

Multiple Choice Questions(Unit IV)

1) The financial statements comprise

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|-----------------------------------|---|
| a) Trading Account, Balance sheet | b) Balance Sheet, Ledger |
| c) Journal, Ledger | d) Trading, Profit & Loss, Balance Sheet |

2) Goods or Money used for personal purpose is an example for

- | | |
|--------------------|--------------|
| a) Drawings | b) Net sales |
| c) Net Purchases | d) Capital |

3) Purchase book records

- | | |
|----------------------------|-----------------|
| a) Cash Purchases | b) Goods |
| c) Credit Purchases | d) Goods Bought |

4) Loyalty of the employee is not disclosed in the financial statements. This is because of

- | | |
|-------------------------------------|---------------------|
| a) Money Measurement concept | b) Accrual Concept |
| c) Going concern Concept | d) Matching Concept |

5) _____ is a statement containing debit and credit balances of various accounts taken from Ledger.

- | | |
|--------------------------|------------------|
| a) Trial Balance | b) Balance Sheet |
| c) Profit & Loss Account | d) None |

6) The difference between the total revenue and total cost is called

- | | |
|------------|-------------------|
| a) Profit | b) Gain |
| c) Capital | d) Cost of Capita |

7) _____ is an art of recording the business transactions in the books of original entry and the ledgers.

- | | |
|-------------------|------------------------|
| a) Book Binding | b) Book Keeping |
| b) Book recording | d) Book Posting |

8) “Net Profit” Can be found out by preparing

- | | |
|-------------------------------------|--------------------|
| a) Balance Sheet | b) Trading Account |
| C) Profit & Loss Account | d) Cash Flow |

9) The long term assets that have no physical existence but are rights that have value is known as

- a) **Intangible Assets**
- b) Fixed Assets
- c) Investments
- d) Current Assets

10) The assets that can be converted into cash within a short period (i.e. 1 year or less) are known as

- a) Fixed Assets
- b) Investments
- c) Intangible Assets
- d) **Current Assets**

11) The following is not a type of liability

- a) Short term
- b) Current
- c) Contingency
- d) Long Term

12) In journal, the business transaction is recorded

- a) **Same Day**
- b) Once A week
- c) Next Day
- d) Once a Month

13) The process of entering all transactions from the journal to ledger is called

- a) Accounting
- b) **Posting**
- c) Entry
- d) None of the Above

14) Balance sheets are prepared

- a) Monthly
- b) Weekly
- c) Fortnight Basis
- d) **Annually**

15) Prepaid rent given in the Trial Balance will be treated as a

- a) **Asset**
- b) Liability
- c) Investment
- d) Revenue

16) Money spent to acquire or upgrade physical assets is known as

- a) Revenue Expenditure
- b) Investment
- c) **Capital expenditure**
- d) Cash Expenditure

17) _____ is the art of recording, classifying and summarizing the transactions and events of a business and interpreting the results thereof.

- a) **Accounting**
- b) Management
- c) Auditing
- d) Book-Keeping

18) The expenses yet to be paid are called as

- a) **Outstanding Expenses**
- b) Nominal Expenses
- c) Sub-standard Expenses
- d) Notional Expenses

19) Which of the following can reveal some errors that creep in the accounts?

- a) Ledger
- b) Double-Entry System
- c) **Trial Balance**
- d) Journal

20) Which of the Accounting concept says that $\text{Assets} = \text{Liabilities} + \text{owners capital}$

- a) **Dual Aspect Concept**
- b) Accrual concept
- c) Matching Concept
- d) Going Concern Concept

21) What will be debited, if Mohsin commenced business with cash?

- a) **Cash Account**
- b) Drawing Account
- c) Drawings Account
- d) Business Account

22) The moment transactions take place they are recorded in

- a) Balance Sheet
- b) **Journal**
- c) Ledger
- d) Trial Balance

23) The difference between Assets and Liabilities is called

- a) Profit
- b) Loss
- c) Expense
- d) **Capital**

24) Which of the following is known as the base for preparing trial balance?

- a) **Ledger**
- b) Journal
- c) Cash Account
- d) Profit & Loss Account

25) Which of the following is also called Return Inwards

- a) Purchase returns
- b) Net sales
- b) Net Purchases
- d) **Sales returns**

Short Questions

Explain the following in brief

1. Definition of Accounting
2. Ledger
3. Subsidiary Books
4. Accounting concepts
5. Double Entry Book Keeping system
6. Balance Sheet

Journalize the following Transactions

2014 January 1 Robert Commenced business with 20000

January 2 Deposited into Bank 5000

January 3 bought goods worth 2000 from Don

January 5 Paid rent 2500

What is adjustment? Explain the significance and effect in preparation of final accounts

Discuss types and rules of accounting

Distinguish between single and double entry system of book keeping in accounting

Long Questions

1. What is accounting? Explain concepts and conventions
2. What do you understand by Double entry book keeping system? What are its advantages.

From the following Trial Balance prepare Trading and Profit and Loss Account for the year ended 31st December, 2009 and Balance Sheet as on the date:

	Dr. (Rs.)	Cr (Rs.)
Drawings	10000	
Stock as on 1-1-2009	46000	
Purchase and Purchase returns	150000	600
Cash in hand	3400	
Bank balance	22660	
Freehold Premises	38600	
Trade expenses	840	
Printing, Stationery and advertising	1640	
Professional charges	280	
Commission received		3300
Investment as on 1 st Jan. @10%	4000	
Interest on Deposits		200
Sundry debtors and creditors	36000	29000
Wages	25000	
Salaries	14000	
Rent Rates and Insurance	4000	
Capital		114700
Income Tax	1600	
Discount allowed and received	6300	4600
Sales Returns and Sales	500	208000
Bills Receivables and Bills Payables	3200	10000
Office Furniture	3050	
Bad Debts Provision		670
	371070	371070

Adjustments

1. Provide for wages Rs.5000.
2. Write off 5% depreciation on freehold premises and 10% on office furniture.
3. Insurance to the extent of Rs.200 belongs to 2010.
4. Closing stock as on 31.3.2010 is Rs.52000.
5. Charge interest on capital @ 5%.

Similar Problems with Adjustments(Simple Adjustments)

Unit 5

Important Question

Short –Questions

1. Current ratio
2. Debt-equity ratio
3. Operating ratio
4. EPS
5. Limitation of Ratio Analysis
6. Inventory Turn Over ratio
7. Quick asset
8. What is a Ratio?
9. What do you mean by Liquidity ratio?
10. Current ratio
11. Solvency
12. Working capital.
13. Depreciation
14. Write a Performa of Sources and Application of Funds

Easy Questions

1. What is a Activity ratio and explain the different types of Activity Ratio.
2. The following is an extract of a balance sheet of a company during the last year. Compute current ratio and quick ratio. Also interpret the ratios.

	Rs.
Land and building	50,000
Plant and Machinery	1,00,000
Furniture and fixtures	25,000
Closing stock	25,000
Wages prepaid	2,500
Sundry debtors	12,500
Sundry Creditors	8,000
Rent Outstanding	2,000

3. Explain the significance of ratio analysis in evaluating the performance of companies.
4. What is ratio? Discuss about different ratios.
5. Write about the steps in preparation of funds flow statement.

6. How do you analyze the position of a business organization with the help of ratios?
7. The following Trading and Profit and Loss Account of Fantasy Ltd. For the year 31-3-2017 is given below:

Particulars	Rs.	Particulars	Rs.
To Opening Stock	76,250	By Sales	5,00,000
To Purchases	3,15,250	By Closing Stock	98,500
To Carriage	2,000		
To Wages	5,000		
To Gross Profit b/d	2,00,000		
	5,98,500		5,98,500
To administration exp.	1,01,000	By Gross Profit b/d	2,00,000
To Selling & Dis. Exp.	12,000	By Non-Operating Incomes	
To Non-operating exp.	2,000	By interest on securities	1,500
To Financial Exp.	7,000	By Dividend on Shares	3,750
To Net Profit c/d	84,000	By Profit on Sales of shares	750
	2,06,000		2,06,000

Calculate:

1. Gross Profit Ratio 2. Expenses Ratio 3. Operating Ratio 4. Net Profit Ratio
5. Operating (Net) Profit Ratio 6. Stock Turnover Ratio
8. A company has capital of Rs. 10, 00,000; its turnover is 3 times the capital and the margin on sales is 6%. What is the return on investment?
9. Ram & Company supplies you the following information regarding the year ended 31st December:

Cash Sales Rs. 8,00,000

Credit sales Rs. 2,00,000

Return Inward Rs. 10,000

Opening stock Rs. 25,000

Closing stock Rs. 30,000

GP ratio is 25%. Find out inventory ratio.

8. From the following Balance sheet of XYZ Ltd., prepare a statement of changes in working capital.

Capital and Liabilities	31.12.2012 (Rs.)	31.12.2013 (Rs.)
Share capital	6,00,000	7,50,000
Sundry Creditors	1,60,000	1,00,000
Bills Payable	52,000	40,000
Profit and Loss Account	28,000	62,000
	8,40,000	9,52,000
Assets		
Machinery	1,40,000	2,00,000
Stock	2,42,000	2,72,000
Debtors	3,62,000	3,40,000
Cash	96,000	1,40,000
	8,40,000	9,52,000

10. A company has reported a current profit of Rs. 2, 70,000 after taking into consideration the following: Calculate funds from operation.

Particular	Rs.
Loss on sale of furniture	20,000
Premium of redemption of debentures	10,000
Discount on issue of debentures	20,000
Depreciation on machinery	25,000
Good will written off	20,000
Interim dividend paid	30,000
Gain from sale of land	40,000
Dividend income on investments	5,000
Transfer to general reserve	50,000
Preliminary expenses written off	20,000
Profit on revaluation of investments	15,000

Unit 5

11. Given is the Balance Sheet of ABC LTD. You are required to prepare a Funds Flow Statement.

	As on 31st March 2013 (Rs.)	As on 31st March 2014 (Rs.)
Fixed assets at cost	7,00,000	8,70,000
Less: Depreciation	2,56,000	3,60,000
Net fixed assets (A)	4,50,000	5,10,000
Current assets		
Investment (temporary)	1,00,000	1,50,000
Closing Inventory	18,15,000	19,00,000
Sundry debtors	13,15,000	13,87,000
Total of current assets (B)	32,30,000	34,37,000
Less: Current Liabilities		
Bank overdraft	11,60,000	5,50,000
Trade creditors and provision	9,98,00	11,92,000
Proposed dividend	1,60,000	2,40,000
Total Current Liabilities (C)	23,18,000	19,82,000
Working capital (D) = (B-C)	9,12,000	14,55,000
Net fixed assets (A)+ Net working capital (D)	13,62,000	19,65,000
Represented by		
Ordinary share	7,56,000	10,00,000
General reserve	2,60,000	3,80,00
Profit and loss account	3,52,000	4,85,000
8% Debentures	-	1,00,000
	13,62,000	19,65,000

MCQ - Unit 5

Multiple choice Questions

1) Which would a business be most likely to use its solvency?

- a) Gross Profit Ratio b) Debtors collection Period
- c) Current Ratio d) **Debt-equity Ratio**

2) When the concept of ratio is defined in respect to the items shown in the financial statements, it is termed as

- a) **Accounting ratio** b) financial ratio
- c) Costing ratio d) none of the above

3) The ideal level of current ratio is

- a) 4:2 b) **2:1**
c) Both a and b d) None of the above

4) 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

5) Which of the following is useful to see if fixed assets are used efficiently in the business?

- a) Gross profit
b) debtors collection period
c) Current ratio
d) **asset turnover ratio**

6) A company's return on investment indicates it's.....

- a) Solvency
b) stock turnover
c) **Profitability**
d) debtor collection

7) Which of the following measures company's (current assets-stock)/current Liabilities?

- a) **Acid test ratio** b) current ratio
- c) Debtor collection period d) stock turnover ratio

8) Higher asset turnover ratio explains

- a) more profitability b) **better utilization of assets**
- c) Higher sales turnover d) large asset base

Unit 5

9) If average collection period is more, it means.....

- a) Better collection of receivables b) **poor collection**
c) Average collection of receivables d) large asset base

10) Profit for the objective of calculating a ratio may be taken as

- a) Profit before tax but after interest b) Profit before interest and tax
c) Profit after interest and tax d) **All of the above**

11) Quick ratio is also known as

- a) Current ratio b) **Acid test ratio** c) Working capital ratio d) Stock turnover ratio

12) **Debt-equity ratio is a sub-part of**

- a) Short-term solvency ratio b) **Long-term solvency ratio**
c) Debtors turnover ratio d) None of the above

13) Which of the following is not included in current assets?

- a) Debtors b) **Creditors** c) Cash at bank d) Cash in hand

14) Overall Profitability ratios are based on

- a) **Investments** b) Sales c) a & B d) None of the above

15) Return on Proprietors' funds is also known as:

- a) Return on net worth b) Return on Shareholders' fund
c) Return on Shareholders' Investment d) **All of the above**

16) Return on equity capital is calculated on basis of:

- a) Funds of equity shareholders b) Equity capital only
c) **Either a or b** d) None of the above

17) Determine stock turnover ratio if, Opening stock is Rs 31,000, Closing stock is Rs 29,000, Sales is Rs 3,20,000 and Gross profit ratio is 25% on sales.

- a) 31 times b) 11 times c) **8 times** d) 32 times

18) Turnover ratios are also known as

- a) Activity ratios b) Performance ratios c) **Both a and b** d) None of the above

19) Operating ratio is calculated by.....

- a) $(\text{Operating Cost} / \text{Gross sales}) * 100$ b) $(\text{Operating Cost} / \text{Gross sales}) * 100$
c) **$(\text{Operating cost} / \text{Net sales}) * 100$** d) None of the above

20) If sales is Rs 10,00,000, sales returns is Rs 50,000, Profit Before Tax is Rs 2,00,000, Income tax is 40%, Net profit ratio is

- a) **12.63%** b) 20% c) 10% d) 50%

Unit 5

21) Gross Profit ratio should be adequate to cover

- a) Selling expenses b) Administrative expenses
- c) Dividends d) **All of the above**

22) Gross Profit ratio is also termed as

- a) Gross Profit Margin b) Gross Margin to net sales
- c) **Both a and b** d) All of the above

23) Current Ratio is _____.

- a) **Balance Sheet ratio** b) Revenue statement ratio
- c) Composite ratio d) None of the above

24) Quick Assets = Current Assets –(Stock –Prepaid Expenses)

- a) True b) **False** c) a&b d) neither a nor b

25) The ideal quick ratio is

- a) 2:1 b) **1:1** c) 5:1 d) None of the above