

Financial Accounting and Management

Unit 2

Multiple Choice Questions

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

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

45. Ledger is a book in which accounts are opened:
- a) All Real
 - b) All Personal
 - c) All Normal
 - d) All of these
46. Ledger is also called:
- a) Main Book of Entry
 - b) King of Books of Accounts
 - c) Both of these
 - d) None of these
47. Difference between two sides of an account is:
- a) Balance
 - b) Trial Balance
 - c) Zero Balance
 - d) All of these
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
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
 - c) Unadjusted trial balance
 - d) Normal trial balance
52. The two methods of preparing a trial balance are:
- a) Financial method and total method
 - b) Total method and normal method
 - c) Balance method and financial method
 - d) Balance method and total 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:
- a) Balance method
 - b) Total method
 - c) Trial and error 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) Goods
73. Any physical item with monetary value is:
a) An Intangible Asset
b) A Fictitious Asset
- d) Something else
c) Goodwill
d) An Asset
74. Assets that physically exist are called:
a) Tangible Assets
b) Fictitious Assets
- c) Contingent Assets
d) Intangible Assets
75. The relationship between two financial variables can be expressed in:
a) Pure ratio
b) Percentage
- c) Rate or time
d) Either of the above
76. Liquid assets is determined by
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 stand true for
a) Operating ratio
b) Liquidity ratio
- c) Net profit ratio
d) Stock turnover ratio
78. Given Sales is 1,20,000 and Gross Profit is 30,000, the gross profit ratio is
a) 24%
b) 25%
- c) 40%
d) 33%
79. If selling price is fixed 25% above the cost, the Gross Profit ratio is
a) 13%
b) 28%
- c) 26%
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
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 ratios:
a) Current ratio
b) Solvency ratio
- c) Liquid ratio
d) Quick ratio
82. What is the ideal liquid ratio?
a) 1:1
b) 2:1
- c) 1:2
d) None of these
83. Which of the following ratios are basically the measure of yield or return?
a) Liquidity
b) Activity
- c) Debt
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) Activity
b) Liquidity
- c) Debt
d) Profitability
85. The _____ ratio are a measure of the speed with which various accounts are converted into sales or cash.
a) Activity
b) Liquidity
- c) Debt
d) Profitability
86. The _____ is used in evaluating credit and collection policies.
a) Average payment period
- b) Current ratio

- c) Average collection period
d) Inventory turnover ratio
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
 - b) 36 days
 - c) 40 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