#### CHAPTER 2 –ACCOUNTING FOR PARTNERSHIP: FUNDAMENTALS

**ASSERTION REASONING QUESTIONS**

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| Sr.No | Question |
| 1. | Assertion: Ram spends thrice the time that Yami devoted to business. Ram claims that he should get salary of Rs.5,000/- p.m. for extra time spent.  **Reason**: As there is no partnership deed Partnership Act 1932 applies and as per the Act partners will not be allowed any salary or remuneration.   1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |
| 2. | **Assertion**: In case of losses interest on capital will not be provided.  **Reason**: As interest on capital is treated as the appropriation of the profits and there are no profits but interest on capital can be provided in case of losses if it is to be treated as charge.   1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |
| 3. | **Assertion**: Y wants that profits should be distributed in the ratio of capitals as he has invested more capital than X this dispute arises as the partnership deed was not there. **Reason**: As there is no partnership deed Indian Partnership Act, 1932 applies and as per the Act, Profits are to be distributed equally.   1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |

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| 4. | **Assertion**: Average Normal Profit as Calculated is multiplied by number of years' purchase to determine the value of goodwill.  **Reason**: Number of years' purchase means the number of years for which the firm is likely to earn same amount of profit after change in ownership becomes of the efforts put in the past.   1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |
| 5. | **Assertion:** Rent paid to the partner is not to be shown in Profit & Loss Appropriation A/c . **Reason:** Rent paid to the partner is treated as the charge against profit and not the appropriation of the profits.   1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |

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| 6 | Assertion(A): Goodwill is the good name or reputation of the Business which brings benefit to the business.  Reason(R): It is an intangible asset as it has no physical existence.   1. Both A and R are true and R is the Correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 7 | Assertion (A) : In order to compensate a partner for contributing capital to the firm in excess  of the profit sharing ratio , firm pays such interest on Partners’ Capital. Reason (R) : |

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|  | Interest on Capital is treated as a charge against profits.   1. Both A and R are true and R is the Correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 8 | Assertion (A) : Fixed Capital Accounts of a partner never shows a debit balance inspite of regular and consistent losses year after year.  Reason (R) : When Capital Accounts are fixed , losses are recorded in Partners’ Current Account.   1. Both A and R are true and R is the Correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 9 | Assertion(A): Both purchase and shelf generated goodwill are accounted in the books of account  Reason( R ): According to AS-26 only purchase goodwill is accounted in the books of account. Shelf generated goodwill is not accounted in the books of account (   1. Both A and R are true and R is the Correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 10 | Assertion (A): A Firm should have a Partnership Deed.  Reason (R) : In case of dispute or any misunderstanding among partners , partnership deed acts as an evidence in the court of law.   1. Both A and R are true and R is the Correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false |

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|  | (d) A is false but R is true |
| Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). 2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). 3. Assertion (A) is true and Reason (R) is false 4. Assertion (A) is false and Reason (R) is true | |
| 11. | Assertion (A): In the absence of Partnership deed profits and losses are divided equally among the partners.  Reason (B) : This rule is applicable according to Indian Partnership Act,1932 |
| 12. | Assertion (A) :Personal properties of a partner may also be used to pay off the firms debts. Reason (R) : All partner are limited liability in the firm. |
| 13. | Assertion (A) : Partnership firm is a form of Organization where two or more persons carry on business activity on the basis of agreement among them.  Reason (R ) : The profit or loss arising from the partnership business is shared by the partners in the agreed ratio. |
| 14. | Assertion(A): Maximum number of partners in a partnership firm is 50.  Reason (R ) : Maximum number of partner in a partnership firm is prescribed in Companies Act,2013. |
| 15 | ***Assertion (A):*** Average Normal Profit as Calculated is multiplied by number of years' purchase to determine the value of goodwill.  ***Reason (R***): Number of years' purchase means the number of years for which the firm is likely to earn same amount of profit after change in ownership becomes of the efforts put in the past   1. R is correct but A is not correct 2. Both A and R are incorrect 3. A is correct R is not correct 4. Both A and R are correct Ans (d) Both A and R are correct |

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| 16 | ***Assertion (A):*** Goodwill is the good name or reputation of the business which brings benefit to the business.  ***Reason (R):*** It is an intangible asset as it has no physical existence.   1. Both (A) and (R) are true and (R) is the correct explanation of (A) 2. Both (A) and (R) are true and (R) is not the correct explanation of (A). 3. (A) is true, but (R) is false 4. (A) is false, but (R) is true   Ans:- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). |
| 17 | ***Assertion(A):*** any abnormal gain is excluded by deducting from and any abnormal loss is included by adding to the pasts  ***Reason(R):*** Normal business profits earned by the business for the specified number of years are considered   1. Both A and R are true and R is not correct explanation 2. Both A and R are not Correct 3. R is true but A is not true 4. Both A and R are true and R is correct explanation of A   Ans:- (d) Both A and R are true and R is correct explanation of A |
| 18 | ***Assertion (A):*** large customer base results in higher valuation of Goodwill  ***Reason(R):*** If a customer is large in size then they demand more of goods and ultimately goodwill of that product increases   1. Both A and R are true and R is correct explanation of A 2. Both A and R are true and R is not correct explanation of A 3. A is true but R is not correct 4. R is true but A is not true   Ans:- (a) Both A and R are true and R is correct explanation of A |
| 19 | **Assertion**: Partnership is the relation between persons who have agreed to share the profit of a business carried on by all or any one of them acting for all.  **Reason**: It is defined in the Partnership act 1932.  Alternatives:   1. Both assertion(A) and reason(R) are true and reason (R) Is the correct explanation of Assertion(A) 2. Both assertion(A) and reason(R) are true and reason (R) Is not the correct explanation of Assertion(A) |

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|  | 1. Assertion(A) is true but Reasoning(R) is false 2. Both Assertion(A) is true but Reasons(R) is not correct |
| 20 | **Assertion**: In a partnership when profit sharing ratio is agreed, partners share the losses also in the same ratio.  **Reason:** Although in the definition it is written that profit will be shared, it include losses also  Alternatives:   1. Both assertion(A) and reason(R) are true and reason (R) Is the correct explanation of Assertion(A) 2. Both assertion(A) and reason(R) are true and reason (R) Is not the correct explanation of Assertion(A) 3. Only Assertion(A) is correct 4. Only Reasoning(R) is correct |
| 21 | **Assertion**: Rent to a partner is transferred to debit of profit and loss account but not transferred to profit and loss appropriation account  **Reason**: Rent to partner is a charge against profit, not an appropriation of profit. Hence it is transferred to debit of profit and loss account  Alternatives:   1. Both assertion(A) and reason(R) are true and reason (R) Is the correct explanation of Assertion(A) 2. Both assertion(A) and reason(R) are true and reason (R) Is not the correct explanation of Assertion(A) 3. Assertion(A) is correct but reason(R) is false 4. Assertion(A) is false but reason(R) is correct |
| 22 | **Assertion**: Only capital account is maintained for each partner under fluctuating capital account method.  **Reason**: Interest on capital. Salary, commission and profit transferred to the credit of partners capital account while interest on drawings and share of losses are transferred to the debit.  Alternatives:   1. Both assertion(A) and reason(R) are true and reason (R) Is the correct explanation of Assertion(A) 2. Both assertion(A) and reason(R) are true and reason (R) Is not the correct explanation of Assertion(A) 3. Assertion(A) is correct but reason(R) is false 4. Assertion(A) is false but reason(R) is correct |

**ANSWER KEY**

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| Q.NO. | ANSWER |
| 1. | D |
| 2. | A |
| 3. | D |
| 4. | D |
| 5. | A |
| 6 | D |
| 7 | C |
| 8 | B |
| 9 | B |
| 10 | D |
| 11 | A |
| 12 | B |
| 13 | C |
| 14 | D |
| 15 | D |
| 16 | B |
| 17 | D |
| 18 | A |
| 19 | B |
| 20 | B |
| 21 | B |
| 22 | A |

**PREPARED BY THE PGTs ( COMMERCE ) OF BHUBANESWAR, GUWAHATI, KOLKATA, RANCHI, SILCHAR AND TINSUKIA REGIONS.**

#### CHAPTER 3:- CHANGE IN PROFIT SHARING RATIO AMONG EXISTING PARTNERS

**ASSERTION REASON TYPE QUESTIONS**

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| **Q.NO.** | **QUESTIONS** |
| **1** | Assertion (A) : A firm can change its existing agreement.  Reason (R) : Any change in its partnership agreement, will be treated as punishable offence.   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true , but R is false 4. A is false , but R is true |
| **2** | Assertion (A) : In absence of a deed , a sleeping partner who contributed 75% of total capital would get 75% of the profit earned.  Reason (R) : A sleeping partner , in absence of a deed , gets equal share of profit , irrespective of his capital share.   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true , but R is false 4. A is false , but R is true |
| **3** | Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R). You are to examine these two statements carefully and select the answers using the code given below:  Assertion (A): The amount of interest on Mr. Anand’s drawing@ 10% if he withdrew Rs. 5,00,000 during the year is Rs. 50,000  Reason (R): Anand’s capital/current account will be debited for Rs. 25,000; as in the absence of time period given, interest on drawing is calculated on average 6 months’ time period.   1. Both (A) and ( R ) are true and ( R ) is the correct explanation of ( A ) 2. Both ( A ) and ( R ) are true and ( R ) is not correct explanation of ( A ) 3. (A ) is true but ( R ) is false 4. ( A ) is false but ( R ) is true |
| **4** | Assertion: As a result in Change in Profit Sharing ratio it result in dissolution of partnership fir,  Reason: As told agreement come to end as a result of any change in the Partnership Deed it ends up the old agreement and the new agreement is formed so it becomes the part of Reconstitution of the Partnership Firm i.e. Dissolution of Partnership.  A. Both (A) and ( R ) are true and ( R ) is the correct explanation of ( A ) |

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|  | 1. Both ( A ) and ( R ) are true and ( R ) is not correct explanation of ( A ) 2. (A ) is true but ( R ) is false 3. ( A ) is false but ( R ) is true |
| 5 | Assertion: The old balances of reserves need not be transferred to capital account of partners in case of change in profit ratio.  Reason: If partners decide not to distribute the reserves, then adjusting entry can be passed in sacrifing/gaining ratio.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 6 | Assertion: Purchased goodwill appearing on the assets side of the balance sheet need to be written off in old ratio on change in profit sharing ratio.  Reason: As per AS-26, existing goodwill must be written off by crediting it to capital account of partners.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 7 | Assertion: At the time of change in profit sharing ratio, Workmen compensation Reserve appears on the liabilities side of the balance sheet at ₹10,000 and a claim of ₹6,000 on account of Workmen compensation arises, then the balance of reserve shall be distributed in old ratio.  Reason: The balance of reserve becomes the part of free reserves, hence transferred to capital account of partners in old ratio.  (A) Both Assertion and reason are true and reason is correct explanation of |

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|  | assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| 8 | Assertion: Revaluation of assets is necessary at the time of change in profit sharing ratio as their current value differs from their book value.  Reason: The difference arising out of change in value should be recorded in the books of accounts.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 9 | The following question consists of two statements, one labelled as the ‘Assertion (A)’ and the other as ‘Reason (R)’. You are to examine these two statements carefully and select the answers using the code given below:  Assertion(A): Investment Fluctuation Reserve is a reserve which is set aside out of the profits to meet a fall in the market value of investments.  Reason(R): When increase in the value of Investment is more than the balance in Investment Fluctuation Reserve, excess is debited to Partners Capital A/c.   1. Both Assertion and Reason are true and Reason is correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true, Reason is false. 4. Assertion is false, Reason is true. |

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| 10 | Assertion(A) : Sacrificing ratio is the ratio in which one or more partners of the firm sacrifice their share of profits in favour of one or more partners of the firm. Reason (R): The partner whose share of profit decreases should be compensated by the Partners whose share has increased i.e. gaining partners should compensate sacrificing partners.   1. Both Assertion and Reason are true and Reason is correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true, Reason is false. 4. Assertion is false, Reason is true. |
| 11 | Assertion (A): When the partners change their profit sharing ratio , it leads to dissolution of old firm and new firm comes into existence.  Reason (R) : Change their profit sharing ratio does not dissolve the firm but brings an end to old partnership and new partnership comes into existence.  In the context of above two statements, which of the following is correct?   1. Both Assertion and Reason are true and Reason is correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true, Reason is false. 4. Assertion is false, Reason is true. |
| 12 | Assertion (A):Atul ,Baral and Chetak are partners sharing profits equally. They change their profit sharing ratio to 5:3:2. On the date there was a debit balance in profit and loss a/c. it will be carried forward and not debited to the partners’ capital accounts but will be set off against profits in future.  Reason (R) : Debit balance in profit and loss account is a fictitious asset and all fictitious assets are written off at the time of reconstitution of the firm in the old profit sharing ratio of the partners.  In the context of above two statements, which of the following is correct?   1. Both Assertion and Reason are true and Reason is correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true, Reason is false. 4. Assertion is false, Reason is true. |

**ANSWER KEY**

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| **Q.NO** | **ANSWERS** |
| 1 | C |
| 2 | D |
| 3 | C |
| 4 | D |
| 5 | (A) Both Assertion and reason are true and reason is correct explanation of  assertion. |
| 6 | (C) Assertion is true, reason is false. |
| 7 | (A) Both Assertion and reason are true and reason is correct explanation of  assertion. |
| 8 | (B) Assertion and reason both are true but reason is not the correct explanation of  assertion. |
| 9 | C |
| 10 | A |
| 11 | D |
| 12 | D |

### Accountancy

Chapter 4 - Admission of a Partner

ASSERTION REASONING TYPE QUESTIONS

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| Sl.No. | Question |
|  | **There are two statements marked as Assertion (A) and Reason** |
|  | **(R). Read the statements and choose the appropriate option from** |
|  | **the options** |
| 01 | **Assertion (A):** If the amount of any liability is understated, then |
|  | revaluation account will be debited to restore the liability's amount to |
|  | its actual value. |
|  | **Reason (R):** Increase in amount of liability is a profit for the firm. |
|  | A. Both Assertion and Reason are correct and Reason is the correct |
|  | explanation for Assertion |
|  | B. Both Assertion and Reason are correct but Reason is not the |
|  | correct explanation for Assertion |
|  | C. Assertion is correct but Reason is incorrect |
|  | D. Both Assertion and Reason are incorrect |
| 02 | Assertion (A): At the time of admission of a new partner Balance of |
|  | General Reserve is transferred to Old Partners‘ Capital A/c in old |
|  | ratio. |
|  | Reason (R): General Reserve appearing in Balance Sheet is created |
|  | out of past profits. |
|  | (A) Both Assertion (A) and Reason(R) are true and Reason(R) is |
|  | correct explanation of |
|  | Assertion (A). |
|  | (B) Both Assertion (A) and Reason(R) are true and Reason(R) is not |
|  | correct explanation of |
|  | Assertion (A). |
|  | (C) Assertion (A) is true, but Reason (R) is false. |
|  | (D) Assertion (A) is false, but Reason (R) is true. |
| 03 | Assertion (A): At the time of admission of a new partner surplus of |
|  | Investment Fluctuation |
|  | Reserve over loss in value of Investment is transferred to Old Partners |
|  | Capital A/c in old ratio. |
|  | Reason (R): Loss in value of Investment, if any, is adjusted first from |
|  | Investment |
|  | Fluctuation Reserve. |
|  | (A) Both Assertion (A) and Reason(R) are true and Reason(R) is |
|  | correct explanation of |
|  | Assertion (A). |
|  | (B) Both Assertion (A) and Reason(R) are true and Reason(R) is not |
|  | correct explanation of Assertion (A). |
|  | (C) Assertion (A) is true, but Reason (R) is false. |
|  | (D) Assertion (A) is false, but Reason (R) is true. |

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| 04 | Assertion (A): Employees provident fund is not distributed to the partners’ capital a/c Reason (R): Employees provident fund is a liability towards the employees, thus, partners have no claim over it. |
|  | 1. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion 2. Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion 3. Assertion is correct but Reason is incorrect 4. Both Assertion and Reason are incorrect |
| 05 | Assertion (A): At the time of admission of a partner, partnership isdissolved and not the firm  Reason (R**):** In case of reconstitution, existing agreement comes to anend and a new one comes into existence.   1. Both Assertion and Reason are correct and Reason is the correct explanation for Assertion 2. Both Assertion and Reason are correct but Reason is not the correct explanation for Assertion 3. Assertion is correct but Reason is incorrect 4. Both Assertion and Reason are incorrect |
| 06. | Assertion: At the time of admission, if the profit sharing ratio amongthe old partners does not change then sacrificing ratio will be the old profit sharing ratio.  Reason: old profit sharing plus new profit sharing is sacrificing ratio.   1. Both Assertion and reason are true and reason is correct explanation of assertion 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true both reason is false. 4. Assertion is false, reason is true. |
| 07. | Assertion: increase in the value of asset is credited to revaluation account.  Reason: increase in the value of Building is credited to revaluationaccount.   1. Both Assertion and reason are true and reason is correct explanation of assertion 2. Assertion and reason both are true but reason is not the correct   explanation of assertion.   1. Assertion is true both reason is false. 2. Assertion is false, reason is true. |

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| 08. | Assertion: General reserve is the profit accumulated by the old partners.  Reason: General reserve is distributed in the new profit sharing ratio..   1. Both Assertion and reason are true and reason is correct explanation of assertion 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true both reason is false. 4. Assertion is false, reason is true. |
| 09. | Assertion: On admission of a new partner the goodwill of the firm is determined.  Reason: Premium for goodwill is distributed in the sacrificing ratio.   1. Both Assertion and reason are true and reason is correct explanation of assertion 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true both reason is false. 4. Assertion is false, reason is true. |
| 10. | Assertion (A): In certain cases ,the premium for goodwill paid by the incoming partner is not recorded in the books of accounts  Reason ( R):Sometimes the incoming partner pays his share of goodwill privately to the sacrificing partners, outside the business   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 11. | Assertion (A): It is necessary to ascertain new profit sharing ratio forold partners when a new partner is admitted.  Reason ( R): New partner acquires his share from old partners which reduces old partners’ share in profits.   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |

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| 12. | Assertion (A): The ratio in which old partners sacrifice their share ofprofit in favour of new partner is called Sacrificing Ratio.‘  Reason ( R): Old partners get goodwill share from new partner in sacrificing ratio.   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 13. | Assertion (A): New partner always bring his share of goodwill in cash.Reason ( R): New partner brings goodwill against the sacrifice made by old partners for his share of Profit.   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 14 | Assertion (A): At admission existing goodwill is written off by debiting to old partners‘ capital A/c  Reason ( R): Goodwill is an intangible and fictitious asset.   1. Both A and R are true and R is the correct explanation of A 2. Both A and R are true and R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| 15 | Assertion(A): At the time of admission of a partner revaluation accountis prepared.  Reason( R) : The profit/Loss on Revaluation is adjusted in old partnerscapital account in their new ratio.   1. Both Assertion(A) and Reason( R) are correct statements and Reason(R ) is the correct explanation of the Assertion. 2. Both Assertion(A) and Reason( R) are correct statements but Reason(R ) is the correct explanation of the Assertion(A). 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |

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| 16 | Assertion(A): At the time of admission of a partner, balances of Reserves, Accumulated Profit and losses are transferred to the old partners capital accounts in their old Ratio.  Reason( R) : They have been earned or incurred in the period before the partner was admitted.   1. Both Assertion(A) and Reason( R) are correct statements and Reason(R ) is the correct explanation of the Assertion. 2. Both Assertion(A) and Reason( R) are correct statements but Reason(R ) is the correct explanation of the Assertion(A). 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 17 | Assertion(A): Accumulated profits are the profits which a new partneris entitled to receive as he pays for Goodwill.  Reason( R) : Accumulated profits are the part of profits which would have been distributed among the partners in their Capital .   1. Both Assertion(A) and Reason( R) are correct statements and Reason(R ) is the correct explanation of the Assertion. 2. Both Assertion(A) and Reason( R) are correct statements but Reason(R ) is the correct explanation of the Assertion(A). 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 18 | Assertion(A): Revaluation of Assets and Liabilities is done at the timeof Admission of a Partner.  Reason( R) : The new partner should not be at an advantage or disadvantage due to the change in values.   1. Both Assertion(A) and Reason( R) are correct statements and Reason(R ) is the correct explanation of the Assertion. 2. Both Assertion(A) and Reason( R) are correct statements but Reason(R ) is the correct explanation of the Assertion(A). 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |

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| 19.. | **Assertion (A):** At the time of admission of a partner, partnership is dissolved and not the firm  **Reason (R):** In case of reconstitution, existing agreement comes to an end and a new one comes into existence.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 20. | **Assertion (A):** Employees provident fund is not distributed to the partners’ capital a/c **Reason (R):** Employees provident fund is a liability towards the employees, thus, partners have no claim over it.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| 21. | **Assertion (A).:** It is necessary to ascertain new profit sharing ratio for old partners when a new partner is admitted.  **Reason (R):** New partner acquires his share from old partners which reduces old partner's share in profits.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 22. | **Assertion (A):** In certain cases, the premium for goodwill paid by the incoming partner is not recorded in the books of accounts.  **Reason (R):** Sometimes, the incoming partner pays his share of goodwill privately to the sacrificing partners, outside the business.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. ) Assertion is false, reason is true. |

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| 23 | Assertion (A): Ram and Shyam are equal partners. They admitted Lakshman as a partner for 1/4the share. The value of assets was increased by Rs.1,00,000 and an unrecorded liability of Rs.40,000 was brought into books. The gain (profit) of Rs.60,000 will be credited in the capital accounts of Ram and Shyam equally.  Reason (R): Gain (profit) or loss on revaluation of assets and reassessment of liabilities is credited or debited to the capital accounts of old partners in their old profit sharing ratio.  In the context of above two statements, which of the following is correct?   1. Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A). 2. Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). 3. Assertion (A) is correct but Reason (R) is not correct. 4. Both the Assertion (A) and Reason (R) is incorrect. |
| 24 | Assertion (A): Rohit and Virat are partners sharing profits equally. They admit Rahane for 1/4th share in future profits. On the date of admission, Workmen Compensation Reserve existed in the books at ₹ 10,000. A claim of ₹ 15,000 was made by a worker andwas to be accounted. The existing reserve of ₹ 10,000 will be distributed between Rohit and Virat and ₹ 15,000 being theclaim amount will be transferred to the debit of Revaluation Account.  Reason (R): Workmen Compensation Reserve of ₹ 10,000 will be transferred to Workmen’s Compensation Claim account. In addition, ₹ 5,000 be debited to Revaluationaccount and credited to Workmen’s Compensation Claim account. In the context of above two statements, which of the following is correct?   1. Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct   explanation of Assertion (A).   1. Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).   ( C) Assertion (A) is correct but Reason (R) is not correct. (D). Assertion (A) is not correct but Reason (R) is correct |

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| 25 | Assertion (A): If the amount of any asset is undervalued, the Revaluation account will be debited to restore the amount of asset to its actual value.  Reason (R): Increase in the liability of the firm is a profit for the firm.  In the context of above two statements, which of the following is correct?   1. Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). 2. Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A). 3. Assertion (A) is correct but Reason (R) is not correct. 4. Both the Assertion (A) and Reason (R) is incorrect. |
| 26 | Assertion (A): An accrued income like Accrued commission etc., not recorded is shown in the credit side of Revaluation account on admission of a partner.  Reason (R): It being an income that relates to the period before admission of a partner. Thus, it is credited to Revaluation account and net fain/profit or loss of Revaluation account is transferred to old partners’ capital accounts in their old profit sharing ratio. In the context of above two statements, which of the following is correct?   1. Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A). 2. Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). |
| 27 | Assertion: Undistributed profits or losses appearing in the balance sheet at the time of admission should be transferred to old partner’s capital/current account.  Reason: Undistributed profits or losses appearing in the balance sheet at the time of admission belong to the old partners as they are earn by them.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. (d) Assertion is false, reason is true. |

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| 28 | Assertion: The amount brought in by the new partner is divided between or among the existing partners in their sacrificing ratio.  Reason: The new partner acquires his/her share of profit from the existing partners.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 29 | Assertion: An increase in the value of assets and decrease in the value of liabilities at the time of admission of a partner is debited to the revaluation account.  Reason: Revaluation account is nominal in nature.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 30 | Assertion: It is necessary to show the true position of the firm at the time of admission of a new partner.  Reason: The gain or loss on revaluation which is transferred to all the partner’s capital  account in the new profit sharing ratio.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 31 | **Assertion (A):** The ratio in which old partners sacrifice their share of profitin favour of new partner is called ‘ Sacrificing Ratio’.  **Reason (R):** Old partners get goodwill share from new partner in sacrificing ratio.   1. Both Assertion (A) and Reason(R) are true and Reason(R)is correct explanation of Assertion (A). 2. Both Assertion (A) and Reason(R) are true and Reason(R)is not correct explanation of Assertion (A). 3. Assertion (A) is true, but Reason (R) is false. 4. Assertion (A) is false, but Reason (R) is true. |

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| 32 | **Assertion (A):** At the time of admission of a new partner Balance of General Reserve is transferred to Old Partners‘ Capital A/c in old ratio.  **Reason (R):** General Reserve appearing in Balance Sheet is created out of past profits.   1. Both Assertion (A) and Reason(R) are true and Reason(R) is correct explanation of Assertion (A). 2. Both Assertion (A) and Reason(R) are true and Reason(R) is not correct explanation of Assertion (A). 3. Assertion (A) is true, but Reason (R) is false. 4. Assertion (A) is false, but Reason (R) is true. |
| 33 | **Assertion (A):** New partner always bring his share of goodwill in cash. **Reason (R):** New partner brings goodwill against the sacrifice made by old partners for his share of Profit.   1. Both Assertion (A) and Reason(R) are true and Reason(R) is correct explanation of Assertion (A). 2. Both Assertion (A) and Reason(R) are true and Reason(R) is not correct explanation of Assertion (A). 3. Assertion (A) is true, but Reason (R) is false. 4. Assertion (A) is false, but Reason (R) is true. |
| 34 | **Assertion (A):** At admission existing goodwill is written off by debiting to old partners capital A/c  **Reason (R):** Goodwill is an intangible and fictitious asset.   1. Both Assertion (A) and Reason(R) are true and Reason(R) is correct explanation of Assertion (A). 2. Both Assertion (A) and Reason(R) are true and Reason(R) is not correct explanation of Assertion (A). 3. Assertion (A) is true, but Reason (R) is false. 4. Assertion (A) is false, but Reason (R) is true. |
| 35 | **Assertion (A):** At the time of admission of a new partner surplus of Investment fluctuation Reserve over loss in  value of Investment is transferred to Old Partners‘ Capital A/c in old ratio.  **Reason (R):** Loss in value of Investment, if any, is adjusted first from Investment fluctuation Reserve.   1. Both Assertion (A) and Reason(R) are true and Reason(R) is correct explanation of Assertion (A). 2. Both Assertion (A) and Reason(R) are true and Reason(R) is not correct explanation of Assertion(A). 3. Assertion (A) is true, but Reason (R) is false. 4. Assertion (A) is false, but Reason (R) is true. |

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| **ANSWER KEY** | | | | |
| Q.No. | Answer | | | |
| 01 | D | | | |
| 02 | A | | | |
| 03 | A | | | |
| 04 | A | | | |
| 05 | A | | | |
| 06 | C | | | |
| 07 | A | | | |
| 08 | C | | | |
| 09 | A | | | |
| 10 | (A) | Both A and R are true and R is the correct explanation of A | | |
| 11 | (A) | Both A and R are true and R is the correct explanation of A | | |
| 12 | (B) | Both A and R are true and R is not the correct explanation of A | | |
| 13 | (D) | A is false but R is true | | |
| 14 | (C ) A is true but R is false | | | |
| 15 | C | | | |
| 16 | A | | | |
| 17 | B | | | |
| 18 | A | | | |
| 19. | (A) | | | |
| 20. | (A) | | | |
| 21. | (A) | | | |
| 22. | (A) | | | |
| 23 | (B) | | | |
| 24 | (D) | | | |
| 25 | (D) | | | |
| 26 | (B) | | | |
| 27 | (a) Both Assertion and reason are true and reason is correct explanation of assertion. | | | |
| 28 | (a) Both Assertion and reason are true and reason is correct explanation of  assertion. | | | |
| 29 | (d) Assertion is false, reason is true. | | 32 | A |
| 30 | (c) Assertion is true, reason is false. | | 33 | D |
| 31 | B | | 34 | C |
|  |  | | 35 | A |

## Accountancy

Chapter 5 - Retirement & Death of a Partner

ASSERTION REASONING TYPE QUESTIONS

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| Q.1 | Assertion: If new profit sharing ratio of remaining partner is not given  Reason: It will assume that the remaining partner continue to share profit and losses in the new ratio   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q.2 | Assertion: gaining Ratio is calculated when a partner Retires or Dies Reason: Gaining ratio is calculated only by one method   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q.3 | Assertion: retiring partner is entitled to his share of goodwill at the time of retirement. Reason: goodwill earned by the firm is result of efferts of all existing partners in the past   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q.4 | Assertion: At the time of retirement Revaluation account is prepared  Reason: revaluation and Reessement is made by the method other than Admission of partner   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |

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| Q5. | Assertion: retiring partner is entitled to Interest @10 %p.a. till the loan is paid off  Reason:Instead of Interest he may take that share of profit which has been earned by the firm by the amount due to him   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q 6 | Assertion (A): On retirement, the old partnership agreement comes to an end and a new partnership agreement comes into existence between the remaining partners.  Reason (R): Retirement of the partnership leads to the reconstitution of the firm. |
|  | 1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q 7 | Assertion (A): When goodwill is not appearing in the books, retiring or deceased partner’s capital account is to be credited with his share of goodwill and gaining partners’ capital accounts are to be debited in gaining ratio.  Reason (R): Goodwill needs to be compensated by the gaining partners in the gaining ratio.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| Q 8 | Assertion (A): Ram, Rahim and Ron share profits in the ratio 2:3:5. Ram decides to retire. The new profit-sharing ratio is 3:5. If the profit earned was Rs1,50,000 before retirement. Rahim’s share is Rs 45,000.  Reason (R): The profits are shared in the new profit-sharing ratio.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true |
| Q 9 | Assertion (A): Unrecorded outstanding repair bill at time of death of partner is recorded on debit side of Revaluation a/c.  Reason (R): Increase in capital of partner is recorded on credit side of Capital account.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true |

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| Q 10 | Assertion (A): Unrecorded assets at time of death of partner is recorded on credit side of Revaluation a/c.  Reason (R): Revaluation account is credited due to increase in liability.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. ( D) Assertion is false, reason is true |

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| **ANSWER KEY** | |
| Q**.**1 | **(**A**)** Both Assertion and reason are true and reason is correct explanation of assertion**.** |
| Q**.**2 | **(**C**)** Assertion is true, reason is false**.** |
| Q**.**3 | **(**A**)** Both Assertion and reason are true and reason is correct explanation of assertion**.** |
| Q**.**4 | **(**C**)** Assertion is true, reason is false**.** |
| Q**.**5 | **(**D**)** Assertion is false, reason is true**.** |
| Q**.6** | A |
| Q**.7** | A |
| Q**.8** | C |
| Q**.9** | B |
| Q**.10** | C |

**CHAPTER-6 DISSOLUTION OF PARTNERSHIP FIRM**

**ASSERTION REASON TYPE QUESTIONS**

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| **S.N**  **o.** | **Question** |
|  | **Assertion:……………………………………………**  **Reason: ………………………………………………**   1. **Both Assertion and reason are true and reason is correct explanation of assertion.** 2. **Assertion and reason both are true but reason is not the correct explanation of assertion.** 3. **Assertion is true, reason is false.** 4. **Assertion is false, reason is true.** |
| 1 | **Assertion (A):** On dissolution, goodwill account is transferred to Realisation Account.  **Reason (R):** Goodwill is an Asset which cannot be seen or touched. |
| 2 | **Assertion (A):** At the time of Dissolution of Partnership Firm, The amount received from realisation of all the assets of the firm is used first of all to pay the external liabilities of the firm  **Reason (R):** As per the Partnership Act, outside liability should be paid first of all at  the time of dissolution of partnership firm. |
| 3 | **Assertion (A):** On the dissolution of a firm the cash-in-hand is not transferred to Realisation Account  **Reason (R):** Realisation Account is Real Account |
| 4 | **Assertion (A):** A partnership firm is deemed to be dissolved at the time of retirement of a Partnership firm.  **Reason (R):** Partnership firm lacks stability. |
| 5 | Assertion: the consent of all the partners is mandatory in dissolution. Reason: dissolution by agreement |
| 6 | Assertion: the court may order to dissolve a partnership firm . Reason:. A partner repeatedly breaks the terms of agreement |

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| 7 | Assertion: first of all the external liabilities and expenses are to be paid. Then, all loans and advances forwarded by the partners should be paid.  Reason:. Define in partnership act 1932. |
| 8 | Assertion: dissolution of firm means closing down of the partnership business |

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|  | Reason:. All the partners terminate their connections with the firm and the business of the firm is brought to an end. |
| 9 | Assertion (A) : Dissolution expenses paid by the firm on behalf of a partner is |
|  | recorded on the debit side of realisation account. |
|  | Reason (R) : Such expenses are a Non-business expense. |
|  | (A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct |
|  | explanation of Assertion. |
|  | (B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct |
|  | explanation of Assertion. |
|  | (C) Assertion (A) is true, Reason (R) is false. |
|  | (D) Assertion (A) is false, Reason (R) is true. |
| 10 | Assertion (A) : A firm is dissolved compulsorily when all the partners or all but one |
|  | partner, become insolvent. |
|  | Reason (R) : Dissolution of partnership and dissolution of firm both are the same. |
|  | (A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct |
|  | explanation of Assertion. |
|  | (B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct |
|  | explanation of Assertion. |
|  | (C) Assertion (A) is true, Reason (R) is false. |
|  | (D) Assertion (A) is false, Reason (R) is true. |
|  | Assertion (A) : On dissolution of firm, partners loan is transferred to realisation |
| 11 | account. |
|  | Reason (R) : Partners loan is an internal liability. |
|  | (A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct |
|  | explanation of Assertion. |
|  | (B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct |
|  | explanation of Assertion. |
|  | (C) Assertion (A) is true, Reason (R) is false. |
|  | (D) Assertion (A) is false, Reason (R) is true. |
|  | Assertion (A) : Realisation account is prepared at the time of dissolution of |
| 12 | partnership. |
|  | Reason (R) : Realisation account records the cash release from sale of assets and |
|  | amount paid to external liabilities. |
|  | (A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct |
|  | explanation of Assertion. |
|  | (B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct |
|  | explanation of Assertion. |
|  | (C) Assertion (A) is true, Reason (R) is false. |
|  | (D) Assertion (A) is false, Reason (R) is true. |

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| **ANSWER KEY** | |
| Q.No.1 | Ans. Option (B) is correct. |
| Q.No.2 | Ans. Option (A) is correct. |
| Q.No.3 | Ans. Option (C) is correct. |
| Q.No.4 | Ans. Option (D) is correct. |
| Q.No 5 | B |
| Q.No 6 | A |
| Q.No 7 | A |
| Q.No 8 | A |
| Q.No.9 | (D) Assertion (A) is false, Reason (R) is true. |
| Q.No.10 | (C) Assertion (A) is true, Reason (R) is false. |
| Q.No.11 | (D) Assertion (A) is false, Reason (R) is true. |
| Q.No.12 | (D) Assertion (A) is false, Reason (R) is true. |

**Chapter 7 : ACCOUNTING FOR SHARE CAPITAL**

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|  | i. ASSERTION REASON TYPE QUESTIONS | | |
| 1. | Assertion: A company cannot call the full amount on shares right at the time of application.  Reason: Though a company collects the amount on its shares gradually in easy installments spread over a period of time depending upon its growing financial requirement. However, this in no way prevents a company from calling the full amount on shares right at the time of application.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. | | |
| 2. | Assertion: Calls in advance is shown under the head ‘Current Liabilities’, as sub-head ‘other current liabilities’  Reason: Calls in advance on shares is added to the amount of paid up share capital in the company’s Balance Sheet.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. | | |
| 3. | Assertion: Subscribed capital can be less than or equal to the issued capital. Reason: Subscribed capital can be more than issued capital.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. | | |
| 4. | Assertion: Paid up capital can exceed called up capital.  Reason: Paid up capital is either equal to or less than the called up capital.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. | | |
| 5. | Assertion: Issued capital is that part of the authorized capital which is actually issued to the public only.  Reason: Issued capital also includes the shares allotted to vendors and the signatories to the company’s memorandum.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. | | |
|  |  | 6. Given below are two statements, one labeled as Assertion (A) and the other labeled |  |

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|  |  | as Reason (R):  Assertion (A): A company cannot issue shares at a discount.  Reason(R): Shares can be issued aa discount in cash such as(i) issue of sweat equity shares and (ii) reissue of forfeited shares.  Options:   1. (A) is correct, but (R) is wrong 2. Both (A) and (R) are correct. 3. (A) is wrong, but (R) is correct. 4. Both (A) and (R) are wrong.   ANSWER: (c) (A) is wrong, but (R) is correct. |  |
| 7. Given below are two statements, one labeled as Assertion (A) and the other labeled as Reason (R):  Assertion (A): The directors always reissue the forfeited shares.  Reason (R): The directors can either cancel or reissue the forfeited shares, In most of the cases, however they reissue such shares which may be a par, at premium or at a discount.  Options:   1. (A) is correct, but (R) is wrong 2. Both (A) and (R) are correct. 3. (A) is wrong, but (R) is correct. 4. Both (A) and (R) are wrong.   ANSWER: (c) (A) is wrong, but (R) is correct. |  |
| 8. Given below are two statements, one labeled as Assertion (A) and the other labeled as Reason (R):  Assertion (A): When a part of the forfeited shares are reissued, the whole balance of share forfeited account will be transferred to capital reserve.  Reason (R) It is only the proportionate amount of balance that relates to the forfeited shares reissued which should be transferred to capital reserve, ensuring that the remaining balance in share forfeiture account is proportionate to the amount forfeited on shares not yet reissued.  Options:   1. Both (A) and (R) are true, but (R) is not the correct explanation of (A). 2. Both(A) and (R) are true and (R) is a correct explanation of (A). 3. Both (A and (R) are false. 4. (A) is false, but (R) is true.   Answer: (d) (A) is false, but (R) is true. |  |
| 9. Given below are two statements, one labeled as Assertion (A) and the other labeled as Reason (R):  Assertion(A): In case of over subscription, if the excess application money received is more than the amount due on allotment of shares, such excess amount is always refunded.  Reason(R): It may also be credited to calls in advance Account. Options:   1. (A) is correct, but (R) is wrong 2. Both (A) and (R) are correct. |  |

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|  |  | 1. (A) is wrong, but (R) is correct. 2. Both (A) and (R) are wrong.   Answer: (c) (A) is wrong, but (R) is correct. | | |  |
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|  | 10. Assertion: If any company is unable to receive minimum subscription amount, it cannot make the allotment of shares and amount received on application will be refunded to the applicants.  Reason: As per provision of SEBI a company must receive 90% or above subscription of the shares offered for subscription.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |  |
| 11. Assertion: When a company is purchasing a running business of other company and payment is made via issue of shares, in such a case if purchase consideration is less than the net assets, the difference is credited in Capital Reserve.  Reason: Goodwill is recoded in the books when some money is paid for it.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 12. Assertion: A public company must have at least seven members to be incorporated.  Reason: Company gets a separate legal entity after incorporation.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 13. Assertion: The subscribed capital is shown in the Balance Sheet in two parts as Subscribed and Fully Paid up Capital and Subscribed but not Fully paid up Capital. Reason: Subscribed capital is that part which is issued to the public .   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
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|  |  | **14. ASSERTION:** When some of the forfeited shares are reissued, gain(profit) on reissued shares is transferred to Capital Reserve.  **REASON:** Gain or profit on re issued shares is calculated as follows: = Total amount | | |  |

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|  |  | forfeited/ No. of shares forfeited x No. of shares re issued / -reissue discount   1. Both (A) and (R) are true and (R) is correct explanation of (A) 2. Both (A) and (R) are true but (R) is not correct explanation of (A) 3. (A) is true but (R) is false   d) (A) is false but (R) is true |  |
| **15. ASSERTION:** Pro rata allotment is a type of allotment of shares in which the excess application money received over and above the actual application money is adjusted towards allotment money due.  **REASON:** Pro rata ratio enables to find out the actual applications made and actual shares allotted.   1. Both (A) and (R) are true and (R) is correct explanation of (A) 2. Both (A) and (R) are true but (R) is not correct explanation of (A) 3. (A) is true but (R) is false   d) (A) is false but (R) is true |  |
| **16. ASSERTION:** In case of shares issued on pro-rata basis excess money received on application can be utilized till allotment only.  **REASON:** Company has to pay interest on calls in advance @12% p.a. for amount adjusted towards calls (if any).   1. Both (A) and (R) are true and (R) is correct explanation of (A) 2. Both (A) and (R) are true but (R) is not correct explanation of (A) 3. (A) is true but (R) is false   d) (A) is false but (R) is true |  |
| **17. ASSERTION:** Forfeiture of shares refers to the cancellation or termination of membership of a shareholder by taking away the shares and rights of membership. **REASON:** Forfeited shares can be reissued at discount.   1. Both (A) and (R) are true and (R) is correct explanation of (A) 2. Both (A) and (R) are true but (R) is not correct explanation of (A) 3. (A) is true but (R) is false   d) (A) is false but (R) is true |  |
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| **18. Assertion (A)** Equity shares does not carry fixed rate of dividend and they are the ultimate risk bearer.  **Reason (R)** Equity shareholders are getting dividend from residual part of profits and in the case of windup of the company, invested money will be refunded at the last   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 2. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) 3. Assertion (A) is false, but Reason (R) is true 4. Assertion (A) is true, but Reason (R) is false |  |

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| **19. Assertion (A):** A company must receive minimum subscription on public issue of shares.  **Reason (R):** In default to receive minimum subscription, company could not allot its shares.   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 2. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) 3. Assertion (A) is false, but Reason (R) is true 4. Assertion (A) is true, but Reason (R) is false | |  |
| 1. Assertion (A) :- A Portion of uncalled capital of a company to be called only in the event of winding up of the company . It is Known as Reserve Capital.   Reason ( R ) :- It will not be called up by the life time of business   * 1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)   2. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)   3. Assertion (A) is false, but Reason (R) is true   4. Assertion (A) is true, but Reason (R) is false | |  |
| **21. Assertion (A):** A company may forfeit the shares for non payment of calls amout depended upon the Articles of Association of the company.  **Reason (R):** Shares can be forfeited only if it is allowed by the Articles of Association of the company   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 2. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) 3. Assertion (A) is false, but Reason (R) is true 4. Assertion (A) is true, but Reason (R) is false | |  |
|  |  | 22 | Q.Assertion : Issued capital is that part of Authorised Share Capital which is issued for subscription whether subscribe  or not.  Reason : Issued capital is that part of Authorised Share Capital which is issued for subscription to the public which  can be more than the subscription or equal to the subscription. |  |
|  | 1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |  |
| 23 | Assertion : Issued capital can never be more than the Authorised capital. Reason : When-ever the company wants it can issue shares to the public so it does not matter what the Authorised  Capital is. |  |

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|  |  |  | 1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |  |
| 24 | Assertion : Issued capital can never be more than the Authorised Capital.  Reason : Authorised Capital is the maximum amount of capital that the company can issue during its life time so  issued capital can never exceed than the Authorised capital. |  |
|  | 1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |  |
| 25 | Assertion : Shares can be issued to the Public at the discount.  Reason : Shares can be issued to the Public at a discount on reissue of the forfeited shares. |  |
|  | 1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |  |
| 26 | Assertion : Shares can’t be issued to the Public the discount.  Reason : Section 53 of the Companies Act, 2013 does not allow issue of shares at discount, However, section 54  allows issue of shares at a discount, when they are issued as Sweat Equity Shares. |  |
|  | 1. Both A and R true and R is the correct explanation of A. 2. Both A and R are true but R is not the correct explanation of A 3. A is true and R is false 4. A is false and R is true |  |

**ANSWER KEY**

|  |  |  |
| --- | --- | --- |
| 1. | B | |
| 2. | C | |
| 3. | C | |
| 4. | D | |
| 5. | D | |
| 6 | A | |
| 7 | B | |
| 8 | B | |
| 9 | C | |
| 10 | A |  |
| 11 | D |  |
| 12 | D |  |
| 13 | B |  |
| 14 | A |  |
| 15 | B |  |
| 16 | B |  |
| 17 | D |  |
| 18 | A |  |
| 19 | B |  |
| 20 | A |  |
| 21 | B |  |
| 22 | D |  |
| 23 | D |  |
| 24 | C |  |
| 25 | C |  |
| 26 | D |  |

# CHAPTER 8 ISSUE OF DEBENTURE

**ASSERTION REASON TYPE QUESTIONS**

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| Sl.No. | Question   1. Both Assertion (A) and Reason(R) are true and reason is correct explanation of assertion. 2. Assertion(A) and Reason(R) both are true but reason is not the correct explanation of assertion. 3. Assertion(A) is true, Reason(R) is false. 4. Assertion(A) is false, Reason(R) is true. |
| 1 | Assertion(A) Issue price of debentures can be collected in lump sum or in installments  Reason(R) : when Issue price is payable in lump sum, the amount received on application is credited to “Debentures Application and Allotment Account” |
| 2 | .Assertion(A) : Debentureholder gets interest at the stated rate whether the company earns profit or not  Reason(R) : interest on debenture is treated as an appropriation of profit |
| 3 | Assertion(A) A Company may allot debentures to the promoters for rendering services for incorporating the Company  Reason(R) : Incorporation Expenses are written off in the year they are incurred |
| 4 | Assertion(A) : 10,000, 11% debentures of Rs.100 each are issued on 1st April 2020 redeemable on 31st December 2022. These debentures will be shown as Short term Borrowings under the head Current liabilities in the Balance Sheet as at 31st March2021  Reason(R) : when debentures are issued and are due for redemption within 12 months or within the period of operating cycle from the date of Balance Sheet they are treated as Short term borrowings. |
| 5 | Assertion: Debentures can be issued as a collateral security  Reason: The amount of loan can be realized in full with the help of collateral security during default   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 6 | Assertion: Interest on debentures must be paid irrespective of profit or loss Reason: Interest on debenture is a charge against the profit of the company  (A) Both Assertion and reason are true and reason is correct explanation of assertion. |

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|  | 1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| 7 | Assertion: Discount or loss on issue of debentures must be written off before such debentures are redeemed  Reason: Discount or loss on issue of debenture is a capital loss   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| 8 | Assertion: Debentures are liability  Reason: Debentures are shown on the asset side of the balance sheet   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion false, reason is true is |
| 9 | Assertion: Debentures carry voting rights  Reason: Debentures are the creditors of the company   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. and reason both are true but reason is not the correct explanation of assertion.   Assertion   1. Assertion is true, reason is false. 2. Assertion is false, reason is true |

1. Assertion(A): zero coupon bonds are issued without specified rate of interest.

Reason (R): it is type of bond which is similar to the debenture and being issued by the government.

1. Both assertion(A) and reason(R) are true and reason(R) is the correct explanation of assertion(A).
2. Both assertion(A) and reason(R) are true and reason(R) is not the correct explanation of assertion(A).
3. Assertion (A) is true but the reason(R) is false.
4. Assertion (A) is false but the reason(R) is true.
5. Assertion(A): redeemable debentures are those debentures which will be repaid by the company either in lump-sum at the end of a specified period or by instalments during the lifetime of the company.

Reason (R):irredeemable debentures are repayable only at the time of liquidation of the company.

1. Both assertion(A) and reason(R) are true and reason(R) is the correct explanation of assertion(A).
2. Both assertion(A) and reason(R) are true and reason(R) is not the correct explanation of assertion(A).
3. Assertion (A) is true but the reason(R) is false.
4. Assertion (A) is false but the reason(R) is true
5. Assertion(A): a debenture issued by a company in the form of a certificate, which is a written acknowledgement of debt taken by the company.

Reason (R): a debenture is a part of the loan and as such, the debenture holders are the creditors of the company.

1. Both assertion(A) and reason(R) are true and reason(R) is the correct explanation of assertion(A).
2. Both assertion(A) and reason(R) are true and reason(R) is not the correct explanation of assertion(A).
3. Assertion (A) is true but the reason(R) is false.
4. Assertion (A) is false but the reason(R) is true
5. Assertion(A): a debenture holder is entitled to interest at the fixed rate. Reason (R): interest payble on debentures is transferred to general reserve.
   1. Both assertion(A) and reason(R) are true and reason(R) is the correct explanation of assertion(A).
   2. Both assertion(A) and reason(R) are true and reason(R) is not the correct explanation of assertion(A).
   3. Assertion (A) is true but the reason(R) is false.
   4. Assertion (A) is false but the reason(R) is true.

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| **ii. Assertion and reasoning type question** | |
| 14 | Assertion: If debentures of ₹100, issued for ₹95 and is redeemable at 105, then loss on issue debentures will be ₹10  Reason: Both on discount of issue and premium on redemption are capital losses and combined into one account   1. Both A and R are individually true, and R is correct explanation of A 2. Both A and R are individually true, and R is not the correct explanation of A 3. A is true but R is False 4. Both A and R are False |
| 15 | Assertion: If debentures of ₹100, issued for ₹95 and is redeemable at 105, then loss on issue debentures will be ₹5  Reason: Premium on redemption of debentures is not capital loss   1. Both A and R are individually true, and R is correct explanation of A 2. Both A and R are individually true, and R is not the correct explanation of A 3. A is true but R is False 4. Both A and R are False |

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| 16 | Assertion: Balance in debenture interest accounts transferred to statement of profit and loss at end of the year  Reason: Interest on debentures is a charge against profit earned by the company   1. Both A and R are individually true, and R is correct explanation of A 2. Both A and R are individually true, and R is not the correct explanation of A 3. A is true but R is False 4. Both A and R are False |
| 17 | Assertion: XYZ Ltd. Issued 10,000, 10% debentures of ₹ 100 each. During the first year of issue the company suffers a huge loss. Therefore, the payment on debentures on due date, the company obtained a loan from bank.  Reason: If profit not available for payment of interest on debentures, the company repay the interest by taking loan only   1. Both A and R are individually true, and R is correct explanation of A 2. Both A and R are individually true, and R is not the correct explanation of A 3. A is true but R is False 4. Both A and R are False |

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| Sl.No. | Question |
| 18. | Assertion (A): Sarita Pvt. Ltd. issued 15% 10,000 debentures at par @ Rs. 100 per debenture. The company suffered a loss but still the directors of the company paid interest on debentures.  Reason (R): Interest on debenture is a charge against profits and therefore, its payment is not subject to the earning of profit.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 19 | Assertion (A): The ‘discount on debentures’ issuance is charged to ‘Securities Premium Account’ and is reflected as an asset.  Reason (R): The ‘discount on debentures’ issuance is noted as a capital loss side as a fictitious asset. Hence, has to be written off during the years of its issue.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| 20 | Assertion (A): Issue of debenture does not result in dilution of interest of equity shareholders.  Reason (R): Debenture holders have voting rights.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. |

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|  | (D) Assertion is false, reason is true. |
| 21 | Assertion (A): Debentures saves income tax.  Reason (R): Interest on debenture is tax deductible expenditure.  A) Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |

**ASSERTION REASON TYPE QUESTIONS**

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| 22 | Assertion: Debenture holders do not enjoy any voting right  Reason: A debenture holder just lends money but does not become an owner of the company with the purchase of debentures   1. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) 2. Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) 3. Assertion (A) is True but Reason (R) is False. 4. Assertion (A) is False but Reason (R) is True |
| 23 | Assertion: Debentures saves income tax  Reason: Interest on debenture is a non deductible expenditure   1. (A) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) 2. Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) 3. Assertion (A) is True but Reason (R) is False. 4. Assertion (A) is False but Reason (R) is True. |
| 24 | Assertion: Debenture holders are the owners of the company Reason: Debenture holders do not have the voting right   1. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) 2. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) 3. Assertion (A) is True but Reason (R) is False. 4. Assertion (A) is False but Reason (R) is True. |
| 25 | Assertion: Debenture is a written acknowledgement of debt taken by the company Reason: A debenture is generally secured by a charge on the assets of the company.   1. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) 2. Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation |

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|  | of Assertion (A)   1. Assertion (A) is True but Reason (R) is False 2. Assertion (A) is False but Reason (R) is True |

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|  | ASSERTION REASON QUESTION | | |
|  | **Read the following statements –Assertion (A) and Reason (R) Choose one of the correct alternatives given below :**   1. **Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)** 2. **Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)** 3. **Assertion (A) is true but Reason ( R) is false** 4. **Assertion (A) is true but Reason ( R) is true Answer question no 11 to 14** |  |
| 26. | Assertion (A) Collateral security means secondary security in addition to principal security. Reason (R ) Debentures can be issued as a collateral security by the companies incase  principal security fall short. | | |
| 27. | Assertion (A) A Debenture is issued by a company in the form of a certificate ,which is written acknowledgement of debt taken by the company  Reason (R) It contains a contract for repayment of principal sum at specific date | | |
| 28. | Assertion (A) Debentures are redeemable.  Reason (B) It is a type of liability which must be minimized | | |
| 29. | Assertion (A) Discount or loss on issue of debentures is written off from securities premium reserve or capital reserve.  Reason (R) It is a capital loss so it must be written off ,first from capital profit | | |

**i. ASSERTION REASON TYPE QUESTIONS**

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| 30 | **Assertion**: Debentures are presented under non-current liabilities in the balance sheet of a company.  **Reasoning**:Debenture is a written acknowledgement of a long term debt taken by the company from the public (investors)   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 31 | **Assertion**:Debenture holder are not the owner of the company.  **Reasoning**:Debenture is a part of borrowed capital   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. |

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|  | sertion is false, reason is true. |
| 32 | **Assertion**:Interest on debenture must be paid whether the company has earned any profit or not  **ning**:Interest on debenture is an appropriation of profit of the company   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. sertion is false, reason is true. |
| 33 | **Assertion**:X ltd. Issued 10,000 12% debentures of Rs. 100 at a premium of Rs. 20 per debentures for 5 years. AtleastRs. 2,00,000 must be invested in DRI before redemption of these debentures.  **Reasoning**: As per SEBI regulations an amount equal to 15% of debentures to be redeemed must be invested in DRI before redemption of these debentures.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| 34 | **Assertion**: X ltd. Issued 10,000 12% debentures of Rs. 100 at a premium of Rs. 20 per debentures on 31/07/2017 for 5 years. AtleastRs. 1,50,000 must be invested in DRI before redemption of these debentures.  **Reasoning**: DRI must be invested before 30/04/2022.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |

#### Assertion Reasoning based questions

35 Read the following statements: Assertion and Reason, choose one of the correct alternative given below:

**Assertion(A):** Sarita private limited issued 15% 10000 at par @ Rs. 100 per debenture. The company suffered a loss but still the director of company paid interest on debentures

**Reason(R):** Interest on debenture is a charge against profit and therefore its payment is not subject to earning of profit.

1. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A)
2. Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
3. Assertion (A) is true but Reason (R) is False
4. Assertion (A) is false but Reason (R) is true
5. Read the following statements: Assertion and Reason, choose one of the correct alternative given below:

**Assertion(A):** The discount on debentures issuance is charge to security premium account and is reflected as an asset.

**Reason(R):** The discount on debenture issue of debenture is noted as a capital loss hance has to be written off during the year of its issue.

1. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A)
2. Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
3. Assertion (A) is true but Reason (R) is False
4. Assertion (A) is false but Reason (R) is true
5. Read the following statements: Assertion and Reason, choose one of the correct alternative given below:

**Assertion(A):** Debenture holder do not enjoy any voting right.

**Reason(R):** Debenture holder just lend money but does not become an owner of the company with the purchase of debenture.

1. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A)
2. Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
3. Assertion (A) is true but Reason (R) is False
4. Assertion (A) is false but Reason (R) is true
5. Read the following statements: Assertion and Reason, choose one of the correct alternative given below:

**Assertion(A):** Debenture holders are the creditor of company carrying a fixed rate of interest.

**Reason(R):** Debentures are short term loans taken from public.

1. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A)
2. Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
3. Assertion (A) is true but Reason (R) is False
4. Assertion (A) is false but Reason (R) is true
5. Read the following statements: Assertion and Reason, choose one of the correct alternative given below:

**Assertion(A):** The bank account is debited with the money is received from debentures.

**Reason(R):** Bank being a real account need to be debited when something comes in.

1. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A)
2. Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
3. Assertion (A) is true but Reason (R) is False
4. Assertion (A) is false but Reason (R) is true
5. Read the following statements: Assertion and Reason, choose one of the correct alternative given below:

**Assertion(A):** Debenture saves income tax

**Reason(R):** Interest on debenture is tax deductible expenditure.

1. Both Assertion (A) and Reason (R) are true and Reason(R) is correct explanation of Assertion (A)
2. Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)
3. Assertion (A) is true but Reason (R) is False
4. Assertion (A) is false but Reason (R) is true

# ANSWER KEY

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| **Assertion Reason Answers** |
| 1 b |
| 2 c |
| 3 a |
| 4 a |

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| **Assertion Reason Questions** | |
| 5 | (A) Both Assertion and reason are true and reason is correct explanation of assertion. |
| 6 | (A) Both Assertion and reason are true and reason is correct explanation of assertion. |
| 7 | (B) Assertion and reason both are true but reason is not the correct explanation of assertion. |
| 8 | (C) Assertion is true, reason is false. |
| 9 | (D) Assertion is false, reason is true |

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| ASSERTION REASON QUESTION | |
| 10 | a |
| 11 | b |
| 12 | a |
| 13 | c |

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| **Assertion and reasoning type question** | |  |
| 14 | Both A and R are individually true, and R is correct explanation of A |
| 15 | Both A and R are False |
| 16 | Both A and R are individually true, and R is correct explanation of A |
| 17 | A is true but R is False |
| 17 | A |
| 18 | A |
| 19 | C |
| 20 | A |
| 21 | **A** |
| 22 | **A** |
| 23 | **D** |
| 24 | **B** |
| 25. | **a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)** | |
| 26. | **a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)** | |
| 27 | **b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct** | |

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|  | **explanation of Assertion (A)** |
| 28. | **(b)Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct**  **explanation of Assertion (A)** |
| **Assertion Reason Questions** | |
| 29. (A) Both Assertion and reason are true and reason is correct explanation of assertion. | |
| 30.(A) Both Assertion and reason are true and reason is correct explanation of assertion. | |
| 31. (C) Assertion is true, reason is false. | |
| 32.(D) Assertion is false, reason is true | |
| 33.(B) Assertion and reason both are true but reason is not the correct explanation of assertion. | |
| 35. A | |
| 36. D | |
| 37. A | |
| 38. C | |
| 39. A | |
| 40. A | |

**PART – B (FINANCIAL STATEMENT ANALYSIS)**

**NAME OF THE CHAPTER: - ANALYSIS OF FINANCIAL STATEMENT**

**Assertion and Reasoning (A-R) Based Questions**

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| Q1. | Assertion-(A ) A single statement of profit and loss account does not convey anything about the progress or decrease/increase in the earnings of the business.  Reason-(R)- Therefore, it has no significance for the purpose of analysis. A、Both (A) and (R) are correct and (R) is the correct reason of (A)  B、Both (A) and (R) are correct but (R) is not the correct reason of (A) C、Only (R) is correct.  D、Both (A) and (R) are wrong |
| Q2 | Assertion-(A)- Common size statement of profit and loss facilitates the vertical analysis. Reason-(R)- Since each accounting variable is expressed as percentage of Total of assets.  A、A) and (R) both are correct and (R) is the correct explanation to (A)  B、(A) and (R) both are correct and (R) is not the correct explanation to (A) C、(A) is correct but (R) is incorrect  D、(A) is correct and (R) is wrong |
| Q3 | Assertion (A) -Common size balance sheet is also called “Percentage Balance sheet”.  Reason(R)- As individual items are expressed in percentage assuming total of fixed assets as base-100.  A、(A) and (R) both are correct and (R) is the correct explanation to (A)  B、(A) and (R) both are correct and (R) is not the correct explanation to (A) C、(A) is correct but (R) is incorrect  D、(A) is correct but (R) is wrong |
| Q4 | Assertion (A)- Comparative statement of profit and loss, shows the increase/decrease income earned and expenditure made in absolute and percentage terms.  Reason(R)- As it studies the relationship between different items of profit and loss.  A、(A) and (R) both are correct and (R) is the correct explanation to (A)  B、(A) and (R) both are correct and (R) is not the correct explanation to (A) C、(A) is correct but (R) is incorrect  D、(A) is correct but (R) is wrong |
| Q5 | Assertion: The balance sheet of the company needs t to show the complete details of the share capital of the company  Reason: As per schedule III of the company act, 2013, the balance sheet must disclose authorized capital for each class of the share capital.   1. Both assertion and reason are true and reason is correct explanation of assertion 2. Both assertion and reason are true but reason is not the correct explanation of assertion 3. Assertion is true, reason is false |

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|  | D)Assertions is false ,reason is true |
| Q6 | Assertion: financial statements are the end products of accounting process.  Reason: They provide information about the profitability and the financial position of a business.   1. Both assertion and reason are true and reason is correct explanation of assertion 2. Both assertion and reason are true but reason is not the correct explanation of assertion 3. Assertion is true, reason is false D)Assertions is false ,reason is true |
| Q7 | Assertion: Issued capital is that part of the Authorized capital which is actually offered to the public for subscription.  Reason: An unissued capital is known as Reserve capital   1. Both assertion and reason are true and reason is correct explanation of assertion 2. Both assertion and reason are true but reason is not the correct explanation of assertion 3. Assertion is true, reason is false D)Assertions is false ,reason is true |
| Q8 | Assertion: when entire nominal value of a share is called by the company and also paid up by the shareholders ,it is said to be subscribed and fully paid up capital  Reason: As per As-26 preliminary expenses are to be written off in the year in which they are not incurred.   1. Both assertion and reason are true and reason is correct explanation of assertion 2. Both assertion and reason are true but reason is not the correct explanation of assertion 3. Assertion is true, reason is false D)Assertions is false ,reason is true |
| Q9 | Assertion: The solvency of a business is assessed by financial statements. Reason: Liquidity position of a business helps in the process.  (A)Both assertion and reason are true and reason is correct explanation of assertion (B)Assertion and reason both are true but reason is not the correct explanation of assertion (C)Assertion is true, reason is false  (D)Assertion is false, reason is true |
| Q10 | Assertion: Analysis of historical records is considered as a limitation of comparative statement. Reason: Comparative statements provide an analysis of past financial statement and fails to reflect about the future which is more relevant.  (A)Both assertion and reason are true and reason is correct explanation of assertion (B)Assertion and reason both are true but reason is not the correct explanation of assertion (C)Assertion is true, reason is false  (D)Assertion is false, reason is true |
| Q11 | Assertion: Shareholders and investors are interested to know about the safety of their investment, return and solvency.  Reason: Tax authorities are interested to analyse the financial statements to know about the performance of the company and to collect various types of taxes.  (A)Both assertion and reason are true and reason is correct explanation of assertion |

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|  | (B)Assertion and reason both are true but reason is not the correct explanation of assertion (C)Assertion is true, reason is false  (D)Assertion is false, reason is true |
| Q12 | Assertion: Comparative statements express all items of financial statements as a percentage of some common bases.  Reason: Comparative statements are also known as horizontal analysis.  (A)Both assertion and reason are true and reason is correct explanation of assertion (B)Assertion and reason both are true but reason is not the correct explanation of assertion (C)Assertion is true, reason is false  (D)Assertion is false, reason is true |
| Q13 | Assertion (A) The bank charges charged by the bank are included in finance cost.  Reason (R) Bank charges are an expense not incurred in connection with raising finance but for availing the services of the bank   1. Both Assertion (A) and Reason (R) are true and Reason (R ) is the correct explanation of Assertion (A). 2. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). 3. Assertion (A) is false, but Reason (R) is true. 4. Assertion (A) is true, but Reason (R) is false |
| Q14 | Assertion (A) Bills receivables are shown as trade receivables in the balance sheet of the company. Reason (R) Debtors and bills receivables forms the part of trade receivables.   1. Both Assertion (A) and Reason (R) are true and Reason (R ) is the correct explanation of Assertion (A). 2. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). 3. Assertion (A) is false, but Reason (R) is true. 4. Assertion (A) is true, but Reason (R) is false |
| Q15 | Assertion (A) Internal analysis carried out by management is more detailed, extensive and correct.  Reason (R) Management has access to all the information relating to the organization  a) Both Assertion (A) and Reason (R) are true and Reason (R ) is the correct explanation of Assertion (A).   1. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). 2. Assertion (A) is false, but Reason (R) is true. 3. Assertion (A) is true, but Reason (R) is false |
| Q16 | Assertion (A) Analysis of financial statements is done to assess the managerial efficiency. Reason (R) Financial statement analysis helps to identify the areas where the managers have been efficient and the areas where they have been inefficient.  a) Both Assertion (A) and Reason (R) are true and Reason (R ) is the correct explanation of Assertion (A).  (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of |

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|  | Assertion (A).   1. Assertion (A) is false, but Reason (R) is true. 2. Assertion (A) is true, but Reason (R) is false |
| Q17 | Assertion (A) : Comparative Statements help the business to compare its performance with other company.  Reasoning (R ) : Under Comparative Statements the statements of two company can be placed side- side to facilitate comparison.  ( a) Both assertion ( A ) and reason ( R ) are correct. (b ) Assertion (A) is wrong but reason (R ) is correct.  ( c ) Assertion ( A ) is correct but reason ( R ) is wrong. ( d ) Both assertion ( A ) and Reason ( R ) wrong |
| Q18 | Assertion (A) : Comparative Statements is a great value in forming the opinion regarding the progress of the enterprises  Reasoning (R ) : This is only one tools of financial statement analysis through which the performance of enterprise can be judged.  ( a) Both assertion ( A ) and reason ( R ) are correct. (b ) Assertion (A) is wrong but reason (R ) is correct.  ( c ) Assertion ( A ) is correct but reason ( R ) is wrong. ( d ) Both assertion ( A ) and Reason ( R ) wrong |
| Q19 | Assertion (A) : Common Size Statement Provide for common base for comparison.  Reasoning (R ) : Under Common Size Statement each individual items amount is divided by the previous year amount.  ( a) Both assertion ( A ) and reason ( R ) are correct and R is the correct explanation of A (b ) Assertion (A) is wrong but reason (R ) is correct.  ( c ) Assertion ( A ) is correct but reason ( R ) is wrong. ( d ) Both assertion ( A ) and Reason ( R ) wrong |
| Q20 | Assertion (A) : Comparative Statements is known as inter period comparison.  Reasoning (R ): As the amount of two year individual items are being compared and differences is calculated for computing the percentage change.  ( a) Both assertion ( A ) and reason ( R ) are correct and R is the correct explanation of A (b ) Assertion (A) is wrong but reason (R ) is correct.  ( c ) Assertion ( A ) is correct but reason ( R ) is wrong. ( d ) Both assertion ( A ) and Reason ( R ) wrong |
| Q21 | Assertion: Reserve Capital is part of Share Capital that a Company resolves not to call at any time it desires.  Reason: The reserve created out of capital profits is called Capital Reserve.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q22 | Assertion: Financial statements ignore the price level changes or present value of assets. |

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|  | Reason: Assets in the financial statements are shown at historical cost.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q23 | Assertion: Notes to Accounts is the statement attached to the financial statements. Reason: Notes to Accounts is the part of financial statements.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q24 | Assertion: Loan repayable on Demand are part of short-term borrowings. Reason: Short-term borrowings are repaid after 12 months.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q25 | **Assertion**:(A) Common size statement are prepared in the form of percentages.  **Reason**:(R) It is used for vertical analysis, in which each line item in a financial statement is represented as a percentage of a base figure within the statement.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q26 | **Assertion**:(A) In the statement of profit and loss of a common size statement figure of net revenue from operations is assumed to be equal to the Hundred.  **Reason**: (R) Main objective of the common size statement of profit and loss is to judge the financial soundness.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. |

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|  | 1. Assertion is true, reason is false. 2. Assertion is false, reason is true. |
| Q27 | **Assertion: (A)** Comparative financial statements show only absolute Changes in the figures.  **Reason (R):** Comparative balance sheet shows the increase or decrease in various items of balance sheet as compared to single year balance sheet, which shows the balance of accounts at a certain date**.**   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q28 | **Assertion**: (A) Common size statement are two types (i) Common size balance sheet (ii) ratio analysis  **Reason**: (R) Common size statement are use in variation that might have occurred in expenses.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q29 | **Assertion (A):-** In the balance Sheet, contingent liabilities are not included in the total of the liabilities side.  **Reason (R):-** These is prescribed as per the scheduled III and Part I of the companies Act. 2013.  A.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is the explanation of the **Assertion (A)**.  B.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is not the explanation of the **Assertion (A)**.  C.) **Assertion (A)** is true, **Reason (R)** is false  **D) Assertion (A)** is false, **Reason (R)** is true |
| Q30 | **Assertion (A):-** Assets = Liabilities + Owner’s Equity, which totals are always same.  **Reason (R):-** Owner’s Equity = Shareholder’s Fund + Non- Current Assets.  A.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is the explanation of the **Assertion (A)**.  B.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is not the |

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|  | explanation of the **Assertion (A)**.  C.) **Assertion (A)** is true, **Reason (R)** is false.  **D) Assertion (A)** is false, **Reason (R)** is true |
| Q31 | **Assertion (A):-** Loan taken by a company from financial institution is shown under long term borrowing.  **Reason (R):-** There is risk of insolvency, if the company does not repay the amount of loan.  A.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is the explanation of the **Assertion (A)**.  B.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is not the explanation of the **Assertion (A)**.  C.) **Assertion (A)** is true, **Reason (R)** is false.  **D) Assertion (A)** is false, **Reason (R)** is true |
| Q32 | **Assertion (A):-** Total Revenue = Revenue from Operation + Other Income - Sale of Scrap.  **Reason (R):-** These is prescribed as per the scheduled III and Part II of the companies Act. 2013.  A.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is the explanation of the **Assertion (A)**.  B.) Both **Assertion (A)** and **Reason (R)** are correct statements, and **Reason (R)** is not the explanation of the **Assertion (A)**.  C.) **Assertion (A)** is true, **Reason (R)** is false.  **D) Assertion (A)** is false, **Reason (R)** is true |
| Q33 | Assertion (A): The balance sheet of a company needs of needs to show the complete detail of the share capital of the company.  Reason (R): As per schedule III of company Act 2013, the balance sheet must disclose authorised capital ,issued capital and subscribed capital for each class of share capital besides the called-up amount made by the company by the shareholders.   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). 2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). 3. Assertion (A) is trueReason (R) is False 4. Assertion (A) is False Reason (R) is True |
| Q34 | Assertion (A): All contingent liability are shown in the non-current liabilities section of the balance sheet.  Reason (R): A contingent liability refers to the claim which is uncertain to arise /which may or may not rise/which is dependent on a happening in future   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). 2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). 3. Assertion (A) is true Reason (R) is False 4. Assertion (A) is False Reason (R) is True |

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| Q35 | Assertion (A): Accounts payables are recorded in the heading of current liabilities in the balance sheet of the company.  Reason (R): Accounts payables is the money the company current owes to its suppliers, partners, and employees.   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). 2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). 3. Assertion (A) is true Reason (R) is False 4. Assertion (A) is False Reason (R) is True |
| Q36 | Assertion (A): If debt equity ratio is 1:2, it is considered to be safe.  Reason (R): From security point of view, capital structure with less debt & more equity is considered favorable as it reduces the chances of bankruptcy.   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). 2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). 3. Assertion (A) is true Reason (R) is False 4. Assertion (A) is False Reason (R) is True |
| Q37 | Assertion (A): The limitations of financial statements also form the limitations of the ratio analysis. Reason (R): Since the ratios are derived from the financial statements, any weakness in the original financial statements will also creep in the derived analysis in the form of Accounting Ratios.   1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of assertion (A). 2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of assertion (A). 3. Assertion (A) is true Reason (R) is False 4. Assertion (A) is False Reason (R) is True |
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**ANSWER KEY**

**Assertion and Reasoning (A-R) Based Questions**

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| Q.NO | ANSWER  KEYS | Q.NO | ANSWER  KEYS | Q.NO | ANSWER  KEYS | Q.NO | ANSWER  KEYS |
| 1 | A | 11 | B | 21 | D | 31 | B |
| 2 | A | 12 | D | 22 | A | 32 | D |
| 3 | C | 13 | C | 23 | B | 33 | A |
| 4 | A | 14 | A | 24 | C | 34 | B |
| 5 | A | 15 | A | 25 | A | 35 | B |
| 6 | A | 16 | A | 26 | C | 36 | D |
| 7 | B | 17 | A | 27 | D | 37 | A |
| 8 | C | 18 | C | 28 | D |  |  |
| 9 | A | 19 | C | 29 | A |  |  |
| 10 | A | 20 | A | 30 | C |  |  |

**NAME OF THE CHAPTER :- RATIO ANALYSIS**

#### Assertion and Reasoning (A-R) Based Questions

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| Q1 | **Assertion (A)** – Ratio analysis is a process of determining and interpreting relationships between the items of financial statements to provide meaningful understanding of the performance and financial position of an enterprise.  **Reason (R)** – It is a technique of analyzing the financial statements by computing the various ratios.   1. Both (A) and (R) are true and (R) is the correct explanation of (A). 2. Both (A) and (R) are true and (R) is not the correct explanation of (A). 3. (A) is true, but (R) is false 4. (A) is false, but (R) is true. |
| Q2 | **Assertion (A):** Issue of new Equity shares for cash will improve the Proprietary Ratio.  **Reason(R)-** Issue of shares will increase the Shareholder's Fund but total assets remain unchanged.   1. Both (A) and (R) are true and (R) is the correct explanation of (A). 2. Both (A) and (R) are true and (R) is not the correct explanation of (A). 3. (A) is true, but (R) is false 4. (A) is false, but (R) is true. |
| Q3 | **Assertion (A):** Inventory Turnover Ratio tells how well a company is turning its inventory into sales.  **Reason(R)-** Inventory Turnover shows the relationship between the cost of revenue from operations during the year and average inventory kept during the year.   1. Both (A) and (R) are true and (R) is the correct explanation of (A). 2. Both (A) and (R) are true and (R) is not the correct explanation of (A). 3. (A) is true, but (R) is false 4. (A) is false, but (R) is true. |
| Q4 | **Assertion (A):** Purchase of Loose Tools against cash will reduce the current ratio.  **Reason:** Loose Tools and Stores and spares are excluded from Current Assets because they are not held for sale or conversion into cash.   1. Both (A) and (R) are true and (R) is the correct explanation of (A). 2. Both (A) and (R) are true and (R) is not the correct explanation of (A). 3. (A) is true, but (R) is false 4. (A) is false, but (R) is true. |
| Q5 | Assertion: A low debt equity ratio reflects more security.  Reason: A high debt equity ratio is considered risky as it may put the firm into difficulty in meeting its obligations to outsiders.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q6 | Assertion: Gross profit ratio is computed to have an idea about gross margin. |

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|  | Reason: A low Gross profit ratio may indicate favorable purchase and sales policy.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q7 | Assertion: Operating ratio of X ltd. is 85% and its Operating profit ratio is 15%.  Reason: this is because of the fact that Operating ratio and Operating profit ratio are complimentary to each other.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q8 | Assertion: Interest coverage ratio is a measure of security of interest payable on Capital  employed.  Reason: A higher Interest coverage ratio reveals the availability of surplus for shareholders.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q9 | Read the following statements: Assertion and Reason. Choose one of the correct alternatives given  below:  **Assertion: ‘Liquidity of Business’ refers to the firm’s ability to meet its current obligations, i.e., short –term liabilities.**  **Reason: ‘Current Ratio’ and ‘Liquid Ratio’ are computed to evaluate the capability of the entity to meet its short – term liabilities and hence they are called as ‘Liquidity Ratios’.**   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is tru |
| Q10 | Read the following statements: Assertion and Reason. Choose one of the correct alternatives given  below:  **Assertion: Working capital Turnover Ratio shows the relationship between working capital and Revenue from operation.**  **Reason: A low working capital ratio shows efficient use of working capital , whereas, high**  **ratio shows its inefficient use.** |

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|  | 1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q11 | Read the following statements: Assertion and Reason. Choose one of the correct alternatives given  below:  **Assertion: The objective of computing Inventory Turnover Ratio is to ascertain whether investment in stock has been judicious or not, i.e., only the required amount is invested. Reason: It measures the efficiency of Inventory Management**.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q12 | Read the following statements: Assertion and Reason. Choose one of the correct alternatives given  below:  **Assertion: Current Ratio and Liquid Ratio are the part of Activity Ratios.**  **Reason: Current Ratio establishes the relationship between current assets and current liabilities, whereas, Liquid Ratio establishes the relationship between liquid assets and current liabilities.**   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q13 | Assertion (A): Gross Profit is the sum of Revenue and cost of revenue from operations.  Reason (R): Gross profit helps in fixing selling prices and assessing efficiency of trading activities.   1. Both A and R are individually true and R is the correct explanation of A 2. Both A and R are individually true but R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| Q14 | Assertion (A): Proprietary ratio establishes relationship between proprietors fund and total  assets.  Reason (R): The objective of calculating proprietary ratio is to measure proportion of fixed assets financed by shareholders funds.  (a) Both A and R are individually true and R is the correct explanation of A |

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|  | 1. Both A and R are individually true but R is not the correct explanation of A 2. A is true but R is false 3. A is false but R is true |
| Q15 | Assertion (A): If debt equity ratio is 1:2, it is considered to be safe.  Reason (R): From security point of view, capital structure with less debt & more equity is considered favorable as it reduces the chances of bankruptcy   1. Both A & R are individually true & R is the correct explanation of A 2. Both A & R are individually true but R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| Q16 | Given below are two statements, one labelled as Assertion (A) and the other labeled as Reason (R)  Assertion (A): Interest Coverage Ratio expresses the relationship between profits available for payment of interest & the amount of interest payable  Reason (R): A higher ratio ensures lesser safety of interest on payable on debts.   1. Both A & R are individually true & R is the correct explanation of A 2. Both A & R are individually true but R is not the correct explanation of A 3. A is true but R is false 4. A is false but R is true |
| Q17 | Assertion: Ratios can be expressed in-Pure Form, Rate/times/movement, Fraction and Percentage  Reason: Different Ratios can be expressed in different forms due it matching/Suitability   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q18 | Assertion: Debt to Total asset ratio and Proprietary ratio are complementary to each other.  Reason: Both are under the category of Solvency ratio   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q19 | Assertion: Sale of Machinery costing ₹ 85,000 at ₹ 80,000 will not change Operating ratio(75%)  Reason: Operating cost will not increase/decrease, but the revenue from operation will increased to the sale value of the Machinery  (A) Both Assertion and reason are true and reason is correct explanation of assertion. |

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|  | 1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| Q20 | Assertion: Interest coverage ratio will be 7 times if Interest on debenture is ₹ 21,000,Profit after  Tax is ₹ 63,000 and tax rate is 50%,it will be changed to 5 times if the tax rate is 40% Reason: It is affected by change in Tax rate.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q21 | ASSERTION (A): Accounting Ratio is an arithmetical relationship between two independent variables. REASONING(R): Accounting ratios can be expressed in pure form, percentage,times or fraction. (A)Both Assertion and reason are true and reason is correct explanation of assertion.   1. Assertion and reason both are true but reason is not the correct explanation of assertion. 2. Assertion is true, reason is false. 3. Assertion is false, reason is true. |
| Q22 | ASSERTION (A): Accounting Ratio can be used to know the strong and weak points of business.  REASONING(R): Ratio Analysis is a technique of Analysis of Financial Statement   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q23 | ASSERTION (A): Current Ratio is used to know the Short Term Solvency position of business.  REASONING(R): Current ratio includes all assets which can be converted in cash   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q24 | ASSERTION (A): Stock Turnover Ratio = Cost of Goods Sold  Average Stock  REASONING(R): Stock is a Current Assets   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |

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| Q25 | ASSERTION (A): Debt Equity Ratio is calculated to know the long term solvency position of the business REASONING(R): Debt Equity Ratio = Long Term Loans  Shareholder’s Funds   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
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| ASWER KEYS A-R BASED QUESTIONS | | | |
| Q.NO | ANSWER | Q.NO | ANSWER |
| 1 | A | 21 | B |
| 2 | C | 22 | A |
| 3 | A | 23 | B |
| 4 | A | 24 | B |
| 5 | A | 25 | A |
| 6 | C | 26 |  |
| 7 | A | 27 |  |
| 8 | D | 28 |  |
| 9 | A | 29 |  |
| 10 | C | 30 |  |
| 11 | A | 31 |  |
| 12 | B | 32 |  |
| 13 | D | 33 |  |
| 14 | B | 34 |  |
| 15 | D | 35 |  |
| 16 | C | 36 |  |
| 17 | A | 37 |  |
| 18 | B | 38 |  |
| 19 | C | 39 |  |
| 20 | D | 40 |  |

**Chapter Name :- CASH FLOW STATEMENT**

##### Assertion and Reasoning (A-R) Based Questions

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|  | Q1 | For the following two statement of Assertion (A) and Reasoning (R) indicate the correct code :  Assertion (A) Cash Flow Statement are historical in nature.  Reasoning (R) It is prepared from Statement of Profit and Loss and Balance sheet ,which are historical in nature.   1. Both A and R are true and R is the correct explanation of A. 2. Both A and R are true , but R is not the correct explanation of A. 3. A is true ,but R is false. 4. A is false ,but R is true . |
| Q2 | For the following two statement of Assertion (A) and Reasoning (R) indicate the correct code :  Assertion (A) Operating Activities are the principal revenue producing activities . Reasoning (R) It results in change of the size and composition of the owners capital .   1. Both A and R are true and R is the correct explanation of A. 2. Both A and R are true , but R is not the correct explanation of A. 3. A is true ,but R is false. 4. A is false ,but R is true . |
| Q3 | For the following two statement of Assertion (A) and Reasoning (R) indicate the correct code :  Assertion (A) Redemption of Debentures would result in outflow of cash. Reasoning (R) It is payment and thus, decreases cash.   1. Both A and R are true and R is the correct explanation of A. 2. Both A and R are true , but R is not the correct explanation of A. 3. A is true ,but R is false. 4. A is false ,but R is true . |
| Q4 | For the following two statement of Assertion (A) and Reasoning (R) indicate the correct code :  Assertion (A) While preparing Cash Flow Statement , Cash withdrawn from bank result in no flow cash.  Reasoning (R) There is no change in Cash and Cash Equivalents.   1. Both A and R are true and R is the correct explanation of A. 2. Both A and R are true , but R is not the correct explanation of A. 3. A is true ,but R is false. 4. A is false ,but R is true |
| Q5 | For the following two statement of Assertion (A) and Reasoning (R) indicate the correct code :  Assertion (A) Discount received on making payment to suppliers would result in inflow of cash .  Reasoning (R) Discount received on payment to suppliers does not involve cash.   1. Both A and R are true and R is the correct explanation of A. 2. Both A and R are true , but R is not the correct explanation of A. 3. A is true ,but R is false. 4. A is false ,but R is true |
| Q6 | Assertion: Loss due to earthquake’ is an extraordinary item (loss)  Reason: For calculating net profit before taxation and extraordinary items, it will be added |

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|  | back.   1. Both Assertion and reason are true and reason is correct explanation of Assertion. 2. Assertion and reason both are true but reason is not the correct explanation of Assertion. 3. Assertion is true, Reason is false. 4. Assertion is false, Reason is true. |
| Q7 | Assertion: A cash flow statement provides information about the historical changes in cash and cash equivalents.  Reason: Cash means short-term highly liquid investments that are readily convertible into known amounts of cash.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q8 | Assertion:- Cash Flows’ implies movement of cash and cash equivalents (in and out).  Reason:- Sale proceeds from sale of machinery are cash inflow & purchase of machinery by paying cash is cash outflow.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q9 | Assertion: The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities.  Reason: Cash flow statement is a substitute of Statement of Profit and Loss account.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q10 | Assertion: Cash proceeds from short-term borrowings is classified as cash inflow from operating actives  Reason: Transactions related to long-term investment are investing activates.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. |

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|  | 1. Assertion is true, reason is false. 2. Assertion is false, reason is true. |
| Q11 | Assertion:- Increase in share capital is inflow under financing activity Reason:- It increases shareholder’s fund   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q12 | Assertion: Issue of bonus share are not shown in cash Flow Statement. Reason: It do not involve cash inflow or outflow.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q13 | Assertion: Rent received is shown under financing activity.  Reason: It results in inflow of cash   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q14 | Assertion: Transfer to general reserve is added with the profit Reason: It increases profit   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q15 | Assertion: Dividend paid is part of financing activity  Reason: It is paid on issue of share capital which is source of long term finance.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true. |
| Q16 | Assertion: Dividend paid is added in operating activity .  Reason: It is added back assuming that it has already been deducted from Net Profit.   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q17 | Assertion: Cash deposited into bank is part of operating activity.  Reason: It is part of cash and cash equivalent   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q18 | Assertion: If a machine whose original cost is ₹ 40,000 having accumulated depreciation  ₹12,000, were sold for ₹ 34,000 then while preparing Cash Flow Statement it will result in  Cash flow from investing activities ₹ 34,000  Reason: Machinery being part of non-current asset is investing activity and sale proceed is  ₹ 34,000 |

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|  | 1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q19 | Assertion: Interest paid by a bank comes under operating activity.  Reason: It is normal or day to day operation of bank   1. Both Assertion and reason are true and reason is correct explanation of assertion. 2. Assertion and reason both are true but reason is not the correct explanation of assertion. 3. Assertion is true, reason is false. 4. Assertion is false, reason is true |
| Q20 | **Assertion (A):**Cash flow statement is a statement that shows of cash and cash equivalent during a particular period, under each activity, i.e. operating, investing and financing activities.  **Reason (R):**It can be prepared on cash as well as accrual basis. Alternatives:   1. Both Assertion and Reason are true and Reason is the correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true but Reason is false. 4. Assertion is false but Reason is true. |
| Q21 | **Assertion (A):** Treasury Bill, commercial Bill, Marketable securities are example of cash and cash equivalent.  **Reason (R):** Cash equivalents are short- term highly liquid investments. Alternatives:   1. Both Assertion and Reason are true and Reason is the correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true but Reason is false. 4. Assertion is false but Reason is true. |
| Q22 | **Assertion (A):**Inflow of cash – Sale of building for cash  **Reason (R):**The sale of building will increase the net cash flow from operating activity. Alternatives:   1. Both Assertion and Reason are true and Reason is the correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true but Reason is false. 4. Assertion is false but Reason is true. |
| Q23 | **Assertion (A):**Fixed assets whose original cost is Rs. 40,000 having accumulated depreciation Rs. 12,000 were sold for Rs, 34,000 .  **Reason (R):**Cash flow from investing activity will be Rs. 34,000.  Alternatives: |

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|  | 1. Both Assertion and Reason are true and Reason is the correct explanation of Assertion. 2. Assertion and Reason both are true but Reason is not the correct explanation of Assertion. 3. Assertion is true but Reason is false. 4. Assertion is false but Reason is true. |
| Q24 | Assertion (A): Cash Flow Statement is a statement showing inflow and outflow of cash.  Reason (R): Transactions that increase Cash and Cash Equivalents are inflow of cash and transactions that decrease Cash and Cash Equivalents are outflow of cash.   1. Both (A) and (R) are true, and (R) is the correct Reason of (A). 2. Both (A) and (R) are true, but (R) is not the correct reason of (A). 3. Only (R) is correct. 4. Both (A) and (R) are wrong. |
| Q25 | Assertion (A): Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.  Reason (R): Payment of salaries are bonus to employees is shown under cash flow from Operating Activities.   1. Both (A) and (R) are true, and (R) is the correct Reason of (A). 2. Both (A) and (R) are true, but (R) is not the correct reason of (A). 3. Only (R) is correct. 4. Both (A) and (R) are wrong |
| Q26 | Assertion (A): Buy back of equity shares is an extraordinary item.  Reason (R): Buy back of equity shares is shown under Cash Flow from Operating Activities.   1. Both (A) and (R) are true, and (R) is the correct Reason of (A). 2. (A) is true and (R) is false, but (R) is not the correct reason of (A). 3. Only (R) is correct. 4. Both (A) and (R) are wrong. |
| Q27 | Assertion (A): Depreciation is a non-cash item.  Reason(R): Depreciation is an out flow of cash under cash flow from Operating Activities.   1. Both (A) and (R) are true, and (R) is the correct Reason of (A). 2. (A) is true and (R) is false, but (R) is not the correct reason of (A). 3. Only (R) is correct. 4. Both (A) and (R) are wrong. |
| Q28 | Assertion (A): Repayment of Long-Term loan is an item of Cash Flow from financing activities.  Reason(R): It is an outflow of Cash under financing activities.   1. Both (A) and (R) are true, and (R) is the correct Reason of (A). 2. Both (A) and (R) are true, but (R) is not the correct reason of (A). 3. Only (R) is correct. 4. Both (A) and (R) are wrong. |

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| ASWER KEY A-R BASED QUESTIONS | | | |
| Q.NO | ANSWER | Q.NO | ANSWER |
| 1 | A | 21 | A |
| 2 | C | 22 | B |
| 3 | A | 23 | A |
| 4 | A | 24 | A |
| 5 | D | 25 | A |
| 6 | A | 26 | B |
| 7 | C | 27 | B |
| 8 | A | 28 | A |
| 9 | C |  |  |
| 10 | D |  |  |
| 11 | B |  |  |
| 12 | A |  |  |
| 13 | D |  |  |
| 14 | C |  |  |
| 15 | A |  |  |
| 16 | A |  |  |
| 17 | D |  |  |
| 18 | A |  |  |
| 19 | A |  |  |
| 20 | C |  |  |