



REDSPOT



# CLASSIFIED WORKED SOLUTIONS

# ACCOUNTING

(Paper 1 - All Variants)

(Syllabus 9706)

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① Tel No : 042-35201010

① Mobile No : 0300-8447654

 E-Mail : info@redspot.com.pk

 Website : www.redspot.com.pk

 Address : P.O. Box 5041, Model Town,  
Lahore, Pakistan.

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# TOPIC 1

## Accounting Systems (Double Entry System)

- Q1.** Ryan sells goods on credit to Sumit. Sumit also supplies goods to Ryan.  
It is decided to make a set-off of the purchases ledger and sales ledger balances.  
In which books of prime entry is this set-off recorded?

	in Ryan's books	in Sumit's books
<b>A</b>	general journal	general journal
<b>B</b>	general journal	purchases journal
<b>C</b>	sales journal	general journal
<b>D</b>	sales journal	sales journal

[Nov 2016/P11/Q4]

- Q2.** Which item is entered in the general journal?
- A** A cash discount given to a customer
  - B** The correction of an error made in the ledger
  - C** The sale of an asset for cash
  - D** The withdrawal of cash for private use by the owner

[Nov 2016/P13/Q1]

- Q3.** On 1 January Ann owed Sam \$400. She paid the amount due on 6 January after deducting a 2% cash discount.  
How did Ann record this?

	account debited		account credited	
<b>A</b>	bank	392	Sam	400
	discount allowed	8		
<b>B</b>	bank	392	Sam	400
	discount received	8		
<b>C</b>	Sam	400	bank	392
			discount allowed	8
<b>D</b>	Sam	400	bank	392
			discount received	8

[Nov 2016/P13/Q4]

**Q4.** Which are examples of the accounting equation?

- 1 capital + assets = liabilities
- 2 capital = assets + liabilities
- 3 capital = assets – liabilities

**A** 1 and 3                      **B** 1 only                      **C** 2 and 3                      **D** 3 only

[June 2017/P12/Q2]

**Q5.** A customer paid a deposit in advance for goods to be supplied at a later date.

How should this be recorded in the seller's books?

	debit	credit
<b>A</b>	cash	customer
<b>B</b>	cash	sales
<b>C</b>	customer	cash
<b>D</b>	customer	sales

[Nov 2018/P13/Q6]

**Q6.** A sales invoice to Jane has **not** been recorded in the books of prime entry.

Which accounts are affected by this error?

	sales ledger control	Jane
<b>A</b>	no	no
<b>B</b>	no	yes
<b>C</b>	yes	no
<b>D</b>	yes	yes

[June 2019/P11/Q6]

**Q7.** How could a credit entry of \$500 in X's account have arisen in the books of account of Y?

- A** X bought goods from Y.
- B** X returned goods to Y.
- C** Y made a payment to X.
- D** Y returned goods to X.

[Nov 2020/P12/Q7]

**Q8.** Which book of prime entry is also used as a ledger account?

- A** cash book
- B** purchases journal
- C** sales journal
- D** journal

[Nov 2020/P13/Q2]

- Q9.** On 1 May, Tom sold an old motor vehicle with a net book value of \$10 000 to Arnold for \$12 000. Arnold paid \$7500 by cheque and agreed to pay the balance by instalments.

What was the net effect of these transactions on **Arnold's** accounting equation on 1 May?

	assets \$	liabilities \$	owner's equity / capital \$
<b>A</b>	increase 2500	increase 2500	no effect
<b>B</b>	increase 2500	increase 4500	decrease 2000
<b>C</b>	increase 4500	increase 2500	increase 2000
<b>D</b>	increase 4500	increase 4500	no effect

[March 2021/P12/Q2]

- Q10.** Which of these items require entries to be made in the general journal?

- 1 purchase of a non-current asset on credit
- 2 sale of inventory to a customer on credit
- 3 the owner taking drawings from their business in cash
- 4 writing off an irrecoverable debt

- A** 1 and 2                      **B** 1 and 4                      **C** 2 and 3                      **D** 3 and 4

[June 2021/P12/Q1]

- Q11.** A trader purchased fixtures and fittings on credit from a supplier. These were faulty and were returned to the supplier.

Which entry in the trader's books of account recorded the return?

	account to debit	account to credit
<b>A</b>	fixtures and fittings	purchases returns
<b>B</b>	fixtures and fittings	supplier
<b>C</b>	purchases returns	fixtures and fittings
<b>D</b>	supplier	fixtures and fittings

[June 2021/P12/Q9]

- Q12.** A trader keeps a full set of accounting records.

Which statement is correct?

- A** Credit notes issued are recorded in the sales journal.
- B** Sales invoices are recorded in the general journal.
- C** The sales account is kept in the general ledger.
- D** The sales journal is prepared from entries in the sales ledger.

[Nov 2021/P11/Q1]

- Q13.** A trader maintains a full set of accounting records. Each month she issues many sales invoices.

Where does she record an individual sales invoice?

- A** sales journal and sales ledger
- B** sales journal and sales ledger control account

- C sales ledger and sales account
- D sales ledger and sales ledger control account

[Nov 2021/P12/Q8]

**Q14.** The following transactions took place.

- 1 owner's withdrawal of inventory for private use
- 2 purchase of new shop fixtures on credit
- 3 writing off an irrecoverable debt

Which transactions would be recorded in the general journal?

- A 1, 2 and 3
- B 1 and 2 only
- C 1 only
- D 2 and 3 only

[Nov 2021/P13/Q2]

**Q15.** Which actions are taken in respect of the totals of a three-column cash book at the end of an accounting period?

	cash and bank columns	discount columns
A	balanced	balanced
B	balanced	totalled
C	totalled	balanced
D	totalled	totalled

[March 2022/P12/Q1]

**Q16.** Which statements are correct?

- 1 A book of prime entry is also part of the double entry system.
- 2 All sales made by the business are included in the sales ledger.
- 3 Ledger accounts for income and liabilities have credit balances.
- 4 Trade discounts appear in the income statement.

- A 1 and 2
- B 1 and 3 only
- C 1, 3 and 4
- D 3 and 4 only

[June 2022/P11/Q1]

**Q17.** Which items would be entered in the General Journal?

- 1 goods taken by owner for personal use
- 2 goods purchased for resale
- 3 purchase of a non-current asset on credit
- 4 purchase of office stationery

- A 1 and 2
- B 1 and 3 only
- C 1, 3 and 4
- D 3 and 4 only

[Nov 2022/P12/Q1]

- Q18.** A credit customer cleared her debt of \$600 after deducting a cash discount of \$12. How would the customer account appear in the books of the supplier after the payment has been recorded?

	debit	\$	credit	\$
<b>A</b>	balance b/d	600	bank	588
			discount allowed	12
<b>B</b>	balance b/d	600	bank	588
			discount received	12
<b>C</b>	bank	588	balance b/d	600
	discount allowed	12		
<b>D</b>	bank	588	balance b/d	600
	discount received	12		

[March 2023/P12/Q2]

- Q19.** What is the advantage of keeping a full set of double entry books of account?
- A** Account balances are available through the year.
  - B** Business assets and owner's assets can be kept separate.
  - C** It enables the book-keeper to check the bank statement for errors and omissions.
  - D** It stops the value of assets being overstated.

[March 2023/P12/Q3]

- Q20.** Which statement describes the purpose of preparing a trial balance?
- A** to assist in the preparation of financial statements
  - B** to calculate owner's equity
  - C** to calculate profit for the year
  - D** to prove that ledger balances are free from errors

[June 2023/P11/Q1]

- Q21.** An asset is purchased on credit by a business. What is the effect of this transaction on the accounting equation?

	assets	liabilities	capital
<b>A</b>	increase	decrease	increase
<b>B</b>	increase	decrease	no change
<b>C</b>	increase	increase	decrease
<b>D</b>	increase	increase	no change

[June 2023/P12/Q2]

- Q22.** Which statement about the purpose of a trial balance is correct?
- A** It assists the subsequent preparation of financial statements.
  - B** It ensures that all double-entry postings to ledgers are accurate.
  - C** It ensures that all postings to books of prime entry are accurate.
  - D** It shows that all transactions in a period have been recorded.

[June 2023/P13/Q2]



**Q23.** The accounting equation of a business was as shown.

assets \$	=	liabilities \$	+	capital \$
48 000	=	7 000	+	41 000

The assets included a bank balance of \$1000.

The following transactions occurred.

- 1 The owner took drawings of \$2000 by cheque.
- 2 Goods for resale were purchased on credit; list price was \$4000 less 25% trade discount.

What was the accounting equation after these transactions?

	assets \$	=	liabilities \$	+	capital \$
<b>A</b>	49 000		10 000		39 000
<b>B</b>	50 000		10 000		40 000
<b>C</b>	50 000		11 000		39 000
<b>D</b>	51 000		11 000		40 000

[June 2023/P13/Q3]

# TOPIC 1

## Answers

1. **A** The entry for set off or contra entry is recorded in the general journal. It is then posted on the credit side of sale ledger and on debit side of purchases ledger.
2. **B** **A, C & D** relate to cash book. Correction of all errors are recorded in general Journal.
3. **D** Debit – sam account (decrease in liability) by \$400  
Credit – Bank account (decrease in asset) by \$392 (actual payment)  
Credit – discount received account ( $\$400 \times 2\%$ ) by \$8
4. **D** Accounting equation is  
 $\text{Assets} - \text{Liabilities} = \text{Capital (equity)}$ .
5. **A** Increase in cash-debited  
Increase in liability towards customer-credited
6. **D** It will affect both as book of prime entry is source of information for both ledger & control account.
7. **B** Goods returned by X would be debited to sales return account & credited to X account in the books of Y.
8. **A** Cash book is both book of prime entry & ledger.
9. **D** Purchase of vehicles increases assets by \$12 000 and decreases assets by \$7500, net increase \$4500  
Amount payable in instalments increase liabilities by \$4500  
Increase in assets off set by increase in liabilities so equity remains same.
10. **B** Item 2 is recorded in sales Journal, Item 3 is recorded in cash book.  
Items 1 & 4 are recorded in General Journal.
11. **D** Supplier account is debited due to decrease in payables.  
Fixtures & fittings account is credited due to decrease in assets.
12. **C** Credit note issued represents sales return to be recorded in sales return journal.  
Sales invoices may represents credit sales to be recorded in sales journal.  
Sales account is kept in general ledger.  
Sales Journal is prepared from Sales invoices.
13. **A** Sales invoices are issued for sales, all credit sales are initially recorded in sales journal and later on posted to individual credit customer accounts maintained in sales ledger. Individual sales invoice isn't recorded in control account.
14. **A** All transactions are to be entered in general journal.
15. **B** Cash and bank columns are balanced whereas discount columns are just totalled.
16. **B** Cash book is both book of prime entry & part of double entry system.  
Cash sales don't appear in sales ledger.  
Income & liabilities always have credit balances.  
Trade discount don't appear in income statement.
17. **B** Goods purchased for resale & purchase of stationary are cash items to be entered in cash book.  
Goods taken for personal use & purchase of non-current assets cannot be recorded in any other book of prime entry.
18. **A** Credit customer paying us was trade receivables (assets) at start so debit balance.  
Both receipts (bank) and discount allowed decrease trade receivables therefore credited in customer account.

- 19. A** It means complete record of all business transactions resulting in availability of balances through the year.
- 20. A** Trial balance shows summary of account balances at year end which helps in preparation of financial statements.
- 21. D** Purchase of asset means increase in assets. Its on credit, so increase in liabilities.
- 22. A** Financial statements are prepared using trial balance.  
There can be errors affecting & non-affecting trial balance agreement.
- 23. C**
1. Drawings decrease assets (bank balance) by \$1000, increase liability (bank overdraft) by \$1000 & capital by \$2000.
  2. Both inventory (asset) and trade payables (liability) increase by \$3000, capital remain unchanged

## TOPIC 2

# Accounting Concepts

**Q1.** Inventories are valued at the lower of cost and net realisable value in the statement of financial position.

Which accounting concept is being applied?

- A** duality                      **B** historic cost                      **C** matching                      **D** prudence

*[June 2016/P11/P13/Q1]*

**Q2.** A company changes from the straight-line method of depreciation to the reducing balance method.

Which accounting principle has **not** been applied?

- A** consistency                      **B** going concern                      **C** historic cost                      **D** materiality

*[Nov 2016/P11/Q1]*

**Q3.** Which transaction applies the matching concept?

- A** A machine acquired on long-term rental is included in non-current assets.
- B** Computer equipment is depreciated over two years.
- C** A building is revalued following a fall in property prices.
- D** A waste-paper basket is treated as revenue expenditure.

*[Nov 2016/P12/Q1]*

**Q4.** A calculator costs \$9.50 and has a useful life of 5 years. The book-keeper has decided to treat the purchase of the calculator as revenue expenditure.

Which accounting principle has been applied?

- A** accruals    **B** materiality  
**C** prudence    **D** substance over form

*[Nov 2016/P13/Q2]*

**Q5.** A business's year end is 31 March. On 31 March 2016 the business received an order from a credit customer. The goods were not sent to the customer until 5 April 2016. This sale was not included in the financial statements for the year ended 31 March 2016.

Which accounting concept(s) are being applied?

- 1 business entity
- 2 realisation
- 3 substance over form

- A** 1 and 2                      **B** 1 only                      **C** 2 and 3                      **D** 2 only

*[June 2017/P11/Q1]*



**Q11.** The owner of a business has been told that work completed for a customer should be recorded in the books of account although the invoice has not yet been sent to the customer.

Which accounting concepts are being applied?

- 1 matching
- 2 materiality
- 3 realisation

**A** 1 and 2                      **B** 1 and 3                      **C** 2 only                      **D** 2 and 3

[June 2018/P12/Q1]

**Q12.** How should inventory be valued according to the prudence concept?

- A** cost price only
- B** lower of cost and net realisable value
- C** replacement cost only
- D** lower of replacement cost and revaluation cost

[June 2018/P13/Q1]

**Q13.** Which accounting concept is being applied when goods taken by an owner for own use are treated as drawings?

- A** business entity                      **B** materiality
- C** realisation                      **D** substance over form

[Nov 2018/P11/Q1]

**Q14.** An item is found to be the subject of a material error in a company's financial statements.

What does 'material' mean?

- A** The item affects only the income statement of the entity.
- B** The item affects only the statement of financial position of the entity.
- C** The item has a small monetary value.
- D** The item may affect the economic decisions of a user of the financial statements.

[Nov 2018/P13/Q1]

**Q15.** A business has a practice of **not** conducting a physical count of unused stationery at the year end.

Which accounting concept has been applied for this practice?

- A** matching                      **B** materiality
- C** money measurement                      **D** prudence

[June 2019/P11/Q1]

**Q16.** Which concept is identified by the accounting equation  $\text{assets} = \text{capital} + \text{liabilities}$ ?

- A** business entity      **B** duality                      **C** going concern      **D** realisation

[June 2019/P12/Q1]

**Q17.** When valuing inventory for inclusion in the financial statements, its selling price is ignored if it is higher than its cost price.

Which concept is being applied in this situation?

- A business entity    B consistency    C duality    D historic cost

[June 2019/P13/Q1]

**Q18.** Which concept requires that revenue is only recorded in a business's books of account when it is certain of being received?

- A business entity    B going concern    C materiality    D realisation

[Nov 2019/P11/Q1]

**Q19.** Which concept requires that profits should be based on recognising revenues and their related expenses for an accounting period?

- A consistency    B matching    C materiality    D prudence

[Nov 2019/P12/Q1]

**Q20.** The employees of a company are skilled and efficient. Although they are regarded as a human asset of the company, no value for them has been recorded in the financial statements. Which accounting concept has been applied?

- A duality    B money measurement  
C realisation    D substance over form

[Nov 2019/P13/Q1]

**Q21.** A trader sells goods for \$6600 to a customer on 31 March 2019, the last day of his financial year. He does not produce an invoice until three days later. He is advised that the sales of \$6600 should be entered in the financial statements for the year ended 31 March 2019.

Which accounting concepts are being applied?

- 1 consistency
- 2 prudence
- 3 realisation

- A 1 and 2    B 2 and 3    C 2 only    D 3 only

[March 2020/P12/Q1]

**Q22.** The owner of a business purchased a camera to take some photographs of her family. She wishes to include it as an asset in the financial statements of the business. Her accountant says that she should **not** do this.

Which accounting principle is the accountant applying?

- A business entity    B consistency  
C going concern    D realisation

[June 2020/P11/P13/Q1]

**Q23.** A business depreciates its non-current assets. It then includes them in the statement of financial position at the net book value.

Which concept is the business following?

- |               |                       |
|---------------|-----------------------|
| A duality     | B prudence            |
| C realisation | D substance over form |

[June 2020/P12/Q1]

**Q24.** Which accounting concept is being applied when calculating depreciation?

- |                   |                       |
|-------------------|-----------------------|
| A business entity | B matching            |
| C materiality     | D substance over form |

[Nov 2020/P11/Q1]

**Q25.** The inclusion of unpaid loan interest in financial statements is in accordance with which accounting concept?

- |               |                     |
|---------------|---------------------|
| A consistency | B going concern     |
| C matching    | D money measurement |

[Nov 2020/P12/Q1]

**Q26.** A company decided **not** to capitalise the purchase of a stapler for use in its office.

Which accounting concept was the company applying?

- |               |           |               |            |
|---------------|-----------|---------------|------------|
| A consistency | B duality | C materiality | D prudence |
|---------------|-----------|---------------|------------|

[Nov 2020/P13/Q1]

Repeat [June 2017/P13/Q1]

**Q27.** A business values its inventory at the lower of cost and net realisable value.

Which accounting concept is being applied?

- |                   |           |            |            |
|-------------------|-----------|------------|------------|
| A business entity | B duality | C matching | D prudence |
|-------------------|-----------|------------|------------|

[March 2021/P12/Q1]

**Q28.** The skill and efficiency of the workforce of a business has increased during the financial period. The owner of the business wants to record a value for this in the financial statements. His accountant advises against this idea.

Which accounting concept is the accountant applying?

- |                     |            |
|---------------------|------------|
| A business entity   | B matching |
| C money measurement | D prudence |

[June 2021/P11/Q1]

**Q29.** A business purchased a pocket calculator for the use of the book-keeper. The accountant included it as an expense in the income statement.

Which accounting concept is applied?

- |                 |                       |
|-----------------|-----------------------|
| A historic cost | B materiality         |
| C realisation   | D substance over form |

[June 2021/P13/Q1]





## TOPIC 2

### Answers

1. **D** Accounting concepts applied is prudence. Inventories are valued at lower of cost and net realisable value. Accounting records unrealised losses and not unrealised profits. As a result value of inventory in financial statement is not overstated.
2. **A** According to the accounting concepts and principles the company should be consistent in their accounting treatment of the same assets. If straight line method of depreciation was being applied and it changed the method of depreciation, then concept of consistency was not applied.
3. **B** Computer is non-current assets which provide benefits for more than one year, so its cost is allocated over two years.
4. **B** It's an immaterial item therefore as per materiality concept, it can be treated as revenue expenditure.
5. **D** Realisation concept states that sale is realized when the goods are sent to a customer and he accepts the liability to pay for them. Credit sales and cash sales both are included in the income statement.
6. **A** Owner's equity is considered as business liability which means owner and business are two separate entities.
7. **B** Cash sales (\$6900) + credit sales invoiced (\$46 200) + credit sales not yet invoiced (\$800) = \$53 900
8. **A** According to the business entity concept personal transactions of the owner are not recorded in business records. Only business expenses are recorded by the trader.
9. **B** Prudence / conservatism requires fair valuation otherwise assets can be understated. Prudence / conservatism requires fair valuation otherwise liabilities can be overstated. It also requires that anticipated losses should be provided for.
10. **D** The concept of substance over form has not been applied. The order has not been fulfilled but is recorded as sales in the journal.
11. **B** Goods have been manufactured as per order of a certain customer, not general sale purpose, so its confirmed sales and can be recorded as Revenue and receivables. Furthermore question doesn't state how would it be recorded. It may be recorded as inventory etc.
12. **B** Inventory is valued at the lower of cost and net realisable value.
13. **A** As per business entity concept, owner & business are two separate entities goods to be used by owner for personal purpose cannot be treated as business expenses.
14. **D** Material means significant value item. Their inclusion & exclusion will have different interpretation.
15. **B** Stationary is a low value (immaterial) item and it's not worth to conduct physical count of unused stationary at year end.
16. **B** Left side of equation shows resources of a business and right side shows who provided them.
17. **D** Historical cost principle requires recording of transactions at cost price.
18. **D** Realisation concept states that revenue is recorded only if realised.
19. **B** Matching concept requires revenue earned should be matched with expenses incurred in same financial period irrespective of cash movement.
20. **B** Money measurement requires that only monetary items can be recorded in accounting books. Skills & efficiency are non-monetary items.

21. D Revenue has been realised in this year.
22. A As per business entity concept, business & owner are two separate entities. Camera is for personal asset for family use only.
23. B Prudence concept requires assets to be valued at fair valuation, otherwise understated.
24. B Depreciation i.e., expired part of non-current asset due to usage is charged (matched) as expense against revenue earned due to depreciation of non-current assets.
25. C Matching concept required expenses incurred to be taken into account irrespective of cash movement.
26. C As per materiality concept, immaterial items can be treated illogically to save resources.
27. D Prudence concept requires fair valuation of assets otherwise understated.
28. C Money measurement concept states that only financial transactions i.e. measurable in monetary terms can be recorded in accounting system.
29. B Pocket calculator is immaterial item, it's not worth to treat it as non-current asset.
30. C Matching concepts requires expenses incurred during the year to be matched against revenue either paid or not.
31. C Generally non-current assets aren't for resale purpose but if business isn't a going concern, it means business is going to close then all assets including non-current assets become current assets i.e., to be sold.
32. C Skills are non-monetary item.
33. D Realisation concept is about treatment of realised revenue.
34. D Realisation concept states that only realised revenue can be recognised as revenue.
35. C Realisation concept states that only realised revenue is recorded as revenue.
36. D Goods sent on sale or return aren't sold unless accepted by customer. Realisation account requires that only realised revenue can be recorded as revenue.