SHORT ANSWER QUESTIONS

1. Prove that, "Accounting Equation holds good under all circumstances." Give atleast two illustrations. *(KVS 2022)*
2. Give two basic purposes of accounting equation.

[**Ans.** (*i*) Since accounting equation is always equal it ensures the accuracy in recording of business transaction.

(*ii*) It helps in preparation of Balance Sheet.]

3. Describe the fundamental accounting equation. How are revenue and expenses related to it?

4. Which of the following equations are correct ?

I.	Assets	=	Capital	+	Liabilities
II.	Assets	=	Capital	–	Liabilities
III.	Assets	=	Liabilities	–	Capital
IV.	Capital	=	Assets	–	Liabilities
V.	Capital	=	Assets	+	Liabilities
VI.	Liabilities	=	Capital	+	Assets
VII.	Liabilities	=	Capital	–	Assets
VIII.	Liabilities	=	Assets	–	Capital

Ans. I, IV, VIII.

5. The position of a businessman on 31st March, 2023 was as follows :— Cash ₹5,000; Debtors ₹20,000; Machinery ₹60,000; Stock ₹25,000; Capital ₹75,000. Calculate his liabilities.

Ans. ₹35,000.

Hint. Liabilities = Assets – Capital

6. What entry (debit or credit) would you make to (*a*) increase in revenue (*b*) decrease in expense, (*c*) record drawings, (*d*) record the fresh capital introduced by the owner.

Ans. (*a*) Increase in Revenue : Credit
(*b*) Decrease in Expense : Credit
(*c*) Drawings : Debit in Capital Account
(*d*) Fresh Capital : Credit in Capital Account

7. If a transaction has the effect of decreasing an asset, is the decrease recorded as a debit or as a credit? If the transaction has the effect of decreasing a liability, is the decrease recorded as a debit or as a credit?

[**Ans.** Decrease in Asset will be recorded on credit side.
Decrease in Liability will be recorded on debit side.]

8. Which transactions will :
I. Decrease the Assets and Decrease the Capital.
II. Increase the Assets and Increase the Liabilities.
III. Increase the Assets and Decrease another Asset.
IV. Decrease the Assets and Decrease the Liabilities. *(Chandigarh, 2019)*

[**Ans.** (I) Drawings or Expenses; (II) Purchase of an asset on Credit; (III) Purchase or Sale of an asset in Cash; (IV) Payment of a liability.]

9. What will be the effect of the following on the Accounting Equation :—
1. Purchased goods for ₹20,000 from Mahesh on Credit.
2. Sold goods to Suresh costing ₹8,000 for ₹10,000 in cash.
3. Paid Wages ₹500.
4. Withdrew in cash for private use ₹2,000.

5. Paid to creditors ₹5,000.

[**Ans.** 1. + Stock + Creditors 2. + Cash – Stock + Capital
3. – Cash – Capital 4. – Cash – Capital
5. – Cash – Creditors]

VERY SHORT ANSWER QUESTIONS
(Questions Carrying 1 Mark)

1. What is an accounting equation?

Ans. An accounting equation is a formula of accounting which shows that the assets of a business are always equal to the total of capital and liabilities.

2. Give fundamental accounting equation.

Ans. Assets = Liabilities + Capital

3. If the Capital of a business is ₹5,00,000 and Outside liabilities are ₹2,00,000, calculate total assets of the business.

Ans. Total Assets ₹7,00,000.

4. If total assets of a business are ₹10,00,000 and capital is ₹4,00,000, calculate creditors.

Ans. Creditors ₹6,00,000

5. '*X*' commenced business on 1st April, 2022 with a capital of ₹6,00,000. On 31st March, 2023 his assets were worth ₹8,00,000 and liabilities ₹50,000. Find out his closing capital and profits earned during the year.

Ans. Closing Capital ₹7,50,000; Profit ₹1,50,000.

6. What is Debit?

Ans. When an amount is entered on the left-hand side of an account, it is a debit and the account is said to be debited.

7. What is Credit?

Ans. When an amount is entered on the right-hand side of an account, it is a credit and the account is said to be credited.

8. Why are the rules of debit and credit same for both liability and capital?

Ans. Because according to business entity concept capital is also treated as liability of the business.

9. Name the side on which increase in capital is recorded.

Ans. Credit side.

PRACTICAL QUESTIONS
(Question Nos. 1 to 22 are strictly in the serial order of Illustrations)

Q. 1. Prepare Accounting Equation from the following :—

		₹
1.	Sandeep started business with Cash	1,00,000
2.	Purchased furniture for cash	5,000
3.	Purchased goods for cash	20,000

4.	Purchased goods on credit	36,000
5.	Paid for rent	700
6.	Goods costing ₹40,000 sold at a profit of 20% for cash	

[**Ans.** Assets : Cash ₹1,22,300 + Furniture ₹5,000 + Stock ₹16,000 = Liabilities: Creditors ₹36,000 + Capital ₹1,07,300.]

Q. 2 (A). Show the Accounting Equation on the basis of the following and present a balance sheet on the last new equation balances :

		₹
(*i*)	Manu started business with cash	50,000
(*ii*)	Bought furniture for	500
(*iii*)	Purchased goods on credit	4,000
(*iv*)	Sold goods on cash (cost ₹500) for	700
(*v*)	Received commission	200
(*vi*)	Purchased goods for cash	1,000
(*vii*)	Withdrew for personal use	700
(*viii*)	Paid to creditors	400
(*ix*)	Paid for salaries	200

[**Ans.** Assets : Cash ₹48,100 + furniture ₹500 + stock ₹4,500 = Liabilities: creditors ₹3,600 + capital ₹49,500; Balance Sheet total ₹53,100.]

Q. 2 (B). Prove that the Accounting Equation is satisfied in all the following transactions of Rajaram. Also prepare a Balance Sheet :—

1. Started business with Cash ₹1,20,000.
2. Purchased a typewriter for Cash for ₹8,000 for office use.
3. Purchased goods for ₹50,000 for cash.
4. Purchased goods for ₹40,000 on credit.
5. Goods costing ₹60,000 sold for ₹80,000 on credit.
6. Paid for Rent ₹1,500 and for salaries ₹2,000.
7. Received ₹800 for Commission.
8. Withdrew for private use ₹5,000 in cash.

[**Ans.** Assets : Cash ₹54,300 + Typewriter ₹8,000 + Stock ₹30,000 + Debtors ₹80,000 = Liabilities : Creditors ₹40,000 + Capital ₹1,32,300; Balance Sheet Total ₹1,72,300.]

Q. 3. Prepare Accounting Equation from the following :

(*a*) Started business with Cash ₹2,00,000.
(*b*) Purchased goods for Cash ₹60,000 and on Credit ₹1,50,000.
(*c*) Sold goods for Cash costing ₹40,000 at a profit of 20% and on Credit costing ₹72,000 at a profit of 25%.
(*d*) Paid for Rent ₹5,000.

[**Ans.** Assets : Cash ₹1,83,000 + Stock ₹98,000 + Debtors ₹90,000 = Liabilities : Creditors ₹1,50,000 + Capital ₹2,21,000]

Q. 4. Prepare Accounting Equation from the following :

		₹
(*a*)	Kunal started business with cash	2,50,000
(*b*)	He purchased furniture for cash	35,000
(*c*)	He paid commission	2,000
(*d*)	He purchased goods on credit	40,000
(*e*)	He sold goods (Costing ₹20,000) for cash	26,000

(NCERT Q. 2)

[**Ans.** Assets : Cash ₹2,39,000 + Furniture ₹35,000 + Stock ₹20,000 = Liabilities: Creditors ₹ 40,000 + Capital ₹2,54,000.]

Q. 5. Mohit has the following transactions, prepare Accounting Equation :

		₹
(*a*)	Business started with cash	1,75,000
(*b*)	Purchased goods from Rohit	50,000
(*c*)	Sold goods on credit to Manish (costing ₹17,500)	20,000
(*d*)	Purchased furniture for office use	10,000
(*e*)	Cash paid to Rohit in full settlement	48,500
(*f*)	Cash received from Manish	20,000
(*g*)	Rent paid	1,000
(*h*)	Cash withdrew for personal use	3,000

(NCERT Q. 3)

[**Ans.** Assets : Cash ₹1,32,500 + Stock ₹32,500 + Furniture ₹10,000 = Capital ₹1,75,000.]

Q. 6. What will be the effect of the following on the Accounting Equation?

(*i*) Harish started business with cash ₹1,80,000.

(*ii*) Purchased goods for cash ₹60,000 and on credit ₹30,000.

(*iii*) Sold goods for cash ₹40,000; costing ₹24,000.

(*iv*) Rent paid ₹5,000; and rent outstanding ₹2,000.

(*v*) Sold goods on credit ₹50,000 (costing ₹38,000).

(*vi*) Salary paid in advance ₹3,000.

[**Ans.** Assets : Cash ₹1,52,000 + Stock ₹28,000 + Debtors ₹50,000 + Prepaid Expenses ₹3,000 = Liabilities : Creditors ₹30,000 + Outstanding Expenses ₹2,000 + Capital ₹2,01,000.]

Q. 7. Prove that after analysing and putting the effect of each transaction of the following accounting equation, both sides of Accounting Equation remain equal.

Assets	**= Liabilities + Capital**
Cash + Furniture + Inventory	= Creditors + Capital
₹3,92,000 + ₹1,20,000 + 55,000	= ₹1,45,000 + ₹4,22,000

Transactions :

(*a*) Goods costing ₹40,000 sold at a profit of 20% on credit.
(*b*) Purchased goods worth ₹1,50,000 for cash and on credit ₹70,000.
(*c*) Bought computer for personal use ₹40,000.
(*d*) Rent due but not paid ₹25,000

[**Ans. Assets :** Cash ₹2,02,000 + Furniture ₹1,20,000 + Inventory ₹2,35,000 + Debtors ₹48,000 = **Liabilities :** Creditors ₹2,15,000 + Outstanding Rent ₹25,000 + Capital ₹3,65,000.]

Q. 8. Use Accounting Equation to show the effect of the following transactions of M/s Royal Traders :

		₹
(*a*)	Started Business with Cash	1,20,000
(*b*)	Purchased goods for cash	10,000
(*c*)	Salary outstanding	2,000
(*d*)	Received commission	700
(*e*)	Sold goods for cash (costing ₹5,000)	7,000
(*f*)	Goods destroyed by fire	500

(KVS 2020) (NCERT Q. 5)

[**Ans.** Assets : Cash ₹1,17,700 + Stock ₹4,500 = Liabilities : Outstanding Exp. ₹2,000 + Capital ₹1,20,200.]

Hint. *Goods destroyed by fire will result in decrease in stock and decrease in capital.*

Q. 9. Prepare the Accounting Equation on the basis of the following :

(*a*) Started business with cash ₹1,40,000 and Stock ₹2,50,000.
(*b*) Sold goods (costing ₹50,000) at a profit of 25% on cost.
(*c*) Deposited into bank account ₹1,80,000.
(*d*) Purchased goods from Mohan ₹80,000.

[**Ans.** Assets : Cash ₹22,500 + Stock ₹2,80,000 + Bank ₹1,80,000 = Creditors ₹80,000 + Capital ₹4,02,500.]

Q. 10 (A). Prepare Accounting Equation from the following :—

1. Started business with cash ₹75,000 and goods ₹25,000.
2. Paid for Rent ₹2,000.
3. Bought goods for cash ₹30,000 and on credit for ₹44,000.
4. Goods costing ₹50,000 sold at a profit of 25%, out of which ₹27,500 received in Cash.
5. Purchased a Motor-cycle for personal use ₹20,000.

[**Ans.** Assets : Cash ₹50,500 + Stock ₹49,000 + Debtors ₹35,000 = Liabilities : Creditors ₹44,000 + Capital ₹90,500.]

Q. 10 (B). Prepare Accounting Equation from the following and also prepare a Balance Sheet :—

1. Raghu started business with Cash ₹1,50,000.

2. Bought goods for cash ₹80,000 and on credit for ₹40,000.
3. Goods costing ₹75,000 sold at a profit of $33\frac{1}{3}\%$. Half the payment received in cash.
4. Goods costing ₹10,000 sold for ₹12,000 on credit.
5. Paid for Rent ₹2,000 and for salaries ₹4,000.
6. Goods costing ₹20,000 sold for ₹18,500 for Cash.

[**Ans.** Assets : Cash ₹1,32,500 + Stock ₹15,000 + Debtors ₹62,000 = Liabilities : Creditors ₹40,000 + Capital ₹1,69,500; Balance Sheet total ₹ 2,09,500.]

Q. 11. If the Capital of a business is ₹1,20,000 and Outside liabilities are ₹20,000, calculate total assets of the business.

[**Ans.** Total Assets ₹1,40,000.]

Q. 12. If total assets of a business are ₹1,30,000 and capital is ₹80,000, calculate creditors.

[**Ans.** Creditors ₹50,000.]

Q. 13. 'A' commenced his cloth business on 1st April, 2022 with a capital of ₹3,00,000. On 31st March, 2023 his assets were worth ₹5,00,000 and liabilities ₹1,00,000. Find out his closing capital and profits earned during the year.

[**Ans.** Closing Capital ₹4,00,000; Profit ₹1,00,000.]

Q. 14. (*a*) Yogesh commenced business on 1st April, 2017 with a Capital of ₹5,00,000 and a loan of ₹1,00,000 borrowed from Citi Bank. On 31st March, 2018, his assets were ₹8,00,000. No amount of loan was repaid during the year.

Calculate his closing capital and profits earned during the year.

(*b*) If in the above case, the proprietor had introduced fresh capital of ₹40,000 and had withdrawn ₹10,000 for personal purposes, calculate his profits. *(Delhi 2019)*

[**Ans.** (*a*) Closing Capital ₹7,00,000; Profit ₹2,00,000.
(*b*) Profit ₹1,70,000.]

Q. 15. Give one example of each of the following transactions :

(*i*) Increase in an asset and a liability.
(*ii*) Decrease in an asset and a liability.
(*iii*) Increase in assets and capital.
(*iv*) Decrease in assets and capital.

[**Ans.** (*i*) Purchase of an asset on credit.
(*ii*) Payment of a liability.
(*iii*) Capital introduced by proprietor.
(*iv*) Drawings or Expenses.]

Q. 16. On which side the **increase** in the following accounts will be recorded? Also mention the nature of account :—

1. Furniture
2. Rent Paid
3. Commission Received
4. Salary Paid
5. Proprietor's Account
6. Debtor
7. Creditor
8. Inventory

[**Ans.** 1. Debit — Asset
2. Debit — Expenses
3. Credit — Income
4. Debit — Expenses
5. Credit — Capital
6. Debit — Asset
7. Credit — Liability
8. Debit — Assets]

Q. 17. On which side the **decrease** in the following accounts will be recorded? Also mention the nature of account :—

1. Cash
2. Bank Overdraft
3. Rent Paid
4. Outstanding Rent
5. Prepaid Insurance
6. Manoj, Proprietor of the business

[**Ans.** 1. Credit — Asset
2. Debit — Liability
3. Credit — Expenses
4. Debit — Liability
5. Credit — Asset
6. Debit — Capital]

Q. 18. From the following transactions, state the nature of accounts and state the accounts which will be debited and credited :

1. Ganesh started business with Cash ₹2,00,000.
2. Purchased goods for Cash ₹60,000.
3. Sold goods for cash ₹75,000.
4. Purchased goods from Nakul on Credit for ₹80,000.
5. Sold goods to Bhushan on Credit for ₹50,000.
6. Paid Cash to Nakul ₹20,000.
7. Received Cash from Bhushan ₹10,000.
8. Paid salary ₹20,000.

Q. 19. Open 'T' shape account for Machinery and write the following on the proper side :

		₹
1.	Machinery purchased for	5,00,000
2.	Machinery sold	1,20,000
3.	Machinery discarded	50,000
4.	New Machinery purchased	2,00,000
5.	Machinery destroyed	40,000

[**Ans.** Debit side 1, 4; Credit side 2, 3, 5.]

Q. 20. Open 'T' shape account of our creditor 'Raghubir' and write the following transactions on the proper side :—

1. Purchased goods from Raghubir on credit for ₹50,000.
2. Returned goods to Raghubir for ₹5,000.
3. Paid to Raghubir ₹30,000.
4. Purchased goods from Raghubir on credit for ₹16,000.
5. Paid to Raghubir ₹20,000.

[**Ans.** Debit side 2, 3, 5; Credit side 1, 4.]

Q. 21. Put the following on the proper side of Cash account, Debtor's account and Creditor's account :

(*a*) Sold goods for cash ₹60,000.
(*b*) Sold goods to Hari on credit ₹20,000.

(*c*) Purchased goods from Krishan on credit ₹36,000.
(*d*) Purchased goods from Krishan for cash ₹10,000.
(*e*) Cash received from Hari ₹15,000.
(*f*) Cash paid to Krishan ₹28,000.

[**Ans.** Cash A/c	Dr. (*a*), (*e*)	Cr. (*d*), (*f*)
Hari	Dr. (*b*)	Cr. (*e*)
Krishan	Dr. (*f*)	Cr. (*c*)]

Q. 22. From the following particulars, prepare the Proprietor's Capital A/c

2017		₹
April 1	Started business with	45,000
May 10	Withdrew from business for personal use	10,000
July 15	Further capital introduced	55,000
Nov. 30	Income tax paid	5,000
2018		
March 31	Profit for the year	30,000

(Chandigarh 2019)

[**Ans.** Balance of Capital Account ₹1,15,000]

ADDITIONAL QUESTIONS

Q. 23. Prepare Accounting Equation on the basis of the following transactions :

(*a*) Started business with cash ₹70,000.
(*b*) Credit purchase of goods ₹18,000.
(*c*) Payment made to creditors in full settlement ₹17,500.
(*d*) Purchase of machinery for cash ₹20,000.

[**Ans.** Assets : Cash ₹32,500 + Stock ₹18,000 + Machinery ₹20,000 = Capital ₹70,500.]

Q. 24. Prepare accounting equation from the following :

(*a*) Started business with cash ₹50,000 and goods ₹30,000.
(*b*) Purchased goods for cash ₹30,000 and on credit from Karan ₹20,000.
(*c*) Goods costing ₹40,000 were sold for ₹55,000 for cash.
(*d*) Withdrew cash for personal use ₹10,000.
(*e*) Rent outstanding ₹2,000.

[**Ans.** Assets : Cash ₹65,000 + Stock ₹40,000 = Liabilities : Creditors ₹20,000 + Outstanding Rent ₹2,000 + Capital ₹83,000.]

Q. 25. Show the accounting equation on the basis of the following transactions and present a Balance Sheet of the last new equation balance :

		₹
(*i*)	Mohan commenced business with	70,000
(*ii*)	Purchased goods on Credit	14,000
(*iii*)	Withdrew for private use	1,700
(*iv*)	Purchased goods for Cash	10,000

(v)	Paid wages	300
(vi)	Paid to Creditors	10,000
(vii)	Sold goods on Credit at par	15,000
(viii)	Sold good for Cash (cost price was ₹3,000)	4,000
(ix)	Purchased furniture for cash	500

[Ans. Assets : Cash ₹51,500 + Stock ₹6,000 + Debtors ₹15,000 + Furniture ₹500 = Liabilities : Creditors ₹4,000 + Capital ₹69,000; Balance Sheet Total ₹73,000.]

Q. 26. Prove that the accounting equation is satisfied in the following transactions :—

		₹
(a)	Brij Mohan commenced business with Cash	1,00,000
(b)	Bought goods for Cash	60,000
(c)	$\frac{1}{3}$rd of the above goods sold at a profit of 20% on cost. Half the payment received in Cash	
(d)	Purchased computer for office use	15,000
(e)	Purchased goods on Credit from X	25,000
(f)	Paid to X	15,000
(g)	Paid Salary	3,000
(h)	Received commission	500
(i)	Sold goods for Cash (Cost ₹50,000)	60,000

[Ans. Assets : Cash ₹79,500 + Stock ₹15,000 + Debtors ₹12,000 + Typewriter ₹15,000 = Liabilities : Creditors (X) ₹10,000 + Capital ₹1,11,500.]

Q. 27. Show the accounting equation on the basis of the following transactions and also show the Balance Sheet :

(i) Started business with Cash ₹60,000 and Goods ₹30,000.
(ii) Purchased goods for Cash ₹40,000 and on Credit ₹25,000.
(iii) Goods costing ₹48,000 sold at a profit of $33\frac{1}{3}$%. Three-fourth payment received in Cash
(iv) Goods costing ₹20,000 sold at a loss of 5%, out of which ₹12,000 received in Cash.
(v) Paid Rent ₹4,000 and Salary ₹6,000.
(vi) Received Cash from Debtors ₹15,000.
(vii) Paid telephone bill amounting to ₹800.

[Ans. Assets : Cash ₹84,200 + Stock ₹27,000 + Debtors ₹8,000 = Liabilities : Creditors ₹25,000 + Capital ₹94,200; Balance Sheet Total ₹1,19,200.]

Q. 28. Show the accounting equation on the basis of following transactions :

(i) Commenced business with Cash ₹20,000; Goods ₹50,000 and Furniture ₹30,000.

(ii) Purchased goods from Gopal on Credit ₹40,000.
(iii) Sold goods for Cash ₹40,000 (Costing ₹30,000).
(iv) Sold goods to Ram on Credit ₹65,000 (Costing ₹50,000).
(v) Withdrew for personal use goods costing ₹5,000.
(vi) Purchased computer for personal use of the proprietor ₹20,000.
(vii) Purchased chairs for office use for Cash ₹10,000.
(viii) Paid for printing ₹500 and received Commission ₹1,200.
(ix) Introduced fresh Capital ₹40,000.
(x) Paid to Gopal ₹30,000.

[**Ans.** Assets : Cash ₹40,700 + Stock ₹5,000 + Furniture ₹40,000 + Debtors ₹65,000 = Liabilities : Creditors ₹10,000 + Capital ₹1,40,700.]

Q. 29. Prove that accounting equation is satisfied in all the following cases :
(a) Commenced business with cash ₹50,000.
(b) Paid rent ₹4,000 including ₹1,000 as advance.
(c) Bought goods for cash ₹30,000 and on credit ₹20,000.
(d) Sold the goods bought on credit for ₹25,000.
(e) Purchased furniture worth ₹10,000 for office use and for ₹5,000 for domestic use.

[**Ans.** Assets : Cash ₹26,000 + Prepaid Exp. ₹1,000 + Stock ₹30,000 + Furniture ₹10,000 = Liabilities : Creditors ₹20,000 + Capital ₹47,000.]

Q. 30. Prepare accounting equation from the following :
(a) Started business with cash ₹40,000, Goods ₹50,000 and furniture ₹75,000.
(b) Charge Depreciation @ 10% on Furniture.
(c) Goods costing ₹10,000 sold for ₹11,000 in cash. *(Delhi 2020)*

[**Ans.** Cash ₹51,000 + Stock ₹40,000 + Furniture ₹67,500 = Capital ₹1,58,500.]

OBJECTIVE TYPE QUESTIONS

(A) Choose the best Alternate :

1. Which equation is correct out of the following :
(A) Assets = Liabilities – Capital
(B) Assets = Capital – Liabilities
(C) Assets = Capital + liabilities
(D) Assets = Net worth – Liabilities

2. Which equation is correct out of the following :
(A) Liabilities = Assets + Capital
(B) Assets = Liabilities – Capital
(C) Capital = Assets ù Liabilities
(D) Capital = Assets + Liabilities

3. Which equation is incorrect out of the following :
(A) Assets = Liabilities + Capital
(B) Capital = Assets – Liabilities

(C) Liabilities = Assets – Capital
(D) Assets = Liabilities – Capital

4. Main elements of accounting equation are :
(A) Capital, Creditors and Bills Payable
(B) Assets, Liabilities and Capital
(C) Cash, Stock and Debtors
(D) Bank balance, Investments and Bills Receivable

5. As a result of the following transactions, the total of accounting equation will be ....
(i) Started business with cash ₹2,00,000.
(ii) Purchased furniture ₹25,000.
(iii) Purchased goods on credit ₹60,000.
(A) ₹2,85,000 (B) ₹2,25,000
(C) ₹2,35,000 (D) ₹2,60,000

6. As a result of the following transactions, the total of accounting equation will be ....
(i) Started business with Cash ₹5,00,000
(ii) Goods purchased for cash ₹2,00,000
(iii) Goods costing ₹1,50,000 sold for ₹1,60,000 on credit :
(A) ₹4,60,000 (B) ₹7,10,000
(C) ₹5,10,000 (D) ₹6,60,000

7. Due to the following transactions, the total of accounting equation will be :
(i) Commenced business with cash ₹4,00,000
(ii) Purchased goods on credit ₹1,75,000
(iii) Goods costing ₹1,00,000 sold at a profit of 20% for cash
(iv) Rent paid ₹5,000
(A) ₹4,90,000 (B) ₹5,90,000
(C) ₹4,40,000 (D) ₹3,40,000

8. What will be the effect of outstanding rent on the accounting equation?
(A) Deduct from cash and capital
(B) Add in capital and outstanding expenses
(C) Deduct from capital and add in outstanding expenses
(D) Deduct from cash and add in outstanding expenses *(Delhi 2024)*

[Ans. 1. (C) 2. (C) 3. (D) 4. (B) 5. (D)
6. (C) 7. (B) 8. (C)]

(B) State whether the following statements are True or False :

1. Accounting is always based on accounting equation.
2. Liabilities = Capital + Assets
3. Capital of a business is ₹2,50,000 and its liabilities are ₹30,000. Hence, assets will be ₹2,80,000.
4. If there are no liabilities, assets of the business will be equal to its capital.

Ans. True : 1, 3, 4
False : 2

(C) Fill in the blanks :

1. Assets = Capital + ...
2. Liabilities = Assets – ....
3. Assets – Liabilities = ...

Ans. 1. Liability; 2. Capital; 3. Capital.

ASSERTION-REASON QUESTIONS

Given below are two statements, one labelled as Assertion (A) and other labelled as Reason (R) :

Which one of the following is correct?

Codes :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is *not* the correct explanation of (A).

(C) (A) is true, but (R) is false.

(D) (A) is false, but (R) is true.

1. **Assertion (A) :**

   Accounting equation states that the total claim (internal and external) are always equal to total assets of the business.

   Reason (R) :

   It is based on dual aspect concept *i.e.,* every transaction has 2 aspects debit and credit. *(Chandigarh, 2021)*

2. **Assertion (A) :**

   Main elements of accounting equation are Assets, Liabilities and Capital.

   Reason (R) :

   Assets = Liabilities + Capital

3. **Assertion (A) :**

   In case goods costing ₹30,000 is sold for cash for ₹40,000, the accounting equation will hold true because it will lead to increase in cash by ₹40,000 and decrease in stock by a similar amount *i.e.,* ₹40,000.

   Reason (R) :

   In the above mentioned case accounting equation will hold true because cash will increase by ₹40,000; Stock will decrease by ₹30,000 and Capital will increase by ₹10,000.

ANSWERS TO ASSERTION-REASON QUESTIONS

1.	A	2.	A	3.	D				