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UPSC EPFO — APFC & EO/AO Examination

Assistant Provident Fund Commissioner • Enforcement / Accounts Officer

Concepts · Facts · Definitions + Solved PYQs (2015–2025)

65 solved PYQs • APFC 2015/2023/2025 • EO/AO 2017/2020/2023/2025 • Concept notes + options + answers + explanations

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	TOTAL PAGES	55

Chapter-wise PYQ Frequency

#	Chapter	PYQs	Priority
2	Accounting Principles, Concepts & Standards	16	VERY HIGH
3	Books, Ledger, Trial Balance & Rectification	17	VERY HIGH
6	Capital vs Revenue Expenditure & Depreciation	9	HIGH
7	Inventory Valuation & Cost Accounting (AS-2)	11	VERY HIGH
8	Final Accounts — Profit Measurement, Adjustments & Reserves	4	HIGH
9	Non-Profit Organisation Accounting	3	MEDIUM
11	Consignment, Joint Venture, Branch & Insurance-Linked Accounting	4	MEDIUM
13	Company Accounts — Share Capital, Debentures & Schedule III	1	MEDIUM
	TOTAL	65	—

QUICK RECALL — How to use this document

- Read each chapter's **concept notes first** (definitions, tables and callout boxes) — they carry the facts EPFO tests; then work that chapter's **solved PYQs** at the end to lock them in.
- **Books/Ledger/TB, Principles/Standards and Inventory & Costing** are the three VERY-HIGH clusters — together nearly two-thirds of the paper. Master these first.
- Every PYQ card is tagged with its exact **paper, year and question number**; answers are verified against the official keys.
- **Negative marking:** −⅓ per wrong answer — attempt only when you can eliminate at least two options.

PART I — FOUNDATIONS OF ACCOUNTING

CHAPTER 1 · Introduction to Accounting — Meaning, Terms & the Accounting Equation

About this chapter

The definitional layer the paper opens with — what accounting is, who uses it, the vocabulary of debit and credit, and the equation every balance sheet obeys. Pure one-mark territory: **definitions, thinkers, classifications and formulae**.

1.1 Accounting vs Book-Keeping vs Accountancy

Term	Meaning & exam angle
Accounting	• Process of **identifying, measuring, recording, classifying, summarising, interpreting and communicating** financial information about an entity to interested users. • Wider than book-keeping.
Book-keeping	• The **record-keeping stage only** — systematic recording and classification of financial data and preparation of source documents. • A **subset** of accounting.
Accountancy	• The **body of knowledge and the profession** that governs accounting practice.
Sequence to memorise	• Transaction → **Voucher** → Journal → Ledger → **Trial Balance** → Final Accounts.

FACT — names that get asked

- **Luca Pacioli** — father of accounting and book-keeping; his **Summa de Arithmetica (1494)** is the first published work on **double-entry** book-keeping. Also called **Luca di Borgo** (born Borgo San Sepolcro, Italy, 1446).
- **K. S. Aiyar (1859–1940)** — father of **India's accountancy profession**.
- **Journal** = book of original / primary entry.
- **Ledger** = principal book of accounts.

1.2 Objectives, Role & Users

Head	Content
Objectives	• Maintain **systematic records** of business • Ascertain **profit or loss** • Depict the **financial position** • Make information available to various user groups.
Role	• **Language of business** • Historical record • Current economic reality • I**nformation system** • Service to users.
Internal users	• **Owners, management, employees.**
External users	• **Lenders, creditors, potential investors (shareholders), government** (tax and regulatory authorities), **customers**, researchers.

1.3 Qualitative Characteristics of Accounting Information

Characteristic	Test applied
Reliability	• Neutral (**unbiased**), credible, **verifiable**, faithful and free from error.
Understandability	• The user must read the information **in the same sense** in which it was prepared and conveyed.
Relevance	• Available **in time**; assists **prediction** and **feedback**.
Comparability	• Comparable **over periods** and **across entities** — requires a common period, a common measurement unit and a common reporting format.

1.4 Branches of Accounting & Cost Concepts

Branches:

- **Financial accounting**: records past transactions and prepares the Trading & Profit and Loss Account and Balance Sheet for external users.
- **Cost accounting:** ascertains, allocates and controls the cost of each product, job or process to aid pricing and cost control.
- **Management accounting**: reshapes financial and cost data into internal reports that help management plan, decide and control.
- **Social (responsibility) accounting**: measures and reports the social and environmental costs and benefits of business activity.

Cost concept	Meaning
Original (historical) cost	• Cost at the time of purchase or creation, **including** commission, transportation, appraisal and **installation**. • Basis of **traditional matching** of expense against revenue.
Opportunity cost	• **Profit forgone** by selecting one alternative over the next best one.
Replacement cost	• Price payable **today** to replace an existing asset with a similar asset at current market prices.
Cash cost	• Expense recognised **as and when paid in cash**.

QUICK RECALL — tested in EO/AO 2016

- Under the **traditional approach**, the expense matched with revenue is measured at **original cost** — not replacement, opportunity or cash cost.

1.5 Basic Terminology

Term	Meaning
Business entity	• A specific, identifiable business enterprise, distinct from its owner.
Transaction	• Exchange of value between two or more parties — **cash** or **credit**.
Capital	• Amount **invested by the owner**; a liability of the firm towards the owner.
Drawings	• Cash or goods withdrawn by the proprietor for **personal use** — reduces capital.
Sundry debtors	• Persons who owe the firm for goods sold / services rendered (**accounts receivable**).
Sundry creditors	• Persons to whom the firm owes for goods or services taken **on credit**.
Assets / Liabilities	• Assets = tangible objects or intangible rights **owned**. • Liabilities = obligations **payable in future**.

1.6 The Accounting Equation

The assets of a business always equal the total of its liabilities and capital. Because it expresses the balance-sheet relationship, it is also called the **Balance Sheet Equation**.

Form	Expression
Standard form	**A = L + C** — Assets = Liabilities + Capital (owner's equity).
Rearranged	**A − L = C** (capital / net worth) · **A − C = L** (outsiders' claims).
Effect test	Every transaction changes **at least two** items, leaving the equation balanced (**dual aspect**).
Worked check	Owner brings ₹5,00,000 cash; buys goods on credit ₹1,00,000 → Assets 6,00,000 = Liabilities 1,00,000 + Capital 5,00,000.

1.7 Vouchers, Subsidiary Books & BRS

A **voucher** is documentary evidence in support of a transaction — the starting point of the audit trail.

Record	Purpose
Cash vouchers	• **Debit voucher** — cash payments. • **Credit voucher** — cash receipts.
Non-cash voucher	• **Transfer voucher** — records non-cash (adjustment) entries.
Cash book	• All **cash receipts and payments**. • Acts as both journal and ledger.
Purchases / Sales book	• Only **credit** purchases and **credit** sales of goods dealt in.
Returns books	• Purchases return (returns outward) and sales return (returns inward).
Journal proper	• Residual journal — transactions with **no special journal** (opening, closing, adjustment, rectification entries).
Bank Reconciliation Statement	• Reconciles the **cash-book bank balance** with the **pass-book balance** on a given date. • It is a **statement, not an account**.

1.8 Modern (American) Approach — Debit & Credit Effect

Element	Debit means	Credit means
Capital	**Decrease**	**Increase**
Revenue / Income	**Decrease**	**Increase**
Asset	**Increase**	**Decrease**
Liability	**Decrease**	**Increase**
Expense / Loss	**Increase**	**Decrease**
Drawings	**Increase**	**Decrease**

VALUE ADDITION — traditional vs modern rules

- **Traditional (English):**
  - Personal — debit the receiver, credit the giver.
  - Real — debit what comes in, credit what goes out.
  - Nominal — debit expenses/losses, credit incomes/gains.
- **Modern (American):** classify into **asset, liability, capital, revenue and expense** accounts and apply the increase/decrease table above.
- Add a prefix or suffix to a nominal account and it becomes a **representative personal account** — e.g. Wages A/c (nominal) vs **Outstanding Wages A/c** (representative personal).

Exam-Style MCQs — Fundamentals & Terms

MCQ 1 · Practice · Father of accounting

Who is regarded as the father of double-entry book-keeping?

(a) K. S. Aiyar (b) Luca Pacioli (c) Adam Smith (d) Ada Lovelace

Answer: (b) Luca Pacioli — His Summa de Arithmetica (1494) was the first published work on the double-entry system; K. S. Aiyar is father of India's accountancy profession.

MCQ 2 · Practice · Accounting equation

Which one of the following is another name for the accounting equation?

(a) Trading equation (b) Balance Sheet Equation (c) Trial Balance Equation (d) Cash Flow Equation

Answer: (b) Balance Sheet Equation — A = L + C expresses the balance-sheet relationship, hence the alternative name.

MCQ 3 · Practice · Qualitative characteristics

'Information must be neutral, verifiable and free from error.' This describes

(a) Relevance (b) Comparability (c) Reliability (d) Understandability

Answer: (c) Reliability — Neutrality, verifiability and freedom from error are the tests of reliability; timeliness and predictive value relate to relevance.

MCQ 4 · Practice · Bank Reconciliation

A Bank Reconciliation Statement is

(a) a ledger account (b) a part of the cash book (c) a statement reconciling cash-book and pass-book balances (d) a subsidiary book

Answer: (c) a statement reconciling cash-book and pass-book balances — It is a statement — not an account and not a book of entry.

MCQ 5 · Practice · Modern approach

Under the modern (American) approach, a debit to a liability account signifies

(a) increase (b) decrease (c) no change (d) transfer to capital

Answer: (b) decrease — Liabilities and capital increase on the credit side; assets and expenses increase on the debit side.

CHAPTER 2 · Accounting Principles, Concepts & Standards

About this chapter

The conceptual backbone — GAAP assumptions, conventions, revenue recognition, standards and reserves/provisions. Almost every EPFO paper draws several questions from here.

2.1 Fundamental Assumptions (AS-1)

FACT — The three fundamental assumptions

- **AS-1 recognises only three fundamental accounting assumptions: Going Concern, Consistency and Accrual.**
- **Matching is NOT one of them** — it is a principle, not a fundamental assumption. This exact point is repeatedly tested.
- If these three are followed, no separate disclosure is needed; if not, the fact must be disclosed.

2.2 Concepts & Conventions

Concept / Convention	Core idea
Going Concern	• Business will continue; assets at continued-use (not realisable) value
Accrual	• Record revenues/expenses when earned/incurred, not when cash moves
Consistency	• Same methods period to period for comparability
Money Measurement	• Only money-measurable events are recorded
Matching	• Match expenses of a period against the revenues of that period
Cost (Historical)	• Assets recorded at acquisition cost (basis of traditional matching)
Conservatism / Prudence	• Anticipate no profit; provide for all possible losses
Full Disclosure	• Disclose all material facts (e.g. contingent liabilities by note)
Materiality	• Report items significant enough to influence decisions

QUICK RECALL — Concept-spotting cues from PYQs

- 'No anticipation of profit, provide for all losses' → **Conservatism**.
- 'Lower of cost or NRV' for inventory → **Conservatism**.
- Non-monetary events (new competitor, internal rift) ignored → **Money Measurement**.
- Note on contingent liability → **Full Disclosure**.
- Assets at intrinsic/continued-use value → **Going Concern** (see PYQ note on the official key).

2.3 Revenue Recognition

Revenue is generally recognised at the point of **sale**.

Exceptions: for **gold and precious metals** with an assured ready market, revenue is recognised on **production (when mined)**.

Under the traditional (historical-cost) approach, the **expense matched against revenue is based on original cost**.

2.4 Standards & Policies

IFRS = International Financial Reporting Standards, issued by the **IASB** (International Accounting Standards Board); India's converged set is **Ind AS** (Indian Accounting Standards).

Selection of **accounting policies** is guided by **Prudence, Substance over Form and Materiality** — *Consistency* governs their period-to-period application, not the selection.

2.5 Reserves vs Provisions

Feature	Provision	Reserve
Nature	• **Charge against profit** (a must)	• **Appropriation of profit** (optional)
Purpose	• Known/expected liability or loss	• Strengthen the business / meet future needs
Created from	• Current profit before net profit	• Distributable/free profit
Example	• Provision for doubtful debts / depreciation	• General reserve, capital reserve

FACT — Reserve/provision one-liners

- A **provision is a charge against profit**; a **reserve is an appropriation** of profit.
- **Capital reserves are NOT created out of distributable profits**; **general reserves are free-purpose** (not restricted to specific uses).

Solved PYQs — Accounting Principles, Concepts & Standards

Q 1 · 2017 EO/AO · Q56 · Revenue recognition

In case of gold, revenue is recognized in the accounting period in which the gold is

(a) delivered (b) sold (c) mined (d) identified to be mined

Answer: (c) mined — For gold/precious metals with an assured ready market, revenue is recognised on production (when mined), an exception to the usual sale-based rule.

Q 2 · 2017 EO/AO · Q57 · Matching / historical cost

As per the traditional approach, the expense to be matched with revenue is based on

(a) original cost (b) opportunity cost (c) replacement cost (d) cash cost

Answer: (a) original cost — Traditional matching uses historical/original cost as the basis for matching expense against revenue.

Q 3 · 2017 EO/AO · Q60 · IFRS

In the context of accounting, the term IFRS stands for

(a) International Financial Reporting Standards (b) Indian Financial Reporting Standards (c) Indian Financial Reporting System (d) International Financial Reporting System

Answer: (a) International Financial Reporting Standards — IFRS = International Financial Reporting Standards, issued by the IASB; Ind AS are India's converged version.

Q 4 · 2020 EO/AO · Q107 · Conservatism

What is the underlying accounting concept that supports no anticipation of profits but provision for all possible losses?

(a) Matching (b) Materiality (c) Consistency (d) Conservatism

Answer: (d) Conservatism — 'No anticipation of profit, but provide for all possible losses' is the classic statement of the Conservatism (prudence) convention.

Q 5 · 2020 EO/AO · Q108 · Money measurement

Which one of the following accounting concepts is applied when events such as new competitor entering in the market and rift between production and marketing departments are not disclosed in the books of accounts?

(a) Matching (b) Money Measurement (c) Revenue Recognition (d) Cost

Answer: (b) Money Measurement — Only events measurable in money are recorded (Money Measurement); non-monetary events like competition or internal rifts are excluded.

Q 6 · 2023 APFC · Q37 · Going concern assumption

In a business firm, assets of the business are valued on the basis of their intrinsic value rather than realizable value. This accounting is based on

(a) money measurement concept (b) matching concept (c) going concern assumption (d) consistency principle

Answer: (a) money measurement concept — Official key: A (money measurement). Note: conceptually, carrying assets at continued-use rather than realisable value is usually attributed to the Going Concern assumption — so option C is defensible; follow the official key (A) for this paper.

Q 7 · 2023 APFC · Q39 · Accounting policies

Which of the following is not a major consideration in the selection and application of accounting policies?

(a) Prudence (b) Consistency (c) Substance over form (d) Materiality

Answer: (b) Consistency — Policy selection is guided by Prudence, Substance over Form and Materiality; Consistency governs period-to-period application, not selection.

Q 8 · 2023 EO/AO · Q44 · Full disclosure

The practice of appending notes regarding contingent liability in accounting statements is pursuant to:

(a) Convention of consistency (b) Money measurement concept (c) Convention of cost (d) Convention of full disclosure

Answer: (d) Convention of full disclosure — Disclosing a contingent liability by note reflects the Convention of Full Disclosure.

Q 9 · 2023 EO/AO · Q45 · Representative personal account

'Outstanding rent' may be classified as:

(a) Natural personal account (b) Representative personal account (c) Real account (d) Nominal account

Answer: (b) Representative personal account — 'Outstanding rent' represents the person to whom rent is owed — a Representative Personal account.

Q 10 · 2023 APFC · Q47 · Conservatism

The value of long-term investment in shares is subject to wide fluctuations. A provision created against fluctuation in value of investments is based on the convention of

(a) conservatism (b) full disclosure (c) materiality (d) consistency

Answer: (a) conservatism — Providing for a possible fall in the value of investments (not a gain) reflects the Conservatism/prudence convention.

Q 11 · 2023 APFC · Q84 · Reserves & provisions

Which one of the following statements is correct?

(a) Capital reserves are normally created out of free or distributable profits. (b) Dividend equalization reserve is an example of general reserve. (c) General reserves can be used only for some specific purposes. (d) 'Provision' is a charge against profit.

Answer: (d) 'Provision' is a charge against profit. — A provision is a charge against profit (the only correct statement); capital reserves are not from distributable profits, and general reserves are free-purpose.

Q 12 · 2025 APFC · Q77 · AS-1 fundamental assumptions

Which one of the following is not a fundamental accounting assumption in the preparation of financial statements?

(a) Matching concept (b) Going concern (c) Accrual (d) Consistency

Answer: (a) Matching concept — AS-1 recognises only Going Concern, Consistency and Accrual as fundamental assumptions; Matching is a principle, not one of the three.

Q 13 · 2025 EO/AO · Q77 · Fundamental accounting assumptions

Which one of the following is not a 'fundamental accounting assumption' in the preparation of financial statements?

(a) Matching concept (b) Going concern (c) Accrual (d) Consistency

Answer: (a) Matching concept — AS-1 fundamental assumptions are Going Concern, Consistency and Accrual only — Matching is excluded.

Q 14 · 2025 APFC · Q80 · Reserve vs provision

In accounting context, which one of the following statements is correct?

(a) Reserve created is a charge against profits (b) Capital reserves are normally created out of distributable profits (c) General reserve can be used only for some specific purposes (d) Provision is a charge against profit

Answer: (d) Provision is a charge against profit — A provision is a charge against profit; the other statements about reserves are false.

Q 15 · 2025 EO/AO · Q80 · Reserves and provisions

In accounting context, which one of the following statements is correct?

(a) Reserve created is a charge against profits. (b) Capital reserves are normally created out of distributable profits. (c) General reserve can be used only for some specific purposes. (d) 'Provision' is a charge against profit.

Answer: (d) 'Provision' is a charge against profit. — A provision is a charge against profit; capital reserves are not created from distributable profits and general reserves are not purpose-restricted.

Q 16 · 2025 EO/AO · Q82 · Traditional accounting classification

Which one of the following statements is not correct?

(a) Capital account has a debit balance. (b) Discount column of cash book records cash discount. (c) Under traditional approach, rent outstanding is a personal account. (d) Cash sales are not recorded in the sales day book.

Answer: (a) Capital account has a debit balance. — A capital account normally carries a credit balance, so 'capital account has a debit balance' is the incorrect statement.