

# ACCOUNTANCY

## Introduction

Basic matters about accountancy are discussed here by way of questions and their answers with the help of which, objective type questions regarding fundamentals of accountancy can be answered. Those who prepare for the coming test should go through previous years' study materials in addition to other books available. Here, questions are given first and their answers are given separately. Please take it as a test and try to find out answers yourself. If your search can't find the answer, please see the answer portion.

### Questions

1. Cash sales Rs 150000, credit sales Rs300000, Gross profit is 20% on cost of goods sold. What is the amount of Gross profit?
2. Cash sales Rs 100000 credit sales Rs 300000, profit is 1/3 on cost. What is the amount of profit?
3. If the average stock is Rs 80000/-, stock turnover ratio is 6 times, selling price is 25% above cost of sales. What is the amount of the sales of the firm?
4. Average stock Rs 100000, stock turnover ratio is 5 times; selling price is cost of sales + 20%. Find out selling price.
5. Diminution in the value of an asset due to technological changes is known as:
6. Original cost of an asset is Rs 100000/-, present cost of its replacement is Rs.130000/-, amount spent on its replacement is Rs 152000/-. The amount to be capitalized will be:
7. Assets which doesn't depreciate is:
8. A legal claim on certain assets is called:
9. Teaming and lading is a means to :
10. Accountability is the:
11. Bank reconciliation statement is prepared by:
12. The purpose of provision is to meet:
13. Net worth of a business means:
14. The next stage of classifying in accounting is:
15. Amount invested to raise the seating capacity in a theatre is a :
16. What is a contingent liability?
17. What does the term marshalling denote?
18. What is meant by adjusting entries?
19. What is capital expenditure?
20. What is meant by revenue expenditure?
21. What is meant by deferred revenue expenditure?
22. What is meant by capital receipt?
23. What is meant by revenue receipt?
24. The entry to bring outstanding expense into account is:
25. Wages paid during the year 2007 amounts to Rs2200/ , wages outstanding on 31<sup>st</sup> December 2007 amounts to Rs 200/- Pass the adjusting entry for wages outstanding.
26. Adjusting entry for prepaid expense is:

27. Insurance premium paid during 2007 is Rs 1200 of which two months insurance is prepaid. Pass adjusting entry for the prepaid insurance.
28. What is the formula, if the commission to the works manager is on the net profit before charging such commission?
29. Commission to the manager is 10% on profit before charging such commission. Profit before charging such commission is Rs 100000/- Find out the amount of commission.
30. What is the formula, if the commission is on the net profit after charging such commission?
31. Commission to the manager is 10% on net profit after charging such commission. Net profit before charging commission is Rs 22000/- Find out the amount of commission.
32. What is a fictitious asset?
33. What type of asset is goodwill?
34. What is cost of goods sold?
35. What is gross profit?
36. A business man drew goods worth Rs 10000/- from his firm for his personal use. Write journal entry for the same?
37. An organization distributed goods worth Rs 15000/- as free samples. How will account the same?
38. Given that  
 Opening stock = Rs12000  
 Purchase = Rs 90000  
 Return outward= Rs4000  
 Closing stock = Rs 2000 less than the opening stock.  
 What is the stock turnover ratio?
39. EBIT / Total assets ratio is:
40. Given that  
 Current ratio = 2:1  
 Net working capital = Rs60000  
 What is the amount of current liability?
41. Given that  
 Fixed assets = Rs 1000000  
 Current assets = Rs 600000  
 Total net profit = Rs260000  
 Current liabilities = Rs 300000  
 What is the ROI?
42. Information about the performance of a firm is disclosed by :
43. Accounting principles are generally based on:
44. Concept of conservatism refers to taking into account:
45. A withdrawal of cash from business by the proprietor of the firm should be credited to:
46. The economic factors affecting depreciation are:

47. An entry of Rs 1000/- being wrongly posted to wages a/c instead of machinery a/c would be an error of:
48. If cash sales of Rs 4550/- are posted as Rs 4505 in sales a/c, the rectifying entry will be:
49. Cash sales are recorded on:
50. Commission received in advance is in the nature of a .....a/c

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### ANSWERS

1. Cash sales = 150000  
 Credit sales = 300000  
 Total sales = 450000  
 Gross Profit = 20% on cost of good sold  
 Gross Profit = Sales – Cost of goods sold  
 Here, Cost of goods sold is not given. In this case suppose:  
 Cost of goods sold = 100  
 Profit 20% = 20  
 Sales = 120  
 That means profit is 20/120 of sales  
 Therefore, profit = 450000x20/120= Rs 75000/-
2. 1/3 on cost means 1/4 on sales. This relationship can be explained as detailed below.
- |        |   |          |
|--------|---|----------|
| Cost   | = | 3        |
| Profit | = | <u>1</u> |
| Sales  | = | 4        |
- Hence, profit = 400000x1/4 = 100000/-
3. Stock turnover ratio =  $\frac{\text{Cost of sales}}{\text{Average stock}}$   
 $\text{Average stock} = \frac{\text{Opening stock} + \text{Closing stock}}{2}$   
 Cost of sales = Opening stock + Purchases + Direct expenses – closing stock  
 Here the average stock = Rs 80000/-  
 Stock turnover ratio = 6 times  
 Therefore, cost of sales= 80000x6 = 4, 80,000/  
 Profit = 4,80000x 25/100 = 120000/-  
 Sales = 480000+120000 = Rs 600000/-
- 4 As done above. Sales = Rs 6, 00,000/

5. Obsolescence
6. Rs 22000 (152000-130000)
7. Land
8. Lien
9. Misappropriation of cash
10. Obligation for performance of the duty.
11. Customer
12. Liability
13. Assets – Liabilities
14. Summarizing
15. Capital expenditure
16. A contingent liability is one which is not an actual liability but which will become an actual one on happening of some event which is uncertain.
17. Marshalling denotes the order in which assets and liabilities are shown in the Balance sheet. Items are marshaled in the way of liquidity or in the order of permanence.
18. Journal entries passed to adjust the outstanding and prepaid expense and income and other anticipated losses and gain are called adjusting entries. Adjusting entries are passed in journal proper on preparing final accounts.
19. Any amount spent on acquisition of an asset or for increasing the value of an asset or for increasing the earning capacity of a business is called capital expenditure.
20. It is the expenditure incurred during one accounting period, the full benefit of which is obtained in the same period.
21. It is an expenditure of a revenue nature, the benefit of which lasts for more than one accounting year.
22. Amount received on account of capital introduced to the business, sale proceeds of fixed assets, receipts on account of loan etc. are capital receipts.



37. Distribution of goods as free samples to customer is a method of advertisement. It may be debited to Advertisement a/c and credited to Purchase a/c. The journal entry is

Advertisement a/c	Dr	15000
To Purchase a/c		15000

38. Stock turnover ratio =  $\frac{\text{Cost of goods sold}}{\text{Average stock}}$

Cost of goods sold = Opening stock + Purchases + Direct expense – Closing stock

Opening stock = Rs 12000

Purchases = 90000-4000= 86000

Closing stock = 12000-2000= 10000

Cost of goods sold = 12000+86000-10000= 88000

Average stock =  $\frac{12000+10000}{2}$

= 11000

Stock turnover ratio =  $\frac{88000}{11000}$

= 8times

39. EBIT = Earnings before Interest and Taxes

EBIT/ Total assets = Profitability ratio

40. Current ratio = Current assets : Current liabilities

Current assets – Current liabilities = Net working capital

$\frac{2}{1} - \frac{1}{1} = \frac{1}{1}$

Current liability = 60000x 1/1 = 60000

41. ROI means Return on investment

Return = 260000

Here, Investment = Fixed assets + current assets- current liabilities

1000000 + 600000 – 300000 = 1300000/-

ROI = 260000/1300000x 100= 20%

42. Profit and loss a/c

43 Practicability

44. All profits realized and all possible losses

45. Cash a/c

46. Obsolescence and inadequacy

47 Principle



5. Accounting to the rules of debit and credit for balance sheet accounts:
- a) Increase in asset, liability and owners equity accounts are recorded by debits.
  - b) Decrease in assets and liability accounts are recorded by credit.
  - c) Increase in assets and owner's equity are recorded by debit.
  - d) Decrease in liability and owners' equity are recorded by debit.
6. In general terms, financial assets appear in the balance sheet at
- a) Face value
  - b) Current cash value
  - c) Cost
  - d) Estimated future sales value
7. Which of the following practices contributes to efficient cash Management ?
- a) Never borrow money – maintain a cash balance sufficient to make all necessary payment
  - b) Received all cash receipts and cash payments at the end of the month when reconciling the bank statements.
  - c) Prepare monthly forecasts of planned cash receipts, payments and anticipated cash balances upto a year in advance.
  - d) Pay each bill as soon as the invoice arrives.
8. Which of the following best describes the application of generally accepted accounting principles to the valuation of accounts receivable?
- a) Realisation principle – accounts receivables are shown at their net realisable value in the balance sheet.
  - b) Matching Principles – The loss due to an uncollectable amount is recognized in the period in which the sale is made, not in the period in which the account receivable is determined to be worthless.
  - c) Cost principle – Accounts receivables are shown at the initial cost of the merchandise to the customers
  - d) None of the above.
9. The difference between net sales and cost of goods sold is:
- a) Gross loss
  - b) Gross profit
  - c) Net profit
  - d) Gross profit/ Gross loss

10. Original expectation of expected future cash flows at the end of the period - Original expectation of expected future benefits at the beginning of the period is called:

- a) Budgeted income
- b) Ex ante income
- c) Ex post income
- d) Budgeted net income

11. Revised expectation of expected future cash flows at the end of the period – Original expectation of expected benefits at the beginning of the period is called

- a) Ex ante income
- b) Budgeted net income
- c) Ex post income
- d) Budgeted income

12. Accounting is the language of

- a) Business
- b) Books
- c) Industry
- d) Economy

13. Accounting standards or principles are formed in India by

- a) Accountant
- b) Government
- c) ICAI
- d) ICSI

14. Accounting does not include

- a) Recording
- b) Classifying
- c) Summarizing
- d) Decision making

15. Which of the following is true

- a) Accounting and Book keeping are identical
- b) Accounting is much broader a function than book keeping
- c) Book keeping is much broader a concept than accounting
- d) Both are similar with small differences

16. Financial statements don't include

- a) Profit and loss account
- b) Balance sheet
- c) Director's report
- d) Cash flow statement

17. Prior period items are the items of incomes and expenses which arise in the current period as a result of ----- in the presentation of the financial statements of one or more prior periods

- a) Accidents
- b) Errors or omissions
- c) Change in estimates
- d) Incompatibility

18. The entry for recording a transaction involving cash and bank in a double column cash book or triple column cash book is called

- a) Double entry
- b) Single entry
- c) Contra entry
- d) None of the above

19. Errors either on the part of the bank or the business is disclosed in the

- a) Cash book
- b) Petty cash book
- c) Bank Reconciliation Statement
- d) Bank statement

20. Which of the following statements is false?

- a) Wages paid on installation of machinery should be credited to cash a/c
- b) A sale of computer that has been used in the business should be debited to cash a/c
- c) Error of posting of a correctly recorded transaction affects one or more accounts.
- d) Withdrawal of goods by the proprietor of the business should be credited to capital a/c

21. Which of the following statements is/ are true

- a) Drawings account is a nominal account
- b) Capital account is a real account
- c) Sales account is a nominal account
- d) Outstanding salary is a nominal account

22. The entry to record the collection of cash from sundry debtors would involve a

- i) Debit to sundry debtors
  - ii) Debit to cash a/c
  - iii) Credit to cash a/c
  - iv) Credit to sundry debtors
- a) i. b) ii c) iii d) ii and iv

23. Which of the following statements is true?

- a) Bank charges increase the debit balance shown as per bank column of the cash book.

- b) Bank charges increase debit balance as per pass book
  - c) A cash sale of a non trading asset is recorded in the journal proper
  - d) Cash discount allowed by the business will appear on the debit side of the debtors' account.
24. The accountant of a trader recorded a payment by cheque to a creditor for supply of material as Rs 1340/. The bank recorded the cheque at its correct amount of Rs 3140/. The impact of this error is:
- a) The trial balance will not agree
  - b) The balance of creditors is understated
  - c) The purchases are understated
  - d) The favorable bank balance as per pass book is less than the bank balance as per the cash book
25. The process of balancing of an account involves equalization of both sides of the amount. If the debit side of an account exceeds the credit side, the difference is put on the credit side. The balance is:
- a) A debit balance
  - b) A credit balance
  - c) A liability
  - d) An income
26. Which of the following is an example of capital expenditure?
- a) Insurance premium
  - b) Taxes and legal charges
  - c) Depreciation on machinery
  - d) Customs duty on import of machinery
27. The balance of which of the following accounts don't disappear, once they are debited/ credited to trading a/c
- a) Sales
  - b) Purchase
  - c) Return inward
  - d) Closing stock
28. At the time of preparation of final accounts, bad debts recovered account will be transferred to
- a) Debtor's account
  - b) Profit and loss a/c
  - c) Profit and loss adjustment account
  - d) Provision for discount on debtors account
29. Carriage inward refers to the cost of transportation for
- a) Purchase of material
  - b) Sales of products
  - c) Return out ward

- d) Newly acquired machinery
30. Which of the following is not an asset?
- a) Stock of stationery
  - b) Goodwill
  - c) Profit and loss a/c (credit balance)
  - d) Accounts receivable
31. Which of the following accounts appear in the balance sheet of a business?
- i) Stock at the end of the financial year
  - ii) Stock at the beginning of the financial year
  - iii) Drawings
  - iv) Prepaid insurance
  - v) Interest accrued but not received
- a) Only (i) above
  - b) Only (iii) above
  - c) Only (i) and (iii) above
  - d) Only (i) (iii) (iv) and (v) above
32. If unexpired insurance appears in the trial balance, it should be
- a) Credited to the profit and loss a/c
  - b) Debited to profit and loss a/c
  - c) Shown on the liability side of the Balance sheet
  - d) Shown on the asset side of the Balance sheet
33. Which of the following is not a current asset?
- a) Inventories
  - b) Bills receivables
  - c) Accounts receivables
  - d) Income received in advance
34. Which of the following statements is true with regard to written down value method of depreciation?
- a) The rate at which the asset is written off reduces year after year
  - b) The amount of depreciation provided reduces from year to year
  - c) The rate of depreciation as well as the amount of depreciation reduce year after year
  - d) The value of asset gets reduced to zero over a period of time
35. Gross profit represents the difference between
- a) Gross sales and cost of production
  - b) Net sales and gross purchases
  - c) Gross sales and gross purchases
  - d) Net sales and cost of goods sold

36. Sales - Rs 110000  
Return inward - Rs 10000  
Gross profit - Rs 10000

What is the gross profit ratio?

- a) 15% b) 20% c) 10% d) 12%

37. Opening stock Rs 5000/-  
Purchases Rs 75000/-  
Closing stock Rs 12000/-  
Wages Rs 2000/-  
Operating expenses Rs 10000/-  
Net sales Rs 100000/-  
Operating ratio is :

- a) 75% b) 90% c) 80% d) 85%

38. According to going concern concept, a business is viewed as having

- a) Short life  
b) Long life  
c) A very long life  
d) An indefinite life

39. From the following find out the correct equation

- i) A represents opening stock  
ii) B represents Purchase  
iii) C represents closing stock  
iv) D represents cost of goods sold

- a)  $A - c = D - B$   
b)  $A + B = D - C$   
c)  $D - A = B + C$   
d)  $A + D = C - D$

40. Net worth of a business means

- a) Equity capital  
b) Total assets  
c) Total assets - Total liabilities  
d) Fixed assets - Current assets

41. The term 'imprest system' is used in relation to :

- a) Purchase book  
b) Cash book  
c) Petty cash book  
d) Sales book

42. A bill for Rs 5000/- incurred for the erection of machinery was debited to repair a/c.  
The rectification entry is

- a) Repairs a/c Dr 5000  
    To Machinery a/c 5000
- b) P&L a/c Dr 5000  
    To Repairs a/c 5000
- c) Machinery a/c Dr 5000  
    To Repairs a/c 5000
- d) Cash a/c 5000  
    To Repairs a/c 5000

43. Stock of Rs 5000/- was destroyed by fire; the insurance company admitted 50% of insurance claim. Accounting entry is:

- a) Stock a/c Dr 5000  
    To Trading a/c 5000
- b) Insurance claim a/c Dr 2500  
    P&L a/c Dr 2500  
    To Trading a/c 5000
- c) Stock a/c Dr 2500  
    Insurance claim a/c Dr 2500  
    To Trading a/c 5000
- d) Trading a/c Dr 5000  
    To Insurance claim a/c 2500  
    To P&L a/c 2500

44. A classified summary record of all transactions relating to one person, asset, income or expense, which have taken place during a particular period is called

- a) Journal
- b) Statement
- c) Account
- d) None of the above

45. Fixed assets which have only definite usefulness or which depreciate in value or utility very heavily year after year are known as

- a) Floating assets
- b) Current assets
- c) Wasting assets
- d) None of the above

46. The subsidiary book in which all credit purchases of merchandise are recorded is

- a) Creditors' a/c
- b) Cash book
- c) Purchase day book
- d) None of the above

47. Opening entry passed for bringing into record personal and real account balances of the immediately preceding period is

- a) All liabilities a/c Dr  
    To All Assets a/c

- b) All Assets a/c      Dr  
    To All Liabilities
- c) All Assets a/c      Dr  
    To All Liabilities  
    To Capital a/c
- d) None of the above

48. Business entity concept can be expressed through an accounting equation viz.

- a) Assets + Liabilities = Capital
- b) Assets + Capital = Liabilities
- c) Assets = Liabilities + Capital
- d) Assets = Capital – Liabilities

49. Which aspect supports the treatment of prepaid expenses as assets:

- a) Dual aspect concept
- b) Periodicity concept
- c) Cost concept
- d) Going concern concept

50. In the case of a trader, income tax paid is treated as :

- a) Direct expense
- b) Indirect expense
- c) Personal expense
- d) Office expense

51. Goods sold on approval basis are not regarded as sale until:

- a) Sale is actually made
- b) Collection is made
- c) Letter of denial is received
- d) Consent is received

52. A manufacturer of medicines used medicine for personal purposes worth Rs. 200/-, distributed as samples worth Rs 1500/- and gave to his office staff worth Rs 800/-for their personal use.

Which of the following statements based on the above information is wrong?

- a) Drawings a/c should be debited for Rs 200/-
- b) Advertisement a/c should be debited for Rs 1500/-
- c) Salary a/c should be credited for Rs 800/-
- d) Purchase a/c should be credited for Rs 2500/-

53. The closing stock on December 31 1972 was Rs 20000/-. There was a loss by fire of Rs 5000/- on November 10, 1972. Show how will you deal with this in case

- i) Stock was not at all insured
- ii) Stock was fully covered by insurance

- iii) Stock was partly covered by insurance and the insurance company accepted the claim of Rs 3000/-

Case (i)	a) Profit and loss a/c	Dr 5000	
		To Trading a/c	5000
	b) Trading a/c	Dr 5000	
		To Profit and loss a/c	5000
c) Purchase a/c	Dr 5000		
		To Trading a/c	5000
d) Closing stock a/c	Dr 5000		
		To Trading a/c	5000

Case (ii)	a) Trading a/c	Dr 5000	
		To Insurance claim	5000
b) Insurance claim a/c	Dr 5000		
		To Trading a/c	5000
c) P&L a/c	Dr 5000		
		To Insurance claim a/c	5000
d) None of the above.			

Case (iii)	a) Insurance claim a/c	Dr 3000	
	P&L a/c	Dr 2000	
		To Trading a/c	5000
b) Trading a/c	Dr 5000		
		To Insurance claim	3000
		To P&L a/c	2000
c) Insurance claim a/c	Dr 3000		
	Trading a/c	Dr 2000	
		To P&L a/c	5000
d) None of the above			

54. X sells goods at a profit of 20% on cost. If he sells it for Rs 3000/- calculate selling price and rate of profit on sale.

- Rs 2500, 1/6 on sale
- Rs 2800, 1/4 on sale
- Rs 2400, 1/5 on sale
- None of the above

55. A the works manager and B the general manager are to get their remuneration as follows'

- A is to get 10% of the profit after charging such 10%
- B is to get  $\frac{1}{4}$  of the profit after charging all provisions in (a) and (b).

Calculate what A and B get if profit is Rs 2200/-

- 250,500

- b) 220,400
- c) 200, 400
- d) 200, 500

ANSWERS OF MULTIPLE CHOICE QUESTIONS

1. (b) , 2 (d) , 3. (d) 4. (c) 5. (d), 6. (b), 7. (c), 8. (b), 9(d), 10(b),  
 11. (c), 12. (a), 13.(c), 14. (d), 15(b), 16(c), 17.(b), 18. (c), 19.  
 (d), 20. (c), 21. (c), 22.(d), 23.(b), 24.(d), 25(a),26. (d), 27(d),  
 28. (b), 29. (a) , 30. (c), 31. (d), 32.(d), 33.(d), 34. (b) , 35.  
 (d),36(c),37.(c), 38. (d), 39. (a), 40. (c),41.(c), 42(c), 43.(b),  
 44.(c), 45. (c), 46. (c),47.(c), 48.(c), 49.(d), 50(c), 51 (d), 52(c),  
 53i (a), 53ii(b) , 53iii (a), 54 (a),55(c)

**Objective type questions and answers in financial accounting and Management accounting**

1. Which of the following equations is related with Dual Aspect Concept?
- A) Total Assets = Total Liabilities
  - B) Total Assets = Capital + Outsider’s Liabilities
  - C) Capital = Total Assets-Outsider’s Liabilities
  - D) All of these

Ans{ D }

2. Which expense is of capital nature?

- A) Depreciation B) Wages C) Salary D) Stationary

Ans{A}

3. Depreciation is a charge against—

- A) Profit B) Assets C) Company D) Books of account

Ans{A}

4. The term current assets does not include—

- A) Debtors B) B/R C) Stock D) Good will

Ans{D}

5. The term fixed assets does not include—

- A) Plant B)Furniture C)Prepaid expense D) Land and Building

Ans{C}

6. If the total assets of the company amount to Rs 200000 and owner's equity is 90000 the amount of liability will be:-  
 A) Rs 80000 B) Rs 110000 C) 290000 D) None of the above      Ans{B}
7. Owner's equity could be understood as one comprising of  
 A) Contributed capital B) Retained earnings C) Liabilities D) (A)&(B) Ans{D}
8. Cost of sales in the case of trading company is equal to  
 A) Sales-Gross profit B) Sales –Closing stock C) Opening stock + purchases+ Direct expenses- closing stock D) (A)&(C)      Ans{D}
9. Cost of the intangible assets are  
 A) Depreciated B) Amortized C) Charged D) Allocated      Ans{B}
10. Which one of the equation is correct?  
 A) Total Assets = owner's equity –current liabilities  
 B) Total Assets = Total liabilities + owner's equity  
 C) Total Assets= Total Fixed Assets  
 D) Total Assets= Total Current liabilities + Total Fixed assets      Ans{B}
11. After reissue of forfeited shares the balance in the share forfeited account will be transferred to—  
 A) Share holder's account B) General reserve account C) Share capital account  
 D) Capital Reserve account.      Ans{D}
12. The fair value of share is the average of-  
 A) Intrinsic value and Par value  
 B) Par value and market value  
 C) Intrinsic value and yield value  
 D) Par value and Yield value  
 Ans-{A}
13. Accounting standard 14 is related with—  
 A) Valuation of stock B) Amalgamation C) Depreciation D) Valuation of assets  
 Ans{B}
14. Which of the following is Leverage ratio?  
 A) Debt equity ratio B) Current ratio C) Inventory ratio D) Operating ratio Ans(A)

15. An investment centre can be evaluated by  
 A) Profit B) Return on sales C) ROI D) none of the above Ans(C)
16. R.O.I ratio is calculated to measure the following-  
 A) Long term solvency of business  
 B) Earning power of net assets of business  
 C) Short term liquidity position of business  
 D) The relationship between sales and net profit Ans(B)
17. If the cost of goods sold is 200000, the value of opening and closing stock is Rs 40000 and 60000 respectively, the stock turnover ratio will be  
 A) 10 times B) 5 times C) 4times D) 3.33times Ans(C)
18. Which of the following items represent a potential use of working capital?  
 A) Goodwill amortization B) Sale of fixed asset at loss C) Net loss from operations D) None of the above.  
 Ans(C)
19. Net profit Rs 70000. Opening balance of income received in advance Rs.30000, Closing balance of income received in advance Rs 40000. Find out cash from operation.  
 A) Rs.70000 B) Rs 80000 C) Rs75000 D) Rs 10000 Ans( B)
20. Sales for the year Rs 40000, purchase for the year Rs 30000, Expenses Rs 5000, Creditors at the start Rs 10000, Creditors at the end Rs 15000, cash from operation will be-  
 A) Rs 20000 B) Rs 5000 C) Rs 10000 D) Rs 15000 Ans (C)
21. Contribution is –  
 A) Sales – Fixed cost B) Sales – Variable cost C) Sales – Variable cost + Fixed cost D) None of the above.  
Ans(B)
22. Given , Fixed cost = Rs 200000, Variable cost= 5, Selling prize=10 per unit . Find out BEP in units.  
 A)40000 B) 20000 C)100000 D) None of the above Ans(A)
- 23)Pre-incorporation profit is credited to  
 A)P&L a/c B)P&L Appropriation a/c C)Capital Reserve D) General Reserve Ans (C)
- 24) Conservatism concept represents-  
 A) Anticipate no profit and provide for all losses.  
 B) For every debit, there is a credit  
 C) Stock should be valued at cost or market price whichever is less  
 D) None of the above Ans(A)
- 25) Which of the following is not concept of accounting?  
 A) Cost concept B) Entity concept C) Stock valuation concept D) Materiality concept  
Ans(C)
- 26) AS 3 is related with

A) Cash flow statement B) Fund flow statement C) Stock valuation D) Depreciation accounting. Ans(A)

27) The excess of actual or budgeted sales over the break-even sales is known as the-  
A) Excess sales B) Marginal sales C) Margin of safety D) Profit Ans(C)

28) The prime function of accounting is to  
A) Record economic data B) Provide the information basis for action C) Classify and record business transactions E) Attain non-economic data Ans(C)

29) The basic function of management accounting is to  
A) Record all business transactions B) Interpret the financial data C) Assist the management in performing its function effectively D) None of the above Ans(C)

30) Management accounting involves  
A) Preparation of financial statements B) Analysis and interpretation of data C) Recording of transactions D) None of the above Ans (B)

31) Accounting designed to serve parties external to the operating responsibility of the firm, is termed as  
A) Social accounting B) Financial accounting C) Cost accounting D) Management accounting' Ans(B)

32) Which one of the following could not be classified as **Revenue Income**?  
A) Goods sold for cash  
B) Goods sold on credit  
C) Income from sale of services  
D) Income from sale of fixed assets Ans(D)

33) The term current assets does not include  
A) Payment in advance B) Long term deferred expenses C) Bills receivable D) None of the above. Ans(B)

34) Which of the following is a recorded fact?  
A) Market value of investments B) Replacement cost of Machinery C) Debtors D) None of the above. Ans(C)

Based on the following information relating to a firm for the month of July, August and September, find out answers to questions from 35 to 43

- a, Sales are projected at Rs 215000, Rs 2, 40000, and Rs 215000
- b, Cost of goods is Rs50000/+30% of selling price per month
- c, Selling expenses are 3% on sales
- d, Rent is Rs 7500 per month, administration expenses for July are expected to be Rs 60000 but are expected to rise 1% per month over the previous month's expense
- e The company has Rs300000 of 8% loan interest payable monthly
- f, Corporate tax rate is 70%

35) Gross profit for the month of July is  
A) Rs 107500, B) Rs 10750 C) 107050 D) 150770 Ans(A)

36) Operating expense for the month of July is  
A) Rs74250 B) Rs 75300 C) 75156 D) None of the above Ans(A)

37) Profit after tax of for the month of July is  
A) Rs 9375, B) Rs Rs 9735 C) Rs 9573 D) None of the above Ans(A)

38) Gross profit for the month of August is  
A) Rs 118500 B) Rs 118000 C) Rs 128000 D) None of the above Ans(B)

39) Operating expense for the month of August is  
A) Rs 73500 B) 75300 C) 70530 D) None of the above Ans(B)

40  
A)Rs 12120 B)Rs 12210 C) Rs 12020 D) None of the above Ans(B)

41) Gross profit for the month of September is  
A) Rs 105000 B) Rs 100050 C) Rs 100500 D) None of the above Ans(C)

42) Operating expense for the month of September is  
A) Rs 75516 B) Rs 75615 C) Rs 75156 D) None of the above Ans(C)

43) Profit after tax for the month of September is  
A)Rs 7300 B)Rs 7030 C) Rs 7003 D) None of the above Ans(C)

44) Match list 1 with list11 and select the correct answer using the codes given below the lists:

- | List 1   | List 11                       |
|--|-------------------------------|
| A.Fixed assets are valued at cost less depreciation  | 1) Going concern concept      |
| B. Appending notes regarding contingent liabilities in accounting statements.                  | 2) Materiality convention     |
| C. Insignificant items or events Having an insignificant economic effect need not be disclosed | 3) Business entity concept    |
| D. Cash withdrawn by the owner to meet personal expenses                                       | 4) Full disclosure convention |

Code:

	A	B	C	D
(a)	3	4	2	1
(b)	3	2	4	1

- (c) 1 4 2 3  
 (d) 1 2 4 3

Ans(c)

45) Match list 1 with list 11 and select the correct answer using the code given below the lists:

List 1 (Content)	List 11 (Accounting Standard)
A) Accounting for amalgamation	1. AS-3
B) Cash flow statement	2. AS-14
C) Net profit or loss for the period, prior Period items and changes in accounting Policies	3. AS-10
D) Accounting for fixed assets	4. AS-5

Code:

- |     | A | B | C | D |
|-----|---|---|---|---|
| (a) | 2 | 1 | 4 | 3 |
| (b) | 2 | 4 | 1 | 3 |
| (c) | 3 | 1 | 4 | 2 |
| (d) | 3 | 4 | 1 | 2 |

Ans(a)

46) Given, Purchases Rs 100000, Sales Rs 180000, Closing stock Rs 14000 and Manufacturing expenses Rs 10000. Which one of the following is the value of Opening stock if the rate of gross profit is  $33\frac{1}{3}\%$  on cost.?

- (a) Rs 28000 (b) Rs 39000 (c) Rs 37000 (d) Rs 42000

Ans(b)

47) If a trader's sales amount to Rs 18000 and his gross profit and net profit are 60% and 40% of sales respectively, which one of the following are his expenses if there is no indirect income?

- (a) Rs 7200 (b) Rs 2500 (c) 3600 (d) Rs 6480

Ans(c)

48) Which of the following transactions will improve acid –test ratio?

1. Bills payable dishonoured 2. Cash collected from customers 3. Issue of convertible debentures. Select the answer using the code given below

Code:

- (a) 1,2 and 3 (b) 2only (c) 3 only (d) 1 and 3 only

Ans(c)

49) Match List I with List II and select the correct answer using the codes given below the lists:

List I	ListII
A. Earning per share	1. AS-3
B. Cash flow statement	2. AS-20
C. Inventory valuation	3. AS-1
D. Disclosure of accounting policies	4. AS-2

Codes:

	A	B	C	D
a)	3	1	4	2
b)	2	4	1	3
c)	3	4	1	2
d)	2	1	4	3

Ans(d)

50) The balance of old provision for doubtful debts on 1/4/2009 was Rs 10000. The bad debt written off during the year 2009-2010 amounted to Rs 12000, and the new provision required on 31/3/2010 was Rs 15000. What is the amount to be debited to profit and loss account on account of bad debts and provision for doubtful debts?

a) Rs 37000 b)Rs27000 c) Rs 17000 d)Rs 15000

Ans(c)

### IMPORTANT ACCOUNTING TERMS AND THEIR MEANINGS

- 1 **Journal**:- Journal is a book in which transactions are recorded first, chronologically.
- 2 **Ledger**:- Ledger is the book in which various accounts are maintained in a classified manner.
3. **Account**:- An account is a classified summary of all transactions relating to one person, asset, income or expense which have taken place during a given period of time.
4. **Journal proper**:- Journal proper is the book to record the transactions which could not be recorded in any of the sub-divisions of journal.
5. **Trading account**:- A Trading account is prepared to ascertain the profit or loss of purchasing/ manufacturing and selling the goods.
6. **Gross profit**:-Net sales – Cost of goods sold
7. **Gross Loss**:-Cost of goods sold – Net sales
8. **Marshalling**:- The order in which assets and liabilities are stated in a Balance sheet is known as Marshalling.
9. **Balance sheet**:- A statement of assets and liabilities of a trader prepared with a view to ascertain the financial position of his business.
10. **Outstanding expense**:- When a particular expense item remains to be paid for the period for which the profit and loss account is prepared, the amount that remains to be paid is called outstanding expense.
11. **Preliminary expense**:- The expenses incurred before the incorporation of the company are considered to be preliminary expenses.
12. **Contingent liabilities**:- Contingent liabilities are those liabilities which may or may not occur, ie their occurrence is uncertain.

13. **Intangible assets:-** Intangible assets are those which cannot be seen, touched and have no volume but have value. Eg: Goodwill, Patents, Trademarks, and Copyrights etc.
14. **Fictitious assets:-** Fictitious assets are those assets which are virtually not assets. They represent usually past accumulated losses or expenses which are incurred for once in the life time of a business and are temporarily capitalized. Eg: Profit and loss a/c (debit balance), Organization expense etc.
15. **Amortization:-** The term is used for describing the process of writing down the long term investments in intangibles such as goodwill, patents etc.
16. **Depletion:-**This term is applied to the process of measuring and recording the exhaustion of natural resources.eg: ore deposits , oil well etc.
17. **Obsolescence:-** This term refers to disappearing usefulness resulting from invention, change of style, legislation or other causes having no physical relation to object affected.
18. **Residual value:-** This is an estimated value of the asset at the end of its economic life, to the business.
19. **Retained earnings:-** Retained earnings are the residual of profits after dividends.
20. **Reserves and surplus:** Accumulated profits of a business.

Prepared By Thankachan P M

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