

50 Questions 50 Marks 60 Minutes

Select the best choice to answer the following questions:

- Which of the following statement is/are correct?
 - A separate suspense account should be opened for each error in the ledger
 - A suspense account is sometimes opened to complete posting while more information is sought on a transaction
 - Neither (i) nor (ii)
 - (i) only
 - (ii) only
 - (i)&(ii)
- A purchase on credit Rs. 5,000 from X was credited in error to Y's ledger account. Which journal entry correct this error?
 - Debit Y, credit X Rs. 5,000
 - Debit X, Credit Y Rs. 5,000
 - Debit suspense, credit X Rs. 5,000
 - Debit Y, credit suspense Rs. 5,000
- In the year to 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?

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

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

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

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

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

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

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

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

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

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

- 1,500 had been omitted and that closing stock had been overvalued by Rs. 500.
 The effect of these errors is an _____
- a) Overstatement of net profit of Rs. 1,000
 b) Overstatement of net profit of Rs. 2,000
 c) Understatement of net profit of Rs.1,000
 d) Understatement of net profit Rs. 2,000
25. A company's profit and loss account for the year ended 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. 75,841. He has now found that a supplier's invoice for Rs. 250 for advertising expenses was not recorded in his general ledger.
 When the error is corrected, what are the revised figures for net profit and capital?
- | | Net profit | Capital |
|----|-------------------|----------------|
| a. | 25,202 | 75,591 |
| b. | 25,202 | 76,091 |
| c. | 24,702 | 76,091 |
| d. | 24,702 | 75,591 |
34. When Mohan's trial balance was extracted, the total of the debit balances was Rs. 500 more than the total of the credit balances.
 Which of the following errors is a possible explanation for the difference?
- a) A cash sale for Rs. 250 had not been recorded
 b) A cash sale for Rs. 250 had been recorded twice
 c) A cash sale for Rs. 250 had been posted to the credit side of both sales account and the cash account
 d) A cash sale for Rs. 250 had been posted to the debit side of both the cash sale account and the cash account
35. Rahul's trial balance include a suspense account with a debit balance of Rs. 900. He has discovered that:
- (i) A supplier's invoice for Rs. 16,700 was posted to the correct side of the purchases account as Rs. 17,600 (the correct entry was posted to the creditors account); and
 (ii) A cheque for Rs. 900 has not been recorded.

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

Which of the following journal entry will correct the errors?

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

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

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

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

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

The following information is relevant to Question 49 and 50:

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

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

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

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

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

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