

1.

Accounting provides information on

- A. Cost and income for managers
- B. Company's tax liability for a particular year
- C. Financial conditions of an institutions
- D. All of the above

Answer & Solution

Answer: Option D

Solution:

Accounting provides information on Cost and income for managers, Company's tax liability for a particular year and Financial conditions of an institutions.

2.

The long term assets that have no physical existence but are rights that have value is known as

- A. Current assets
- B. Fixed assets
- C. Intangible assets
- D. Investments

Answer & Solution

Answer: Option C

Solution:

The long term assets that have no physical existence but are rights that have value is known as Intangible assets. An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets.

3.

The assets that can be converted into cash within a short period (i.e. 1 year or less) are known as

- A. Current assets
- B. Fixed assets
- C. Intangible assets
- D. Investments

Answer & Solution

Answer: Option A

Solution:

The assets that can be converted into cash within a short period (i.e. 1 year or less) are known as Current assets. Current assets include cash, cash equivalents, accounts receivable, stock inventory, marketable securities, pre-paid liabilities, and other liquid assets.

4.

Patents, Copyrights and Trademarks are

- A. Current assets
- B. Fixed assets
- C. Intangible assets
- D. Investments

Answer & Solution

Answer: Option C

Solution:

Patents, Copyrights and Trademarks are Intangible assets. An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets.

5.

The debts which are to be repaid within a short period (year or less) are known as

- A. Current liabilities
- B. Fixed liabilities
- C. Contingent liabilities
- D. All of the above

Answer & Solution

Answer: Option A

Solution:

The debts which are to be repaid within a short period (year or less) are known as Current liabilities. Current liabilities are a company's debts or obligations that are due within one year or within a normal operating cycle.

6.

The sales income (Credit and Cash) of a business during a given period is called

- A. Transactions
- B. Sales Returns

- C. Turnover
- D. Purchase Returns

Answer & Solution

Answer: Option C

Solution:

The sales income (Credit and Cash) of a business during a given period is called Turnover. In the investment industry, turnover is defined as the percentage of a portfolio that is sold in a particular month or year.

7.

Any written evidence in support of a business transaction is called

- A. Journal
- B. Ledger
- C. Ledger posting
- D. Voucher

Answer & Solution

Answer: Option D

Solution:

Any written evidence in support of a business transaction is called Voucher. Vouchers are the primary evidence of business transactions having taken place.

8.

The account that records expenses, gains and losses is

- A. Personal account
- B. Real account
- C. Nominal account
- D. None of the above

Answer & Solution

Answer: Option C

Solution:

The account that records expenses, gains and losses is Nominal account. A nominal account is an account in which accounting transactions are stored for one fiscal year.

9.

Real account records

- A. Dealings with creditors or debtors
- B. Dealings in commodities
- C. Gains and losses
- D. All of the above

Answer & Solution

Answer: Option B

Solution:

Real account records Dealings in commodities.

10.

In Journal, the business transaction is recorded

- A. Same day
- B. Next day
- C. Once in a week
- D. Once in a month

Answer & Solution

Answer: Option A

Solution:

In Journal, the business transaction is recorded Same day. A journal, which is also known as a book of original entry, is the first place that a transaction is written in accounting records.

11.

The following is (are) the type(s) of Journal

- A. Purchase Journal
- B. Sales Journal
- C. Cash Journal
- D. All of the above

Answer & Solution

Answer: Option D

Solution:

The following are the types of Journal: Purchase Journal, Sales Journal and Cash Journal.

12.

The process of entering all transactions from the Journal to Ledger is called

- A. Posting
- B. Entry
- C. Accounting
- D. None of the above

Answer & Solution

Answer: Option A

Solution:

The process of entering all transactions from the Journal to Ledger is called Posting. Posting refers to the process of transferring entries in the journal into the accounts in the ledger. Posting to the ledger is the classifying phase of accounting.

13.

The following is a statement showing the financial status of the company at any given time

- A. Trading account
- B. Profit & Loss statement
- C. Balance Sheet
- D. Cash Book

Answer & Solution

Answer: Option C

Solution:

Balance Sheet is a statement showing the financial status of the company at any given time. The balance sheet, together with the income statement and cash flow statement, make up the cornerstone of any company's financial statements.

14.

The following is a statement of revenues and expenses for a specific period of time

- A. Trading account
- B. Trial Balance
- C. Profit & Loss statements
- D. Balance Sheet

Answer & Solution

Answer: Option C

Solution:

Profit & Loss statements is a statement of revenues and expenses for a specific period of time, usually a fiscal quarter or year.

15.

Balance sheet is a statement of

- A. Assets
- B. Liabilities
- C. Capital
- D. All of the above

Answer & Solution

Answer: Option D

Solution:

Balance sheet is a statement of Assets, Liabilities and Capital.

16.

Balance sheets are prepared

- A. Daily
- B. Weekly
- C. Monthly
- D. Annually

Answer & Solution

Answer: Option D

Solution:

Balance sheets are prepared annually. It lists the current and fixed assets on the left side of the sheet and liabilities and owner's equity (capital) on the right.

17.

The ratios that refer to the ability of the firm to meet the short term obligations out of its short term resources

- A. Liquidity ratio
- B. Leverage ratio
- C. Activity ratio
- D. Profitability ratio

Answer & Solution

Answer: Option A

Solution:

The ratios that refer to the ability of the firm to meet the short term obligations out of its short term resources is known as Liquidity ratio.

18.

The measure of how efficiently the assets resources are employed by the firm is called

- A. Liquidity ratio
- B. Leverage ratio
- C. Activity ratio
- D. Profitability ratio

Answer & Solution

Answer: Option C

Solution:

The measure of how efficiently the assets resources are employed by the firm is called Activity ratio. Activity ratios are a category of financial ratios that measure a firm's ability to convert different accounts within its balance sheets into cash or sales.

19.

The following is (are) the current liability (ies)

- A. Bills payable
- B. Outstanding expenses
- C. Bank Overdraft

D. All of the above

Answer & Solution

Answer: Option D

Solution:

Bills payable, Outstanding expenses and Bank Overdraft are the current liabilities.

20.

Current ratio =

- A. Quick assets/Current liabilities
- B. Current assets/Current liabilities
- C. Debt/Equity
- D. Current assets/Equity

Answer & Solution

Answer: Option B

Solution:

Current ratio = Current assets/Current liabilities. Current ratio is a comparison of current assets to current liabilities, calculated by dividing your current assets by your current liabilities.

21.

Liquid or Quick assets =

- A. Current assets - (Stock + Work in progress)
- B. Current assets + Stock + Work in progress
- C. (Current assets + Stock) + Work in progress

D. (Current assets + Work in progress) - Stock

Answer & Solution

Answer: Option A

Solution:

Liquid or Quick assets = Current assets - (Stock + Work in progress).

22.

Lower the Debt Equity ratio

- A. Lower the protection to creditors
- B. Higher the protection to creditors
- C. It does not affect the creditors
- D. None of the above

Answer & Solution

Answer: Option B

Solution:

Lower the Debt Equity ratio higher is the protection to creditors. Creditors usually like a low debt to equity ratio because a low ratio (less than 1) is the indication of greater protection to their money.

23.

A higher inventory ratio indicates

- A. Better inventory management
- B. Quicker turnover
- C. Both A and B

D. None of the above

Answer & Solution

Answer: Option C

Solution:

A higher inventory ratio indicates Better inventory management and Quicker turnover.

24.

Return on Investment Ratio (ROI) =

- A. $(\text{Gross profit} / \text{Net sales}) \times 100$
- B. $(\text{Gross profit} \times \text{Sales} / \text{Fixed assets}) \times 100$
- C. $(\text{Net profit} / \text{Sales}) \times 100$
- D. $(\text{Net profit} / \text{Total assets}) \times 100$

Answer & Solution

Answer: Option D

Solution:

Return on Investment Ratio (ROI) = $(\text{Net profit} / \text{Total assets}) \times 100$.

Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments.

25.

A low Return on Investment Ratio (ROI) indicates

- A. Improper utilization of resources
- B. Over investment in assets
- C. Both A and B

D. None of the above

Answer & Solution

Answer: Option C

Solution:

A low Return on Investment Ratio (ROI) indicates Improper utilization of resources and Over investment in assets.

26.

Sales expenditure budget is prepared by estimating the expense(s) of

- A. Advertisement
- B. Market analysis
- C. Salesman's salary
- D. All of the above

Answer & Solution

Answer: Option D

Solution:

Sales expenditure budget is prepared by estimating the expense(s) of Advertisement, Market analysis and Salesman's salary.

27.

Budgeting is difficult to apply in the following cases

- A. Products subjected to rapid changes
- B. Job order manufacturing

- C. Uncertain market condition
- D. All of the above

Answer & Solution

Answer: Option D

Solution:

Budgeting is difficult to apply in the Products subjected to rapid changes, Job order manufacturing and Uncertain market condition.

28.

A Master Budget consists of

- A. Sales budget
- B. Production budget
- C. Material budget
- D. All of the above

Answer & Solution

Answer: Option D

Solution:

A Master Budget consists of Sales budget, Production budget and Material budget. The master budget is the aggregation of all lower-level budgets produced by a company's various functional areas, and also includes budgeted financial statements, a cash forecast, and a financing plan.

29.

The accounting process involves recording

- A. Quantifiable economic event

- B. Non Quantifiable economic event
- C. All of them
- D. None of them

Answer & Solution

Answer: Option A

Solution:

The accounting process involves recording Quantifiable economic event. An accounting event is a transaction that is recognized in the financial statements of an accounting entity.

30.

In accounting, an economic event is referred to as

- A. Cash
- B. Bank statement
- C. Transaction
- D. Exchange of money

Answer & Solution

Answer: Option C

Solution:

In accounting, an economic event is referred to as Transaction. An accounting event is a transaction that is recognized in the financial statements of an accounting entity. In accounting, a transaction includes such things as recording the depreciation of an asset or payment of dividends. Accounting events can be either external or internal.

31.

Identify the correct sequence of accounting process

- A. Communicating -> Recording -> Identifying
- B. Recording -> Communicating -> Identifying
- C. Identifying -> Communicating -> Recording
- D. Identifying -> Recording -> Communicating

Answer & Solution

Answer: Option D

Solution:

Identifying -> Recording -> Communicating is the correct sequence of accounting process.

32.

Bookkeeping mainly consists of which part of accounting process?

- A. Analysing
- B. Preparing financial statements
- C. Recording financial information
- D. Auditing the books of accounts

Answer & Solution

Answer: Option C

Solution:

Bookkeeping is the recording of financial transactions, and is part of the process of accounting in business. Bookkeeping refers mainly to the record-keeping aspects of financial accounting, and involves preparing source documents for all transactions, operations, and other events of a business.

33.

Auditing refers to

- A. Reporting the financial information
- B. Examination of financial information
- C. Preparation of financial statements
- D. Maintaining the ledger accounts

Answer & Solution

Answer: Option B

Solution:

Auditing refers to Examination of financial information. A financial audit is an objective examination and evaluation of the financial statements of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent.

34.

Which of the following is the external user of financial statements?

- A. Manager of the business
- B. CEO of the business
- C. Creditor of the business
- D. Controller of the business

Answer & Solution

Answer: Option C

Solution:

Creditor of the business is the external user of financial statements. External users are people outside the business entity (organization) who use accounting information.

35.

Which of the following is the internal user of financial statements?

- A. Creditor of the business
- B. Government agency
- C. Shareholder of the business
- D. Manager of the business

Answer & Solution

Answer: Option D

Solution:

Manager of the business is the internal user of financial statements. Internal users are people within a business organization who use financial information.

36.

_____ is the first phase of accounting cycle

- A. Identifying an economic event or transaction
- B. Preparing Journal
- C. Posting entries to Ledger accounts

- D. Making decisions about business

Answer & Solution

Answer: Option A

Solution:

Identifying an economic event or transaction is the first phase of accounting cycle, which includes any transaction involving the use or exchange of a company's assets.

37.

_____ is a separate legal entity whose total capital can be divided into many shares

- A. Partnership
- B. Sole Proprietorship
- C. Company
- D. Non-profit organization

Answer & Solution

Answer: Option C

Solution:

Company is a separate legal entity whose total capital can be divided into many shares.

38.

An asset possesses which of the following?

- A. Future economic benefits for the business
- B. All kinds of benefits for the business

- C. Expenses for the business
- D. Merits & Demerits for the business

Answer & Solution

Answer: Option A

Solution:

An asset possesses future economic benefits for the business. An asset is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide a future benefit.

39.

Liabilities are which of the following?

- A. Resources
- B. Obligations
- C. Future benefits
- D. Expenses

Answer & Solution

Answer: Option B

Solution:

Liabilities are Obligations. Liabilities are defined as a company's legal financial debts or obligations that arise during the course of business operations.

40.

_____ is the gross inflow of economic benefits

- A. Assets

- B. Liabilities
- C. Income
- D. Expenses

Answer & Solution

Answer: Option C

Solution:

Income is the gross inflow of economic benefits during the period arising from the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

41.

An asset must be _____ by the business to be shown as an asset in its balance sheet.

- A. Possessed
- B. Owned
- C. Controlled
- D. Used

Answer & Solution

Answer: Option C

Solution:

An asset must be controlled by the business to be shown as an asset in its balance sheet.

42.

Which is the most important characteristic that all assets of a business have?

- A. Long life of assets
- B. Value of assets
- C. Intangible nature of assets
- D. Future economic benefits

Answer & Solution

Answer: Option D

Solution:

Future economic benefits is the most important characteristic that all assets of a business have.

43.

What is the basic accounting equation?

- A. Capital + Liabilities = assets
- B. Assets + Liabilities = Capital
- C. Capital + Assets = Liabilities
- D. Liabilities - Capital = Assets

Answer & Solution

Answer: Option A

Solution:

Capital + Liabilities = assets is the basic accounting equation. The fundamental accounting equation, also called the balance sheet equation, represents the relationship between the assets, liabilities, and owner's equity of a person or business. It is the foundation for the double-entry bookkeeping system.

44.

Which of the following is a liability?

- A. Cash
- B. Equipment
- C. Debtors
- D. Creditors

Answer & Solution

Answer: Option D

Solution:

Creditors are a liability. Creditors means the persons to whom business owes money. Creditors are the persons to whom the money is payable by the business in future. So it is a liability of business towards creditors to pay them in future so it comes under current liabilities in balance sheet.

45.

What is equity?

- A. Cash from the business
- B. Liability of a business
- C. Owner's claim on total assets
- D. Owner's claim on total liabilities

Answer & Solution

Answer: Option C

Solution:

Owner's claim on total assets is equity. Total claims include liabilities, which are all the debts that the business owes but has not yet paid out, as well as owners' equity, the value of the business that was granted by owner investment.

46.

Identify the asset from the following

- A. Cash and cash equivalent
- B. Creditors
- C. Notes payable
- D. Bank loan

Answer & Solution

Answer: Option A

Solution:

Cash and cash equivalent are the asset from the following. Cash and cash equivalents (CCE) are the most liquid current assets found on a business's balance sheet. Cash equivalents are short-term commitments "with temporarily idle cash and easily convertible into a known cash amount".

47.

_____ is the withdrawal of cash and goods by the owner of the business for his/her personal use

- A. Depreciation
- B. Drawings
- C. Outflow of cash
- D. Appreciation

Answer & Solution

Answer: Option B

Solution:

Drawings is the withdrawal of cash and goods by the owner of the business for his/her personal use. Assets in the form of Cash or Goods which are withdrawn from a business by the owner(s) for their personal use are termed as drawings.

48.

Net loss occurs when

- A. Expenses are greater than income
- B. Expenses are less than income
- C. Expenses = Income
- D. Liabilities are greater than income

Answer & Solution

Answer: Option A

Solution:

Net loss occurs when Expenses are greater than income. A net loss, sometimes referred to as a net operating loss (NOL), occurs when expenses exceed the income or total revenue produced for a given period of time.

49.

Double entry implies that

- A. Recording entries in Journal
- B. Recording entries in Ledger account
- C. Recording two aspects of every transaction
- D. Recording every transaction in books

Answer & Solution

Answer: Option C

Solution:

Double entry implies that recording two aspects of every transaction. The double-entry system of accounting or bookkeeping means that for every business transaction, amounts must be recorded in a minimum of two accounts.

50.

Identify the nominal account

- A. Machinery account
- B. Building account
- C. Creditors account
- D. Rent expenses account

Answer & Solution

Answer: Option D

Solution:

Rent expenses account is the nominal account. In other words, nominal accounts are the accounts that report revenues, expenses, gains, and losses.

51.

Which of the following accounts can be classified as a real account?

- A. Rent expenses account
- B. Rent income account
- C. Insurance expenses account
- D. Cash account

Answer & Solution

Answer: Option D

Solution:

Cash account can be classified as a real account. A real account is an account that retains and rolls forward its ending balance from period to period. The areas in the balance sheet in which real accounts are found are assets, liabilities, and equity.

52.

Capital increases if _____ increases

- A. Expenses are greater than income
- B. Drawings
- C. Interest on capital
- D. Revenue

Answer & Solution

Answer: Option D

Solution:

Capital increases if revenue increases. The extent to which an increase in revenue will affect company's working capital depends on how efficiently business operates.

53.

Capital of a business decreases if there is an increase in

- A. Drawings
- B. Income
- C. Gains

D. Fresh capital

Answer & Solution

Answer: Option A

Solution:

Capital of a business decreases if there is an increase in Drawings. Drawing is always deducted from capital.

54.

Net income equal to Revenues minus

- A. Gains
B. Depreciation
C. Expenses
D. Capital expenditure

Answer & Solution

Answer: Option C

Solution:

Net income equal to Revenues minus Expenses. Revenue is the income generated before any expenses are taken out. Therefore, when a company is said to have "top-line growth," the company's revenue is growing. Revenue is also called net sales which is revenue minus any returns of purchased merchandise.

55.

Payment of expenses will _____ the assets

- A. Increase
B. Reduce

C. Apportion

D. Overstate

Answer & Solution

Answer: Option B

Solution:

Payment of expenses will reduce the assets. When an expense is recorded at the same time it is paid for with cash, the cash (asset) account declines, while the amount of the expense reduces the retained earnings account.

56.

Which of the following accounting equation is correct?

A. $\text{Cash} + \text{Other assets} = \text{Capital} - \text{Liabilities}$

B. $\text{Capital} + \text{Liabilities} = \text{Assets} + \text{Income}$

C. $\text{Assets} - \text{Liabilities} = \text{Capital}$

D. $\text{Assets} + \text{Capital} = \text{Liabilities}$

Answer & Solution

Answer: Option C

Solution:

$\text{Assets} - \text{Liabilities} = \text{Capital}$ is correct.

The Accounting Equation states that the Assets are always equal to the sum of Capital & Liabilities.

57.

Fresh capital introduction will increase

A. Assets and Liabilities

- B. Assets and Equity
- C. Liabilities and equity and bank balance
- D. Capital and Liabilities

Answer & Solution

Answer: Option B

Solution:

Fresh capital introduction will increase Assets and Equity.

58.

Current Assets - Current Liabilities = ?

- A. Capital + Liabilities = assets
- B. Absorbed capital
- C. Net assets
- D. Working capital

Answer & Solution

Answer: Option D

Solution:

Current Assets - Current Liabilities = Working capital.

Working capital is calculated as current assets minus current liabilities.

59.

The process of recording in Journal is done

- A. Two times in a year

- B. Once in a year
- C. Frequently during the accounting period
- D. At the end of an accounting period

Answer & Solution

Answer: Option C

Solution:

The process of recording in Journal is done frequently during the accounting period. An organization begins its accounting cycle with the recording of transactions using journal entries.

60.

General Journal is a book of _____ entries

- A. First
- B. Original
- C. Secondary
- D. Generic

Answer & Solution

Answer: Option B

Solution:

General Journal, sometimes also known as the Book of Original Entry, because it is the first place a transaction is entered into the books. Journal Entries are made from source documents, which can be anything from receipts to invoices to bank statements.