## **Financial Accounting and Management**

## <u>Unit 2</u>

## **Multiple Choice Questions**

	1. An expenditure that benefits only the current pe	riod is known as a:			
	a) Capital expenditure	c) Current expenditure			
	b) Revenue expenditure	d) Deferred expenditure			
	2. An expenditure that is not written off in one acc	ounting period is termed a:			
	a) Revenue expenditure	c) Capital expenditure			
	b) Deferred expenditure	d) Current expenditure			
	3. An expenditure that benefits several accounting	, <b>-</b>			
	a) Deferred revenue expenditure	c) Capital expenditure			
	b) Revenue expenditure	d) Current expenditure			
4	4. Expenditures incurred on advertising a new pro	, <b>-</b>			
	a) Capital expenditures	c) Revenue expenditures			
	b) Deferred revenue expenditures	d) Current expenditures			
	5. Carriage paid on goods purchased is a:	, I			
	a) Capital expenditure	c) Deferred expenditure			
	b) Revenue expenditure	d) Capital loss			
(	6. Building destroyed by fire is a:	, I			
	a) Revenue loss	c) Capital expenditure			
	b) Capital loss	d) Revenue expenditure			
,	7. Taking a bank loan to acquire a fixed asset is a:	, <u> </u>			
	a) Capital profit	c) Capital receipt			
	b) Revenue profit	d) Revenue receipt			
:	8. Wages is classified as:				
	a) Capital expenditure.	c) Deferred revenue expenditure.			
	b) Revenue expenditure.	d) None of the above.			
9	Amount spent on increasing the seating capacity in a cinema hall is a:				
	a) Capital expenditure.	c) Deferred revenue expenditure.			
	b) Revenue expenditure.	d) None of the above.			
	). Expenditure incurred by a publisher for acquiring copyright is a:				
	a) Capital expenditure.	c) Deferred revenue expenditure.			
	b) Revenue expenditure.	d) None of the above.			
	11. An expenditure is a classified as capital expend	iture when:			
	a) The amount is large.	c) It is to benefit a number of future year	ars.		
	b) It is shown in the balance sheet.	d) It benefits only current year.			
	12. Expenses involved in a change of office, th	e organization starting costs would constitute	e a		
	expense.				
	a) Capital.	c) Deferred revenue.			
	b) Revenue.	d) Special Expenditure			
	13. Any expenditure incurred in enhancing operativ	e economy is known as expenditure.			
	a) Revenue	c) Deferred Revenue			
	b) Capital	d) None of the above			
	14. Amount received from sale of fixed asset is:				
	a) Revenue receipt	c) Deferred Payment			
	b) Capital receipt	d) None of the above			
	15. Examples of deferred revenue expenditure:				

a) Discount on issue of debenture c) Preliminary expenses b) Heavy advertisement expenses. d) All of the above. 16. The process of recording business transactions in chronological order is called: a) Recording c) Journalizing b) Posting d) Classifying 17. Another name for a journal is: a) Book of original entry c) Record book b) Business book d) Financial book 18. A journal entry that involves more than two accounts is called: a) Double entry c) Combined entry b) Compound entry d) Complex entry 19. A written explanation below each journal entry is known as: a) Details c) Narration b) Entry d) Additional data 20. The discount calculated on the list price of the goods is called: a) Cash discount c) Rebate b) Discount d) Trade discount 21. The daybook is another name for: a) Ledger c) Pass book b) Cash book d) Journal 22. Stolen merchandise should be debited to: c) Loss by theft account a) Sales account d) No entry b) Purchases account 23. Loss of goods by fire should be debited to: a) Loss account c) Loss of goods by fire account d) None of the above b) Fire account 24. Which of the following best describes the trade discount: a) It is different from cash discount c) It is not recorded in the books b) It is a reduction in list (or retail) price d) All of the above 25. The cash discount given is debited because it is: a) A revenue of the business c) A liability of the business b) An expense of the business d) An asset of the business 26. The cash discount received is credited because it is: a) A liability c) An asset b) An expense d) An income 27. Mr. S invests ₹10,000 cash in his business. The account to be credited is: a) Cash c) Income b) Profit d) Capital 28. To record a transaction in the general journal correctly, the accountant needs to: a) Find the accounts involved in transaction b) Ascertain the increase or decrease in accounts c) Apply the rules of debit and credit d) All of the above 29. The collection of all accounts in a business enterprise is known as the: a) Ledger c) Trial balance b) Balance sheet d) Journal 30. The process of finding out the balance of a ledger account is known as: a) Posting b) Calculation

a) Investigation	4)	Delensing		
c) Investigation		Balancing		
31. The left hand side of a ledger account is known as th		<b>T</b> 1		
a) Credit side	c)	Income side		
b) Debit side		Profit side		
32. In a ledger account, the difference between the total of	of the	e debit side and the total of the credit side		
is known as the:				
a) Deficit		Balance		
b) Debit balance	d)	Credit balance		
33. If the total of the debit side exceeds the total of the cr	edit	side, the ledger account is said to have a:		
a) Debit balance	c)	Normal balance		
b) Surplus balance	d)	Credit balance		
34. In accounting, the abbreviation Dr. is used for:				
a) Debtor	c)	Defaulter		
b) Debate	d)	Debit side of ledger account		
35. If an account has a credit balance, it means:	,	5		
a) Both debit and credit sides are equal				
b) Total of debit side exceeds total of credit side				
c) Total of credit side exceeds total of debit side				
d) None of the above				
36. In accounting, the term credit is usually abbreviated	96.			
a) Dr. b) Ct.		Cd. d) Cr.		
37. In a ledger account, if total of the debit side is equal		,		
said to have a:		the total of the credit side, the account is		
		Cradit halanga		
a) Expected balance		Credit balance		
b) Normal balance	d)	Zero balance		
38. A non-zero balance in a ledger account represents:	- )	T		
a) Increase in account		Increase or decrease in account		
b) Decrease in account		No change in account		
39. Which of the following correctly represents the sequence of the accounting cycle?				
a) Journal entry > transaction analysis > ledger account				
b) Transaction analysis > journal entry > ledger account				
c) Transaction analysis > journal entry > trial balance				
d) Transaction analysis > trial balance > ledger account				
40. The book in which business transactions are recorded	d in o	classified form is the:		
a) Trial balance	c)	Journal		
b) Ledger	d)	Cash book		
41. The function of the ledger is:				
a) Recording	c)	Summarization		
b) Classification	d)	Interpretation		
42. A separate record for each account is maintained in t	he:			
a) Journal		Ledger		
b) Trial balance		None of the above		
43. Double Entry Accounting System is successfully app				
a) Trial Balance		Journal		
b) Ledger		Cash Book		
44. The process of transferring data from journal to ledger is called:				
a) Recording		Posting		
b) Journalizing		All of these		
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- 45. Ledger is a book in which accounts are opened:
  - a) All Real
  - b) All Personal
- 46. Ledger is also called:
  - a) Main Book of Entry
  - b) King of Books of Accounts
- 47. Difference between two sides of an account is:
  - a) Balance
  - b) Trial Balance
- 48. The basic purpose of preparing a trial balance is:
  - a) To find out the profit of the business
  - b) To show the financial position of the business
  - c) To test the arithmetical accuracy of the ledger
  - d) To calculate the net purchases of the business
- 49. Which of the following is correct about an agreed trial balance:
  - a) Both debit and credit aspects of each transaction have been recorded
  - b) The books are arithmetically correct
  - c) The debit and credit columns of trial balance have been correctly summed
  - d) All of the above
- 50. Which of the following is the correct sequence of the accounting cycle:
  - a) Journal > Trial balance > Ledger > Transaction Analysis
  - b) Transaction Analysis > Journal > Ledger > Trial Balance
  - c) Purchases > Journal > Ledger > Trial Balance
  - d) None of the above

a) Balance method

51. A trial balance prepared after taking into account the effect of adjusting entries is known as:

- a) Financial trial balance
- b) Adjusted trial balance
- 52. The two methods of preparing a trial balance are:
  - a) Financial method and total method
  - b) Total method and normal method
- 53. In addition to the arithmetical accuracy of ledger, a trial balance provides:
  - a) A summary of total capital invested in the business during the period
    - b) A summary of sales made during the period
    - c) A summary of total cash collected from customers during the period
    - d) A summary of all transactions made since the end of the previous accounting period
- 54. Which one of the following is the most popular method of preparing a trial balance:
  - c) Trial and error method
- b) Total method d) Line method 55. Under the balance method, which one of the following is used to prepare the trial balance at the end of an accounting period:
  - a) Beginning balances of ledger accounts
  - b) Ending balances of ledger accounts
  - c) Total of beginning and ending balances of ledger accounts
  - d) Difference of beginning and ending balances of ledger accounts
- 56. Under the total method, which of the following is used to prepare the trial balance:
  - a) Totals of the amount columns of ledger accounts
  - b) Differences of amount columns of ledger accounts
  - c) Opening balances of ledger accounts

- c) All Normal
- d) All of these
- c) Both of these
- d) None of these
- c) Zero Balance
- d) All of these

- c) Unadjusted trial balance d) Normal trial balance
- c) Balance method and financial method
- d) Balance method and total method

- d) Closing balances of ledger accounts
- 57. Statements prepared to indicate the profit or loss and financial position of the business are called:
  - a) Financial Statements
  - b) Bank Reconciliation Statements

58. The account showing the gross profit or gross loss of the business is called:

- a) Profit and Loss Account
- b) Balance Sheet
- 59. A trading account is prepared to record:
  - a) Net Profit or Loss
  - b) Gross Profit or Loss
- 60. The debit side of a trading account records:
  - a) Direct Expenses
  - b) Indirect Expenses
- 61. Closing stock is recorded in the:
  - a) Profit and Loss Account
  - b) Trading Account and Balance Sheet
- 62. Profit and loss account shows the:
  - a) Total Capital Employed
  - b) Profit and Loss Through Sale of Assets
- 63. The profit and loss account is prepared:
  - a) At a specific point of time
  - b) On a fixed date
- 64. Carriage outward is an example of:
  - a) Direct Expenses
  - b) Indirect Expenses
- 65. Which of the following are indirect expenses?
  - a) Salary Expenses
  - b) Insurance Expenses
- 66. Income earned from other than routine activities is called:
  - a) General Income
  - b) Direct Income
- 67. Discount received is an example of:
  - a) Indirect Income
  - b) Direct Income
- 68. Which of the following are indirect income?
  - a) Commission Received
  - b) Interest on Investment
- 69. The credit side of a profit and loss account records:
  - a) Direct Expenses
  - b) Direct Income
- 70. The balance sheet is a statement of:
  - a) Assets
  - b) Capital

71. The balance sheet discloses the financial position of a business:

- a) For a given period
- b) At a specific point in time
- 72. Properties, items, and receivables with certain value that are owned by a business are called:
  - a) Assets

- c) Trial Balance
- d) All of these
- - c) Trial Balance
  - d) Trading Account
  - c) Both (1) and (2)
  - d) Financial Position
  - c) Direct and Indirect Expenses
  - d) None of these
  - c) Balance Sheet Only
  - d) None of the above
  - c) Profit Earned by Business
  - d) None of these
  - c) For a certain period
  - d) All of the above
  - c) Indirect Income
  - d) Direct Income
  - c) Rent Expense
  - d) All of the above
  - c) Indirect Income
  - d) None of these
  - c) Net Income
  - d) General Income
  - c) Dividends Received
  - d) All of the above
  - c) Indirect Expenses
  - d) Indirect Income
  - c) Liabilities
  - d) All of the above
- c) On a certain fixed date
  - d) All of the above

b) Liabilities

c) Goods	d) Something else			
73. Any physical item with monetary value is:				
a) An Intangible Asset	c) Goodwill			
b) A Fictitious Asset	d) An Asset			
74. Assets that physically exist are called:	,			
a) Tangible Assets	c) Contingent Assets			
b) Fictitious Assets	d) Intangible Assets			
75. The relationship between two financial variables can				
a) Pure ratio	c) Rate or time			
b) Percentage	d) Either of the above			
76. Liquid assets is determined by	d) Either of the above			
a) Current assets – stock - Prepaid expenses				
b) Current assets + stock + prepaid expenses				
c) Current assets + Prepaid expenses				
d) None of the above				
77. Higher the ratio, the more favourable it is, doesn't sta				
a) Operating ratio	c) Net profit ratio			
b) Liquidity ratio	d) Stock turnover ratio			
78. Given Sales is 1,20,000 and Gross Profit is 30,000, the				
a) 24%	c) 40%			
b) 25%	d) 33%			
79. If selling price is fixed 25% above the cost, the Gros	s Profit ratio is			
a) 13%	c) 26%			
b) 28%	d) 20%			
80. The current ratio can be numerically expressed in the form of the following equation:-				
a) Current ratio = Current assets – current liabilities				
b) Current ratio = Current assets + current liabilities	5			
c) Current ratio = Current assets / current liabilities				
d) Current ratio = Current assets * current liabilities				
81. Which of the following is not a part of liquidity ratio				
a) Current ratio	c) Liquid ratio			
b) Solvency ratio	d) Quick ratio			
82. What is the ideal liquid ratio?				
a) 1:1	c) 1:2			
b) 2:1	d) None of these			
83. Which of the following ratios are basically the measure of yield or return?				
a) Liquidity	c) Debt			
b) Activity	d) Profitability			
84. The ratio of a business firm is measured by	· · ·			
	its ability to satisfy its short-term obligations			
as they become due.	a) Date			
a) Activity	c) Debt			
b) Liquidity	d) Profitability			
85. The ratio are a measure of the speed with	h which various accounts are converted into			
sales or cash.				
a) Activity	c) Debt			
b) Liquidity	d) Profitability			
86. The is used in evaluating credit and collec				
a) Average payment period	b) Current ratio			

d) Inventory turnover ratio

- c) Average collection period
- 87. Net working capital is defined as
  - a) Total assets less current assets
  - b) The excess of current assets over current liabilities
  - c) Current liabilities less current assets
  - d) Marketable securities and cash
- 88. The two basic measures of liquidity are:
  - a) Inventory turnover and current ratio
  - b) Current ratio and liquid ratio
  - c) Gross profit margin and operating ratio
  - d) Current ratio and average collection period
- 89. XYZ company extends credit term of 45 days to its customers. Its credit collection would be considered poor if its average collection period was:
  - a) 30 days c) 40 days
  - b) 36 days d) 57 days
- 90. The \_\_\_\_\_\_ indicates the percentage of each sale rupee remaining after the firm has paid for its goods.
  - a) Net profit margin
  - b) Operating profit margin
  - c) Gross profit margin
  - d) Earnings available to shareholders