

## **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)