



Accounting – Logical Reasoning – ICAI Module – Preliminary

MEANING & SCOPE OF ACCOUNTING

1. (i) Which of the following is not a subfield of accounting?
- (a) Management accounting. (b) Cost accounting.
(c) Financial accounting. (d) Book-keeping.
- (ii) Purposes of an accounting system include all the following except
- (a) Interpret and record the effects of business transaction.
(b) Classify the effects of transactions to facilitate the preparation of reports.
(c) Summarize and communicate information to decision makers.
(d) Dictate the specify types of business enterprise transactions that the enterprises may engage in.

Ans. (i) (d) Book Keeping : Book Keeping is recording of the transactions entered by the business in systematic way.

(ii) (d) Dictate the specify types of business enterprise transactions that the enterprises may engage in.

Accounting is done to record all the transactions in a systematic way, so that the summarized data can be communicated to the users of accounting.

(iii) Financial accounting information is characterized by all of the following except

- (a) It is historical in nature.
(b) It is factual, so it does not require judgement to prepare.
(c) It results from inexact and appropriate measures.
(d) It is enhanced by management's explanation.

Ans.: (b) It is factual, so it does not require judgment to prepare

Many of the times the transactions are recorded at the judgment of the management, like depreciation and valuation of stock.

(iv) Book-keeping is mainly concerned with

- (a) Recording of financial data.
(b) Designing the systems in recording, classifying and summarising the recorded data.
(c) Interpreting the data for internal and external users.
(d) None of the above.

Ans.: (a) Recording of Financial Data

Remaining two are the part of financial accounting and management accounting.

(v) All of the following are functions of Accounting except

- (a) Decision making. (b) Measurement.
(c) Forecasting. (d) Ledger posting.

Ans.: (d) Ledger Posting

As the same is the process of accounting.

2. (i) Financial statements are part of
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|-----------------------|------------------------|
| (a) Accounting. | (b) Book-Keeping. |
| (c) All of the above. | (d) None of the above. |

Ans.: (a) Accounting

Book Keeping is the process of recording the data, financial statements are the part of accounting.

- (ii) Financial position of the business is ascertained on the basis of
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| (a) Records prepared under book-keeping process. |
| (b) Trial balance. |
| (c) Accounting reports. |
| (d) None of the above. |

Ans.: (c) Accounting Reports

As the accounting reports are the end result of the accounting done by the organization.

- (iii) Users of accounting information include
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|----------------|-----------------------|
| (a) Creditors. | (b) Lenders. |
| (c) Customers. | (d) All of the above. |

Ans.: (d) All of the above

These all are the external users of the accounting information.

- (iv) Financial statements do not consider
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|--|
| (a) Assets expressed in monetary terms. |
| (b) Liabilities expressed in monetary terms. |
| (c) Assets expressed in non-monetary terms. |
| (d) Assets and liabilities expressed in non-monetary terms |

Ans.: (d) Assets and Liabilities expressed in non-monetary terms

As the data which is not measurable in monetary terms cannot be recorded in books of accounts

- (v) On January 1, Sohan paid rent of Rs. 5,000. This can be classified as
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|--|---|
| (a) An event. | (b) A transaction. |
| (c) A transaction as well as an event. | (d) Neither a transaction nor an event. |

Ans.: (c) A Transaction as well as an event

All transactions are necessarily events first and hence this transaction is event as well as transaction.

- (vi) On March 31, 2006 after sale of goods worth Rs. 2,000, he is left with the closing stock of Rs. 10,000. This is
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|--|---|
| (a) An event. | (b) A transaction. |
| (c) A transaction as well as an event. | (d) Neither a transaction nor an event. |

Ans.: (a) An Event

As the closing stock is available for sale, hence is an event.

Accounting Concepts, Principles and Conventions

1. (i) All the following items are classified as fundamental accounting assumptions except
(a) Consistency. (b) Business entity. (c) Going concern. (d) accrual.

Ans.: (b) Business Entity

The basic assumptions as given by AS 1 are Consistency, Going Concern and Accrual.

- (ii) Two primary qualitative characteristics of financial statements are
(a) Understandability and materiality. (b) Relevance and reliability.
(c) Relevance and understandability. (d) Materiality and reliability

Ans.: (b) Relevance and reliability

As the financial statements provide all the related information and as recording is based on laid down principles the data is generally reliable as well.

- (iii) Kanika Enterprises follows the written down value method of depreciating machinery year after year due to
(a) Comparability (b) Convenience. (c) Consistency. (d) All of the above.

Ans.: (c) Consistency

The same method is charged by following the consistency concept.

- (iv) A purchased a car for Rs.5,00,000, making a down payment of Rs.1,00,000 and signing a Rs.4,00,000 bill payable due in 60 days. As a result of this transaction
(a) Total assets increased by Rs.5,00,000.
(b) Total liabilities increased by Rs.4,00,000.
(c) Total assets increased by Rs.4,00,000.
(d) Total assets increased by Rs.4,00,000 with corresponding increase in liabilities by Rs.4,00,000.

Ans.: (d) Total assets increased by Rs. 400000 with corresponding increase in liabilities by Rs. 400000

When the asset of Rs. 500000 is purchased by making a down payment of Rs. 100000 the net increase in assets is of Rs. 400000 and as a bill is signed the corresponding increase in liability is of Rs. 400000

- (v) Mohan purchased goods for Rs.15,00,000 and sold $\frac{4}{5}$ th of the goods amounting Rs.18,00,000 and met expenses amounting Rs.2,50,000 during the year, 2005. He counted net profit as Rs.3,50,000. Which of the accounting concept was followed by him?
(a) Entity. (b) Periodicity. (c) Matching. (d) Conservatism.

Ans.: (c) Matching

The expenses related to the goods sold and the amount of closing stock is considered in calculating profit.

- (vi) A businessman purchased goods for Rs.25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2005. The market value of the remaining goods was Rs.4,00,000. He valued the closing stock at cost. He violated the concept of
(a) Money measurement. (b) Conservatism.
(c) Cost. (d) Periodicity.

Ans.: (b) Conservatism

The anticipated incomes should not be recognized under the conservatism concept.

- (vii) Capital brought in by the proprietor is an example of
- (a) Increase in asset and increase in liability.
 - (b) Increase in liability and decrease in asset.
 - (c) Increase in asset and decrease in liability.
 - (d) Increase in one asset and decrease in another asset.

Ans.: (a) Increase in assets and increase in liability

The business entity concept says the capital brought in by proprietor is the liability of the business and hence when the proprietor brings in the capital it is increase in assets and increase in liability.

2. (i) Assets are held in the business for the purpose of
- (a) Resale.
 - (b) Conversion into cash.
 - (c) Earning revenue.
 - (d) None of the above.

Ans.: (c) Earning Revenue

With the help of assets, the firm is able to produce the goods and services which can be sold in market to earn revenue for the business.

- (ii) Revenue from sale of products, is generally, realized in the period in which
- (a) Cash is collected.
 - (b) Sale is made.
 - (c) Products are manufactured.
 - (d) None of the above.

Ans.: (b) Sale is made

The payment for goods sold, if on credit, is realized within the given credit period, and for cash sales is realized immediately on sale.

- (iii) The concept of conservatism when applied to the balance sheet results in
- (a) Understatement of assets.
 - (b) Overstatement of assets.
 - (c) Overstatement of capital.
 - (d) Understatement of capital.

Ans.: (a) Understatement of Assets

When the anticipated losses are recorded it results in either the understatement of assets or overstatement of liabilities.

- (iv) Decrease in the amount of creditors results in
- (a) Increase in cash.
 - (b) Decrease in cash.
 - (c) Increase in assets.
 - (d) No change in assets.

Ans.: (b) Decrease in Cash

Decrease in creditors is as a result of payment to the creditors, hence the cash balance decreases with decrease in creditors.

- (v) The determination of expenses for an accounting period is based on the principle of
- (a) Objectivity.
 - (b) Materiality.
 - (c) Matching.
 - (d) Periodicity.

Ans.: (c) Matching

Matching concepts talks about the recognition of expenses in a period in which related income is recognised.

- (vi) The 'going concern concept' is the underlying basis for
- Stating fixed assets at their realizable values.
 - Disclosing the market value of securities.
 - Disclosing the sales and other operating information in the income statement.
 - None of the above.

Ans.: (d) None of the above

As Going concern concept assumes that the business will exist indefinitely into the future and accordingly, the assets are recorded at their historical value and resale value of assets is irrelevant.

- (vii) Economic life of an enterprise is split into the periodic interval as per
- Periodicity.
 - Matching.
 - Going concern.
 - Accrual.

Ans.: (a) Periodicity

To measure the results of business transactions the total period of the enterprise is divided in small period as per the periodicity concept.

3. (i) If an individual asset is increased, there will be a corresponding
- Increase of another asset or increase of capital.
 - Decrease of another asset or increase of liability.
 - Decrease of specific liability or decrease of capital.
 - Increase of drawings and liability.

Ans.: (b) Decrease of another asset or increase in liability

When a new asset is purchased, payment for the same is to be made, if purchased against cash, hence decrease in another asset. If the asset is purchased on credit it results in increase in liability.

- (ii) Purchase of machinery for cash
- Decreases total assets.
 - Increases total assets.
 - Retains total assets unchanged.
 - Decreases total liabilities.

Ans.: (c) Retains total assets unchanged

Purchase of machinery will increase fixed assets and payment of cash will decrease current assets, hence total assets remain unchanged.

- (iii) Consider the following data pertaining to Alpha Ltd.:

Particulars	Rs.
Cost of machinery purchased on 1 st April, 2005	10,00,000
Installation charges	1,00,000
Market value as on 31 st March, 2006	12,00,000

While finalizing the annual accounts, if the company values the machinery At Rs. 12,00,000. Which of the following concepts is violated by the Alpha Ltd.?

- Cost
- Matching.
- Realisation.
- Periodicity.

Ans.: (a) Cost

The Cost concept specifies that all the transactions should be recorded at their cost.

III.

A proprietor, Mr. A has reported a profit of Rs. 1,25,000 at the end of the financial year after taking into consideration the following amount:

- (i) The cost of an asset of Rs. 25,000 has been taken as an expense.
- (ii) Mr. A is anticipating a profit of Rs. 10,000 on the future sale of a car shown as an asset in his books.
- (iii) Salary of Rs. 7,000 payable in the financial year has not been taken into account.
- (iv) Mr. A purchased an asset for Rs. 75,000 but its fair value on the date of purchase was Rs. 85,000. Mr. A recorded the value of asset in his books by Rs. 85,000.

On the basis of the above facts answer the following questions from the given choices:

- (i) What is the correct amount of profit to be reported in the books?
 - (a) Rs. 1,25,000, (b) Rs. 1,35,000, (c) Rs. 1,50,000, (d) Rs. 1,33,000,

Ans.: (d) Rs. 133000

Profit as given	125000
Add: Value of Asset recorded as expense	25000
Less: Anticipated Profits Recorded (Conservatism)	10000
Less: Salary Expense for the year(Matching Concept)	7000
Corrected Profit	133000

- (ii) Which measurement base should be followed in the statement (iv)?
 - (a) Historical cost, (b) Current cost (c) Replacement cost (d) Present value

Ans.: (a) Historical Cost

As per the cost concept, the assets should be recorded at their cost.

- (iii) Which concept should be followed in the statement (ii)?
 - (a) Conservatism, (b) Materiality, (c) Historical cost, (d) Accrual,

Ans.: (a) Conservatism

No Anticipated incomes should be recorded in the books of accounts, all anticipated expenses and losses should be immediately recorded.

- (iv) Which concept should be followed in the statement (iii)?
 - (a) Materiality, (b) Historical cost, (c) Current cost, (d) Accrual,

Ans.: (d) Accrual

All expenses and incomes accruing to the period should be recorded in the books of accounts.

Accounting Policies

- (i) A change in accounting policy is justified
- (a) To comply with accounting standard.
 - (b) To ensure more appropriate presentation of the financial statement of the enterprise.
 - (c) To comply with law.
 - (d) All of the above.

Ans.: (d) All of the above

Generally the organization should follow the same accounting policies consistently, however it can change the same any of the above is present.

- (ii) Accounting policy for inventories of Xeta Enterprises states that inventories are valued at the lower of cost determined on weighted average basis or not realizable value. Which accounting principle is followed in adopting the above policy?
- (a) Materiality.
 - (b) Prudence.
 - (c) Substance over form.
 - (d) All of the above.

Ans.: (b) Prudence

If the net realizable value is lesser than cost, the same should be recognized as the firm will not be able to recover more than the same.

- (iii) The areas wherein different accounting policies can be adopted are
- (a) Providing depreciation.
 - (b) Valuation of inventories.
 - (c) Valuation of investments.
 - (d) All of the above.

Ans.: (d) All of the above

These are the exceptions to the rule of consistency for conservatism and prudence.

- (iv) Selection of an inappropriate accounting policy decision may
- (a) Overstate the performance and financial position a business entity.
 - (b) Understate/overstate the performance and financial position a business entity.
 - (c) Overstate the performance a business entity.
 - (d) Understate financial position a business entity.

Ans.: (b) Understate/overstate the performance and financial position of a business entity

As the selection of inappropriate policies may result in positive or negative way, hence both the understatement as well as overstatement is possible due to that.

- (v) Accounting policies refer to specific accounting
- (a) Principles.
 - (b) Methods of applying those principles.
 - (c) Both (a) and (b).
 - (d) None of the above.

Ans.: (c) Both (a) and (b)

The accounting policies specify the policy and how to follow the same.

Accounting as a Measurement Discipline - Valuation Principles, Accounting Estimates

1. (i) Measurement discipline deals with
- Identification of objects and events.
 - Selection of scale.
 - Evaluation of dimension of measurement scale.
 - All of the above.

Ans.: (d) All of the above

To record a transaction in the books of accounts one must identify the objects and events, the scale at which it has to be measured and the dimensions to measure the same.

- (ii) All of the following are valuation principles except
- Historical cost.
 - Present value.
 - Future value.
 - Realisable value.

Ans.: (c) Future Value

None of the transactions is valued at its future value, which is dependent on various circumstances

- (iii) Cost of machinery purchased on 1st April, 2005 10,00,000
 Market value as on 31st March, 2006 11,00,000
 As on 31st March, 2006, if the company values the machinery
 At Rs. 11,00,000, which of the following valuation principle is being followed?
- Historical Cost.
 - Present Value..
 - Realisable Value.
 - Current Cost.

Ans.: (c) Realizable Value

As the company has valued the asset at its market value. However this is the violation of cost concept, which says the transactions should be recorded at the cost at which those are entered.

- (iv) Change in accounting estimate means
- Differences arising between certain parameters estimated earlier and re-estimated during the current period.
 - Differences arising between certain parameters estimated earlier and actual results achieved during the current period.
 - Differences arising between certain parameters re-estimated during the current period and actual results achieved during the current period.
 - Both (a) and (b).

Ans.: (d) Both (a) and (b)

Example is change in method of depreciation, wherein on change in method the depreciation short provided or excess provided is provided for.

2. Mohan purchased a machinery amounting Rs. 10,00,000 on 1st April, 2000. On 31st March, 2006 The similar machinery could be purchased for Rs. 20,00,000 but the realizable value of the machinery (purchased on 1.4.2000) was estimated at Rs. 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as Rs. 12,00,000.
- (i) The current cost of the machinery is
- Rs. 10,00,000.
 - Rs. 20,00,000.
 - Rs. 15,00,000.
 - Rs. 12,00,000.

Ans.: (b) Rs. 20,00,000 as given

(ii) The present value of machinery is

- (a) Rs. 10,00,000. (b) Rs. 20,00,000.
(c) Rs. 15,00,000. (d) Rs. 12,00,000.

Ans.: (d) Rs. 12,00,000 as given

(iii) The historical cost of machinery is

- (a) Rs. 10,00,000. (b) Rs. 20,00,000.
(c) Rs. 15,00,000. (d) Rs. 12,00,000.

Ans.: (a) Rs. 10,00,000, it is the original cost of machinery purchased

(iv) The realizable value of machinery is

- (a) Rs. 10,00,000. (b) Rs. 20,00,000.
(c) Rs. 15,00,000. (d) Rs. 12,00,000.

Ans.: (c) Rs. 15,00,000 as given

Basic Accounting Procedures - Journal Entries

- (i) The rent paid to landlord is credited to
 (a) Landlord's account. (b) Rent account. (c) Cash account. (d) None of the above.

Ans. (c) Cash Account, As the rent is paid and rule is credit what goes out for real accounts.

- (ii) In case of a debt becoming bad, the amount should be credited to
 (a) Debtors account. (b) Bad debts account. (c) Cash account. (d) Sales account.

Ans.: (a) Debtors account, as the amount is not receivable from the debtors.

- (iii) Sunset Tours has a Rs.3,500 account receivable from Mohan. On January 20, the Rotary makes a partial payment of Rs.2100 to Sunset Tours. The journal entry made on January 20 by Sunset Tours to record this transaction includes:

- (a) A credit to the cash received account of Rs.2,100.
 (b) A credit to the Accounts receivable account of Rs.2,100.
 (c) A debit to the cash account of Rs.1,400.
 (d) A debit to the Accounts receivable account of Rs.1,400.

Ans.: (b) A Credit to the Accounts receivable account of Rs. 2100
 Receivable from Mohan is irrelevant for second transaction (MBKL)

- (iv) Which financial statement represents the accounting equation, assets = Liabilities + Owner's equity:

- (a) Income Statement (b) Statement of Cash flows
 (c) Balance Sheet (d) None of the above

Ans.: (c) Balance Sheet , It shows the financial position of the entity as of a particular date.

- (v) Which account is the odd one out?

- (a) Office furniture & Equipment. (b) Freehold land and Buildings.
 (c) Stock of materials. (d) Plant and Machinery.

Ans.: (c) Stock of Materials, Remaining Three are the fixed assets.

- (vi) The debts written off as bad, if recovered subsequently are

- (a) credited to Bad Debts Recovered Account (b) credited to Debtors Account.
 (c) debited to Profit and Loss Account (d) None of the above

Ans.: (a) Credited to Bad Debts recovered Account

As the amount receivable earlier is written off by the entity and there no balance receivable from the debtor on that account.

- II From the given information, choose the most appropriate answer.

1. Classify each of the following items under:

- (i) Prepaid salary account.
 (a) Personal, (b) Real (c) Nominal (d) None of the above

Ans.: (a) Personal , Amount paid to a person

- (ii) Bill payable account.
 (a) Personal, (b) Real (c) Nominal (d) None of the above

Ans.: (a) Personal, Amount is payable on acceptance to a person

- (iii) Rent account.
 (a) Personal, (b) Real (c) Nominal (d) None of the above

Ans.: (c) Nominal, Rent is an expense for the business

(iv) Proprietor's account

(a) Personal, (b) Real (c) Nominal (d) None of the above

Ans.: (a) Personal, Proprietor being a natural person, his account will be personal account

(v) Patents account.

(a) Personal, (b) Real (c) Nominal (d) None of the above

Ans.: (b) Real, Patents are the assets owned by the business.

2. Classify each of the following items under:

(i) Salaries.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (b) Expense (E), Amount paid to employees for services provided by them to business

(ii) Equipment.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (c) asset (A), Ownership of business used for production and earning revenue

(iii) Accounts payable.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (d) Liability (L), Amount payable is an obligation for business

(iv) Membership fees earned.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (a) Revenue (R), Amount received on recurring basis

(v) Stock.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (c) Asset (A), Goods held for resale

(vi) Accounts receivable.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (c) asset (A), Right to receive the amount from debtor on account of credit sales

(vii) Building.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) liability (L), or

Ans.: (c) Asset (A), Owned by the business for production and earning revenue

(viii) Profits.

(a) revenue(R), (b) expense (E), (c) asset (A), (d) owner's capital (OC) item.

Ans.: (d) Owners Capital, Net earnings from the business belong to the owner of the business as a reward for risk taking.

3. In each of the following, indicate the alternative which you consider to be correct:

(a) In Double Entry System of Book-keeping every business transaction affects:

(i) Two accounts. (ii) two sides of the same account.

(iii) the same account on two different dates. (iv) All of the above

Ans.: (i) Two Accounts, every transaction will have a debit effect in one account and credit effect in another.

(b) A sale of goods to Ram for cash should be debited to:

(i) Ram (ii) Cash (iii) Sales (iv) Capital

Ans.: (ii) cash, Goods are sold for Cash, debit what comes in

(c) A withdrawal of cash from business by the proprietor should be credited to:

- | | |
|---------------------|-----------------------|
| (i) Drawing Account | (ii) Capital Account |
| (iii) Cash Account | (iv) Purchase Account |

Ans.: (iii) Cash Account, Cash going out of business.

LEDGERS

- (i). The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as
- (a) posting
 - (b) purchase
 - (c) balancing of an account
 - (d) arithmetically accuracy test

Ans.: (a) Posting

- (ii) The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as
- (a) posting
 - (b) purchase
 - (c) balancing of an account
 - (d) arithmetically accuracy test.

Ans.: (c) Balancing of an account, to know the net balance of the account

- (iii) Journal and ledger records transactions in
- (a) a chronological order and analytical order respectively.
 - (b) an analytical order and chronological order respectively.
 - (c) a chronological order only
 - (d) an analytical order only.

Ans.: (a) a chronological order and analytical order respectively

In journal the transactions are recorded chronologically and in ledger entries are posted analytically.

- (iv) Ledger book is popularly known as
- (a) secondary book of accounts
 - (b) principal book of accounts
 - (c) subsidiary book of accounts
 - (d) none of the above

Ans.: (b) Principal book of accounts

- (v) At the end of the accounting year all the nominal accounts of the ledger book are
- (a) balanced but not transferred to profit and loss account
 - (b) not balanced and also the balance is not transferred to the profit and loss account
 - (c) balanced and the balance is transferred to the balance sheet
 - (d) not balanced and their balance is transferred to the profit and loss account.

Ans.: (d) Whatever is the balance in the nominal accounts is transferred to profit and loss account to know the profitability of the business.

Trial Balance

- (i) A trial balance will not balance if
- correct journal entry is posted twice.
 - the purchase on credit basis is debited to purchases and credited to cash.
 - Rs. 500 cash payment to creditors is debited to creditors for Rs. 50 and credited to cash as Rs. 500.
 - None of the above.

Ans.: (c) Rs. 500 cash payment to creditors is debited to creditors for Rs. 50 and credited to cash as Rs. 500, as one effect of the entry is given with a different amount than the other.

- (ii) Rs. 1500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance
- The debit total will be greater by Rs. 3000 than the credit total.
 - The debit total will be greater by Rs. 1500 than the credit total.
 - Subject to other entries being correct the total will agree.
 - None of the above.

Ans.: (a) The debit total will be greater by Rs. 3000 than the credit total
Amount Received debited to Cash account Rs. 1500 + While Posting, posted to debit of rent instead of crediting, Rs. 1500

- (iii) After the preparation of ledgers, the next step is the preparation of
- trading accounts
 - trial balance
 - profit and loss account
 - none of the above

Ans.: (b) trial balance, to know the arithmetic accuracy of ledger accounts.

- (iv) After preparing the trial balance the accountant finds that the total of debit side is short by Rs. 1,500. This difference will be
- credited to suspense account
 - debited to suspense account
 - adjusted to any of the debit balance account
 - adjusted to any of the credit balance account

Ans.: (b) debited to suspense account, as debit side is short, suspense account will be shown on the debit side.

(v) S. No.	Account heads	Debit (Rs.)	Credit (Rs.)
1.	Sales		15,000
2.	Purchases	10,000	
3.	Miscellaneous expenses	2,500	
4.	Salaries		2,500
	Total	12,500	17,500

The difference in trial balance is due to

- wrong placing of sales account
- wrong placing of salaries account
- wrong placing of miscellaneous expenses account
- Wrong placing of all accounts

Ans.: (b) wrong placing of salaries account, salaries is an expense and will have debit balance, should be shown on debit side and not on credit side.

Subsidiary Books

I. In which book of original entry, will you record the following transactions?

- (i) The debit note issued are used to prepare
- | | |
|------------------------|---------------------------|
| (a) Sales return book. | (b) Purchase return book. |
| (c) Sales book. | (d) Purchases book. |

Ans.: (b) Purchase Return Book

Whenever the goods are returned to supplier, document providing the details of returns is called as debit note and is recorded in purchase return book.

(ii) An allowance of Rs. 50 was offered for an early payment of cash of Rs. 1,050.

- | | |
|--------------------------------------|-------------------|
| (a) Sales Book | (b) Cash Book |
| (c) Journal Proper (General Journal) | (d) Purchase Book |

Ans.: (b) Cash Book, will be recorded in cash book discount column on debit side.

(iii) A second hand motor car was purchased on credit from B Brothers for Rs. 10,000.

- | | |
|--------------------------------------|-------------------|
| (a) Journal Proper (General Journal) | (b) Sales Book |
| (c) Cash Book | (d) Purchase Book |

Ans.: (a) Journal Proper, as the motor car is a fixed asset not purchased for resale and is purchased on credit.

(iv) Goods were sold on credit basis to A Brothers for Rs. 1,000.

- | | |
|----------------|--------------------------------------|
| (a) Cash Book | (b) Journal Proper (General Journal) |
| (c) Sales Book | (d) Bills Receivable Book |

Ans.: (c) Sales Book, all credit sales are recorded in sales day book

(v) Accounting for partial recovery from Mr. C of an amount of Rs. 2,000 earlier written off as bad debt.

- | | |
|--------------------------------------|----------------|
| (a) Journal Proper (General Journal) | (b) Sales Book |
| (c) Purchase Book | (d) Cash Book |

Ans.: (d) Cash Book, All receipts and payments are recorded through cash book

(vi) Rectifying the error of a credit purchase of goods worth Rs. 10,000 recorded as credit sale to Mr. D, discovered two months later.

- | | |
|--------------------------------------|-------------------|
| (a) Journal Proper (General Journal) | (b) Sales Book |
| (c) Cash Book | (d) Purchase Book |

Ans.: (a) Journal Proper, all rectification entries except those involving cash/bank are recorded through journal proper.

(vii) Credit purchase of stationery worth Rs. 5,000 by a stationery dealer.

- | | |
|-------------------|--------------------------------------|
| (a) Purchase Book | (b) Sales Book |
| (c) Cash Book | (d) Journal Proper (General Journal) |

Ans.: (a) Purchase Book, all credit purchases are recorded through purchase day book

(viii) A bills receivable of Rs. 1,000, which was received from a debtor in full settlement for a claim of Rs. 1,100, is dishonoured.

- (a) Purchases Return Book (b) Bills Receivable Book
(c) Purchases Book (d) Journal Proper (General Journal)

Ans.: (d) Journal Proper, to reverse the entry made earlier

(ix) Purchased goods from E worth Rs. 5,000 on credit basis.

- (a) Bills Receivable Book (b) Purchases Book
(c) Journal Proper (General Journal) (d) Purchases Return

Ans.: (b) Purchase Book

(x) Unpaid salary for Rs. 340 is to be provided for in the accounts.

- (a) Bills Receivable Book (b) Purchases Book
(c) Journal Proper (General Journal) (d) Purchases Return

Ans.: (c) Journal Proper, As no payment is made for the same, all finalization and adjustment entries are made through journal proper.

(xi) A debit note for Rs. 2,000 issued to Mr. F for goods returned by us is to be accounted for.

- (a) Bills Receivable Book (b) Purchases Book
(c) Journal Proper (General Journal) (d) Purchases Return

Ans.: (d) Purchase return, goods returned to a supplier are recorded through purchase return journal

(xii) Goods Outward Journal is meant for recording all returns of goods

- (a) Sold on credit (b) Purchased on credit
(c) Purchased on cash (d) None of the above

Ans.: (b) Purchased on Credit,

(xiii) Which of the following types of information are found in subsidiary ledgers, but not in the general ledger?

- (a) Total cost of goods sold for the period.
(b) The quantity of a particular product sold during the period.
(c) The amount owed to a particular creditor.
(d) The portion of total current assets that consist of cash.

Ans.: (b) The quantity of a particular product sold during the period
The subsidiary ledgers generally don't provide for quantitative details.

(xiv) The total of the purchases day book is posted periodically to the debit of:

- (a) Purchases account. (b) Cash book.
(c) Journal proper. (d) None of these.

Ans.: (a) Purchase account, Posting of the total of purchase day book is done to the debit of purchase account.

(xv) Purchases day book records:

- (a) All cash purchases. (b) All credit purchases
(c) Credit purchases of goods in trade. (d) None of the above

Ans.: (b) All credit purchases

2. Choose the most appropriate answer from the given options :

(i) In Purchases Book the record is in respect of

- (a) cash purchase of goods, (b) credit purchase of goods dealt in,
(c) all purchases of goods.

Ans.: (b) credit purchase of goods dealt in

(ii) The Sales Returns Book records

- (a) the return of goods purchased, (b) return of anything purchased,
(c) return of goods sold.

Ans.: (c) Return of goods sold

(iii) The Sales Book

- (a) is a part of journal, (b) is a part of the ledger,
(c) is a part of the balance sheet.

Ans.: (a) is a part of journal, as it is the book of prime entry for all credit sales

(iv) The weekly or monthly total of the purchase Book is

- (a) posted to the debit of the Purchases Account,
(b) posted to the debit of the Sales Account,
(c) posted to the credit of the Purchases Account.

Ans.: (a) Posted to the debit of the purchase account

(v) The total of the Sales Book is posted to

- (a) the credit of the Sales Account,
(b) credit of the Purchases Account,
(c) credit of the Capital Account

Ans.: (a) The credit side of sales account

Cash Book

1. (i) The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the
- (a) credit of the discount allowed account.
 - (b) debit of the discount received account.
 - (c) credit of the discount received account.
 - (d) debit of the discount allowed account.

Ans.: (d) debit to the discount allowed account, as it is an expense that is allowed to customers

- (ii) Which of the following is the kind of a cash-book ?

- (a) Simple column cash-book
- (b) Double column cash-book
- (c) Three column cash-book
- (d) All of the above

Ans.: (d) All of the above

- (iii) Cash book is a type of _____ but treated as a _____ of accounts.

- (a) Subsidiary book, principal book
- (b) Principal book, subsidiary book
- (c) Subsidiary book, Subsidiary book
- (d) Principal book, Principal book

Ans.: (a) Subsidiary book, Principal book, all cash transactions are recoded through cash book and no separate account is made to know the cash and bank balances.

- (iv) Which of the following is not a column of a three-column cash-book?

- (a) Cash column
- (b) Bank column
- (c) Petty cash column
- (d) Discount column

Ans.: (c) Petty Cash Column, A separate account is prepared for petty cash account

- (v) Salaries due for the month of March will appear

- (a) on the receipt side of the cash book
- (b) on the payment side of the cash-book
- (c) as a contra entry
- (d) nowhere in the cash book

Ans.: (d) Nowhere in the cash book, as the same is not yet paid

- (vi) Contra entries are passed only when

- (a) double column cash book is prepared
- (b) three-column cash book is prepared
- (c) simple cash book is prepared
- (d) None of the above

Ans.: (b) Three column cash book is prepared

2. State which of the following correctly complete the sentences given below:

- (i) The Cash Book records
- (a) all cash receipts
 - (b) all cash payments
 - (c) all cash receipts and payments
 - (d) cash and credit sale of goods.

Ans.: (c) all cash receipts and payments

(ii) The balance in the petty cash book is

- (a) an expense
- (b) a profit
- (c) an asset
- (d) a liability.

Ans.: (c) an asset, as it represents the balance of cash with petty cashier, cash is an asset for business

(iii) If Ram has sold goods for cash, the entry will be recorded

- (a) in the Cash Book
- (b) in the Sales Book
- (c) in the Journal
- (d) in the Stock Book.

Ans.: (a) in the cash book, as cash will be received against the same

Capital and revenue expenditure and receipts

1. Classify the following expenditures and receipts as capital or revenue:

(i) Money spent Rs. 10,000 as traveling expenses of the directors on trips abroad for purchase of capital assets is

- (a) Capital expenditures (b) Revenue expenditures
(c) Deferred revenue expenditures (d) None of the above

Ans.: (a) Capital Expenditure, all expenses incurred in purchase and installation of assets are treated as capital expenditures

(ii) Amount of Rs. 5,000 spent as lawyers' fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

- (a) Capital expenditures (b) Revenue expenditures
(c) Deferred revenue expenditures (d) None of the above

Ans.: (b) Revenue Expenditure, legal expenses are the recurring expenses for the business

(iii) Entrance fee of Rs. 2,000 received by Ram and Shyam Social Club.

- (a) Capital receipt (b) Revenue receipt
(c) Capital expenditures (d) Revenue expenditures

Ans.: (a) Capital receipt, entrance fee is received only once at the time of admission of member

(iv) Subsidy of Rs. 40,000 received from the government by a manufacturing concern.

- (a) Capital receipt (b) Revenue receipt
(c) Capital expenditures (d) Revenue expenditures

Ans.: (b) Revenue receipt, as it is recurring in nature, however if the subsidy is received to start a business will be treated as a capital receipt

(v) Insurance claim received on account of machinery damaged completely by fire.

- (a) Capital receipt (b) Revenue receipt
(c) Capital expenditures (d) Revenue expenditures

Ans.: (a) Capital Receipt, loss by fire is a non recurring event

(vi) Interest on investments received from UTI.

- (a) Capital receipt (b) Revenue receipt
(c) Capital expenditures (d) Revenue expenditures

Ans.: (b) Revenue receipt, received on a recurring basis

(vii) Amount received from IDBI as a medium term loan for augmenting working capital.

- (a) Capital expenditures (b) Revenue expenditures
(c) Capital receipt (d) Revenue receipt

Ans.: (c) Capital receipt, amount is received as a loan which is repayable

(viii) A bad debt recovered during the year.

- (a) Capital expenditures (b) Revenue expenditures
(c) Capital receipt (d) Revenue receipt

Ans.: (d) Revenue receipt, received on account of bad debts written off earlier

Contingent Assets and Liabilities

1. (i) Contingent asset usually arises from unplanned or unexpected events that give rise to
- (a) The possibility of an inflow of economic benefits to the business entity.
 - (b) The possibility of an outflow of economic benefits to the business entity.
 - (c) Either (a) or (b)
 - (d) None of the above.

Ans.: (a) The possibility of an inflow of economic benefits to the business entity

When the inflow is uncertain it is called as contingent assets, the same is not recorded in the books of accounts as per the conservatism concept.

- (ii) If an inflow of economic benefits is probable then a contingent asset is disclosed
- (a) in the financial statements.
 - (b) in the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).
 - (c) In the cash flow statement.
 - (d) None of the above.

Ans.: (b) in the report of the approving authority

The contingent assets cannot be recorded in the books of accounts, however it can be conveyed to the users through the notes to accounts or within the report of approving authority.

- (iii) In the case of _____, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.
- (a) Liability.
 - (b) Provision.
 - (c) Contingent liabilities.
 - (d) Contingent assets.

Ans.: (c) Contingent Liabilities

As the outflow or amount to be paid is uncertain.

- (iv) Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as _____.
- (a) Provision.
 - (b) Liability.
 - (c) Contingent liability.
 - (d) None of the above.

Ans.: (a) Provision

As the exact amount to be paid is not known, hence it is treated as provision

- (v) In the financial statement, contingent liability is
- (a) Recognised
 - (b) Not recognised.
 - (c) Adjusted.
 - (d) None of the above.

Ans.: (a) Recognized, through the footnotes to the financial statements