:2. X invested Rs. 2,00,000 and Y Rs. 1,00,000. The Money was deposited to a joint bank account with arrangement of overdraft. X also supplied materials valued Rs. 35,000 and Y paid the architect's fees Rs. 15,000. Y also supplied a machine valued Rs. 25,000. Building materials valued Rs. 4,00,000 and wages of Rs. 1,00,000 were met from the joint bank account.

On completion of the construction, the company paid Rs. 8,00,000 out of which Rs. 4,00,000 was in cash (deposited into joint bank account) and the balance of Rs. 4,00,000 was in fully paid shares of Rs. 10 each. These shares were sold at Rs. 9.50 each and the proceeds taken by X and Y in the ratio shares of Rs. 10 each. These shares were sold at Rs. 9.50 each and the proceeds taken by X and Y in the ratio of 3:1. The machine supplied by Y was taken back by him at an agreed value of Rs. 15,000. Bank charged interest Rs. 1,000 for the overdraft.

42. Profit on joint venture is:
   a) Rs. 2,20,000  b) Rs. 2,40,000
   c) Rs. 2,19,000  d) Rs. 2,39,000

43. Final payment to Y:
   a) Rs. 1,07,000  b) Rs. 1,17,600
   c) Rs. 1,32,600  d) Rs. 92,600

44. Final payment to X:
   a) Rs. 1,17, 600  b) Rs. 46,400
   c) Rs. 81,400  d) Rs. 1,31,400

The following information relevant for question 45 and 46

Shiv, Saleem and David entered into an agreement for a joint venture. Shiv purchased goods from Mohan and Co., for Rs. 72,000 and took from his own at stock goods valued at Rs. 24,000. He received form Saleem and David their shares of investment for the venture. Shiv then paid charges on venture Rs. 7,300. The joint venture goods were sold for Rs. 1,22,000. Shiv settled Mohan and Co. Account by forwarding them a cheque. He charged 5 percent commission on sales and rendered statements to Saleem and David with cheques for the amounts respectively due to them.

45. The profit of the joint venture is:
   a) Rs. 18,700  b) Rs. 12,600
   c) Rs. 19,900  d) Rs. 8,400

46. Cheque issued to Saleem by Shiv:
   a) Rs. 59,800  b) Rs. 72,400
   c) Rs. 32,600  d) Rs. 36,200.
Answers:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>b</td>
<td>2.</td>
</tr>
<tr>
<td>4.</td>
<td>b</td>
<td>5.</td>
</tr>
<tr>
<td>7.</td>
<td>d</td>
<td>8.</td>
</tr>
<tr>
<td>10.</td>
<td>a</td>
<td>11.</td>
</tr>
<tr>
<td>13.</td>
<td>d</td>
<td>14.</td>
</tr>
<tr>
<td>16.</td>
<td>b</td>
<td>17.</td>
</tr>
<tr>
<td>19.</td>
<td>c</td>
<td>20.</td>
</tr>
<tr>
<td>22.</td>
<td>c</td>
<td>23.</td>
</tr>
<tr>
<td>25.</td>
<td>a</td>
<td>26.</td>
</tr>
<tr>
<td>28.</td>
<td>d</td>
<td>29.</td>
</tr>
<tr>
<td>31.</td>
<td>b</td>
<td>32.</td>
</tr>
<tr>
<td>34.</td>
<td>a</td>
<td>35.</td>
</tr>
<tr>
<td>37.</td>
<td>a</td>
<td>38.</td>
</tr>
<tr>
<td>40.</td>
<td>b</td>
<td>41.</td>
</tr>
<tr>
<td>43.</td>
<td>b</td>
<td>44.</td>
</tr>
<tr>
<td>46.</td>
<td>d</td>
<td></td>
</tr>
</tbody>
</table>
Bills of Exchange and Promissory Notes

Select the best choice to answer the following question

1. A bill of exchange must be-
   a) In writing
   b) Signed by the drawee
   c) A conditional order to pay
   d) An unconditional promise to pay

2. A bill of exchange-
   a) Requires no acceptance
   b) Must be accepted
   c) Can be drawn only on a bank
   d) Is drawn by a debtor

3. There are parties to a bill of exchange-
   a) The seller, the buyer and the bank
   b) The debtors, the creditor and the endorsee
   c) The payer, the payee and the bank
   d) The drawer, the drawee and the payee

4. A bill of exchange is payable-
   a) At any time in the future
   b) Only on presentation
   c) On presentation or at a time in the future
   d) Only to a bank

5. Noting is a procedure adopted if a bill of exchange has been dishonoured by
   a) Acceptance
   b) non-acceptance
   c) non-payment
   d) non-acceptance or non-payment

6. upon retirement, the drawer of the bill
   a) requires the payment on the due date
   b) does not get the payment
   c) receives the payment before the due date
   d) receives the payment after the due date.

7. The rebate on bill retired is actually calculated at a fixed percentage per annum on the face value of the bill for
   a) Unexpired period of the bill
   b) Expired period of the bill
   c) Tenor of the bill
   d) None of the above

8. Upon renewal, the indebtedness of the drawee is not restricted to the-
   a) Value of the bill
   b) Face value of the bill
   c) Discounted value of the bill
   d) Present value of the bill

9. When a bill of exchange is endorsed the amount is payable to the-
   a) Original holder
   b) Bank
   c) Endorsee
   d) Notary public

10. The discounting of a bill does not affect the position of the-
    a) Drawer    b) drawee
    c) Bank      d) seller

11. Discounted bills receivable is shown in the balance sheet as a
    a) Current asset
    b) Contingent liability
    c) Liability
    d) Contingent assets

12. State which of the following is a promissory note.
    a) ‘Mr. Amar, I owe you Rs. 100’.
    b) ‘I promise to pay Rs. 5,000 to Y provided he is ready to go with me to kill X.’
    c) ‘Received from Mr. Y Rs. 4,000 which I promise to pay on demand’.
    d) ‘Deposit with me Rs. 4,000 to be returned on demand’.

13. The liability of the maker of a promissory note is
    a) Secondary but absolute
    b) Secondary and conditional
    c) Primary and absolute
14. Accommodation bill is also called-
   a) Trade bill          b) promissory note
   c) Kite bill           d) bank note

15. Which of the following is true?
   a) This bill is the acknowledgement of the debt
   b) This bill is always discounted with bank
   c) This bill is drawn and accepted for consideration.
   d) In case of dishonour, legal action can be resorted.

16. Which of the following is true?
   a) A bill of exchange must direct a certain person to receive a certain sum of money.
   b) A bills payable on demand is not required to be accepted.
   c) A bill of exchange is not one kind of a post dated cheque.
   d) A bill payable on demand is estimated to three days of grace.

17. Which of the following is true?
   a) The person to whom a bill is addressed is the creditor.
   b) A bill from the point of view of a creditor is called a bills payable.
   c) When the drawer discounts a bill, he credits discount account.
   d) Refusal by the acceptor to make payment of the bill on the maturity date is called dishonour of the bill.

18. Which of the following is true?
   a) No cancellation entry is required when a bill is renewed.
   b) A banker holds discounted bills as an agent for collection.
   c) Discount at the time of retirement of a bill in a gain for the drawee.
   d) The noting charges are ultimately borne by the drawer.

19. Which of the following is true?
a) Upon renewal, the indebtedness of the drawee is restricted to the face value of the bill.
b) Retiring a bill is the act of withdrawing a bill of exchange from circulation.
c) It is necessary that the drawee, the drawer and the payee should be three different persons.
d) A bill of exchange cannot be transferred from one place to another in the same way a cheque is remitted.

24. Which of the following is true?
a) A bill of exchange can be crossed.
b) A disonoured bill of exchange does not require any noting.
c) A bill of exchange does not pay the amount the customer owes.
d) A term bill is payable on demand.

25. Which of the following is true?
a) When the period of the bill is stated in days, the calculation of the due date will be made in terms of calendar month.
b) Noting charges paid by the bank is in the nature of interest.
c) The noting charges cannot legally be recover from the drawee.
d) When a bill is discounted, the banker does not make the payment in cash.

26. A bill of exchange comes from a (an) ______ credit arrangement.
a) Open b) deferred c) Part d) long

27. The drawing of a bill of exchange converts the _____ relationship into a _______ relationship.
a) Debtor-creditor, drawer-drawee b) Debtor-creditor, payer-payee c) Buyer-seller, debtor-creditor d) Buyer-seller, drawer-drawee

28. A bill of exchange is a legal evidence of an acknowledgment of ______.
a) Receipt b) loan c) Debt d) payment

29. A bill of exchange can be drawn on any _____ including a bank.
a) Drawer b) creditor c) Seller d) person

30. For a (an) _______ bill of exchange, noting may be necessary.
a) Honoured b) dishonoured c) Endorsed d) Discounted

31. Discounting is a device to convert the ____ into _____ at its present value.
a) Cash, bill b) bill, cash c) Sales, cash d) sale, bill

32. The discount is an expense for the _____ and revenue for the _______.
a) Seller, buyer b) banker, drawer c) drawer, banker d) drawer, drawee

33. When a bill is dishonoured, notice of dishonour must be given to the prior parties to retain their _____.
a) Liability b) asset c) Bill d) discount

34. When a bill is dishonoured, it becomes ______
a) Worthless b) valueless c) Bad d) payable

35. The renewal of a bill re-establishes the acknowledgment of the debt of the ______.
a) Debtor b) drawer c) Creditor d) drawee

36. There are _____ parties in a promissory note.
a) Three b) four c) Two d) five

37. A promissory note is an instrument in writing containing ________.
a) An unconditional undertaking to pay b) An unconditional order to pay c) A conditional undertaking to pay
38. Promissory note _______.
   a) Includes bank note
   b) Includes currency notice
   c) Does not include bank note
   d) Does not include bank note or currency note

39. Accommodation bill is drawn and accepted_______.
   a) For consideration
   b) To discharge an obligation
   c) Without consideration
   d) For love and affection

40. In case of dishonour, accommodation bills are _____.
   a) Always legally enforceable
   b) Legally enforceable under certain circumstances
   c) Noted with the notary public
   d) Not legally enforceable

41. What is the due date of a bill drawn on 15 January, 2007 for 3 months?
   a) 18 April, 2007  b) 15 April, 2007
   c) 15 March, 2007  d) 18 March, 2007

42. The due date of a bill is 26 January and 25 January is also a public holiday. When does the bill fall due?
   a) 26 January  b) 27 January
   c) 24 January  d) 25 January

43. A drew a bill on B for Rs. 1,000. Upon dishonour of the bill, A paid Rs. 25 as noting charges. How much is recoverable from B now?
   a) Rs. 975  b) Rs. 1,025
   c) Rs. 1,000  d) Rs. 1,035

44. A bill of Rs. 1,000 is renewed. The drawee pays Rs. 300 as part payment. The amount of interest charged is Rs. 20. What is the value of the new bill?
   a) Rs. 700  b) Rs. 1,020
   c) Rs. 900  d) Rs. 720

45. The value of the bill is Rs. 5,000. The due date of a bill is 4.5.2006, but the drawee made payment on 4.2.2006. The rate of discount is 6% p.a. What is the amount of rebate on bill retired?
   a) Rs. 75  b) Rs. 65
   c) Rs. 85  d) Rs. 95

46. What is the journal entry for the following transaction of A in his books?
A's acceptance to D for Rs. 5,000 is discharged by M's acceptance to A for a similar amount.
   a) Bills Receivable    Dr.  To Bills payable
   b) Bills payable      Dr.  To Bills Receivable
   c) D                  Dr.  To M
   d) M                  Dr.  To A

47. A bill of Rs. 5,000 is discounted with the banker for Rs. 4,750. The bill is dishonoured at maturity. The drawee pays 60% of his acceptance. What is the amount of bad debts?
   a) Rs. 1,800  b) Rs. 1,900
   c) Rs. 2,000  d) Rs. 2,100

48. When the bank pays for the noting charges, the journal entry in the books of the drawer is:
   a) Drawee    Dr.  To Cash
   b) Drawee    Dr.  To Cash
   c) Drawee    Dr.  To Noting charges
   d) Drawee    Dr.  To Bank

49. Give journal entries for the following transaction in the books of A:
B retires a bill for Rs. 1,000 drawn on him by A for Rs. 5 discount.
   a) Bank    Dr. 995
       Discount Allowed Dr. 5
       To Bill Receivable 1,000
   b) Bank    Dr. 1,000
To bills receivable  1,000

c)  Bills Receivable Dr. 1,000
To Bank  995
To Discount received  5

d)  Bank Dr. 1,005
To Bills Receivable  1,005

50. A bill of Rs. 10,000 for 3 months renewed for a further period of 2 months. The drawee paid Rs. 3,000 as part payment one month before the due date. The rate of interest is @ 12% p.a. What is the amount of the interest?

a) Rs. 120  b) Rs. 140  
c) Rs. 110  d) Rs. 100

51. The discount charge is

a) Rs. 200  b) Rs. 220  
c) Rs. 240  d) Rs. 280

52. For dishonour of the bill, the entry in the books of Raja will be:

a)  Bills Receivable Dr. 12,000
To bank A/c  12,000

b)  Gobind A/c Dr. 11,810
To Bank A/c  11,810

c)  Gobind A/c Dr. 12,050
To Bank A/c  12,050

d)  Gobind A/c Dr. 12,000
To Bills Receivable  12,000

The following information is related to Question Nos. 51 and 52.

Raja gets Govinda’s acceptance for Rs. 12,000 at two months discounted at 12%. Later the bill is dishonoured on the due date and the bank pays Rs. 50 as noting charges.

53. The amount of bill of exchange is

a) Rs. 10,000  b) Rs. 9,000  
c) Rs. 8,000  d) Rs. 8,500

54. When the bill is endorsed in favour of Z, the entry in the books of Y will be:

a)  Z A/c Dr. 8,100
To Bills Receivable A/c 8,100

b)  Z A/c Dr. 8,100
To Bills Receivable A/c 8,000
To Discount Received A/c Dr. 100

c)  Z A/c Dr. 8,000
Discount Allowed A/c Dr. 100
To Bills Receivable A/c 8,100

d) No entry

The following information is relevant for Question Nos. 55, 56, and 57

On 1 January, 2007 X purchased goods from Y valued at Rs. 10,000. Trade discount allowed by Y @ 20%. X accepted a bill of exchanges for the amount due for 3 months. On 4th January, 2007 Y endorses the bill in favour of Z for Rs. 8,100 in full settlement of a debt. On the due date the bill was dishonoured. Noting charge is Rs. 50.

55. The amount of bill of exchange is

a) Rs. 10,000  b) Rs. 9,000  
c) Rs. 8,000  d) Rs. 8,500

56. When the bill is endorsed in favour of Z, the entry in the books of Y will be:

a)  Z A/c Dr. 8,100
To Bills Receivable A/c 8,100

b)  Z A/c Dr. 8,100
To Bills Receivable A/c 8,000
To Discount Received A/c Dr. 100

c)  Z A/c Dr. 8,000
Discount Allowed A/c Dr. 100
To Bills Receivable A/c 8,100

d) No entry

57. When the bill is dishonoured, the entry in the books of Y will be:

a)  X A/c Dr. 8,050
To Z A/c

b)  X A/c Dr. 8,000
Discount Received A/c Dr. 50
To Z A/c 8,050

c) X A/c Dr. 8,000
Noting charges A/c Dr. 50
To Z A/c 8,050
d) X A/c Dr. 8,050
Discount Received A/c Dr. 100
To Z A/c 8,150

The following information is relevant for Question 58, 59, and 60.

On 1.1.2007 Sachin sold goods Rahul valuing Rs. 30,000. On 4.1.2007, Sachin received from Rahul Rs. 10,000 and drew a bill payable 3 months after date for the balance. On the same date, Sachin endorses the accepted bill to Sourav for a full settlement of a debt of Rs. 21,000. On the due date, the bill was dishonoured and Rahul having become insolvent, paid on 10.5.2007, 75% of his acceptance.

58. For payment on 10.5.2007, the entry in the books of Rahul will be:
   a) Sachin A/c Dr. 20,000
      To Cash A/c 20,000
   b) Bank A/c Dr. 20,000
      To Sachin A/c 20,000
   c) Sachin A/c Dr. 20,000
      To Bank A/c 15,000
      To Bad Debts A/c 5,000
   d) Sachin A/c Dr. 20,000
      To Bank A/c 15,000
      To Deficiency A/c 5,000

59. For dishonour of the bill, the entry in the books of Sachin will be:
   a) Rahul A/c Dr. 20,000
      To Sourav A/c 20,000
   b) Rahul A/c Dr. 20,000
      To Sourav A/c 19,000
      To Discount Received A/c Dr. 1,000
   c) Rahul A/c Dr. 20,000
      Discount Received A/c Dr. 1,000
      To Sourav A/c 21,000
   d) Rahul A/c Dr. 20,000
      Discount Allowed A/c Dr. 1,000
      To Sourav A/c 21,000

60. For dividend received from Rahul’s estate, the entry in the books of Sachin will be:
   a) Bank A/c Dr. 15,000

The following information is relevant for Questions 61 and 62.

Shyam sold goods to Ram for Rs. 20,000 on 1.1.2006. On the same date Shyam drew upon Ram a bill for the amount of bill at 2 months and Ram accepted the same. On the due date Ram told Shyam that he was not in a position to pay the full amount. He requested Shyam to accept Rs. 10,000 in cash and to draw a fresh bill on him for the remaining amount for 2 months together with interest at 15% p.a. Shyam agreed. The second bill was duly met.

61. Interest on renewal of the bill is
   a) Rs. 500  b) Rs. 750  c) Rs. 250  d) Rs. 1,000

62. The amount of new bill is
   a) Rs. 20,000  b) Rs. 20,250  c) Rs. 10,250  d) Rs. 10,500

The following information is relevant for the Questions 63 and 64.

On 1st January, 2006 Mohan sold goods worth Rs. 6,000 to Sohan. On the same day Mohan gave his 2 months acceptance for the same. Mohan discounted the bill on 4th January with his bank @ 6% p.a. Before the due date, Sohan made a request to Mohan for its renewal for a further period for 3 months. Mohan agreed on the condition that new bill should include interest @ 10% p.a. The new bill was paid on the due date.

63. The amount of discounting charge is
   a) Rs. 30  b) Rs. 60  c) Rs. 90  d) Rs. 120

64. Interest on renewal of the bill is
65. Interest on renewal is
a) Rs. 20    b) Rs. 30
   c) Rs. 40    d) Rs. 50

66. Discount on bill is
a) Rs. 15    b) Rs. 20
   c) Rs. 25    d) Rs. 30

69. Interest charged to Q is
a) Rs. 200    b) Rs. 60
   c) Rs. 140    d) Rs. 100

70. For dishonour of the bill on due date, the entry in the books of P will be:
   a) Debit: Q account Rs. 10,000; Credit Bank Account Rs 10,000
   b) Debit: Q Account Rs. 10,000; Credit: Bank Account Rs. 10,060
   Debit: Noting Charges Account Rs. 60
   c) Debit: Q Account Rs. 10,060; Credit: Bank Account Rs. 10,060
   d) None of the above

71. To earn a rebate of Rs. 100, the date of payment should be
a) 4 September    b) 4 August
   c) 23 July    d) Not given

72. The amount of new bill will be
a) Rs. 2,900    b) Rs. 2,958
   c) Rs. 3,000    d) None of the above

For goods supplied, P draws a bill on Q for Rs. 10,000 dated 10th January, 2006, due three months hence. Q accepts the bill and P discounts it with his banker paying Rs. 150 as discounting charges. On the due date, the banker presents the bill to Q for payment, who is unable to meet it. P then meets the bill himself after paying Rs. 60 for noting charges, and Q gives his another bill for Rs. 10,200 due one month from the date of maturity of the first bill. The second bills was duly met by Q.
### Answers:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>a</td>
<td>2.</td>
</tr>
<tr>
<td>4.</td>
<td>c</td>
<td>5.</td>
</tr>
<tr>
<td>7.</td>
<td>a</td>
<td>8.</td>
</tr>
<tr>
<td>10.</td>
<td>b</td>
<td>11.</td>
</tr>
<tr>
<td>13.</td>
<td>c</td>
<td>14.</td>
</tr>
<tr>
<td>16.</td>
<td>b</td>
<td>17.</td>
</tr>
<tr>
<td>19.</td>
<td>a</td>
<td>20.</td>
</tr>
<tr>
<td>22.</td>
<td>a</td>
<td>23.</td>
</tr>
<tr>
<td>25.</td>
<td>d</td>
<td>26.</td>
</tr>
<tr>
<td>28.</td>
<td>c</td>
<td>29.</td>
</tr>
<tr>
<td>31.</td>
<td>b</td>
<td>32.</td>
</tr>
<tr>
<td>34.</td>
<td>b</td>
<td>35.</td>
</tr>
<tr>
<td>37.</td>
<td>a</td>
<td>38.</td>
</tr>
<tr>
<td>40.</td>
<td>d</td>
<td>41.</td>
</tr>
<tr>
<td>43.</td>
<td>b</td>
<td>44.</td>
</tr>
<tr>
<td>46.</td>
<td>b</td>
<td>47.</td>
</tr>
<tr>
<td>49.</td>
<td>a</td>
<td>50.</td>
</tr>
<tr>
<td>52.</td>
<td>c</td>
<td>53.</td>
</tr>
<tr>
<td>55.</td>
<td>c</td>
<td>56.</td>
</tr>
<tr>
<td>58.</td>
<td>d</td>
<td>59.</td>
</tr>
<tr>
<td>61.</td>
<td>c</td>
<td>62.</td>
</tr>
<tr>
<td>64.</td>
<td>c</td>
<td>65.</td>
</tr>
<tr>
<td>67.</td>
<td>a</td>
<td>68.</td>
</tr>
<tr>
<td>70.</td>
<td>c</td>
<td>71.</td>
</tr>
</tbody>
</table>
18. Sale of Goods on Approval Basis or Return Basis

Select the best choice to answer the following Questions.

1. Under a sale or return basis, when goods are transferred from wholeseller to retailer, it implies a change.
   a) In the possession of the goods only
   b) In the ownership of the goods
   c) In the possession and the ownership of goods
   d) None of the above

2. Under a sale or return basis, the property in the goods passes to the buyer
   a) When he gives his approval subject to certain conditions
   b) When he gives his approval unconditionally
   c) When a bill receivable is accepted
   d) When full payment is made in cash

3. Goods sent on sale or return basis are beneficial to the
   a) Seller only
   b) Buyer only
   c) Seller and the buyer
   d) None of them

4. Under sale or return agreement, revenue is recognized
   a) At the time of delivery of goods
   b) When the buyer signifies his approval but sale price has not been fixed
   c) When the buyer signifies his approval and the sale price has been fixed
   d) None of the above

5. When the transaction are few, the seller, while sending the goods on sale or return basis treats them as
   a) Ordinary sale
   b) No sale
   c) Profit
   d) None of the above

6. Under sale or return, a business delivers the goods to the customs with the option to ______ or reject them within a specified period.
   a) Keep in stock
   b) Accept
   c) Pay immediately
   d) Not given

7. Under sale or return, the ownership is passed only when the retailer gives ______.
   a) Payment by accepting bills receivable
   b) Payment in cheque
   c) His approval
   d) None of the above

8. Goods sent on sale or return are beneficial to ______.
   a) Seller
   b) Either party
   c) Buyer
   d) Neither seller nor buyer

9. When the transactions are few, the seller, while sending the goods, treats them as ______.
   a) Cash
   b) Ordinary credit
   c) Extra-ordinary credit
   d) None of the above

10. If the goods are returned within a specified time limit, ______ entry is passed to cancel the previous transaction.
    a) No
    b) A reverse
    c) Double
    d) Single

Answer Question Nos. 11 and 12 from the following information:

X Ltd. sends out its gas stoves to dealers on sale or return. All such transactions are, however, treated like actual sales and are passed through the day book. Just before the end of the financial year, 100 stoves, which cost them Rs. 1,500 each, are sent to a dealer on sale or return and are debited to his account at Rs. 2,000 each, out of which only 20 stoves are sold up to the end of the accounting year.

11. After adjustment, the sale
    a) Will be increased by Rs. 1,60,000
    b) Will be reduced by Rs. 2,00,000
    c) Will be reduced by Rs. 1,60,000
    d) Will remain same
12. After adjustment, the stock with customer will be shown in the balance sheet at
a) Rs. 1,50,000  
   b) Rs. 1,20,000  
   c) Rs. 1,60,000  
   d) nil

13. In preparing final accounts of a company it is found that Sundry debtors of Rs. 64,000 includes Rs 4,000 representing price of goods sent out on approval for which the date of return has not yet expired goods are invoiced at a price of 25% above cost. The related items will be shown in Balance sheet as

<table>
<thead>
<tr>
<th>Sundry Debtors</th>
<th>Stock with Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) 60,000</td>
<td>4,000</td>
</tr>
<tr>
<td>b) 60,000</td>
<td>3,200</td>
</tr>
<tr>
<td>c) 64,000</td>
<td>3,200</td>
</tr>
<tr>
<td>d) 60,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

**Answer Question Nos. 14 and 15 from the following information:**

A & Co. sends out goods on approval to a few customers and includes the same in the Sales Account. On 31.3.2007 the Sundry Debtors balance stood at Rs. 1,00,000 which includes Rs. 7,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% above and above cost price and were sent to Mr. X- Rs. 4,000 and Mr. Y- Rs. 3,000. Value of closing stock as on 31st March, 2007 was Rs. 60,000.

14. After adjustment for goods sent on approval on 31 December, 2007
a) Sales will be increased by Rs. 7,000  
   b) Debtors will be increased by Rs. 70,000  
   c) Sales will be reduced by Rs. 7,000 and debtors will be increased by Rs. 7,000  
   d) Both debtors and sales will be reduced by Rs. 7,000.

15. After adjustment in the Balance sheet value of closing stock will be
a) Rs. 67,000  
   b) Rs. 60,000  
   c) Rs 65,667  
   d) Rs. 65,250

**Answer Question Nos. 16 & 17 from the following information:**

Guha Traders sends out the goods on sale or approval to customers and includes the same in sales account. On 31st December, 2006 the stock in hand amounted to Rs. 40,000 and the Sundry Debtors balance stood at Rs. 75,000 which included Rs. 5,000 being invoice value of goods sent on ‘sale or return’ against which no intimation was received during the year. these goods were sent out at 25% above cost and were sent to S. Dutta- Rs. 2,000 and R. Mitra- Rs. 3,000.

16. After adjustment sales will
a) Be reduced by Rs. 5,000  
   b) Be increased by Rs. 5,000  
   c) Remain same  
   d) Be reduced by Rs. 3,000

17. After adjustment, sundry debtors and stock in trade will be shown in the Balance sheet as follows:

<table>
<thead>
<tr>
<th>Sundry Debtors</th>
<th>Stock-in-hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Rs. 75,000</td>
<td>Rs. 40,000</td>
</tr>
<tr>
<td>b) Rs. 70,000</td>
<td>Rs. 40,000</td>
</tr>
<tr>
<td>c) Rs. 70,000</td>
<td>Rs. 44,000</td>
</tr>
<tr>
<td>d) Rs. 70,000</td>
<td>Rs. 45,000</td>
</tr>
</tbody>
</table>

18. HP (India) ltd. sends computers to its dealers on sale or return basis. The following transactions took place during December, 2006:
December 5, Sent computers to dealers on sale or return basis at cost plus 33-1/3% 10,00,000.
December 10, Computer returned by the dealer 4,00,000
December 28, Received approval letter from dealer 5,00,000
31 computers awaiting approval 1,00,000 At the time of finalization of accounting on 31st December, 2006, stock with dealer will be shown at
a) Rs. 1,00,000  
   b) Rs. 75,000  
   c) Rs. 66,667  
   d) Rs. 60,000
Answers:

<table>
<thead>
<tr>
<th></th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>a</td>
<td>b</td>
<td>c</td>
</tr>
<tr>
<td>2.</td>
<td>c</td>
<td>a</td>
<td>b</td>
</tr>
<tr>
<td>3.</td>
<td>c</td>
<td>b</td>
<td>a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>a</td>
<td>b</td>
<td>c</td>
</tr>
<tr>
<td>5.</td>
<td>c</td>
<td>b</td>
<td>a</td>
</tr>
<tr>
<td>6.</td>
<td>b</td>
<td>c</td>
<td>a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>7.</th>
<th>8.</th>
<th>9.</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td>b</td>
<td>c</td>
<td>b</td>
</tr>
<tr>
<td>8.</td>
<td>b</td>
<td>a</td>
<td>c</td>
</tr>
<tr>
<td>9.</td>
<td>c</td>
<td>a</td>
<td>b</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>10.</th>
<th>11.</th>
<th>12.</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.</td>
<td>b</td>
<td>c</td>
<td>a</td>
</tr>
<tr>
<td>11.</td>
<td>b</td>
<td>c</td>
<td>a</td>
</tr>
<tr>
<td>12.</td>
<td>b</td>
<td>c</td>
<td>a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13.</td>
<td>b</td>
<td>d</td>
<td>c</td>
</tr>
<tr>
<td>14.</td>
<td>a</td>
<td>c</td>
<td>b</td>
</tr>
<tr>
<td>15.</td>
<td>c</td>
<td>b</td>
<td>a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>16.</th>
<th>17.</th>
<th>18.</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.</td>
<td>a</td>
<td>c</td>
<td>b</td>
</tr>
<tr>
<td>17.</td>
<td>c</td>
<td>b</td>
<td>a</td>
</tr>
<tr>
<td>18.</td>
<td>b</td>
<td>a</td>
<td>c</td>
</tr>
</tbody>
</table>
Partnership: Profit and Loss Appropriation Account

Select the best choice to answer the following questions:

1. A partner’s private petrol bills have been treated as part of the partnership vehicle expenses. Which of the following entries is necessary to correct the error:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Drawing A/c</td>
<td>Motor vehicle expenses A/c</td>
</tr>
<tr>
<td>b. Motor vehicle expenses A/c</td>
<td>Drawing A/c</td>
</tr>
<tr>
<td>c. Motor vehicle expenses A/c</td>
<td>Capital A/c</td>
</tr>
<tr>
<td>d. Capital A/c</td>
<td>Motor vehicle expenses account</td>
</tr>
</tbody>
</table>

2. What double entry is necessary to reflect interest earned on fixed partners’ capital account balances?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Partners’ current A/c</td>
<td>Profit &amp; loss appropriation A/c</td>
</tr>
<tr>
<td>b) Profit &amp; loss appropriation A/c</td>
<td>Partners’ current A/c</td>
</tr>
<tr>
<td>c) Profit and loss appropriation A/c</td>
<td>Cash A/c</td>
</tr>
<tr>
<td>d) Profit &amp; loss appropriation A/c</td>
<td>Partners’ capital A/c</td>
</tr>
</tbody>
</table>

3. What double entry is necessary to reflect interest payable on partners’ drawings?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Partners’ drawings A/c</td>
<td>Partners’ current A/c</td>
</tr>
<tr>
<td>b) Profit and loss appropriation A/c</td>
<td>Partners’ drawings A/c</td>
</tr>
<tr>
<td>c) Partners’ drawings A/c</td>
<td>Interest payable A/c</td>
</tr>
<tr>
<td>d) Partners’ current A/c</td>
<td>Profit &amp; loss appropriation A/c</td>
</tr>
</tbody>
</table>

4. Which of the following is not incorporated in the Partnership Act?
   a) Profit & loss are to be shared equally
   b) No interest is to be charged on capital
   c) All loans are to be charged interest @ 6% p.a.
   d) All drawings are to be charged interest

5. When is the Partnership Act enforced?
   a) When there is no partnership deed
   b) Where there is a partnership deed but there are differences of opinion between the partners
   c) When capital contribution by the partners varies
   d) When the partner’s salary and interest on capital are not incorporated in the partnership deed.

6. Which one of the following items cannot be recorded in the appropriation account?
   a) Interest on capital
   b) Interest on drawings
   c) Rent paid to partners
   d) Partner’s salary

7. How should interest charged on partners’ drawings be dealt with in partnership final accounts?
   a) Credited as income in profit & loss A/c
   b) Deducted from profit in allocating the profit among the partners
   c) Added to profit in allocating the profit among the partners
   d) Debited as an expense in the profit & loss A/c

8. Which of the following statement is true?
   a) A minor cannot be admitted as a partner
   b) A minor can be admitted as a partner, only into the benefits of the partnership
   c) A minor can be admitted as a partner but his rights and liabilities are same of adult partner
   d) None of the above.

9. Non-registration of a partnership gives rise to a number of disabilities such as:
   (i) No partner can bring a suit in any court against the firm or his co-partners.
   (ii) The firm cannot file a suit against third party for breach of contract.
Which of the above statement(s) is/are true?

10. In the absence of partnership deed, interest on partners' loan is payable by the firm @
   a) 12% p.a.    b) 6% p.a.   c) 10% p.a.   d) 16% p.a.

11. Ostensible partners are those who
   a) Do not contribution any capital but get some share of profit for lending their name to the business
   b) Contribute very less capital but get equal profit
   c) Do not contribute any capital and without having any interest in the business, lend their name to the business
   d) Contribute maximum capital of the business

12. Sleeping partners are those who
   a) Take active part in the conduct of the business but provide co-capital. However, salary is paid to them.
   b) Do not take any part in the conduct of the business but provide capital and share profits and losses in the agreed ratio
   c) Take active part in the conduct of the business but profited no capital. However, share profits and losses in the agreed ratio.
   d) Do not take any part in the conduct of the business and contribute no capital. However, share profits and losses in the agreed ratio.

13. A commission of 20% on net profit after charging such commission is calculated as
   a) 1/6 of the net profit before charging commission
   b) 1/5 of the net profit before charging commission
   c) 1/4 of the net profit before charging commission
   d) 1/3 of the net profit before charging commission

14. Under fixed capital method
   a) Only capital account is maintained
   b) Only current account is maintained
   c) Both capital and current accounts are maintained
   d) Neither capital nor current accounts are maintained

15. The liability of the partner is
   a) Limited to capital contribution
   b) Limited to the extent of share of profit
   c) Unlimited
   d) Unlimited in some cases

16. An ordinary partnership consists of ______.
   a) 2 to 10 partners
   b) 2 to 20 partners
   c) 2 to 30 partners
   d) 2 to 40 partners

17. The characteristics of a partnership are listed below except for ______.
   a) Mutual agency
   b) The business must be carried on by all or any of them acting for all
   c) Co-ownership of property
   d) Limited liability

18. ‘The relationship that subsists between persons carrying on a business in common with a view to profit’.
The definition best describes_______.
   a) A partnership   b) a corporation
   c) A sole proprietorship
   d) A company

19. The number of partners required for a bank partnership is ______.
   a) 2 to 5    b) 2 to 10
   c) 2 to 15  d) 2 to 20

20. ‘Agreed amount payable to partners in respect of duties discharged by them’ is known as ______.
   a) Partners’ interest   b) Partners’ salary
   c) Partner’s drawings  d) partner’s profit

21. If there is no partnership agreement and the firm incurs a loss, the loss should be ______
22. Registration of partnership firm is_____.
   a) Compulsory   b) not compulsory
   c) Compulsory if number of partners does not exceed 10
   d) Not compulsory if number of partners exceed 10

23. Interest on capital is chargeable to a firm to the extent of available _______.
   a) Reserve   b) profit
   c) Profit & reserve   d) Cash

24. When a partner draws a fixed sum for 12 months at the beginning of each month, interest on drawings (at an agreed rate) will be equal to interest of ________.
   a) 5 months   b) 5.5 months
   c) 6 months   d) 6.5 months

25. When a partner draws a fixed sum for 6 months at the beginning of each month, interest on drawings (at an agreed rate) will be equal to interest of ________.
   a) 2.5 months   b) 1.5 months
   c) 1.75 months   d) 3 months

26. Sourav and Sachin are in partnership, sharing profits and losses in the ratio 3:2. Under the terms of the partnership agreement, Sachin is entitled to a salary of Rs. 80,000.
   The partnership Profit & loss A/c for the year to 31st March, 2007 reported a profit of Rs. 1,60,000.
   What is Sourav’s? share of profit?
   a) Rs. 32,000   b) Rs. 48,000
   c) Rs. 96,000   d) Rs. 1,12,000

27. Cue & Rest are partners sharing profit and losses in the ratio of 2:1. They are allowed interest at 10% per annum on capitals.
   Other information is as follows:

   | Cue (Rs.) | Rest (Rs.) |

28. Stump & Bail are in partnership. Stump is entitled to a salary of Rs. 12,000 per annum. Profits and losses are shared equally. The partnership has made a net loss of Rs. 25,000.
   How much is Stump’s total share of the loss?
   a) Rs. 18,500   b) Rs. 5,500
   c) Rs. 6,000   d) Rs. 6,500

29. X and Y partners sharing profits and losses equally. The partners are entitled to annual salaries as follows: X Rs. 6,000; Y Rs. 4,000. The partnership has made a profit of Rs. 5,000.
   How much is X’s total share of the profit?
   a) Rs. 3,500   b) Rs. 3,900
   c) Rs. 8,500   d) Rs. 9,300

30. A partnership employs an inexperienced book-keeper. He has written up the current account of one of the partners as follows:

   **Current Account**

<table>
<thead>
<tr>
<th>To interest on capital</th>
<th>2,800</th>
<th>By balance b/f</th>
<th>270</th>
</tr>
</thead>
<tbody>
<tr>
<td>To salary</td>
<td>1,500</td>
<td>By Drawings</td>
<td>6,200</td>
</tr>
<tr>
<td>To balance c/d</td>
<td>10,870</td>
<td>By net profit</td>
<td>8,700</td>
</tr>
</tbody>
</table>
   **15,170**              |       | **15,170**     |     |

   The balance brought forward is entered correctly and the other entries are all correct in amount. However, the book-keeper is not very sure of the difference between debit and credit.
   What is the corrected balance carried forward?
   a) A debit balance of Rs. 1,530
   b) A debit balance of Rs. 6,530
   c) A credit balance of Rs. 7,070
   d) A credit balance of Rs. 16,470

31. The net profit the net profit for year ended 31.12.2006 was Rs. 1,02,000.
No entry has been made in the books in regard to the following:

a) On 1.7. 2006 C brought his private car into the firm at a valuation of Rs. 50,000. The car is to be depreciated over 4 years on the straight line basis. It is assumed that it will have a residual value of Rs. 10,000.

b) 1/5 th of the general expenses of Rs. 12,000, which have been debited to the profit and loss account is related to the next accounting period.

Correct net profit will be

a) Rs. 97,000   b) Rs. 1,07,000
    c) Rs. 99,400   d) Rs. 94,600

32. Old and Young were in partnership sharing profit and losses equally their draft accounts for the year ended 31 March, 2007 shows a profit of Rs. 1,50,000 before taking into account interest on a loan of Rs. 50,000 from Young at 10%. Each partner is entitled to a salary as follows:

Old Rs. 15,000 per annum
Young Rs. 10,000 per annum

What is Old’s total appropriation of profit for the year ended 31st March, 2007?

a) Rs. 77,500   b) Rs. 70,000
    c) Rs. 75,000   d) Rs. 80,000

33. Calculate Charity’s share of residual profits for 2006.

a) Rs. 12,040   b) Rs. 12,667
    c) Rs. 13,000   d) Rs. 14,000

34. Calculate the total of the appropriation credited to Hope’s account in 2006.

a) Rs. 24,080   b) Rs. 28,000

35. Calculate the balance of residual profit available for appropriation in profit sharing ratio.

a) Rs. 30,140   b) Rs. 31,160
    c) Rs. 33,860   d) Rs. 34,700

36. Calculate the net amount of all sums transferred from the appropriation account to the current account of X.

a) Rs. 19,116   b) Rs. 19,596
    c) Rs. 20,316   d) Rs. 20,796

37. X and Y are in partnership, sharing profits and losses equally and preparing their account to 31 December each year. on 1 July, 2006 Z joined the partnership and from that date profits are shared as: X 40%; Y 40% and Z 20%.

Profit for the year 2006 were as follows:

6 months to 30 June, 2006  Rs. 2,00,000
6 months to 31 December 2006  Rs. 3,00,000

It was agreed that X and Y only should bear bad debt loss of Rs. 40,000 equally. This bad debt was written off in the six months to 31 December, 2006 in arriving at the Rs. 3,00,000 profit.

X’s share of profit for the year 2006 is

a) Rs. 2,16,000   b) Rs. 2,20,000
    c) Rs. 2,00,000   d) Rs. 2,24,000

38. P and Q are in partnership, sharing profits equally.

On 30 June, 2006 R joined the partnership and it was agreed that from that date all three partners should share equally in the profit. In the year ended 31 December,
2006, the profit amounted to Rs. 3,00,000, accruing evenly over the year, after charging bad debt of Rs. 30,000 which it was agreed should be borne equally by P and Q only.

What should P’s total profit share be for the year ended 31 December, 2006?

a) Rs. 1,25,000  b) Rs. 95,000
c) Rs. 1,22,500  d) Rs. 1,10,000

39. P and Q are in partnership sharing profits and losses in the ratio 2:1. On 1 July, 2006 they admit P’s son R as a partner. P guaranteed that R’s share of profit would not be less than Rs. 25,000 for six months ending on 31st December, 2006. The profit sharing arrangements after R’s admission were: P 50%; Q 30%; and R 20%. Profits for the year 2006 is Rs. 2,40,000, accruing evenly over the year.

What should P’s final profit share be for the year ended 31 December, 2006?

a) Rs 1,39,375  b) Rs. 1,14,000
c) Rs. 1,39,000  d) Rs. 1,40,000

40. Edgar and Edward are partners in a small private hotel. Net profit for the year 2006 was calculated at Rs. 23,000.

While preparing the profit and loss Account, no account had been taken of the following:

(i) Private accommodation occupied by the partners in the hotel valued at Rs. 3,000 each per annum.

(ii) Repairs paid for Edgar’s private car Rs. 750 from the firm’s bank account and included in the business expenses.

(iii) Mrs. Edgar and Mrs. Edward work in the hotel and are entitled to salaries as follows: Mrs. Edgar Rs. 3,000; Mrs. Edward Rs. 4,000.

These salaries have not been paid. The correct net profit is

a) Rs. 23,250  b) Rs. 29,750
c) Rs. 22,750  d) none of the above

41. A, B and C were partners in a firm sharing profits and losses in the ratio of 4:3:3. Their fixed capitals were Rs. 1,00,000, Rs.

2,00,000 and Rs. 3,00,000 respectively. For the year 2005, interest on capital was credited to them @ 10% p.a. instead of @ 9% p.a.

Which of the following entries is necessary to correct the error?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) B capital Rs. 1,400</td>
<td>A capital Rs. 200</td>
</tr>
<tr>
<td></td>
<td>C Capital Rs. 1,200</td>
</tr>
<tr>
<td>b) A capital Rs. 1,400</td>
<td>B capital Rs. 200</td>
</tr>
<tr>
<td></td>
<td>C capital Rs. 1,200</td>
</tr>
<tr>
<td>c) B capital Rs. 1,200</td>
<td>A capital Rs. 1,400</td>
</tr>
<tr>
<td>C capital Rs. 200</td>
<td></td>
</tr>
<tr>
<td>d) B capital Rs. 200</td>
<td>A capital Rs. 1,400</td>
</tr>
<tr>
<td>C capital Rs. 1,200</td>
<td></td>
</tr>
</tbody>
</table>

42. A, B and C were partners in a firm. On 1.1.2006 their capitals stood at Rs. 50,000, Rs. 25,000 and Rs. 25,000 respectively. As per the provision of the partnership deed:

a) C was entitled to a salary of Rs 500 per month;

b) Partners were entitled to interest on capital @ 5% p.a.; and

c) Profits were to be shared in the ratio of capitals.

The net profit for the year 2006 of Rs. 33,000 was divided equally without providing for the above terms.

Which of the following entries is necessary to correct the error?

a) Debit: B Capital Rs. 4,250  
Credit: A Capital Rs. 1,750  
C Capital Rs. 2,500

b) Debit: B Capital Rs. 4,250  
Credit: A Capital Rs. 2,500  
C capital Rs. 1,750

c) Debit: A Capital Rs. 4,250  
Credit: B Capital Rs. 2,500  
C Capital Rs. 1,750

d) Debit: C Capital Rs. 4,250  
Credit: A Capital Rs. 1,750  
B Capital Rs. 2,500

Answer Question Nos. 43, 44 and 45 from the following information:
A and M are two partners sharing profits and losses in the ratio of 3:2 respectively. On 31.12.2006 their capital accounts stood at Rs. 55,000 and Rs. 45,000 after distribution of net profit of Rs. 15,000 and due consideration of drawings of the partners for Rs. 6,000 and Rs. 4,000 respectively. After closing the books the following discrepancies were discovered:

i) An item in the inventory was valued at Rs. 12,800 but had a realizable value of Rs. 8,300.

ii) Rs. 2,400 paid for insurance premium for the year ending on 31.3.2007 had been debited to profit and loss account.

iii) Interest on capital at 5% on partners’ capital as at the beginning of the year and interest on drawings of partners at 8% p.a. were left out of consideration.

43. Balance of opening capital on 1.1.2006

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Weak (Rs.)</th>
<th>Able (Rs.)</th>
<th>Lazy (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Capitals (1st January 2006)</td>
<td>75,000</td>
<td>40,000</td>
<td>30,000</td>
</tr>
<tr>
<td>b) Current A/cs (1st January 2006)</td>
<td>10,000</td>
<td>5,000</td>
<td>(Dr.) 5,000</td>
</tr>
<tr>
<td>c) Drawings</td>
<td>15,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>d) Interest on Drawings (2006)</td>
<td>500</td>
<td>190</td>
<td>350</td>
</tr>
</tbody>
</table>

44. Correct profit is

a) Rs. 15,500
b) Rs. 11,100

c) Rs. 10,500
d) none of the above

45. Divisible profit is

a) Rs. 6,350
b) Rs. 6,750
c) Rs. 7,100
d) Rs. 11,500

47. Profit for the year 2006 will be shared as:

<table>
<thead>
<tr>
<th></th>
<th>P (Rs.)</th>
<th>Q (Rs.)</th>
<th>R (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>37,500</td>
<td>27,500</td>
<td>10,000</td>
</tr>
<tr>
<td>b)</td>
<td>37,000</td>
<td>25,000</td>
<td>12,500</td>
</tr>
<tr>
<td>c)</td>
<td>35,000</td>
<td>27,500</td>
<td>12,500</td>
</tr>
<tr>
<td>d)</td>
<td>37,500</td>
<td>26,500</td>
<td>11,000</td>
</tr>
</tbody>
</table>

Answer Question Nos. 48, 49 and 50 from the following information:

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 5% per annum and interest on drawings will be charged @ 4 per cent per annum. No interest will be charged/allowed on current accounts.

The following are the particulars of the Capital, Current and Drawings Accounts of the partners:

48. Adjusted net profit for the year 2006 is:
49. Revised drawing are:

<table>
<thead>
<tr>
<th></th>
<th>Weak (Rs.)</th>
<th>Able (Rs.)</th>
<th>Lazy (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>15,000</td>
<td>13,000</td>
<td>10,000</td>
</tr>
<tr>
<td>b)</td>
<td>15,750</td>
<td>10,000</td>
<td>13,000</td>
</tr>
<tr>
<td>c)</td>
<td>15,750</td>
<td>13,000</td>
<td>10,000</td>
</tr>
<tr>
<td>d)</td>
<td>15,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

50. Share of divisible profit is:

<table>
<thead>
<tr>
<th></th>
<th>Weak (Rs.)</th>
<th>Able (Rs.)</th>
<th>Lazy (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>24,770</td>
<td>12,385</td>
<td>12,385</td>
</tr>
<tr>
<td>b)</td>
<td>28,425</td>
<td>14,213</td>
<td>14,212</td>
</tr>
<tr>
<td>c)</td>
<td>23,730</td>
<td>11,865</td>
<td>11,865</td>
</tr>
<tr>
<td>d)</td>
<td>24,800</td>
<td>12,400</td>
<td>12,400</td>
</tr>
</tbody>
</table>

Answers:

1. a  2. b  3. d
4. d  5. a  6. c
7. c  8. b  9. c
10. b 11. c  12. b
13. a 14. c  15. c
16. b 17. d  18. a
19. b 20. b  21. d
22. b 23. b  24. d
25. c 26. b  27. c
28. d 29. a  30. c
31. c 32. c  33. a
34. c 35. c  36. b
37. a 38. c  39. c
40. c 41. d  42. b
43. c 44. b  45. b
46. c 47. b  48. c
49. c 50. d
Partnership: Admission of a Partner

Select the best choice to answer the following question.

1. When a new partner is admitted, he is entitled to a share of
   a) Past profits  
   b) present profits  
   c) Future profits  
   d) Reserve appearing in the balance sheet of the firm

2. When a new partner is admitted, unless otherwise agreed, the profit sharing ratio between the existing partners will
   a) Reduce  
   b) increase  
   c) Remain same  
   d) none of above

3. Which of the following is not true?
   a) At the time of admission of a partner if only the incoming partner's profit ratio is given, then it means that the profit sharing ratio between the old partners does not change
   b) If the incoming partner purchase his share of profit from the other partners in a particular ratio, then the old partners continue to share profits and losses in the old ratio
   c) It is often desired to revalue the assets and liabilities at the time of admission of a partner
   d) The contingent liability becoming a certain liability will be debited to revaluation account at the time of admission of a partner

4. Which of the following is true?
   a) All accumulated profits and losses are to be transferred to revaluation account at the time of admission of a partner
   b) If the incoming partner is to bring his share of goodwill in cash the same is taken away by the old partners in their new profit sharing ratio
   c) In case of memorandum revaluation account, the balance of its second part is taken to the capital accounts of the old partners only
   d) When memorandum revaluation account is prepared then all the assets and liabilities except cash appears in the balance sheet at their old values.

5. Which of the following is not true?
   A purchased goodwill

6. Which of the following is not true?
   a) When a new partner is admitted, he is entitled to share of future profits/losses
   b) Calculation of sacrificing ratio is necessary when the new partner will bring in premium for goodwill in cash
   c) Goodwill can have an existence separate from the organisation
   d) Revaluation is the recording of an asset or a liability at the current value.

7. Which of the following statement is wrong in the admission of a partner?
   a) Increase in the valuation of asset will increase capital
   b) Increase in the valuation of asset will decrease capital
   c) Increase in the valuation of liability will increase capital
   d) Decrease in the valuation of liability will increase capital

8. The account that performs the same function as the revaluation account is the
   a) Profit & loss adjustment account
   b) Capital Account
   c) Depreciation Account
   d) Appreciation Account

9. Profit or loss on revaluation of assets and liabilities is shared by
   a) The old partners in the new ratio
   b) The old partners in the old ratio
   c) The old partners in the sacrificing ratio
   d) All the partners in the new ratio

10. The premium for goodwill brought in by the new partner in cash is shared by the old partners in the
    a) Old Ratio  
    b) New Ratio  
    c) Capital Ratio  
    d) Sacrificing Ratio

11. A partnership does not maintain goodwill account. T recently admitted a new partner. No adjustments were made for goodwill in the partners' capital accounts. What is the effect of this omission?

<table>
<thead>
<tr>
<th>Old partners’ capital accounts total balances</th>
<th>New partners’ capital account balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Overstated</td>
<td>Understated</td>
</tr>
<tr>
<td>b) Understated</td>
<td>Overstated</td>
</tr>
</tbody>
</table>
12. A and B decided to form a partnership. On that date, A’s goodwill was Rs. 50,000 and B’s goodwill was Rs. 30,000. The partners decided to write off the goodwill immediately. How should this be done?

a) According to the amount of capital introduced
b) According to the amount of goodwill introduced
c) In equal shares
d) In the profit sharing ratio

13. A and B are partners in a firm with capital balances of Rs. 1,20,000 and Rs. 1,80,000 respectively. C is admitted to the partnership. C purchases a 20% partnership interest for Rs. 70,000. Which of the following statement is true for the above arrangement?

a) Total capital of the firm will change after C’s admission
b) Rs. 70,000 brought in by C will be treated as capital
c) Rs. 60,000 will be treated as capital and Rs. 10,000 will be treated as premium for goodwill. Along with premium, A and B will withdraw 20% of their respective capitals
d) Rs. 60,000 will be treated as capital and Rs. 10,000 will be treated as premium for goodwill. However, premium will be retained in the business.

14. X and Y are partners in a firm with capital balance of Rs. 3,00,000 and Rs 2,00,000 respectively. Z is admitted to the partnership. Z contributes Rs. 1,25,000 for 20% partnership interest. Which of the following statement is true for the above arrangement?

a) Total capital of the firm will not change after Z’s admission
b) Rs. 1,00,000 will be treated as capital and Rs. 25,000as premium for goodwill
c) Entire Rs. 1,25,000 will be treated as capital and it will be retained in the firm
d) None of the above.

15. Premium paid by a new partner in addition to the capital brought in, is meant for ______

a) Creditors  
b) Goodwill  
c) Loan  
d) mortgage

16. The net identifiable assets of a going concern is Rs. 1,20,000 but the selling price of the going concern is Rs. 1,50,000. The difference of Rs. 30,000 represents______.

a) Net profit  
b) gross profit  
c) Goodwill  
d) Appreciation

17. Goodwill is _____ asset

a) A current  
b) an intangible  
c) A fictitious  
d) not an

18. The excess of purchase consideration over its net assets value is referred to as _____ goodwill.

a) Non-purchased  
b) self generated  
c) Purchased  
d) fixed

19. A and B are in partnership, sharing profits and loss equally. A’s capital account is Rs. 60,000 and B’s capital account is Rs. 50,000. Goodwill is valued at Rs. 1,20,000, but it is not shown in the accounts they agree to admit C as a new partner and to share profits and losses equally. A’s new capital account balance is______.

a) Rs. 40,000  
b) Rs. 80,000  
c) Rs. 1,00,000  
d) Rs. 1,20,000

20. Ram and Rahim are partners sharing profits and losses equally. On 1st January, 2007 the admit Laxman as partners giving him 3/10th share in profits and losses. The new profit sharing ratio is 4:3:3. a) 2:1  
b) 1:2  
c) 1:1  
d) 4:3

21. X, Y and Z are partners in a firm sharing profits and losses as 5:3:2. D is admitted ass a new partner and the new profit sharing ratio becomes 4:4:3:3. Sacrifice/gain will be

a) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)
b) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)
c) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)
d) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)

22. M and N are partners in a firm sharing profits and losses in the ratio of 5:3. On 1st January, 2007 the partners decide to admit R as a partner. The new profit sharing ratio of M, N and R will be 7:5:4 respectively. The sacrificing ratio is:

a) 5:3  
b) 3:1
23. The average net profit expected in the future by ABC firm are Rs. 36,000 per year. the average capital employed in the business by the firm is Rs. 2,00,000. The rate of interest expected from capital invested in this class of business is 10%. The remuneration of the partners is estimated to be Rs. 6,000 per annum. Value of goodwill on the basis of two years’ purchase of super profits, is
a) Rs. 44,000  b) Rs. 32,000  c) Rs. 20,000  d) None of above

24. A and B are sharing profits and losses in the ratio of 2:1. C is admitted with 1/3rd share of profit. What will be the new profit sharing ratio between A and B?

25. The capital balance of A and B are Rs. 25,000 and Rs. 20,000 respectively after making all the adjustments. If C, the incoming partner, is to bring in 1/3rd of the total capital of the firm, then what should be his share of capital?

26. C the incoming partner, is to bring Rs. 6,000 by way of premium for goodwill for 1/5th share in the firm’s profits. What is the value of the total goodwill of the firm?

27. A and B are sharing profits and losses in the ratio of 5:4. C is admitted into the partnership with 1/10th share of profits for which he brings in Rs. 10,000 as his capital. What will be A's share of adjusted capital?

28. A and B are sharing profits and losses in the ratio of 4:3. C is admitted into the firm with 1/4th share of profit. The new profit sharing ratio among A, B and C is 3:3:2. What is the ratio of sacrifice?

29. A and B are sharing profits and losses in the ratio of 3:2. C is admitted with 1/5th share in

30. A and B share profits and losses in the ratio of 4:3. They admit C with 3/7th share, which he gets 2/7th from A and 1/7th from B. What is the new profit sharing ratio?

31. The capitals of A and B are Rs. 50,000 and Rs. 40,000. To increase the capital base of the firm to Rs. 1,50,000, they admit C. To join the firm, C is required to pay a sum of Rs. 70,000. What is the amount of premium for goodwill?

32. A and B are partners sharing profits and losses in the ratio of 3:2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C, a new partner, who will get 1/6th share in the profits of the firm. C brings in Rs. 25,000 as capital. What is the value of hidden goodwill?

33. A partnership firm earned net profits during the last three years as follows: 2004-Rs. 17,000; 2005-Rs. 20,000; 2006-Rs. 23,000. The capital investment in the firm throughout the above-mentioned period has been Rs. 80,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital employed. The value of goodwill on the basis of 2 years’ purchase of average super profits earned during the above-mentioned three years is

34. A and B are in partnership sharing profits and losses in the ratio of 3:2. The balances of their capital accounts are- A Rs. 1,50,000 and B Rs. 2,00,000. On 31st December,2006 they decide to admit C as a partner who is to bring in Rs. 1,00,000 as his capital and receives 1/5 th of the future profits. For this purpose, goodwill is to be calculated at 2 years’ purchase of average super profits of the last three years. The super profits are after
charging interest on capital of 5% per annum and partners’ salaries of Rs. 1,25,000 per annum each. The profit transferred to the profit and loss appropriation account are as follows: 2004 Rs. 2,85,600; 2005 Rs. 2,99,800; 2006 Rs. 3,22,100. The value of goodwill is

a) Rs. 3,20,000  
b) Rs. 70,000  
c) Rs. 55,000  
d) none of above

35. Taylor and Best were in partnership sharing profit and losses in the ratio of 2:1. The partners agreed to take Watson into partnership as on 1st January, 2006. For this purpose, goodwill is to be valued at 4 times the average annual profits of the previous five years whichever is higher.

The agreed profits for goodwill purposes of the past five years are as follows: 2001 Rs. 14,000; 2002 Rs. 15,500; 2003 Rs. 10,000; 2004 Rs. 16,000; 2005 Rs. 15,000.

The value of goodwill is

a) Rs. 56,400  
b) Rs. 56,500  
c) Rs. 56,600  
d) Rs. 56,700

36. A and B are partners sharing profits and losses in the ratio of 5:3. On 1st January, 2006 C is admitted to the partnership for 1/4th share of profits. For this purpose, goodwill is to be valued at 2 years’ purchase of last three years’ profits after allowing partners’ remuneration. Profits to be weighed 1:2:3, the greatest weight being given to last year.

Net profit before partners’ remuneration were: 2003 Rs. 2,00,000; 2004 Rs. 2,30,000; 2005 Rs. 2,50,000.

The remuneration of the partners is estimated to be Rs. 90,000 per annum.

The value of goodwill is

a) Rs. 2,73,333  
b) Rs. 1,45,000  
c) Rs. 2,90,000  
d) Rs. 4,35,000

37. P, Q and R are partners sharing profits and losses in the ratio 2:2:1. They agree to admit S for 1/5th share. For the purpose of admission of D, the goodwill of the firm is to be valued at 3 years’ purchase on the basis of average of 5 years’ profit or loss. The profits are:

On 1st January, 2005, a motor cycle costing Rs. 40,000 was purchased and debited to Travelling expenses account on which depreciation is to be calculated at 25%.

The value of goodwill is

a) Rs. 50,000  
b) Rs. 1,56,000  
c) Rs. 1,50,000  
d) Rs. 1,60,000

40. J and K are partners sharing profits and losses equally. They do not record goodwill in the firm’s books. L joins the partnership paying Rs. 24,000 for his share of the goodwill. Profits and losses are to be shared equally between J, K and L.

Which of the following shows the increase in the partners’ accounts on the admission of L as a partner?

(All figure in rupees)

<table>
<thead>
<tr>
<th>Goodwill</th>
<th>Cash</th>
<th>Capital A/c</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>J</td>
</tr>
<tr>
<td>a) -</td>
<td>24,000</td>
<td>8,000</td>
</tr>
<tr>
<td>b) -</td>
<td>24,000</td>
<td>-</td>
</tr>
<tr>
<td>c) -</td>
<td>24,000</td>
<td>12,000</td>
</tr>
<tr>
<td>D) 24,000</td>
<td>24,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

41. L and M are in partnership sharing profits and losses in the ratio of 3:2. They admit N as a partner on 1 January. On the same date the partnership net assets are revalued and show a loss on revaluation of Rs. 40,000. The new profit/loss sharing ratio is L: 2/5, M 2/5, N 1/5.
100

How will the revaluation of the net assets be recorded in the partners’ capital account?

Capital Accounts

<table>
<thead>
<tr>
<th></th>
<th>L (Rs.)</th>
<th>M (Rs.)</th>
<th>N (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Cr. 16,000</td>
<td>Cr. 16,000</td>
<td>Cr. 8,000</td>
</tr>
<tr>
<td>b)</td>
<td>Cr. 16,000</td>
<td>Dr. 16,000</td>
<td>Dr. 8,000</td>
</tr>
<tr>
<td>c)</td>
<td>Cr. 24,000</td>
<td>Cr. 16,000</td>
<td>-</td>
</tr>
<tr>
<td>d)</td>
<td>Dr. 24,000</td>
<td>Cr. 16,000</td>
<td>-</td>
</tr>
</tbody>
</table>

42. S and T are partners sharing profits and losses in the ratio of 1:2. They admit V as a partner and revise the profit-sharing ratio to S: 2/5; T: 2/5; V: 1/5.

Goodwill is valued at Rs. 60,000 but no goodwill is to be recorded in the books. Which entries will be made in the partners’ capital accounts?

Capital Accounts

<table>
<thead>
<tr>
<th></th>
<th>S (Rs.)</th>
<th>T (Rs.)</th>
<th>V (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Dr. 4,000</td>
<td>Cr. 16,000</td>
<td>Dr. 12,000</td>
</tr>
<tr>
<td>b)</td>
<td>Cr. 24,000</td>
<td>Cr. 24,000</td>
<td>Dr. 48,000</td>
</tr>
<tr>
<td>c)</td>
<td>Cr. 4,000</td>
<td>Dr. 16,000</td>
<td>Cr. 12,000</td>
</tr>
<tr>
<td>d)</td>
<td>Dr. 24,000</td>
<td>Dr. 24,000</td>
<td>Cr. 48,000</td>
</tr>
</tbody>
</table>

43. A and B are partnership sharing the profits equally. No goodwill account is maintained in the accounts. C joins the partnership and pays Rs. 30,000 cash as premium for goodwill.

Which of the following correctly shows the increases in the accounts on the admission of C into the partnership?

Cash | A’s Capital (Rs.) | B’s Capital (Rs.) | C’s Capital (Rs.)
---|-----------------|-----------------|-----------------|
| a) | 30,000 | 10,000 | 10,000 |
| b) | 30,000 | - | 30,000 |
| c) | 30,000 | 15,000 | - |
| d) | 30,000 | - | - |

Answer Question No. 44 and 45 from the following information:

P and Q are partners in a firm sharing profits and losses in the ratio of 3:2. They admit R as a partner on 1.1.2004 on the basis of his buying 1/5\(^{th}\) of P’s share and 1/6\(^{th}\) of Q’s share. On 1.1.2006, they permit R to purchase a further 1/10\(^{th}\) of their remaining shares.

44. How much did R pay each of the others on each occasion for goodwill assuming that the goodwill of the firm was Rs. 30,000 on the first occasion and Rs. 40,000 on the second?

a) Rs. 2,000 and Nil
b) Rs. 3,253 and Rs. 5,600

c) Rs. 5,600 and Rs. 3,253
d) Rs. 5,600 and Nil

45. What is the ultimate share of each partner in the business?


46. P, Q and R sharing profits and losses in the ratio of 3:2:1. It was decided to admit S into the partnership on the following terms and conditions:

1) New profit sharing ratio will 3:3:2:2
2) Goodwill of the firm is valued at Rs. 3,00,000. S brings his share of goodwill in cash which is credited to the old partners.

Premium for goodwill will be shared as (all figure in rupees):

<table>
<thead>
<tr>
<th></th>
<th>P</th>
<th>Q</th>
<th>R</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>30,000</td>
<td>20,000</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>b)</td>
<td>60,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>c)</td>
<td>51,429</td>
<td>-</td>
<td>8,571</td>
<td>-</td>
</tr>
<tr>
<td>d)</td>
<td>51,429</td>
<td>8,571</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

47. P & Q are in partnership sharing profits and losses in the ratio of 4:1. They admit R into the firm. R paid Rs. 60,000 as premium in cash for an equal share. Which of the following entry is correct to record the above?

a) Debit: Bank  Rs. 60,000
Credit: P Capital  Rs. 48,000
Credit: Q Capital  Rs. 12,000
b) Debit: Bank  Rs. 60,000
Credit: P Capital  Rs. 60,000
c) Debit: Bank  Rs. 60,000
Credit: Q Capital  Rs. 24,000
Credit: P Capital  Rs. 84,000
d) Debit: Bank  Rs. 84,000
Credit: P Capital  Rs. 60,000
Credit: Premium for Goodwill  Rs. 24,000

48. A, B and C are in partnership sharing profit and losses in the ratio of 5:4:1 respectively.

Two new partners are introduced, D and E. The profits are now to be shared in the ratio 3:4:2:2:1 respectively. D paid Rs. 30,000 in cash as premium for goodwill. However, E could not pay premium for goodwill in cash. Which of the following entry is correct to record the above?

a) Bank A/c Dr. 30,000
To A Capital A/c 15,000
To B Capital A/c 12,000

PANCHAKSHARI’S PROFESSIONAL ACADEMY PVT LTD
(Your Lifelong Knowledge Partner…)
49. X and Y are in partnership and prepare their accounts to 31st December each year. On 1st July, 2006, Z joined the partnership. The profits sharing arrangements are:

<table>
<thead>
<tr>
<th>Months</th>
<th>Salary-X</th>
<th>X (60%)</th>
<th>Y (40%)</th>
<th>Z (20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 months to 30th June 2006 Rs. 15,000</td>
<td>6 months to 31st December, 2006 Rs. 25,000</td>
<td>60%</td>
<td>40%</td>
<td>-</td>
</tr>
</tbody>
</table>

The partnership profit for the year ended 31st December, 2006 was Rs. 3,50,000 accruing evenly over the year. What is the partners' total profit share for the year ended 31st December, 2006?

(Rupees in '000)

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>196</td>
<td>124</td>
<td>30</td>
</tr>
<tr>
<td>b)</td>
<td>217</td>
<td>108</td>
<td>25</td>
</tr>
<tr>
<td>c)</td>
<td>155</td>
<td>130</td>
<td>65</td>
</tr>
<tr>
<td>d)</td>
<td>175</td>
<td>145</td>
<td>35</td>
</tr>
</tbody>
</table>

**Answer Question Nos. 50, 51 and 52 form the following information.**

Rain and Storm are partners in a firm sharing profits and losses as 3:2 respectively. They agree to take Dust as a partner from 1 January, 2007 on the following terms and conditions:

i) Dust will contribute Rs. 15,000 as capital and will bring proportionate amount in cash for goodwill.

ii) The goodwill of the firm shall be valued at Rs 23,750.

iii) Agreed revaluation surplus is Rs. 1,700.

iv) The profit and loss sharing ratio shall be adjusted, that is, between Rain and Storm the former ratio is maintained,

while between Storm and Dust there shall be the same ratio as between Rain and Storm.

v) The capital shall be adjusted (without disturbing the ultimate total capital) so as to correspond with the new ratio, the excess or deficit being transferred to their respective current account.

50. The premium for goodwill brought in by Dust is

- a) Rs. 10,000
- b) Rs. 5,000
- c) Rs. 3,000
- d) Rs. 2,000

51. Partners’ capital account balances after admission are

<table>
<thead>
<tr>
<th>Rain (Rs.)</th>
<th>Storm (Rs.)</th>
<th>Dust (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) 44,000</td>
<td>25,800</td>
<td>15,000</td>
</tr>
<tr>
<td>b) 41,000</td>
<td>23,800</td>
<td>17,200</td>
</tr>
<tr>
<td>c) 38,700</td>
<td>25,800</td>
<td>17,200</td>
</tr>
<tr>
<td>d) 43,000</td>
<td>22,000</td>
<td>15,000</td>
</tr>
</tbody>
</table>

52. Amount transferred to current account of partners

<table>
<thead>
<tr>
<th>Rain (Rs.)</th>
<th>Storm (Rs.)</th>
<th>Dust (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) 5,320(Dr.)</td>
<td>3,120(Cr.)</td>
<td>2,200(Cr.)</td>
</tr>
<tr>
<td>b) 5,320(Cr.)</td>
<td>3,120(Dr.)</td>
<td>2,200(Cr.)</td>
</tr>
<tr>
<td>c) 5,320(Cr.)</td>
<td>3,120(Dr.)</td>
<td>2,200(Dr.)</td>
</tr>
<tr>
<td>d) 5,320(Cr.)</td>
<td>3,120(Dr.)</td>
<td>2,200(Dr.)</td>
</tr>
</tbody>
</table>
## Answers:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>c</td>
<td>2.</td>
</tr>
<tr>
<td>4.</td>
<td>d</td>
<td>5.</td>
</tr>
<tr>
<td>7.</td>
<td>b</td>
<td>8.</td>
</tr>
<tr>
<td>10.</td>
<td>d</td>
<td>11.</td>
</tr>
<tr>
<td>13.</td>
<td>c</td>
<td>14.</td>
</tr>
<tr>
<td>16.</td>
<td>c</td>
<td>17.</td>
</tr>
<tr>
<td>19.</td>
<td>b</td>
<td>20.</td>
</tr>
<tr>
<td>22.</td>
<td>b</td>
<td>23.</td>
</tr>
<tr>
<td>25.</td>
<td>b</td>
<td>26.</td>
</tr>
<tr>
<td>28.</td>
<td>c</td>
<td>29.</td>
</tr>
<tr>
<td>31.</td>
<td>c</td>
<td>32.</td>
</tr>
<tr>
<td>34.</td>
<td>b</td>
<td>35.</td>
</tr>
<tr>
<td>37.</td>
<td>c</td>
<td>38.</td>
</tr>
<tr>
<td>40.</td>
<td>c</td>
<td>41.</td>
</tr>
<tr>
<td>43.</td>
<td>c</td>
<td>44.</td>
</tr>
<tr>
<td>46.</td>
<td>b</td>
<td>47.</td>
</tr>
<tr>
<td>49.</td>
<td>a</td>
<td>50.</td>
</tr>
<tr>
<td>52.</td>
<td>d</td>
<td></td>
</tr>
</tbody>
</table>
Partnership: Retirement of a partner

Select the best choice to answer the following Questions:

1. Which of the following is true?
   a) The retirement of a partner result in a new partnership.
   b) Gaining ratio is the ratio in which the old partners are surrendering their share of profit in favour of the new partner.
   c) When a partner retires, goodwill is to be distributed in the capital ratio.
   d) When a partner retires, profit or loss on revaluation is to be shared in the gaining ratio.

2. Which of the following is true?
   a) When the retiring partner’s share of goodwill is credited to his capital account, then the same is to be debited to the capital accounts of the remaining partners in the sacrificing ratio.
   b) The amount due to the retiring partners if not paid in cash is transferred to his loan account.
   c) The account of retiring partner’s capital is transferred to a loan account, which carries interest @ 10% p.a. until it is paid.
   d) If a partner retires on a date other than the date of preparing final accounts, then he is not entitled to any share in the profit from the date of preceding final accounts to the date of retirement.

3. Which of the following is true?
   a) The profit or loss disclosed by the revaluation account at the time of retirement of a partner is transferred to the capital account of the partners in the capital ratio.
   b) When a partner retires, all accumulated losses are transferred to the capital accounts in new profit sharing ratio.
   c) When a partner retires, a revaluation account is prepared in the interest of the retiring partner.
   d) Unrecorded asset taken over by a retiring partner should appear in the revaluation account.

4. Which of the following is true?
   a) When a partner retires, a goodwill account may be raised which will find a place in the balance sheet.
   b) When a partner retires, a goodwill account may be raised but it should be written off immediately.
   c) When a partner retires, the remaining partners are bring in money to pay off the retiring partner.
   d) Profits and losses on revaluation of assets and liabilities directly affect the partners’ current accounts.

5. State which of the following is not true?
   a) A partner can retire from the business with the consent of all the other partners.
   b) The profit or loss on revaluation of assets and liabilities is transferred to continuing partners in the new ratio.
   c) Upon retirement, adjustment for goodwill is made through the partners’ capital A/c.
   d) A retiring partner is entitled to his share in the goodwill of the firm as per the agreement between the partners.

6. On retirement of a partner, the combined shares of the continuing partners
   a) Will remain same    b) will reduce
   c) Will increase       d) will decrease or increase

7. On retirement of a partner, the assets and liabilities of the firm are
   a) to be revalued upward only
   b) to be revalued downward only
8. at the time of retirement of a partner, if there is undistributed profit in the balance sheet of the firm, it
   a) will not be distributed amongst the partners
   b) will be distributed in the capital ratio
   c) will be distributed in the old profit sharing ratio amongst all the partners
   d) will be distributed amongst continuing partners

d) Increased or Decreased

c) to be revalued both upward and downward where necessary

d) not to be revalued

10. Gaining ratio is generally calculated at the time of _____ of a partner.
   a) Retirement only
   b) death only
   c) Admission only
   d) retirement/death

11. Gaining ratio is calculated only when the retiring partner’s share of ____ is to be adjusted.
   a) Goodwill only
   b) reserve only
   c) Goodwill and/or reserve
   d) Goodwill or reserve

12. Gaining ratio is the difference between ____ ratio and______.
   a) New profit sharing, old profit sharing
   b) New profit sharing, sacrificing
   c) New capital, old capital
   d) Old profit sharing, new profit sharing

13. After retirement of a partner, the combined share of the remaining partners will be______.
   a) Unchanged
   b) Increased
   c) Decreased

14. A partner can retire with the _____ _____ of all the other partners.
   a) Consent
   b) expressed consent
   c) Implied consent
   d) Expressed or implied consent

15. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires and the new profit sharing ratio between A and B is 3:2. What is the gaining ratio?
   a) Nil
   b) 3:7
   c) 2:1
   d) 4:3

16. From the following information, calculate the amount due to A - retiring partner:

<table>
<thead>
<tr>
<th>Capital Account Balance</th>
<th>Loan account balance</th>
<th>Accrued interest on loan</th>
<th>Value of goodwill</th>
<th>Revaluation profit</th>
<th>Share of profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 1,50,000</td>
<td>Rs. 1,25,500</td>
<td>4,000</td>
<td>1,25,000</td>
<td>25,000</td>
<td>50%</td>
</tr>
</tbody>
</table>

a) Rs. 3,45,000  b) Rs. 3,54,500  c) Rs. 3,44,000  d) Rs. 3,54,000

17. A, B and C are partners, C retires. Amount payable to him is Rs 72,300. Required cash in hand is Rs. 20,000. Cash already in hand is Rs. 7,000. A and B bring in the required amount in the ratio of 3:2. A brings in Rs. 51,180. How much B will bring in?
   a) Rs. 34,210
   b) Rs 34,120
   c) Rs. 33,120
   d) Rs. 34,100

18. A, B and C are partners sharing profits and losses in the ratio of 2:2:1. C retires on 31.3.2006. the accounting year of the firm ends on 31st December each year. C’s share of profit up to the date of retirement be calculated on the basis of average profit of the preceding three years.
   The profits of the preceding 5 years were as follows:
2001: Rs. 20,000; 2002: Rs. 23,500; 2003: Rs. 30,000; 2004: Rs. 27,500; 2005: Rs. 32,500.
Calculate C’s share of profit up to the date of retirement.
a) Rs. 6,500  b) Rs. 7,500  
c) Rs. 1,500  d) Rs. 1,600

19. Amount credited to a retiring partner in his capital account is Rs. 2,01,000. He took over investments at Rs. 58,000. He also took over 20% of the debtors. The amount transferred to his loan account is Rs. 1,23,000. What is the total value of the debtors?
a) Rs. 1,00,000  b) Rs. 90,000  
c) Rs. 80,000  d) Rs. 1,10,000

20. A, B and C are partners sharing profits and losses in the ratio of 5:4:3. C retires and is credited for Rs. 9,000 as goodwill. How much will be debited to A in respect of goodwill adjustment?
a) Rs. 20,000  b) Rs. 16,000  
c) Rs. 5,000  d) Rs. 4,000

21. A, B and C are partners sharing profits and losses in the ratio of 4:3:3. C retires and the firm’s goodwill is valued at Rs. 30,000. A and B agree to share profits and losses in the ratio of 7:3. What is the retired journal entry?
a) A Capital A/c Dr. 12,000  
To C Capital A/c 12,000  
b) A Capital A/c Dr. 9,000  
To B Capital A/c 9,000  
c) C Capital A/c Dr. 9,000  
To A Capital A/c 9,000  
d) A Capital A/c Dr. 9,000  
To C Capital A/c 9,000

22. X, Y and Z are partners sharing profits and losses in the ratio of 3:2:1. Z retires and the following journal entry is passed in respect of goodwill.
Y Capital A/c Dr. 10,000  
To X Capital A/c 5,000  
To Z Capital A/c 5,000

23. X, a retiring partner is credited with the following in his capital account:
Balance b/d Rs. 30,000  
Revaluation profit Rs. 1,000  
Share of goodwill Rs. 6,000  
An amount of Rs. 32,000 is transferred to his loan account. What is the amount of cash paid to him?
a) Rs. 4,000  b) Rs. 6,000  
c) Rs. 5,000  d) Rs. 3,000

24. X, Y and Z are partners sharing profits and losses in the ratio of 4:3:1. Y retires and surrenders his share of profit to X and Z in the ratio of 4:5. What is the new profit sharing ratio between X and Z?
a) 5:4  b) 4:5  
c) 3:1  d) 2:1

25. P, Q and R were partners, sharing profits and losses equally. P retired and Q and R continued in partnership sharing profits and losses equally. Goodwill was valued at Rs. 60,000 but was not shown in the books. Which entries will record the adjustments for P’s retirement in the books?

<table>
<thead>
<tr>
<th>Capital Accounts</th>
<th>P Rs.</th>
<th>Q Rs.</th>
<th>R Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>-</td>
<td>Cr. 10,000</td>
<td>Cr. 10,000</td>
</tr>
<tr>
<td>b)</td>
<td>Cr. 20,000</td>
<td>Dr. 10,000</td>
<td>Dr. 10,000</td>
</tr>
<tr>
<td>c)</td>
<td>Dr. 20,000</td>
<td>Cr. 10,000</td>
<td>Cr. 10,000</td>
</tr>
<tr>
<td>d)</td>
<td>-</td>
<td>Cr. 30,000</td>
<td>Cr. 30,000</td>
</tr>
</tbody>
</table>
## Answers:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>a</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>a</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>a</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>c</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>b</td>
<td></td>
</tr>
</tbody>
</table>
Partnership: Death of a Partner

Select the best choice to answer the following questions:

1. The death of a partner:
   a) Will not terminate the partnership
   b) Will terminate the partnership
   c) Will compulsorily dissolve the partnership firm
   d) Will not affect anything of the partnership

2. On death of a partner, the combined shares of the surviving partners:
   a) Will remain same
   b) Will decrease
   c) Will increase
   d) Will decrease or increase

3. On death of a partner, the assets and liabilities of the firm are:
   a) To be revalued upward only
   b) To be revalued downward only
   c) To be revalued both upward and downward where necessary
   d) Not to be revalued.

4. Joint life policy premium will be treated as:
   a) A personal expenses of the partners
   b) An operating loss of the firm
   c) An expense of the firm
   d) An appropriation of profit

5. At the time of death of a partner if there is undistributed profit in the balance sheet of the firm, it:
   a) Will not be distributed amongst the partners
   b) Will be distributed in the capital ratio
   c) Will be distributed amongst the surviving partners only
   d) Will be distributed in the old profit sharing ratio amongst all the partners

6. Upon death, the amount of joint life policy should be distributed:
   a) Amongst all partners in the old ratio
   b) Amongst continuing partners in the old ratio
   c) To the executors of the deceased
   d) Amongst continuing partners in the new ratio

7. The executors of deceased partners are entitled to the share of goodwill as per the:
   a) Agreement between the partners
   b) Profit sharing ratio
   c) Capital ratio
   d) Equally

8. Which of the following is true?
   a) Due to death of a partner, the profit sharing ratio between the old partners does not change
   b) The death of a partner dissolves the old partnership firm
   c) A joint life policy matures on the happening of the first death
   d) The premium paid on a joint life policy is charged against capital of the partners

9. Which of the following is true?
   a) The question of surrender value arises only in case of joint life policies
   b) In case of a ‘with profit’ policy, the holder will get only the amount specified in the policy
   c) Surrender values are very low during the early years of a policy
   d) At any time, the surrender value of a policy represents a liability

10. Which of the following is true?
    a) Joint life policy is created by debiting profit and loss account
    b) Joint life policy reserve is created by debiting profit and loss account
    c) Joint life policy is always shown as an asset
d) Joint life policy is always shown as a liability

d) Joint life policy reserve account is in the nature of an accumulated profit

11. Which of the following is true?
   a) A joint life policy is opened in the books only when a partner dies
   b) The final balance of the joint life policy reserve account is shared by the partners in the capital ratio.
   c) At any point of time, the surrender value of a policy is equal to the total amount of premium paid
   d) Any premium is debited to joint life policy account as and when paid

12. Which of the following is true?
   a) When a partner dies, the assets of the firm are not revalued but realized
   b) When a partner dies, the firm receives the surrender value of the policy.
   c) A deceased partner’s share may be taken over by the continuing partners in the agreed ratio
   d) In the case of death of a partner, the surviving partners cannot continue the business in the usual manner

13. Which of the following is not true?
   a) When premium payable on the policy taken on the life of partners is treated as an asset, the amount of premium is debited to the joint life policy account and credited to bank account
   b) When the premium paid on the policy taken on the life of partners is treated as an asset and reserve is to be maintained, then at the end of the accounting year, an amount equal to the premium is debited to profit and loss appropriation account
   c) When the premium paid on the policy taken on the life of partners is treated as an asset and a joint life policy reserve is to be maintained, then the reserve account appears on the asset side of the balance sheet

14. Which of the following is true?
   a) A joint life policy is always shown as an asset
   b) A joint life policy is never shown as an expense
   c) A joint life policy reserve is an external transaction
   d) The creation of a joint life policy reserve reduces the divisible profit

15. Which of the following is true?
   a) Revaluation account is unaffected when an unrecorded asset is taken over by the executors of a deceased partner
   b) Revaluation account is debited at the decrease in the value of creditors at the death of a partner
   c) Revaluation account is credited when an unrecorded asset is sold on the death of a partner
   d) Revaluation account is unaffected when revaluation expenses are paid by a partner

16. Which of the following is true?
   a) In case of death of a partner, reserve and surplus should be distributed amongst continuing partners in the new ratio.
   b) The executors of a deceased partner are entitled to a share of goodwill of the firm as per agreement
   c) The profit/loss on revaluation of assets and liabilities is transferred to all partners capital accounts equally.
   d) Upon death, the combined shares of the continuing partners decrease

17. Which of the following is true?
   a) Upon death, when a memorandum revaluation account is prepared, assets and liabilities appear in the Balance sheet at old figures
109

PANCHAKSHARI’S PROFESSIONAL ACADEMY PVT LTD
(Your Lifelong Knowledge Partner…)

b) Upon death, the amount of joint life policy
should be distributed amongst continuing
partners.

c) Upon death, if goodwill is not appearing in
the Balance sheet, no adjustment is
required.

d) In the event of the death of a partner, the
firm is not entitled to the full value of the
individual policy.

18. When a partner dies, the joint life policy
is______.
a) Revalued  
b) realized

c) Surrendered  
d) distributed

19. The premium paid on a joint life policy is
shown in the profit and loss account as a
(an)______.
a) Expense  
b) loss

c) Income  
d) Provision

20. When no joint life policy is shown in the
books, the surrender value of the policy
represents_____ reserve.
a) Capital  
b) revenue

c) Policy  
d) Secret

21. When the premium paid is shown in the Profit
and loss A/c, the ______ profit is reduced
a) Gross  
b) divisible

c) Net  
d) capital

22. Surrender value is the amount receivable on
a life insurance policy that is cancelled
_____ the end of its term
a) After  
b) at

c) Before  
d) at or before

23. Joint life policy reserve account should be
transferred to the capital account of______
partner(s)
a) All the  
b) solvent

c) Insolvent  
d) continuing

24. If the goodwill raised after the death of a
partner is to be written off, then the capital
accounts of the remaining partners are
debited in ______ ratio.
a) Capital  
b) gaining

c) New profit sharing  
d) old profit sharing

25. The amount received from the insurance
compny on the joint life policy of the
partners in excess of the surrender value is
credited to the capital account of the partner
in the ______ ratio.
a) Old  
b) new

c) Old profit sharing  
d) new profit sharing

26. When premium payable in the life policy
taken on the life of partners is treated as an
asset, then at the end of the year, the
balance in joint life policy account in excess
of its surrender value is treated as a (an)
_____.
a) Profit  
b) Expense

c) Loss  
d) Asset

27. When premium payable on the life policy
taken on the life of partners is treated as an
asset, then the amount received on the
maturity of the policy in excess of its
surrender value is a (an)______.
a) Profit  
b) Expense

c) Loss  
d) Asset

28. A, B and C are partners sharing profits and
losses in the ratio of 3:2:1. C dies and his
share is taken over by A and B in the ratio
1:2.
What is new profit sharing ratio?
a) 5:4  
b) 4:5

c) 3:1  
d) 2:1

29. A and B were partners. They shared profits
as under:
A-1/2; B-1/3; and carried to reserve 1/6.
B died. The balance of reserve on the date of
death was Rs. 30,000.
What would be his share of reserve?
a) Rs. 10,000  
b) Rs. 15,000

c) Rs. 12,000  
d) Rs. 5,000
30. A, B and C are partners sharing profits and losses in the ratio of 2:2:1. B died. On the date of the death, the policy amount and surrender value were:

<table>
<thead>
<tr>
<th></th>
<th>A Rs.</th>
<th>B Rs.</th>
<th>C Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Amount</td>
<td>70,000</td>
<td>70,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Surrender value</td>
<td>30,000</td>
<td>30,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

What is B’s share of joint life policy?
- a) Rs. 40,000
- b) Rs. 50,000
- c) Rs. 30,000
- d) Rs. 1,00,000

31. The amount paid on a joint life policy is charged to profit and loss account every year as expense. The surrender value of the policy is on 31st December, were as under:
- 2003- Rs. 10,000
- 2004-Rs. 15,000
- 2005-Rs. 20,000
- 2006-Rs. 30,000

What is the balance in the joint life policy account on 31st December, 2005?
- a) Rs. 30,000
- b) Nil
- c) Rs. 10,000
- d) Rs. 25,000

32. X, Y and Z are partners. On 30.6.2006, X died. The net profit for the year ended on 31.12.2006 was Rs. 60,000. The total turnover for the year 2006 was Rs. 6,00,000. Turnover up to 30.6.2006 was Rs. 4,50,000.

What is X’s share of profit?
- a) Rs. 45,000
- b) Rs. 50,000
- c) Rs. 22,500
- d) Rs. 15,000

33. From the following, calculate the amount due to the executors of a deceased partner:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital account balance</td>
<td>12,000</td>
</tr>
<tr>
<td>Share of reserve</td>
<td>6,000</td>
</tr>
<tr>
<td>Share of joint life policy</td>
<td>30,000</td>
</tr>
<tr>
<td>Share of goodwill</td>
<td>7,500</td>
</tr>
<tr>
<td>Revaluation loss</td>
<td>2,750</td>
</tr>
<tr>
<td>Amount paid to the executors</td>
<td>30,000</td>
</tr>
</tbody>
</table>

- a) Rs. 55,500
- b) Rs. 22,750
- c) Rs. 52,750
- d) Rs. 20,250

34. A, B and C were partners, sharing profits and losses in the ratio of 3:2:1. C died and on that date, the balance of the join life policy account was Rs. 24,000. The policy value being Rs. 60,000. There was no joint life policy reserve account.

By what amount C’s account will be credited for joint life policy?
- a) Rs. 6,000
- b) Rs. 12,000
- c) Rs. 18,000
- d) Rs. 21,000

35. A, B and C were partners sharing profits and losses in the ratio of 2:2:1. C died and on that date, the balances of joint life policy account and joint life policy reserve account were Rs. 10,000 each. The policy amount received was Rs. 50,000.

By what amount C’s account will be credit for joint life policy?
- a) Rs. 12,500
- b) Rs. 8,000
- c) Rs. 10,000
- d) Rs. 15,000

36. A, B and C were partners sharing profits and losses in the ratio of 2:2:1. C died. The amount due to C was calculated as Rs. 50,000 up to the date of death, without considering the following:
- Unrecorded assets Rs. 12,000
- Unrecorded liabilities Rs. 2,000

What is the amount due to C’s executor?
- a) Rs. 55,000
- b) Rs. 60,000
- c) Rs. 48,000
- d) Rs. 52,000

37. A, B and C were partners sharing profits and losses equally. A died. The amount due to A was calculated as Rs. 30,000 without considering the following:
- Unrecorded assets taken over by A earlier Rs. 10,000
- Unrecorded liabilities assumed by the executors of A Rs. 1,000

What is the amount due to A’s executors?
- a) Rs. 24,000
- b) Rs. 22,000
- c) Rs. 39,000
- d) Rs. 36,000
The following information is relevant for Question Nos. 38 to 42.

A, B and C are in partnership, sharing profits in the proportion of two-third, one-sixth and one-sixth respectively, the in order to provide cash for the immediate payment of a portion of the amount due to any one of them in the event of death, in respect of both capital and goodwill, an assurance was effected on their lives jointly for Rs 9,000 without profits, at an annual premium of Rs. 350.

A died on the 30th June, 2006 three months after the annual accounts had been prepared, and in accordance with the partnership agreement, his share of the profits to the date of death was estimated on the exact basis of the profits for the preceding year. in addition to this, the agreement provided for interest on capital at 5% per annum on the balance standing to the credit of the Capital Account at the date of the last Balance sheet, and also for goodwill, which was to be brought into account at two years’ purchase of the average profits for the last three years, prior to charging the above-mentioned insurance premiums, but after charging interest on capital. A’s capital on 31st March, 2006 stood at Rs. 12,000 and his drawings from then to the date of death amounted to Rs. 900.

The net profits of the business for the three preceding years amounted to Rs. 3,350, Rs. 4,150 and Rs. 4,050, respectively, after charging interest on capital. A’s capital on 31st March, 2006 stood at Rs. 12,000 and his drawings from then to the date of death amounted to Rs. 900.

The net profits of the business for the three preceding years amounted to Rs. 3,350, Rs. 4,150 and Rs. 4,050, respectively, after, charging interest on capital but before charging insurance premiums. The premium paid on policy are written off to Profit and loss Account.

38. Interest on capital available to A
   a) Rs. 600          b) Rs. 450

39. A’s share of goodwill
   a) Rs. 7,700         b) Rs 5,133
   c) Rs. 5,000         d) Rs. 2,567

40. A’s share of profit life policy
   a) Rs. 9,000         b) Rs. 3,000
   c) Rs. 6,000         d) Rs. 4,000

41. A’s share of profit
   a) Rs. 3,750         b) Rs. 925
   c) Rs. 617           d) Rs. 675

42. Amount payable to A
   a) Rs. 23,900        b) Rs. 17,900
   c) Rs. 17,000        d) Rs. 23,000

Answers:

<table>
<thead>
<tr>
<th></th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>c</td>
<td>5.</td>
<td>d</td>
</tr>
<tr>
<td>7.</td>
<td>a</td>
<td>8.</td>
<td>c</td>
</tr>
</tbody>
</table>
| 10.| a  | 11.| d  | 12.
| 16.| b  | 17.| a  | 18.|
| 22.| c  | 23.| a  | 24.|
| 25.| c  | 26.| c  | 27.|
| 28.| a  | 29.| c  | 30.|
| 31.| b  | 32.| d  | 33.|
| 34.| a  | 35.| c  | 36.|
| 37.| a  | 38.| c  | 39.|
| 40.| c  | 41.| c  | 42.|

38. Interest on capital available to A
   a) Rs. 600          b) Rs. 450

39. A’s share of goodwill
   a) Rs. 7,700         b) Rs 5,133
   c) Rs. 5,000         d) Rs. 2,567

40. A’s share of profit life policy
   a) Rs. 9,000         b) Rs. 3,000
   c) Rs. 6,000         d) Rs. 4,000

41. A’s share of profit
   a) Rs. 3,750         b) Rs. 925
   c) Rs. 617           d) Rs. 675

42. Amount payable to A
   a) Rs. 23,900        b) Rs. 17,900
   c) Rs. 17,000        d) Rs. 23,000

Answers:
Accounting for issue of shares

Select the best choice to answer the following questions:

1. X Ltd. issued 40,000 equity shares of Rs. 20 each payable as Rs. 5 on application; Rs. 7 on allotment and Rs. 8 on final call. Company received all monies in full up to call, but one shareholder holding 250 shares failed to pay the allotment money and another shareholder holding 150 shares failed to pay the amount due on final call.

   The total amount of call-in-arrear is
   a) Rs. 1,750  b) Rs. 3,200  
   c) Rs. 6,000  d) Rs. 4,950

2. JSW Ltd. issued 4,000 equity shares of Rs. 10 each payable as Rs. 2 on application; Rs. 3 on allotment and the balance equally on first call and final call. All the shares were applied for and were fully allotted. Holder of 200 shares paid all monies payable on those shares at the time of allotment. The company made first call and all monies due were received except on 300 shares. The amount received on first call is

   a) Rs. 9,500  b) Rs. 9,250 
   c) Rs. 9,000  d) Rs. 8,750

3. B Ltd. forfeited 1,000 equity shares of Rs. 10 each, fully called up, held by Mr. H for non-payment of final call money @ Rs. 3 each. However, he paid @ Rs. 2 on application; @ Rs. 3 on allotment and @ Rs. 2 on first call. These shares were originally issued at par. At the time of passing entry for forfeiture, Forfeited Shares Account will be

   a) Debited with Rs. 10,000  
   b) Credited with Rs. 7,000  
   c) Credited with Rs. 3,000  
   d) Debited with Rs. 7,000

4. AB Ltd. forfeited 300 equity share of Rs. 10 each, Rs. 8 called up for non-payment of first call money @ Rs. 2 each. Application money @ Rs. 2 per share and allotment money @ Rs. 4 per share have already been received by the company. At the time of passing journal entry for forfeiture, Equity share capital account will be

   a) Debited with Rs. 3,000  
   b) Credit with Rs. 2,400  
   c) Credited with Rs. 1,800  
   d) Debited with Rs. 2,400

The following information is related to Question no. 45 and 46

X limited forfeited 1,000 equity shares of Rs. 10 each fully paid for non-payment of final call @ Rs. 2 per share. These shares were originally issued at a discount of 10%. Application, allotment and first call money @ Rs. 2, Rs. 3 and Rs. 2 per share respectively received in time.

5. At the time of forfeiture, Forfeited Shares Account will be

   a) Debited with Rs. 8,000  
   b) Credit with Rs. 8,000  
   c) Debited with Rs. 7,000  
   d) Credited with Rs. 7,000

6. At the time of forfeiture, Discount on Issue of shares account will be

   a) Debited with Rs. 1,000  
   b) Credited with Rs. 1,000  
   c) Debited with Rs. Nil  
   d) Credited with Rs. 3,000

7. K Ltd. forfeited 500 equity shares of Rs. 10 each fully called-up which were issued at a premium of Rs. 2 per share. Amount payable on shares: on application Rs. 2; on allotment Rs. 5 (including premium) on final call Rs. 5. Only application money was paid by the shareholders in respect of these shares. At the time of forfeiture, securities premium account will be

   a) Credited with Rs. 1,000  
   b) Debited with Rs. 1,000  
   c) Credited with Rs. Nil  
   d) Debited with Rs. Nil
The following information is related to Question Nos. 48 and 49.

Wise Ltd. issued 1,000 equity shares of Rs. 100 each. All monies were received except for 200 shares on which Rs. 90 was received per share. These 200 shares were forfeited and 150 were re-issued for Rs. 80 each fully paid-up.

8. Profit on re-issue transferred to
   a) General reserve Rs. 10,500
   b) Profit and loss account Rs. 10,500
   c) Capital reserve Rs. 13,500
   d) Capital reserve Rs. 10,500

9. Paid-up capital will be shown in the balance sheet as
   a) Rs. 48,000    b) Rs. 95,000
   c) Rs. 99,500    d) Rs. 1,10,000

The following information is related to Question No. 50, 51 and 52

Sugandha Exports Limited invited applications for 10,000 equity shares of Rs. 10 each for public subscription. The amount payable on shares is as under:

On application Rs. 1; on allotment Rs. 2; On first call Rs. 3; On final call Rs. 4.

All monies payable on application, allotment and calls have been duly received with the following exceptions:

'A' who holds 100 shares, failed to pay the money on allotment and calls.

'B' to whom 50 shares have been allotted failed to pay the money on first and final calls.

'C' who holds 30 shares, has not paid the amount due on final call.

The shares of A, B and C were forfeited.

10. First call money received was:

The following information is related to Question no. 53, 54, 55 and 56.

Paliwal Exports Ltd., with a share capital of Rs. 1,00,000 divided into 2,000 shares of Rs. 50 each, offers the shares to the public as: Rs. 10 per share payable on application; Rs. 10 per share payable on allotment; Rs. 15 per share payable on first call; and Rs. 15 per share payable on second call.

Rs. 15 per share payable on first call; and Rs. 15 per share payable on second call.

Shareholder ‘A’ who holds 30 shares, has paid only the application money.

Shareholder ‘B’ who holds 20 shares, has paid application money on 20 shares and allotment money only on 10 shares.

Shareholder ‘C’ who holds 28 shares, has paid only the application and allotment money.

Shareholder ‘D’ who holds 5 shares has paid application, allotment and first call money.

Shareholder ‘E’ who holds 3 shares, has paid application, allotment and first call money in full and second call money on only 2 shares.

The company forfeits the shares of the above shareholders who have not paid the arrears.

13. Allotment money received was:
   a) Rs. 19,500    b) Rs. 19,600
   c) Rs. 19,700    d) Rs. 19,900

14. First call money received was:
   a) Rs. 28,980    b) Rs. 29,400
The following information is related to Question Nos. 57 and 58

Mother Ltd. forfeited 100 equity shares of Rs. 10 each issued at a discount of 10% for non-payment of first call of Rs. 2 per share and the final call of Rs. 3 per share on 31st March, 2005. 50 forfeited shares were re-issued as fully paid for Rs. 8 per share and balance of the shares were re-issued on 30th June, 2005 at Rs. 7 per share.

17. The amount forfeited was:
   a) Rs. 400   b) Rs. 500
   c) Rs. 700   d) Rs. 800

18. The amount transferred to Capital Reserve was:
   a) Rs. 350   b) Rs. 250
   c) Rs. 300   d) not given

The following information is related to Question Nos. 59, 60 and 61.

Gupta & Co. Ltd. invited applications for 10,000 shares of Rs. 100 each at 10% premium included in the allotment money. Applications were received for 18,000 shares, of which applications for 3,000 shares were rejected and their money was refunded. Rest of the applicants were issued shares on pro-rata basis and their excess money was adjusted towards allotment. The money was called as:

On application Rs. 20; on allotment Rs. 40; on first call Rs. 30; on second and final call Rs. 20. Hari, a holder of 300 shares paid only the application money and Shyam, a holder of 600 shares paid up to the first call money. All the calls were made and the payment received except that in case of Hari and Shyam. Their shares were forfeited after the second and Final call and re-issued at 15% discount.

19. Money received on allotment was:
   a) Rs. 3,00,000   b) Rs. 2,90,000
   c) Rs. 2,91,000   d) not given

20. The amount forfeited was:
   a) Rs. 9,000   b) Rs. 48,000
   c) Rs. 50,000   d) Rs. 57,000

21. The amount transferred to Capital Reserve was:
   a) Rs. 57,000   b) Rs. 43,500
   c) Rs. 45,000   d) Rs. 45,500

The following information is related to Question no. 62 and 63.

K Limited has been registered with an authorized capital of Rs. 3,00,000 divided into 3,000 shares of Rs. 100 each, of which 1,500 shares were offered for public subscription at a premium of Rs. 5 per share, payable as:

On application Rs. 10; on allotment Rs. 25 (including premium); on first call Rs. 40; on final call Rs. 30. Applications were received for 2,000 shares, of which application for 200 shares were rejected, the rest of the applications were allotted 1,500 shares on pro-rata basis.

Excess application money was transferred to allotment. All the monies were duly received.
except from Sundar, holder of 300 shares, who failed to pay allotment money and first call money. His shares were later forfeited, and re-issued to Shyam at Rs 60 per shares-Rs. 70 paid-up. Final call has not been made.

22. Money received on allotment was:
   a) Rs. 37,500  
   b) Rs. 34,500  
   c) Rs. 27,600  
   d) not given

23. Amount transferred to capital reserve was:
   a) Rs. 600  
   b) Rs. 3,600  
   c) Rs. 3,000  
   d) not given

The following information is related to Question No. 64, 65 and 66

A company offered 10,000 of Rs. 10 each, payable as Rs. 2 on application, Rs. 3 on allotment, Rs. 3 on first call and Rs. 2 on final call. The public applied for 15,000 shares. The shares were allotted on a pro-rata basis to the applicants of 12,000 shares. All the shareholders paid the allotment money excepting one shareholder who was allotted 200 shares. These shares were forfeited. The first call was made thereafter. The forfeited shares were re-issued @ Rs. 9 per share, Rs. 8 paid up. The final call was not yet made.

24. Money received on allotment was:
   a) Rs. 30,000  
   b) Rs. 26,000  
   c) Rs. 25,480  
   d) none of the above

25. Amount forfeited was:
   a) Rs. 400  
   b) Rs. 480  
   c) Rs. 520  
   d) Rs. 1,000

26. Amount credited to Capital Reserve was:
   a) Rs. 480  
   b) Rs. 520  
   c) Rs. 1,000  
   d) not given

The following information is related to Question no. 67, 68, 69 and 70

Hindustan Steel ltd. invited applications for 50,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as follows:

On application Rs. 4 (including premium Rs. 2); on allotment Rs. 6 (Including premium Rs. 2); on first and final call the balance.

Application for 60,000 shares were received. Allotment was made to all applicants on pro-rata basis. Excess application money was adjusted towards sums due on allotment. Ram, to whom 400 shares were allotted, failed to pay allotment ant the call money. Shyam, to whom 200 shares were allotted, failed to pay the call money. These shares were forfeited. The forfeited shares were re-issued @ Rs. 8 per share fully paid-up.

27. Money due from Ram on allotment was:
   a) Rs. 2,400  
   b) Rs. 2,080  
   c) Rs. 1,920  
   d) not given

28. Money received on allotment was:
   a) Rs. 3,00,000  
   b) Rs. 2,60,000  
   c) Rs. 2,57,920  
   d) not given

29. Amount forfeited was:
   a) Rs. 3,120  
   b) Rs. 2,320  
   b) Rs. 1,120  
   d) Rs. 1,200

30. Amount transferred to Capital Reserve was:
   a) Rs. 1,920  
   b) Rs. 1,200  
   b) Rs. 1,120  
   d) not given
The following information is related to Question no. 71, 72 and 73.

XY Ltd. invited applications for issuing 50,000 equity shares of Rs. 10 each. The amount was payable as following: On application Rs. 3 per share; on allotment Rs. 4 per share; on first and final call Rs. 3 per share. Application were received for 75,000 shares and pro-rata allotment was made as follows:

Applicants for 40,000 shares were allotted 30,000 shares on pro-rata basis. Applicants for 35,000 shares were allotted 20,000 shares on pro-rata basis, Ramu, to whom 1,200 shares were allotted out of the group applying for 40,000 shares, failed to pay the allotment money. His shares were forfeited immediately after allotment.

Shamu, who had applied for 700 shares out of the group applying for 35,000 shares, failed to pay the first and final call. His shares were also forfeited. Out of the forfeited shares, 1,000 shares were re-issued @ Rs. 8 per share full paid up. The re-issued shares included all the forfeited shares of Shamu.

31. Money due from Ramu on allotment was:
   a) Rs. 4,800     b) Rs. 3,600
   c) Rs. 3,800     d) not given

32. Money received on allotment was:
   a) Rs. 2,00,000   b) Rs. 1,25,000
   c) Rs. 1,21,400   d) Rs. 1,20,000

33. Amount credited to Capital Reserve was:
   a) Rs. 5,200     b) Rs. 2,800
   c) Rs. 2,400     d) Rs. 3,200

The following information is related to question no. 74, 75 and 76.

Sudarshan Ltd. invited applications for 1,00,000 equity shares of Rs. 10 each. The shares were issued at a premium of Rs. 5 per share. The amount was payable as follows: On application and allotment Rs. 8 per share (including premium Rs. 3). Balance including premium on the first and final call.

Applications for 1,50,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants on the following basis: (i) applicants for 80,000 shares were allotted 60,000 shares; and (ii) applicants for 60,000 shares were allotted 40,000 shares.

X, who belonged to the first category and was allotted 300 shares, failed to pay the first call money. Y, who belonged to the second category and was allotted 200 shares also failed to pay the first call money. Their shares were forfeited. The forfeited shares were re-issued @ Rs.12 per share fully paid-up.

34. Money due from X on first and final call was:
   a) Rs. 2,100     b) Rs. 2,400
   c) Rs. 1,300     d) Rs. 800

35. Money due from Y on first and final call was:
   a) Rs. 1,400     b) Rs. 2,400
   c) Rs. 1,600     d) Rs. 600

36. Amount received on first and final call was:
   a) Rs. 3,80,000   b) Rs. 3,78,100
   c) Rs. 3,78,700   d) Rs. 3,78,000

37. Amount forfeited was:
   a) Rs. 4,100     b) Rs. 3,200
   c) Rs. 5,600     c) Rs. 5,600

The following information is related to Question no. 78, 79 and 80.

A company offered 1,00,000 shares of Rs. 10 each to the public on the following terms:

Rs. 3 on application; Rs. 4 on allotment; and the balance as and when required.
Applications were received for Rs. 1,40,000 shares. Allotment was made as: 80,000 applicants were given 80,000 shares; 50,000 applicants were given 20,000 shares; 10,000 applicants were given NIL. Application money is to applied towards allotment and the balance beyond that is to be returned. A shareholder, who applied for 1,000 shares and was given 1,000 shares, failed to pay the allotment money. His shares were forfeited.

38. Amount received on application was:
   a) Rs. 3,90,000  b) Rs. 4,20,000
c) Rs. 1,50,000  d) not given

39. Amount refunded was:
   a) Rs. 80,000  b) Rs. 4,00,000
c) Rs. 40,000  d) not given

40. Amount received on allotment was:
   a) Rs. 3,20,000  b) Rs. 4,00,000
c) Rs. 3,16,000  d) not given

Answers:

<table>
<thead>
<tr>
<th></th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>d</td>
<td>d</td>
<td>b</td>
<td>8.</td>
</tr>
<tr>
<td>9.</td>
<td>10. c</td>
<td>11. b</td>
<td>12. d</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>b</td>
<td>14. a</td>
<td>15. c</td>
<td>16. b</td>
</tr>
<tr>
<td>17.</td>
<td>a</td>
<td>18. b</td>
<td>19. c</td>
<td>20. d</td>
</tr>
<tr>
<td>21.</td>
<td>b</td>
<td>22. c</td>
<td>23. a</td>
<td>24. c</td>
</tr>
<tr>
<td>25.</td>
<td>b</td>
<td>26. a</td>
<td>27. b</td>
<td>28. c</td>
</tr>
<tr>
<td>29.</td>
<td>B</td>
<td>30. C</td>
<td>31. b</td>
<td>32. c</td>
</tr>
<tr>
<td>33.</td>
<td>d</td>
<td>34. c</td>
<td>35. d</td>
<td>36. b</td>
</tr>
<tr>
<td>37.</td>
<td>a</td>
<td>38. b</td>
<td>39. c</td>
<td>40. c</td>
</tr>
</tbody>
</table>

Accounting for issue of shares

Select the best choice to answer the following questions:

41. Which of the following is not a characteristic of a company?
   a) A company is a legal entity separate and distinct from its members.
   b) A shareholder of a company, in its individual capacity, can bind the company.
   c) The shareholders of a company can enter into a contract with the company
   d) A company must have a registered office.

42. A company is managed by the
   a) Managing director
   b) Persons selected by the company law board
   c) Board of directors
   d) Promoters.

43. Which of the following is not a characteristic of equity share?
   a) It is the risk capital of the company.
   b) It has voting power
   c) It has no preferential right to divided
   d) It can be converted into preference share.

44. Preference shares must be redeemed within
   a) 10 years from the date of issue of such share
   b) 15 years from the date of issue of such share
   c) 20 years from the date of issue of such share
   d) 25 years from the date of issue of such share

45. Which of the following is not a characteristic of a public limited company?
   a) Its shares are freely transferable
   b) The number of directors should be at least 3
   c) In a public company, there may be any number of members
   d) A public company can commence business immediately on incorporation

46. Issued capital is the part of
   a) Subscribed capital
   b) Authorized capital
   c) Called-up capital
   d) Paid-up capital

47. ‘Reserve capital’ can be called up
   a) In an emergency only
   b) Any time by passing an ordinary resolution
   c) In the event and for the purposes of the company being wound-up
   d) If all directors agree.

48. Subscribed capital can be
   a) More than called-up capital
b) More than issued capital  
c) More than authorized capital  
d) Equal to reserve capital  

49. At the time of public issue of shares, which of the following steps are observed? 
   a) Issue of prospectus- select of merchant banker- cash received from applicants  
   b) Issue of prospects- cash received from applicants-selection of merchant banker  
   c) Selection of merchant banker-cash received from applicants-issue of prospectus  
   d) Selection of merchant banker-issue of prospectus-cash received from applicant  

50. Shares can be issued  
   a) At par only  
   b) at a discount only  
   c) At a premium only  
   d) At par/at a discount/at a premium  

51. Which of the following is not true for stock?  
   a) Stock is in lump holding  
   b) Stock can be issued directly  
   c) Stock must be fully paid  
   d) Stock is never numbered  

52. The minimum application moneys to be paid by an applicant along with the application money shall not be less than  
   a) 20% of the face value of the shares  
   b) 20% of the issue price  
   c) 25% of the issue price  
   d) 25% of the value of the shares  

53. In case of a public issue, the underwriting of shares is  
   a) Mandatory  
   b) optional  
   c) Mandatory if the issue size is more than 100 crores  
   d) Mandatory if the issue size is more than 100 crores but less than 500 crores  

54. Calls-in-arrear is shown in the Balance sheet  
   a) On the assets side under ‘Current Asset, Loans and Advances’  
   b) On the liabilities size under ‘Share Capital’ as a separate item  
   c) On the liabilities side as a deduction from paid-up capital  
   d) On the liabilities side under ‘Current liabilities and Provisions’  

55. Calls-in-advance is shown in the balance sheet  
   a) On the liabilities side as a part of share capital  
   b) On the liabilities side under ‘Current Liabilities and Provisions’ as a separate item  
   c) On the assets side as a deduction of cash and bank  
   d) On the assets side as a separate item under ‘Current Assets, Loans and Advances’  

56. Dividend is paid on  
   a) Called-up capital  
   b) Issued capital  
   c) Subscribed capital  
   d) paid-up capital  

57. The capital with which a company is registered is called  
   a) Issued capital  
   b) paid-up capital  
   c) Authorized capital  
   d) subscribed capital  

58. Which of the following statement is true for ‘Discount on Issue of shares’?  
   a) It is shown in the Balance sheet as a liability  
   b) It is capitalized and shown in the balance sheet permanently  
   c) It is capitalized but written-off gradually  
   d) It is written off immediately to P&L A/c  

59. When shares are issued at a discount the ‘Share Capital Account’ is credited with  
   a) The face value of the shares in full  
   b) The face value of shares less discount on issue of shares  
   c) The face value of shares less discount on issuance of share plus brokerage on issue  
   d) The face value of the shares in full less brokerage.  

60. At the time of forfeiture of shares  
   a) Share capital account is credited with the called-up value of shares forfeited  
   b) Share capital account is debited with the face value of shares forfeited  
   c) Share capital account is debited with the called-up value of shares forfeited  
   d) Share capital account is neither debited nor credited
61. Till the forfeited shares are re-issued, balance of Forfeited Shares A/c will be shown in Balance Sheet
   a) As a separate item
   b) As a part of the subscribed capital as an item of reserve and surplus
   c) As a part of the paid-up capital

62. Profit on re-issue of shares is transferred to
   a) Profit and loss account
   b) General reserve
   c) Capital redemption reserve
   d) Capital reserve

63. Shares are issued
   a) For cash only
   b) On credit only
   c) For cash or for consideration other than cash
   d) For consideration other than cash only

64. Calls-in-arrear account show balance
   a) Only credit
   b) Only debit
   c) Debit or credit
   d) Nil

65. Call-in-advance account show balance
   a) Only credit
   b) Only debit
   c) Debit or credit
   d) Nil

66. If the company has adopted 'Table A', then it can charge interest on calls-in-arrear @ p.a. from the due date to the date of actual payment.
   a) 6%
   b) 8%
   c) 9%
   d) 5%

67. If the company has adopted ‘Table A’, then it is required to pay interest on calls-in-advance @ p.a. from the date of receipt to the due date.
   a) 6%
   b) 6.5%
   c) 7%
   d) 7.5%

68. If the issue price is Rs. 500 or more, the issuer company shall have a discretion to fix the face value below per share but not below Re. 1.
   a) Rs. 100
   b) Rs. 50
   c) Rs. 20
   d) Rs. 10

69. ‘Securities premium’ is shown in the Balance sheet under.
   a) Share capital
   b) miscellaneous expenditure

70. 'Discount on issue of shares at a discount but it should not exceed in normal case _______.
   a) Secured loan
   b) unsecured loan
   c) Reserve and surplus
   d) Miscellaneous expenditure

71. A company can issue shares at a discount but it should not exceed in normal case _______.
   a) 5%
   b) 10%
   c) 7.5%
   d) 12.5%

72. Securities premium can be used by the company for _______.
   a) Paying dividend
   b) Adjusting trading loss
   c) Issuing fully paid up bonus shares
   d) Adjusting loss on revaluation of assets

73. Unpaid dividend is shown in the balance sheet of the company under the heading _______.
   a) Share capital
   b) unsecured loan
   c) Reserve and surplus
   d) Current liabilities and provisions

74. The shares to be issued at a discount are issued within _______ months, after the date on which the issue if sanctioned by the Company Law Board.
   a) One
   b) Two
   c) Three
   d) Four

75. Discount on issue of shares account appears on the _____ side of the balance sheet under the heading _______.
   a) Liabilities, current liabilities and provisions
   b) Assets, current assets, loans and advances
   c) Assets, miscellaneous expenditure
   d) Assets, investment

The following information is related to Question Nos. 36 to 39.

AB Ltd. was registered with a capital of Rs. 1,25,000 (shares of Rs. 10 each divided into
12,500 equity shares). The company issued 10,000 equity shares payable as Rs. 2 on application, Rs. 3 on allotment, Rs. 3 on 1st call and balance on final call. 9,000 shares were subscribed by the public. The directors made allotments and money was duly received except for final call on 500 shares.

76. The authorized capital of the company is
   a) Rs. 89,000  b) Rs. 1,25,000
   c) Rs. 90,000  d) Rs. 1,00,000

77. The subscribed capital of the company is
   a) Rs. 1,00,000  b) Rs. 89,000
   c) Rs. 90,000  d) Rs. 91,000

78. The issued capital of the company is
   a) Rs. 1,25,000  b) Rs. 1,00,000
   c) Rs. 90,000  d) Rs. 89,000

79. The paid-up capital of the company is
   a) Rs. 1,25,000  b) Rs. 1,00,000
   c) Rs. 90,000  d) Rs. 89,000

80. RD Ltd., registered with an authorized capital of Rs. 2,00,000 in equity shares of Rs. 10 each, issued 8,000 equity shares payable as Rs. 2.50 on application; Rs. 2.50 on allotment and balance on final call. All shareholders paid the entire money except one holding 1,500 shares failed to pay the final call.
   The paid-up capital to be shown in the balance sheet of the company is
   a) Rs. 80,000  b) Rs. 70,000
   c) Rs. 72, 500  d) Rs. 2,00,000

**ANSWER :**

<table>
<thead>
<tr>
<th></th>
<th>41.</th>
<th>42.</th>
<th>43.</th>
<th>44.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>c</td>
<td>d</td>
<td>c</td>
</tr>
<tr>
<td>45</td>
<td>d</td>
<td>b</td>
<td>c</td>
<td>a</td>
</tr>
<tr>
<td>49</td>
<td>d</td>
<td>50.</td>
<td>d</td>
<td>b</td>
</tr>
<tr>
<td>51</td>
<td>b</td>
<td>52.</td>
<td>c</td>
<td>a</td>
</tr>
<tr>
<td>53</td>
<td>b</td>
<td>54.</td>
<td>c</td>
<td>55.</td>
</tr>
<tr>
<td>56</td>
<td>b</td>
<td>56.</td>
<td>d</td>
<td>d</td>
</tr>
<tr>
<td>57</td>
<td>c</td>
<td>58.</td>
<td>c</td>
<td>59.</td>
</tr>
<tr>
<td>60</td>
<td>a</td>
<td>60.</td>
<td>c</td>
<td>a</td>
</tr>
<tr>
<td>61</td>
<td>d</td>
<td>62.</td>
<td>d</td>
<td>63.</td>
</tr>
<tr>
<td>64</td>
<td>c</td>
<td>64.</td>
<td>b</td>
<td>64.</td>
</tr>
<tr>
<td>65</td>
<td>a</td>
<td>65.</td>
<td>d</td>
<td>67.</td>
</tr>
<tr>
<td>66</td>
<td>d</td>
<td>66.</td>
<td>d</td>
<td>68.</td>
</tr>
<tr>
<td>67</td>
<td>a</td>
<td>67.</td>
<td>a</td>
<td>68.</td>
</tr>
<tr>
<td>69</td>
<td>c</td>
<td>70.</td>
<td>d</td>
<td>71.</td>
</tr>
<tr>
<td>72</td>
<td>c</td>
<td>72.</td>
<td>c</td>
<td>72.</td>
</tr>
<tr>
<td>73</td>
<td>d</td>
<td>73.</td>
<td>b</td>
<td>75.</td>
</tr>
<tr>
<td>74</td>
<td>b</td>
<td>74.</td>
<td>b</td>
<td>76.</td>
</tr>
<tr>
<td>75</td>
<td>c</td>
<td>75.</td>
<td>c</td>
<td>76.</td>
</tr>
<tr>
<td>76</td>
<td>b</td>
<td>76.</td>
<td>b</td>
<td>78.</td>
</tr>
<tr>
<td>77</td>
<td>c</td>
<td>78.</td>
<td>b</td>
<td>79.</td>
</tr>
<tr>
<td>78</td>
<td>d</td>
<td>79.</td>
<td>d</td>
<td>80.</td>
</tr>
</tbody>
</table>
Redemption of Preference Shares

Select the best choice to answer the following questions:

1. Preference shares cannot be redeemed unless they are:
   a) Fully called up  
   b) fully paid up  
   c) Fully paid up  
   d) issue at a discount

2. Which of the following cannot be utilized for transferring to capital redemption reserve account?
   a) General reserve  
   b) Profit and loss account balance  
   c) Dividend equalization fund  
   d) Securities premium

3. Which of the following cannot be utilized for the purpose of redemption of preference shares?
   a) Proceeds from issue of equity shares  
   b) Proceeds from issue of preference shares  
   c) Proceeds from issue of rights shares  
   d) Proceeds from issue of debentures.

4. Proceeds in connection with issue of shares at a discount would means:
   a) Face value of shares issued.  
   b) Face value of shares issued less expenses on issue of shares.  
   c) Face value of shares issued less discount on issue of such shares.  
   d) Face value of shares issued less discount on issue of such shares less issue expenses.

5. Capital redemption reserve can only be used for issuing.
   a) Right shares  
   b) Partly paid up bonus shares  
   c) Preference shares  
   d) Fully paid up bonus shares

6. Resolution for redemption of preference shares and the issue of new shares for this purpose are passed:
   a) Separately  
   b) Simultaneously  
   c) Within a week  
   d) After one week

7. Securities premium money out of fresh issue:
   a) Can be treated as proceeds  
   b) Can be treated as revenue profit  
   c) Cannot be treated as proceeds  
   d) Can be treated as proceeds under special circumstances.

8. At present, a company can issue preference shares which is:
   a) Irredeemable  
   b) Redeemable after the expiry of 20 years from the date of issue.  
   c) Redeemable before the expiry of 20 years from the date of issue  
   d) Redeemable after the expiry of 25 years from the date of issue.

9. Dividend on preference shares is paid:
   a) At a variable rate  
   b) At a fixed rate  
   c) At part with equity shares  
   d) At par with debenture interest

10. A partly paid up preference share can be redeemed:
a) After the permission from company law board
b) After making them fully paid up
c) After passing a special resolution
d) After the permission of board of directors.

11. When shares are redeemed by utilizing distributable profit, an amount equal to the face value of shares redeemed is transferred to_____.
   a) Capital reserve account
   b) Capital redemption reserve account
   c) General reserve account
   d) Share capital account

12. Generally preference shares are issued when______.
   a) Secondary market is dull
   b) Primary market is dull
   c) Money market is dull
   d) Economy of the country as a whole is strong.

13. Premium payable on redemption must be provided out of______.
   a) Capital profit
   b) Capital reserve
   c) Securities premium before redemption
   d) Revaluation reserve

14. At present, no company limited by shares shall issue any preference share which is______.
   a) Redeemable
   b) irredeemable
   b) Not approved by central government
   c) Not approved by the company law board.

15. Preference shares cannot be redeemed unless they are_______.
   a) Fully called up
   b) issued for cash
   c) Fully paid up
   d) very old

The following information is relevant for Question 16 and 17

The skeleton balance sheet of Happy Ltd. as at 31st March, 2007 was as under:

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital:</td>
<td></td>
</tr>
<tr>
<td>18,000-9% Redeemable preference shares of Rs. 100 each</td>
<td>18,00,000</td>
</tr>
<tr>
<td>40,000-Equity shares of Rs. 100 each</td>
<td>40,00,000</td>
</tr>
<tr>
<td>Reserve and surplus</td>
<td></td>
</tr>
<tr>
<td>Securities premium</td>
<td>5,00,000</td>
</tr>
<tr>
<td>General reserve</td>
<td>9,00,000</td>
</tr>
<tr>
<td>Secured loans</td>
<td></td>
</tr>
<tr>
<td>18,000, 10% Debentures of Rs. 100 each</td>
<td>18,00,000</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>16,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,06,00,000</td>
</tr>
</tbody>
</table>

The board of directors decided to redeem the preference shares both by issue of fresh and by utilization of general reserve and surplus but without any further borrowings.

16. The amount of fresh issue of share will be:
   a) Rs. 18,00,000
   b) Rs. 9,00,000
   b) Rs. 18,00,000

17. Amount to be transferred to capital redemption reserve:
   a) Rs. 13,00,000
   b) Rs. 9,00,000
   b) Rs. 18,00,000

The following information is relevant for Question 18 to 20.
## Balance sheet of Spot Light Ltd.

### As at 31st December, 2006

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued Sh. Capital:</td>
<td></td>
<td>Plant &amp; machinery</td>
<td>34,00,000</td>
</tr>
<tr>
<td>60,000</td>
<td>12,00,000</td>
<td>Investme nt of Rs. 20 each fully paid</td>
<td>3,50,000</td>
</tr>
<tr>
<td>8% Redeemable preference shares of Rs. 20 each fully paid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4,00,000</td>
<td>4,00,000</td>
<td>Stock</td>
<td>15,00,000</td>
</tr>
<tr>
<td>Reserve &amp; Surplus</td>
<td></td>
<td>Debtors</td>
<td>14,00,000</td>
</tr>
<tr>
<td>P &amp; L A/c</td>
<td>7,00,000</td>
<td>Cash bank</td>
<td>3,50,000</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>11,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>70,00,000</strong></td>
<td><strong>70,00,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The preference shares are redeemable at a premium of 5% on January 1, 2007.

In order to facilitate the redemption of preference shares, it was decided:

a) To sell the investments for Rs. 3,00,000.

b) To finance part of the redemption from company funds subject to leaving of balance on profit and loss A/c of Rs. 2,00,000;

c) To issue sufficient equity shares of Rs. 10 each at part to raise the balance fund required.

18. Amount to be transferred to capital redemption reserve:
   a) Rs. 5,90,000  
   b) Rs. 6,60,000  
   c) Rs. 3,90,000  
   d) Rs. 4,40,000

19. Number of equity shares are to be issued:
   a) 18,000  
   b) 81,000  
   c) 61,000  
   d) 66,000

20. After redemption the balance sheet total will be:
   a) Rs. 70,00,000  
   b) Rs. 65,50,000  
   c) Rs. 58,00,000  
   d) Rs. 65,00,000

The following information is relevant for Question 21 and 22:

The books of S B Ltd. showed the following balances on 31 December, 2006:

50,000 Equity shares of Rs. 10 each fully paid; 18,000, 20% Redeemable preference shares of Rs. 10 each fully paid; 4,000, 10% Redeemable preference shares of Rs. 10 each, Rs. 8 paid up.

Undistributed reserve and surplus stood as profit and loss Account Rs. 80,000; general Reserve Rs. 1,20,000; securities premium account Rs. 15,000 and capital reserve Rs. 21,000.

Preference share are redeemed on 1st January, 2007 at a premium of Rs. 2 per share. The whereabouts of the holders of 100 shares of Rs. 10 each fully paid are not known:
For redemption, 3,000 equity shares of Rs. 10 each are issued at par.

21. Amount paid to the preference shareholders for redemption of shares:
   a) Rs. 1,80,000  
   b) Rs. 1,78,000  
   c) Rs. 2,16,000  
   d) Rs. 2,14,800

22. Amount to be transferred to capital redemption reserve:
   a) Rs. 1,86,000  
   b) Rs. 1,20,000  
   c) Rs. 2,14,000  
   d) Rs. 1,50,000

The following information is relevant for questions 23 to 25.

The balance sheet of ABC Ltd. as on 31.12.2006 was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>10,000</td>
<td>Fixed Assets</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td>Stock</td>
<td>30,000</td>
</tr>
<tr>
<td>1,000 redeemable preference</td>
<td>1,00,000</td>
<td>Debtors</td>
<td>50,000</td>
</tr>
<tr>
<td>shares 1,00,000</td>
<td></td>
<td>Securities premium</td>
<td>12,000</td>
</tr>
<tr>
<td>Less: calls in arrears (Rs.</td>
<td>98,000</td>
<td>Bank</td>
<td>40,600</td>
</tr>
<tr>
<td>20X100) 2,000</td>
<td></td>
<td>Reserve fund</td>
<td>29,600</td>
</tr>
<tr>
<td>Securities premium</td>
<td>10,000</td>
<td>P &amp; L A/c</td>
<td>21,000</td>
</tr>
<tr>
<td>Reserve fund</td>
<td></td>
<td>Creditors</td>
<td></td>
</tr>
<tr>
<td>P &amp; L A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,70,600</td>
<td>2,70,600</td>
<td></td>
</tr>
</tbody>
</table>

On 1.1.2007 fixed assets costing Rs. 20,000 were sold for Rs. 18,000. On the same date, it was decided to redeem the preference shares at a premium of 20% by issuing sufficient number of equity shares at a discount of 10% subject leaving a balance of Rs. 10,000 in the Reserve Fund. All payments were made except to holders of 50 shares who could not be traced.

23. Amount available for dividend after adjustment:
   a) Rs. 39,600  
   b) Rs. 19,600  
   c) Rs. 21,600  
   d) Rs. 51,600

24. Number of new shares to be issued:
   a) 6,840  
   b) 7,600  
   c) 7,000  
   d) 8,000

25. Total of the balance sheet:
   a) Rs. 2,36,600  
   b) Rs. 2,44,600  
   c) Rs. 2,35,000  
   d) Rs. 2,42,600

Answers:

<table>
<thead>
<tr>
<th></th>
<th>1. b</th>
<th>2. d</th>
<th>3. d</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>c</td>
<td>5. d</td>
<td>6. b</td>
</tr>
<tr>
<td>7.</td>
<td>c</td>
<td>8. c</td>
<td>9. b</td>
</tr>
<tr>
<td>10.b</td>
<td>11.b</td>
<td>12.b</td>
<td></td>
</tr>
<tr>
<td>13.c</td>
<td>14.b</td>
<td>15.c</td>
<td></td>
</tr>
<tr>
<td>16.c</td>
<td>17.b</td>
<td>18.c</td>
<td></td>
</tr>
<tr>
<td>19.b</td>
<td>20.d</td>
<td>21.d</td>
<td></td>
</tr>
<tr>
<td>22.d</td>
<td>23.c</td>
<td>24.b</td>
<td></td>
</tr>
<tr>
<td>25.d.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Issue of debentures**

Select the best choice to answer the following questions:

1. Debentures holders are:
   a) The owner of the company
   b) The creditors of the company
   c) The customers of the company
   d) The vendors of the company.

2. Debenture holders
   a) Can get back their money at maturity as per the terms and conditions of redemption
   b) Cannot get back their money before the liquidation of the company
   c) Can get back their money before maturity
   d) Can get back their money only after the approval of the board of directors.

3. Debenture interest is paid
   a) At a pre-determined fixed rate
   b) At a variable rate
   c) At a rate based on the net of the company
   d) At a fixed rate to be determined by the board of directors according to situation.

4. Debenture
   a) Can be forfeited for non-payment of calls money
   b) Cannot be forfeited for non-payment of calls money as per the provision of section 122 of the Companies Act, 1956
   c) Can be forfeited under special circumstances
   d) Can be forfeited after taking court permission.

5. At the time of liquidation, debenture holders are paid off
   a) After the shareholders
   b) Before the preferential creditors
   c) Before the shareholders
   d) After the preferential creditors and shareholders.

6. Debentures are shown in the company balance sheet under.
   a) Reserve & Surplus
   b) Unsecured Loans
   c) Current Liabilities
   d) Secured loans

7. ‘Naked’ debentures are
   a) Secured by a charge upon some or all assets of the company
   b) Not secured by any charge upon any assets.
   c) Secured by a charge upon fixed assets of the company
   d) Secured by a charge upon current assets of the company.

8. Interest on debenture are
   a) The charges against profits
   b) The appropriation of profits
   c) Not taken into consideration for calculating taxable income of the company
   d) None of the above.

9. Convertible debentures are
   a) Converted into ‘term loan’ after a certain period of time.
   b) Converted into new debentures after its maturity
   c) Converted into equity shares after a certain period of time
   d) Converted into preference shares after its maturity.

10. ‘Bearer’ debentures are transferable
    a) To a registered debentureholder
    b) By delivery
    c) Only to equity shareholders
    d) None of the above.

11. Which of the following is not a feature of debenture?
    a) Debentures interest is payable at a pre-determined fixed rate
    b) Debenture is a document which evidences a loan by a company
    c) Debenture interest is payable at a pre-determined fixed rate
    d) None of the above.
c) Debentures is a movable property  
d) Debentureholders have voting rights in all matters of company.

12. A trust deed shall be executed by the issuer company in favour of the debenture trustees within  
a) 18 months of the closure of the issue  
b) 12 of the closure of the issue  
c) 6 months of the closure of the issue  
d) 3 months of the closure of the issue.

13. A company has to create Debenture Redemption Reserve (DRR) in cash of issue of debentures with maturity of more than  
a) 6 months  
b) 12 months  
c) 18 months  
d) 24 months.

14. The debentures which are not repayable during the life time of the company is called______ debentures.  
a) Redeemable  
b) convertible  
c) Perpetual  
d) bearer

15. Debenture is a _____ property.  
a) Immovable  
b) intangible  
c) Non-transferable  
d) movable

16. The debenture issuing company shall appoint a 'debenture trustee' if the maturity period of debentures is more than ______ months.  
a) 12  
b) 18  
c) 24  
d) 36

17. Debentures redemption reserve (DRR) shall be utilized by the company for the purpose of redemption of ____________.  
a) Shares  
b) debentures  
c) Both shares and debentures  
d) Loan

18. Debentures can be issued at_______.  
a) Par only  
b) premium only  
c) A discount only  
d) par/premium/discount.

19. Debentures premium can be used to write-off_______.  
a) Capital losses only  
b) Intangible assets only  
c) Discount on issue of shares only  
d) Capital losses/intangible/discount on issue of shares.

20. Discount on issue of debentures is shown in the balance sheet under______.  
a) Current assets, loans and advances  
b) Fixed assets  
c) Miscellaneous expenditure  
d) Secured loans

21. Premium on redemption of debentures is shown in the balance sheet under ______.  
a) Unsecured loans  
b) Miscellaneous expenditure  
c) Current liabilities and provisions  
d) Current assets, loans and advances

22. Debenture premium is shown in the balance sheet under_____.  
a) Unsecured loans  
b) Miscellaneous expenditure  
c) Secured loans  
d) Reserve and surplus

23. Premium on redemption of debentures normally show a ______ balance.  
a) Debit  
b) credit  
c) Debit or credit  
d) nil

24. Discount on issue of debentures is a ___.  
a) Capital profit to be shown in the balance sheet as capital revenue  
b) Capital loss to be written-off in future.  
c) Revenue loss to be charged to profit and loss account of the year of issue.  
d) Revenue profit to be credited to profit and loss account of the year of issue.

25. Collateral security means____ security.  
a) Primary  
b) Government  
c) Secondary  
d) valuable

26. Z ltd. issued 16,000, 10% debentures of Rs. 100 each at a discount of 10%. The debenture account will be credited with  
a) Rs. 14,40,000  
b) Rs. 17,60,000  
c) Rs. 16,00,000  
d) Rs. 16,000.
27. Y ltd issued Rs. 1,00,000, 9% debentures at a discount of 6%. These debentures are to be redeemed at par equally, spread over 5 annual instalments. The discount on issue of debentures will be written off in the 1st and 2nd year as
   a) Rs. 1,200; Rs. 1,200
   b) Rs. 2,000; Rs. 1,600
   c) Rs. 2,000; Rs. 2,000
   d) Rs. 1,600; Rs. 1,600.

28. X ltd issued 10% debentures of Rs. 20,00,000 at 8% discount redeemable at par. Assume that the debentures are redeemable by drawing method in the following manner:

<table>
<thead>
<tr>
<th>Year end</th>
<th>Face value (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2,00,000</td>
</tr>
<tr>
<td>3</td>
<td>4,00,000</td>
</tr>
<tr>
<td>4</td>
<td>6,00,000</td>
</tr>
<tr>
<td>5</td>
<td>8,00,000</td>
</tr>
</tbody>
</table>

The discount on issue of debentures will be written off in the 1st and 2nd year as
   a) Rs. 40,000; Rs. 40,000
   b) Rs. 40,000; Rs. 36,000
   c) Rs. 36,000; Rs. 28,000
   d) Rs. 28,000; Rs. 16,000

29. A ltd. issued 12,000, 10% debentures of Rs. 100 each at a discount of 6% on 1.1.2003. the debentures were repayable in instalments of Rs. 4,00,000 starting from 31.12. 2005.

The discount on issue of debentures will be written off in 2006 and 2007 as
   a) Rs. 18,000; Rs. 18,000
   b) Rs. 18,000; Rs. 12,000
   c) Rs. 12,000; Rs. 6,000
   d) Rs. 12,000; Rs. 12,000.

30. S ltd. issues 10,000, 12% debentures of Rs. 100 each at a discount of 5% redeemable at the end of 5 years at a premium of 10%.

‘Loss on issue of Debentures Account’ will be
   a) Debited with Rs. 50,000
   b) Debited with Rs. 1,00,000
   c) Credited with Rs. 1,00,000
   d) Debited with Rs. 1,50,000
31. Easter Ltd. issues Rs. 50,00,000, 12% debentures at par but redeemable at the end of 5 years at 105%. The 'Premium on Redemption of Debenture Account' will be:
   a) Debit with Rs. 2,50,000
   b) Credited with Rs. 2,00,000
   c) Credited with Rs. 2,50,000
   d) Debit with Rs. 2,00,000

32. Prakash Ltd. issues 5,000, 12% debentures of Rs. 100 each at discount of 5% redeemable at the end of 5th year at par. Discount on issue of debentures account will be:
   a) Debit with Rs. 25,000
   b) Credited with Rs. 25,000
   c) Debit with Rs. 5,00,000
   d) Credited with Rs. 5,00,000

33. Krishna Ltd. issues 14% debentures of the total face value of Rs. 50,00,000 at a premium of 5% to be redeemed at par. Premium on issue of debentures account will be:
   a) Debit with Rs. 2,50,000
   b) Debit with Rs. 25,000
   c) Credited with Rs. 2,50,000
   d) Credited with Rs. 50,000.

34. A company issued Rs. 1,00,000, 12% debentures at a discount of 5% and redeemable at 5% premium. Face value of debentures is Rs. 100. The journal entry for issue will be:
   a) Bank A/c Dr. 1,05,000
      To 12% Debentures A/c 1,00,000
      To premium on redemption of debentures A/c 5,000

35. 400, 10% debentures issued at par repayable at a premium of 5%. Each debentures is of Rs. 100. The journal entry will be:
   a) Bank A/c Dr. 42,000
      Premium on debentures A/c Dr. 2,000
      To 10% Debentures A/c 40,000
      To premium on redemption of debentures A/c 2,000
   b) Bank A/c Dr. 40,000
      Loss on issue of debenture A/c Dr. 2,000
      To 10% Debentures A/c 42,000
      To premium on redemption of debentures A/c 2,000
   c) Bank A/c Dr. 40,000
      Loss on issue of debentures A/c Dr. 2,000
      To 10% Debentures A/c 42,000
      To premium on redemption of debentures A/c 2,000
   d) Bank A/c Dr. 40,000
      Loss on issue of debentures A/c Dr. 2,000
      To 10% Debentures A/c 40,000
      To premium on redemption of debentures A/c 2,000

36. P Ltd. issues 10,000, 12% debentures of Rs. 100 each at a premium of 5%, redeemable at the end of 5 years at a
premium of 10%. At the time of issue, the journal entry will be:

a) Bank A/c Dr. 1,05,000
   To 12% debentures A/c  1,00,000
   To premium on issue of debentures A/c  5,000

b) Bank A/c Dr. 1,00,000
   Loss on issue of debentures A/c Dr. 5,000
   To 12% debentures A/c  1,00,000
   To premium on issue of debentures A/c  5,000

c) Bank A/c Dr. 1,05,000
   Loss on issue of debentures A/c Dr. 10,000
   To 12% Debentures A/c  1,00,000
   To Premium on Redemption of debentures A/c  10,000

d) Bank A/c Dr. 1,05,000
   Loss on issue of debentures A/c Dr. 5,000
   To 12% Debentures A/c  1,00,000
   To premium on redemption of debentures A/c  10,000

37. AB Ltd. purchased building costing Rs. 8,10,000. It was agreed that the purchase consideration be paid by issue of 10% debentures of Rs. 100 each at a discount of 10%. The 10% debentures account will be credited with
   a) Rs. 9,00,000  b) Rs. 8,10,000  c) Rs. 8,91,000  d) Rs. 9,90,000

38. K Ltd issues 9% debentures of Rs. 100 each at a premium of 20% for satisfying the purchase price of machinery of Rs. 4,50,000. 9% Debentures Account will be credited with
   a) Rs. 4,50,000  b) Rs. 3,75,000  c) Rs. 5,40,000  d) Rs. 3,60,000

39. B Ltd. issued on 1.1.2006, 4,000, 12% debentures of Rs. 100 each at a discount of 10%. The total interest for the year ending on 31.12.2006 will be
   a) Rs. 52,800  b) Rs. 43,200

40. AB Ltd. has issued 10% debentures of Rs. 10,00,000 as collateral security to SBI for a loan. The yearly interest payable by AB Ltd. for such debenture is
   a) Rs. 1,00,000  b) Nil  c) Rs. 10,000  d) Rs. 1,10,000

Answers: