1. The increase of decrease in the prices of various goods and services over a period of time is known as---------------------

   a) Price Level Changes
   b) Inflation
   c) Deflation

   Answer: a) Increase and decrease in the price of various goods and service is known as price level changes.

2. Increase in the price of various goods and services over a period of time is known as ------------------------------

   a) Price Level Changes
   b) Inflation
   c) Deflation

   Answer: b) Increase in the price of various goods and service over a period of time known as Inflation.

3. Decrease in the price of various goods and services over a period of time is known as ---------------------------

   a) Price Level Changes
   b) Inflation
   c) Deflation

   Answer: c) Decrease in the price of various goods and service over a period of time known as Deflation.
4. During inflation the purchasing power of money ---------------
   
   a) Increases
   b) Decreases
   c) Does not change

   Answer: b) Decreases – During inflation the same quantity of money will fetch less quantity of goods and therefore the purchasing power of money is said to be decreasing.

5. Prices of goods and services may increase due to following --------------- demand pull inflation factors
   
   a) Increase in money supply, increase in disposable income
   b) Inadequate agricultural growth, inadequate industrial growth
   c) A situation in which the demand for goods and services increases but the production remains the same.

   Answer: c) A situation in which the demand for goods and services increases but the production remains the same.

6. During Deflation the purchasing power of money ---------------
   
   a) Increases
   b) Decreases
   c) Does not change

   Answer: c) Increases- During deflation since the prices of goods have come down, more units can be purchased with the same quantity of money, hence the purchasing power of money is said to be increasing.
7. Accounting for price level changes may also be sometimes called as --------------

a) Deflation Accounting  
b) Inflation Accounting  
c) None of the above

Answer: b) Inflation Accounting- Price level changes accounting is otherwise also called as inflation accounting, since from decades the prices of various goods and services have kept increasing and so it is termed as inflation accounting.

8. One of the limitation due to which changes in price accounting is not recommended is -- ----------------

a) Undervaluation of assets and liabilities  
b) Overvaluation of the assets and liabilities  
c) Manipulation of accounting records

Answer: c) Manipulation of accounting records. – Manipulation of accounting records is very much restricted under historical cost accounting. In the process of adopting the changes in price accounting, there are more possibilities of deliberately manipulating records.

9. Traditionally as per the generally accepted accounting principles, transactions are recorded as per --------------

a) Historical cost  
b) Current market value  
c) Realizable value

Answer: a) Historical Cost – Usually all transactions are recorded at the actual cost and the summarized financial statements are prepared the historical costs.
10. The main objective of preparing price level changes accounting is to------------------

   a) Match the financial report to the current price levels
   b) Inflate the values based on a predetermined factor price
   c) None of the above

   Answer: a) Match the financial report to the current price levels.

11. Prices of goods and services may increase due to following ------------ demand factors

   a) Increase in money supply, increase in disposable income
   b) Inadequate agricultural growth, inadequate industrial growth
   c) None of the above

   Answer: a) Increase in supply of money, increase in disposable income among consumers, foreign exchange reserves etc.

12. Price for changes accounting can be done by the following method----------------

   a) Current purchasing power, Current Value Accounting
   b) Replacement Cost Accounting, Current Cost Accounting
   c) Both a and b

   Answer: c) Both a and b – Price level changes accounting is done to match the current values and therefore any among the four methods can be chosen.

13. Prices of goods and services may increase due to following ------------ Supply factors

   a) Increase in money supply, increase in disposable income
   b) Inadequate agricultural growth, inadequate industrial growth
   c) None of the above
RECENT TRENDS IN ACCOUNTING

Answer: b) Rise in the administered prices, erratic growth of agricultural products, inadequate industrial growth.

14. Prices of goods and services may increase due to following --------------- cost push inflation factors

a) Caused due to increase in the cost of production, or increase in the price of raw material.

b) Inadequate agricultural growth, inadequate industrial growth

c) A situation in which the demand for goods and services increases but the production remains the same.

Answer: a) Caused due to increase in the cost of production, or increase in the price of raw material. When the overall cost of production value goes up due to increase in price of labour, raw material or power or fuel or any other factor the overall cost increases and reduces the profit margin. Entities are forced to increase the prices to maintain profits.

15. One of the main reasons to adopt changes in price accounting is---------------

a) To remove the misleading effect on the financial statements due to ongoing increase or decrease in general price levels over a period of time.

b) To provide a favorable financial statements revealing better profits and financial position.

c) Both a and b

Answer: a) To remove the misleading effect on the financial statements due to ongoing increase or decrease in general price levels over a period of time. If there is a sustained price changes, then the financial statements are not relevant, and therefore changes in price level accounting gains its importance.
16. For the following particulars of XYZ LTD what will be value of closing inventory under Current Purchasing Power Method (CPP) if FIFO method is followed:

Opening Stock – Rs 90000/-
Purchase - Rs 20000/-
Closing Stock - Rs. 40000/- ( Rs10000/- worth stock purchased on last day )

Price Index in the beginning of the year – 80
Price Index at the end of the year - 100
Average Price Index - 90

a) Rs. 44444/-
b) Rs. 33333/-
c) Rs. 46111/-

**Answer:** c) Rs 46111/-

<table>
<thead>
<tr>
<th>Closing Inventory</th>
<th>Amt</th>
<th>c.f</th>
<th>Adjusted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of current purchases (last date)</td>
<td>Rs 10000/-</td>
<td>100/100</td>
<td>10000/-</td>
</tr>
<tr>
<td>Out of current purchases</td>
<td>Rs 10000/-</td>
<td>100/90</td>
<td>11111/-</td>
</tr>
<tr>
<td>Out of opening stock</td>
<td>Rs 20000/-</td>
<td>100/80</td>
<td>25000/-</td>
</tr>
</tbody>
</table>

Total value of closing stock 46111/-

17. Current purchasing power method involves adjustment of historic figures at the current purchasing value. Under this method historical figures are multiplied with the ----------

a) Wholesale Price Index
b) Consumer Price Index

**c) Conversion factor**

**Answer:** c) Conversion factor – It is calculated by dividing the current price index with the previous price index on which the transaction was actually met. It is calculated by dividing the current year index with the previous year index.
18. A building which was purchased in the year 2001 was recorded as 80 Lakhs when the general price index was 120. The value of the building needs to be changed as per the price changes. The current price index is 360. Find the conversion factor.

   a) 0.33  
   b) 3  
   c) 240

Answer: b) Three - Conversion factor – It is calculated by dividing the current price index with the previous price index on which the transaction was actually met. It is calculated by dividing the current year index with the previous year index. 360/120 is 3. So it has to be 3

19. XYZ Limited sold goods throughout the year evenly. The total turnover was Rs 120 Lakhs. The general price index at the beginning of the year was 125 and at the end of the year was 150. What value of sales needs to be recorded as per CPP Method.

   a) Rs. 120 Lakhs  
   b) Rs. 130.91 Lakhs  
   c) Rs. 145 Lakhs

Answer: b) Rs130.91 lakhs. Mid period index - If the transactions are too many and taking place throughout the year it is not possible to adopt the price index as per the date of transaction for all individual transactions, hence an average period index needs to be adopted.

\[
\text{Average Index} = \left[ \frac{(\text{opn index} + \text{clg index})}{2} \right] = \left[ \frac{(125+150)}{2} \right] = 137.5
\]

Value of sales = [ 120 X (150/137.5) = Rs. 130.91 LAKHS ]
20. A building which was purchased in the year 2001 was recorded as 50 Lakhs when the general price index was 120. The value of the building needs to be changed as per the price changes in the year 2018 when the general price index was 330. Find the value of building as per current purchasing power method

a) Rs. 137.5 Lakhs
b) Rs. 18.18 Lakhs
c) Rs. 2.75 Lakhs

Answer: a) Rs. 137.5 Lakhs - Conversion factor – It is calculated by dividing the current price index with the previous price index on which the transaction was actually met. It is calculated by dividing the current year index with the previous year index. 330/120 is 2.75. Current value = 2.75 X 50 = 137.5 Lakhs

21. Aviral had purchased a building for Rs 25 Lakhs, in the year 1985 when the price index was 125, He sold the same in the year 2002 when the price index was 500, for Rs 82.5 Lakhs. What profit or losses should be recorded using current purchasing power method?

a) Rs. 62.5 Lakhs profit
b) Rs. 17.5 Lakhs (Loss)
c) Rs. 67.5 Lakhs (Loss)

Answer: b) Rs. 17.5 Lakhs (loss) - Conversion factor – It is calculated by dividing the current price index with the previous price index on which the transaction was actually met. It is calculated by dividing the current year index with the previous year index. 500/125 is 4. Current value of the Cost of Building = 4 X 25 = 100 Lakhs Profit or Loss = Sale Proceeds – Converted purchase price = (82.5 – 100) = Rs. 17.5 Lakhs (Loss)
22. For the following particulars of XYZ LTD what will be value of closing inventory under Current Purchasing Power Method (CPP) if LIFO method is followed:

- Opening Stock – Rs 30000/
- Purchase – Rs 100000/
- Closing Stock - Rs. 40000/

Price Index in the beginning of the year – 80
Price Index at the end of the year - 100
Average Price Index - 90

<table>
<thead>
<tr>
<th>Closing Inventory</th>
<th>Amt</th>
<th>c.f</th>
<th>Adjusted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of Current Purchases</td>
<td>Rs 10000/-</td>
<td>100/90</td>
<td>11111</td>
</tr>
<tr>
<td>Out of Opening stock</td>
<td>Rs 30000/-</td>
<td>100/80</td>
<td>37500</td>
</tr>
</tbody>
</table>

Total value of closing stock 48611/-

23. For the transactions that take place throughout the year ----------- index needs to be adopted under CPP method.

- a) Opening Period index
- b) Closing period index
- c) Mid period index

Answer: c) Mid period index - If the transactions are too many and taking place throughout the year it is not possible to adopt the price index as per the date of transaction for all individual transactions, hence an average period index needs to be adopted.
24. Arun has purchased shares worth Rs 8500/- when the general price index was 130, he sold the entire shares Rs. 31250/- after a few years when the price index was 325. Adopting cost of indexation being long term what will be the profit or loss he needs to show as per current purchasing power method?

a) Rs. 13750 profit  
b) Rs. 10000 profit  
c) Rs. 10000 (Loss)

Answer: b) Rs. 10000/- profit - Conversion factor – It is calculated by dividing the current price index with the previous price index on which the transaction was actually met. It is calculated by dividing the current year index with the previous year index. 325/130 is 2.5. Current value of the Cost of Building = 2.5 X 8500 = 21250/- Profit or Loss = Sale Proceeds – Converted purchase price = (31250 – 31250) = Rs. 10000/- profit

25. If the mid period index is not readily available, the value of mid period index can be calculated as---------

a) Average of opening and closing period index  
b) Opening period index  
c) Closing period index

d) Answer: a) Average of opening and closing period index

Mid period index - If the transactions are too many and taking place throughout the year it is not possible to adopt the price index as per the date of transaction for all individual transactions, hence an average period index needs to be adopted.

Mid period index = [ (opening index + closing index) / 2 ]
26. XYZ Limited sold goods throughout the year evenly. The total turnover was Rs 150 Lakhs. The general price index at the beginning of the year was 110 and at the end of the year was 130. What value of sales needs to be recorded as per CPP Method.

a) Rs. 150 Lakhs  

b) Rs. 162.50 Lakhs  

c) Rs.145 Lakhs  

Answer: b) Mid period index - If the transactions are too many and taking place throughout the year it is not possible to adopt the price index as per the date of transaction for all individual transactions, hence an average period index needs to be adopted.

Average Index = \( \frac{(\text{opn index} + \text{clg index})}{2} = \frac{(110+130)}{2} = 120 \)  

Value of sales = \( 150 \times \frac{130}{120} = \text{Rs. 162.50 LAKHS} \)  

27. For the following particulars of XYZ LTD what will be value of closing inventory under Current Purchasing Power Method (CPP) if LIFO method is followed:

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<th>Amt</th>
<th>c.f</th>
<th>Adjusted Value</th>
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</thead>
<tbody>
<tr>
<td>Out of Opening stock</td>
<td>Rs 30000/-</td>
<td>100/80</td>
<td>37500</td>
</tr>
<tr>
<td>Total value of closing stock</td>
<td></td>
<td></td>
<td>37500/-</td>
</tr>
</tbody>
</table>

a) Rs. 48611/-  

b) Rs. 33333/-  

c) Rs.37500/-  

Answer: c) Rs 37500/-
28. For the following particulars of XYZ LTD what will be value of closing inventory under Current Purchasing Power Method (CPP) if FIFO method is followed:

Opening Stock – Rs 40000/-
Purchase - Rs 100000/-
Closing Stock - Rs. 30000/-
Price Index in the beginning of the year – 80
Price Index at the end of the year - 100
Average Price Index - 90

a) Rs. 48611/-
b) Rs. 33333/-
c) Rs. 37500/-

Answer: b) Rs 33333/-

<table>
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<tr>
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<th>c.f</th>
<th>Adjusted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of current purchases</td>
<td>Rs 30000/-</td>
<td>100/90</td>
<td>33333/-</td>
</tr>
</tbody>
</table>

Total value of closing stock 33333/-

29. For the following particulars of XYZ LTD what will be value of closing inventory under Current Purchasing Power Method (CPP) if FIFO method is followed:

Opening Stock – Rs 30000/-
Purchase - Rs 100000/-
Closing Stock - Rs. 40000/-
Price Index in the beginning of the year – 80
Price Index at the end of the year - 100
Average Price Index - 90

a) Rs. 44444/-
b) Rs. 33333/-
c) Rs. 37500/-

Answer: a) Rs 44444/-

<table>
<thead>
<tr>
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<th>Adjusted Value</th>
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<tbody>
<tr>
<td>Out of current purchases</td>
<td>Rs 40000/-</td>
<td>100/90</td>
<td>44444/-</td>
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</table>

Total value of closing stock 44444/-
30. For the following particulars of XYZ LTD what will be value of closing inventory under Current Purchasing Power Method (CPP) if FIFO method is followed:

Opening Stock – Rs 90000/-
Purchase - Rs 20000/-
Closing Stock - Rs. 40000/-
Price Index in the beginning of the year – 80
Price Index at the end of the year - 100
Average Price Index - 90

a) Rs. 44444/-
b) Rs. 33333/-
c) Rs. 47222/-

Answer: c) Rs 47222/-

<table>
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<tr>
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<td>22222/-</td>
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<tr>
<td>Out of opening stock</td>
<td>Rs 20000/-</td>
<td>100/80</td>
<td>25000/-</td>
</tr>
</tbody>
</table>

Total value of closing stock 47222/-