

Objective Type Quiz: UNIT - IV: Financial Accounting

Topic: Accounting Concepts, Conventions, and Accounting Equation

1. Which of the following is NOT an accounting concept?

- a) Going Concern
- b) Matching
- c) Conservatism
- d) Monopoly

Answer: d) Monopoly

2. The Going Concern Concept assumes that a business will:

- a) Operate for a definite period.
- b) Continue indefinitely.
- c) Liquidate immediately.
- d) Focus only on profit-making.

Answer: b) Continue indefinitely

3. According to the Conservatism Convention, which statement is true?

- a) All profits must be recognized immediately.
- b) All future losses should be ignored.
- c) Record liabilities only when they are certain.
- d) Anticipate no profits but provide for all probable losses.

Answer: d) Anticipate no profits but provide for all probable losses

4. Which accounting equation is correct?

- a) $\text{Assets} = \text{Liabilities} + \text{Revenue}$
- b) $\text{Assets} = \text{Liabilities} + \text{Capital}$
- c) $\text{Liabilities} = \text{Assets} + \text{Capital}$
- d) $\text{Capital} = \text{Liabilities} + \text{Revenue}$

Answer: b) $\text{Assets} = \text{Liabilities} + \text{Capital}$

5. Under the Matching Concept, expenses are recognized when:

- a) Cash is paid for them.
- b) They are incurred, regardless of revenue.
- c) They are matched with the revenue they helped to earn.
- d) At the end of the accounting period.

Answer: c) They are matched with the revenue they helped to earn

6. The Accounting Convention of Materiality refers to:

- a) Recording all small transactions in detail.
- b) Recording only transactions that are significant to financial decisions.
- c) Ignoring all expenses.
- d) Emphasizing the qualitative aspects of transactions.

Answer: b) Recording only transactions that are significant to financial decisions

7. What happens to the accounting equation when a business takes a loan?

- a) Assets increase, and liabilities increase.
- b) Assets decrease, and liabilities increase.
- c) Liabilities increase, and capital decreases.
- d) Assets and liabilities remain constant.

Answer: a) Assets increase, and liabilities increase

8. Which of the following BEST explains the Dual Aspect Concept?

- a) Every transaction affects only one account.
- b) Each transaction has two aspects, debit and credit.
- c) The business is separate from its owners.
- d) Revenue and expenses must match.

Answer: b) Each transaction has two aspects, debit and credit

9. The concept that suggests financial statements should be prepared in a way that ensures comparability over periods is:

- a) Consistency
- b) Prudence
- c) Accrual
- d) Materiality

Answer: a) Consistency

10. Which of the following transactions affects only the Capital account in the accounting equation?

- a) Purchase of machinery for cash.
- b) Introduction of additional capital by the owner.
- c) Taking a loan from a bank.
- d) Paying outstanding expenses.

Answer: b) Introduction of additional capital by the owner

11. The Double-Entry System of Accounting ensures that every transaction affects:

- a) Only one account.
- b) Two or more accounts.
- c) The capital account only.
- d) Only income and expenses.

302780Answer: b) Two or more accounts

12. In a double-entry system, the total of debits must always equal the total of:

- a) Assets
- b) Credits
- c) Liabilities
- d) Capital

Answer: b) Credits

13. Which of the following BEST defines the Double-Entry System?

- a) A system that tracks income and expenses only.
- b) A system where each transaction has a corresponding debit and credit.
- c) A system that records cash transactions only.
- d) A system that focuses only on the balance sheet.

Answer: b) A system where each transaction has a corresponding debit and credit

14. Which of the following is NOT a rule of the double-entry system?

- a) Debit what comes in, credit what goes out.
- b) Debit all incomes, credit all expenses.
- c) Debit the receiver, credit the giver.
- d) Debit all expenses, credit all incomes.

Answer: b) Debit all incomes, credit all expenses

15. Under the Golden Rules of Accounting, which account is governed by the rule “Debit what comes in, credit what goes out”?

- a) Personal Account
- b) Real Account
- c) Nominal Account
- d) Capital Account

Answer: b) Real Account

16. Which of the following is an example of a Personal Account?

- a) Machinery Account
- b) Rent Account
- c) Bank Account
- d) Cash Account

Answer: c) Bank Account

17. If goods are sold for cash, which accounts are affected?

- a) Cash Account and Sales Account
- b) Purchases Account and Cash Account
- c) Sales Account and Capital Account
- d) Purchases Account and Sales Account

Answer: a) Cash Account and Sales Account

18. The rule “Debit the receiver, credit the giver” applies to which type of account?

- a) Nominal Account
- b) Real Account
- c) Personal Account
- d) Expense Account

Answer: c) Personal Account

19. Which of the following transactions will NOT require an entry in the books of accounts under the double-entry system?

- a) Purchase of machinery on credit
- b) Goods withdrawn by the owner for personal use
- c) Signing a loan agreement (no disbursement)
- d) Payment of salaries

Answer: c) Signing a loan agreement (no disbursement)

20. Identify the correct classification and rules for the following transaction: "Salary paid to employees."

- a) Personal Account, Debit the receiver, credit the giver
- b) Real Account, Debit what comes in, credit what goes out
- c) Nominal Account, Debit all expenses, credit all incomes
- d) Capital Account, Debit the receiver, credit the giver

Answer: c) Nominal Account, Debit all expenses, credit all incomes

21. What is the primary purpose of maintaining books of accounts in a double-entry system?

- a) To track business cash flow only.
- b) To ensure the accuracy of financial statements.
- c) To record one-sided transactions.
- d) To avoid creating a trial balance.

Answer: b) To ensure the accuracy of financial statements

22. In a double-entry system, a transaction recorded as a debit in one account must:

- a) Have a corresponding credit in a different account.
- b) Be recorded only in the journal.
- c) Be recorded on the asset side of the balance sheet.
- d) Be posted to a nominal account only.

Answer: a) Have a corresponding credit in a different account

23. Which of the following falls under the Real Account category?

- a) Commission Received Account
- b) Machinery Account
- c) Debtors Account
- d) Salaries Account

Answer: b) Machinery Account

24. Which is the correct order for recording transactions in books of accounts?

- a) Ledger → Journal → Trial Balance
- b) Trial Balance → Journal → Ledger
- c) Journal → Ledger → Trial Balance
- d) Ledger → Trial Balance → Journal

Answer: c) Journal → Ledger → Trial Balance

25. Which is a Golden Rule for maintaining Nominal Accounts?

- a) Debit what comes in, credit what goes out.
- b) Debit the receiver, credit the giver.
- c) Debit all expenses and losses, credit all incomes and gains.
- d) Debit all incomes, credit all expenses.

Answer: c) Debit all expenses and losses, credit all incomes and gains

1. What is the primary purpose of a journal in accounting?

- a) To prepare financial statements
- b) To record transactions chronologically
- c) To classify accounts
- d) To calculate net profit

Answer: b) To record transactions chronologically

2. In a journal entry, which part provides a brief description of the transaction?

- a) Ledger Folio
- b) Particulars
- c) Narration
- d) Account Name

Answer: c) Narration

3. What is the correct journal entry for the transaction: "Goods purchased for ₹20,000 on cash"?

- a) Cash A/c Dr. ₹20,000; To Purchases A/c ₹20,000
- b) Purchases A/c Dr. ₹20,000; To Cash A/c ₹20,000
- c) Sales A/c Dr. ₹20,000; To Cash A/c ₹20,000
- d) Purchases A/c Dr. ₹20,000; To Sales A/c ₹20,000

Answer: b) Purchases A/c Dr. ₹20,000; To Cash A/c ₹20,000

4. Which of the following is NOT part of the journal entry?

- a) Debit Amount
- b) Credit Amount
- c) Ledger Balances
- d) Narration

Answer: c) Ledger Balances

Section B: Posting to Ledger

5. The process of transferring journal entries to ledger accounts is called:

- a) Balancing
- b) Posting
- c) Journalizing
- d) Summarizing

Answer: b) Posting

6. What does the abbreviation "J.F." in a ledger represent?

- a) Journal Folio
- b) Journal Format
- c) Justification Folio
- d) Journal Function

Answer: a) Journal Folio

7. In the ledger, which side records debits?

- a) Right side
- b) Left side
- c) Both sides
- d) Center

Answer: b) Left side

8. After posting the journal entry "Salaries A/c Dr. ₹10,000; To Cash A/c ₹10,000", the ledger account for Salaries will show:

- a) Debit balance of ₹10,000
- b) Credit balance of ₹10,000
- c) No balance
- d) Both debit and credit of ₹10,000

Answer: a) Debit balance of ₹10,000

9. The purpose of a trial balance is to:

- a) Record transactions
- b) Summarize ledger balances
- c) Prepare the journal
- d) Ensure all accounts are real

Answer: b) Summarize ledger balances

10. In a trial balance, which accounts are recorded under the credit column?

- a) Assets and liabilities
- b) Liabilities and capital
- c) Expenses and losses
- d) All debits

Answer: b) Liabilities and capital

11. What will the trial balance show if total debits do NOT equal total credits?

- a) A perfectly balanced account
- b) An error in the accounting records
- c) A surplus profit
- d) Completion of accounting

Answer: b) An error in the accounting records

12. A trial balance is prepared to:

- a) Adjust entries
- b) Locate errors in journal entries
- c) Check the arithmetical accuracy of the books
- d) Determine financial position

Answer: c) Check the arithmetical accuracy of the books

13. Which account would you debit for the following transaction: "Goods sold for ₹15,000 on credit to Mr. A"?

- a) Sales A/c
- b) Cash A/c
- c) Mr. A's Account
- d) Purchases A/c

Answer: c) Mr. A's Account

14. What happens to the ledger balance after balancing an account?

- a) It is transferred to the trial balance.
- b) It is recorded in the journal.
- c) It is omitted from further accounting.
- d) It is reversed.

Answer: a) It is transferred to the trial balance.

15. If a ledger shows a debit balance of ₹12,000 for the Cash Account, it will appear in the trial balance under:

- a) Credit side
- b) Debit side
- c) Both sides
- d) It will not appear

Answer: b) Debit side

1. Which of the following is NOT an element of financial statements?

- a) Assets
- b) Liabilities
- c) Equity
- d) Inventory

Answer: d) Inventory

2. Assets are classified into which two main categories?

- a) Fixed and Current
- b) Tangible and Intangible
- c) Real and Personal
- d) Capital and Revenue

Answer: a) Fixed and Current

3. Which of the following is a current liability?

- a) Machinery
- b) Long-term loans
- c) Accounts payable
- d) Buildings

Answer: c) Accounts payable

4. Equity is calculated using the formula:

- a) Assets – Liabilities
- b) Revenue – Expenses
- c) Current Assets – Current Liabilities
- d) Income + Liabilities

Answer: a) Assets – Liabilities

5. Which financial statement shows the financial position of a company as on a specific date?

- a) Income Statement
- b) Cash Flow Statement
- c) Balance Sheet
- d) Profit and Loss Account

Answer: c) Balance Sheet

6. An increase in capital is shown under which element of financial statements?

- a) Assets
- b) Liabilities
- c) Equity
- d) Revenue

Answer: c) Equity

7. Revenue is recorded in which financial statement?

- a) Cash Flow Statement
- b) Profit and Loss Account
- c) Balance Sheet
- d) Trial Balance

Answer: b) Profit and Loss Account

8. Which of the following is NOT an expense?

- a) Wages
- b) Rent
- c) Interest received
- d) Depreciation

Answer: c) Interest received

9. The Trading Account is prepared to determine:

- a) Net Profit
- b) Gross Profit
- c) Operating Profit
- d) Financial Position

Answer: b) Gross Profit

10. Closing stock appears in the:

- a) Trading Account only
- b) Profit and Loss Account only
- c) Balance Sheet only
- d) Both Trading Account and Balance Sheet

Answer: d) Both Trading Account and Balance Sheet

11. The Profit and Loss Account is prepared to calculate:

- a) Gross Profit
- b) Net Profit
- c) Financial Position
- d) Cash Flow

Answer: b) Net Profit

12. Which of the following is an item of indirect expense?

- a) Wages
- b) Cost of Goods Sold
- c) Office Salaries
- d) Purchases

Answer: c) Office Salaries

13. If sales are ₹80,000, purchases are ₹50,000, and gross profit is ₹20,000, the cost of goods sold is:

- a) ₹30,000
- b) ₹50,000
- c) ₹60,000
- d) ₹70,000

Answer: c) ₹60,000 > (*Sales – Gross Profit = Cost of Goods Sold*)

14. If opening stock is ₹10,000, purchases are ₹40,000, and closing stock is ₹15,000, the cost of goods sold is:

- a) ₹45,000
- b) ₹50,000
- c) ₹35,000
- d) ₹55,000

Answer: a) ₹45,000 > (*Opening Stock + Purchases – Closing Stock = Cost of Goods Sold*)

15. In the Balance Sheet, which side includes capital, reserves, and liabilities?

- a) Assets
- b) Liabilities
- c) Equity
- d) Both Liabilities and Equity

Answer: d) Both Liabilities and Equity

16. Given the following data, calculate Gross Profit: (

Sales: ₹1,00,000

Purchases: ₹70,000

Closing Stock: ₹20,000

Opening Stock: ₹10,000)

- a) ₹30,000
- b) ₹40,000
- c) ₹20,000
- d) ₹50,000

Answer: b) ₹40,000 - \rightarrow (Gross Profit = Sales – Cost of Goods Sold; COGS = Opening Stock + Purchases – Closing Stock)

17. Prepare a Profit and Loss Account given the following data: Gross Profit:

₹50,000, Rent: ₹5,000, Salaries: ₹15,000, Depreciation: ₹10,000

Net Profit:

- a) ₹20,000
- b) ₹25,000
- c) ₹30,000
- d) ₹40,000

Answer: a) ₹20,000 \rightarrow (Net Profit = Gross Profit – Total Expenses)

18. A Balance Sheet shows: Fixed Assets: ₹1,00,000, Current Assets: ₹50,000, Capital: ₹1,20,000, Liabilities: ₹30,000. What is the Total Assets value?

- a) ₹1,20,000
- b) ₹1,30,000
- c) ₹1,50,000
- d) ₹1,80,000

Answer: c) ₹1,50,000 \rightarrow (Fixed Assets + Current Assets = Total Assets)