

Introduction

1)

The accounting process involves in recording:

- A) **Quantifiable economic event**
- B) Non quantifiable economic event
- C) All of them
- D) None of them

2)

In accounting an Economic event is referred to as:

- A) Cash
- B) Bank statement
- C) **Transaction**
- D) Exchange of money

3)

Identify the correct sequence of accounting process

- A) Communicating→Recording→Identifying
- B) Recording→Communicating→Identifying
- C) Identifying→communicating→recording
- D) **Identifying→recording→communicating**

4)

Bookkeeping mainly concerns with which part of accounting process?

- A) Analysing

- B) Preparing financial statements
- C) Recording financial information**
- D) Auditing the books of accounts

5)

Financial accounting provides financial information to all of the following external users except:

- A) Government agencies
- B) investors
- C) Creditors
- D) Managers**

6

For which step of accounting process the accountants of business entity prepare financial statements?

- A) Identification of economic event
- B) Communication of financial information**
- C) Recording financial information
- D) Making decisions about business

7)

Keeping the log of financial information in books of original entries is called

- A) Recording**
- B) summarizing
- C) Grouping
- D) Processing

8)

Auditing is what?

- A) Reporting the financial information
- B) Examination of financial statements**

- C) Preparation financial statements
- D) maintaining the ledger records

9)

Which of the following is the external user of financial statements?

- A) Manager of the business
- B) CEO of the business
- C) Creditor of the business**
- D) Controller of the business

10)

Which of the following is the internal user of financial statements?

- A) Creditor of the business
- B) Government agency
- C) Shareholder of the business
- D) Manager of the business**

11)

_____ is the first phase of accounting cycle

- A) Identifying an economic event or transaction**
- B) Preparing journals
- C) Posting entries to ledger accounts
- D) Making decisions about business

12)

Financial statements differ from management account because

- A) They are mainly prepared for external users of financial information**
- B) They are more complex and hard to prepare
- C) They are the summary of accounting data

D) They are prepared on basis of actual concept

13)

_____ is a separate legal entity that Total capital can be divided in many shares

A) Partnership

B) Sole proprietorship

C) Company

D) Non-profit organization

14)

An asset possesses which of the following?

A) Future economic benefits for the business

B) All kind of benefits for the business

C) Expenses for the business

D) Merits and Demerits for the business

15)

Liabilities are which of the following?

A) Resources

B) Obligations

C) Future benefits

D) Expenses

16)

_____ is the gross inflow of economic benefits

A) Assets

B) Liabilities

C) Income

D) Expenses

17)

The gross decrease in economic benefits for the business are what?

- A) **Expenses**
- B) Obligations
- C) Creditors
- D) Income or gain

18)

An asset must be _____ by the business to be shown as an asset in its "balance sheet"

- A) Possessed
- B) **Owned**
- C) Controlled
- D) Used

19)

Liability are arisen from which of the following events?

- A) Present event
- B) Future event
- C) **Past event**
- D) Non of them

20)

Which of the following can be considered as the most important phase of accounting cycle and is the primarily objective of financial accounting?

- A) Identifying transactions
- B) Preparing "T Accounts"
- C) **Preparing financial statements**
- D) Preparing trial balances

21)

Which is the most important characteristic that all assets of a business have?

- A) Long life of assets
- B) Value of assets
- C) Intangible nature of assets
- D) Future economic benefits**

22)

What is the basic accounting equation?

- A) Capital+Liabilities=Assets**
- B) Assets+ liabilities =Capital
- C) Capital+assets=liabilities
- D) Liabilities+Capital

23)

Which of the following is a liability?

- A) Cash
- B) Equipment
- C) Debtors
- D) Creditors**

24)

What is equity?

- A) Cash from the business
- B) liability of a business
- C) Owner's claim on total assets**
- D) Owner's claim on total liabilities

25)

Identify the asset from the following

A) Cash and cash equivalent

B) Creditors

C) Notes payable

D) Bank loan

26)

_____ the withdrawal of cash and goods by the owner of the business for his/her personal use

A) Depreciation

B) Drawings

C) Outflow of cash

D) Appreciation

27)

Net loss occurs when

A) Expenses are greater than Income

B) Expenses are less than Income

C) Expenses=Income

D) Liabilities are greater than income

28)

Double entry implies that

A) Recording entries in journal

B) Recording entries in Ledger account

C) Recording two aspects of every transaction

D) Recording every transaction in books

29)

Identify the nominal account

- A) Machinery account
- B) Building account
- C) Creditors account
- D) Rent expenses account**

30)

Which of the following accounts can be classified as a real account?

- A) Rent expenses account
- B) Rent income account
- C) insurance expenses account
- D) Cash account**

ANSWER:

- 1 A 2 C 3 D 4 C 5 D 6 B 7 A 8 B 9 C 10 D
11 A 12 A 13 C 14 A 15 B 16 C 17 A 18 C 19 C 20 C
21 D 22 A 23 D 24 C 25 A 26 B 27 A 28 C 29 D 30 D

Journal Journal

1)

The process of recording is done

- A) Two times a year
- B) once a year
- C) Frequently during the accounting period**
- D) At the end of a accounting period

2)

General journal is a book of _____ entries

- A) First
- B) Original**
- C) Secondary
- D) Generic

3)

The process of recording transactions in different journals is called

- A) Posting
- B) Entry making
- C) Adjusting
- D) Journalizing**

4)

Every business transaction affects at least _____ accounts

- A) One
- B) Two**
- C) Three
- D) Infinite

5)

Discount allowed is a kind of deduction from

- A) Account payable
- B) Account receivable**
- C) Cash account
- D) Discount account

6)

The other name of journal is

- A) Ledger
- B) T account
- C) Day book**
- D) Cash book

7)

A journal entry in which two or more account is debited or credited is

referred as

- A) Journal entry
- B) Multi entry
- C) Additional entry
- D) Compound entry**

8)

The term 2/10-n/30 implies that _____ % discount will be given if the payment is made within _____ days or full amount is receivable within 30 days

- A) 2,10**
- B) 10,2
- C) 10,30
- D) 3,15

9)

Goods returned by customer should be debited to which of the following accounts?

- A) Sales income account
- B) Sales account
- C) Return inward account**
- D) Expenses account

10)

Discount allowed is

- A) Expense of business**
- B) Income of business
- C) Loss of business
- D) Abnormal loss of business

11)

_____ is the evidence that a transaction took place

- A) Source documents**

- B) Ledger
- C) Bonds
- D) Journals

12)

Which of the following will be debited if a business purchases goods on credit?

- A) Cash
- B) Debtor
- C) Creditor
- D) Purchases**

13)

Which of the following accounts will be debited if the business's owner withdraws cash from business for his personal use?

- A) Drawings**
- B) Cash
- C) Business
- D) Stock

14)

Journals are also referred as

- A) Book of entries
- B) Book of original entries**
- C) T account
- D) Books of economic event

15)

The standard format of journal does not include which of the following?

- A) Assets column**
- B) Date column
- C) Description column

D) Amount column

16)

In which of the following orders data is entered in journal?

A) Alphabetical order

B) Numeric order

C) Bullets order

D) Chronological order

17)

Which of the following accounts will be credited if a company purchases building for cash?

A) Capital account

B) Fixed assets account

C) Building account

D) Cash account

18)

Discount for quick repayment of debt is normally referred as

A) Trade discount

B) Prompt payment discount

C) Cash discount

D) Bulk discount

19)

The first step in accounting process is

A) Recording the transaction

B) Identifying the transaction

C) Posting the transaction

D) Preparing the source documents

20)

A chart of accounts generally start with which of the following types of accounts?

- A) **Assets accounts**
- B) liability accounts
- C) Cash accounts
- D) Revenue accounts

ANSWER:

1 C 2 B 3 D 4 B 5 B 6 C 7 D 8 A 9 C 10 A 11 A 12 D 13 A 14 B 15 A 16 D 17 D 18 C 19 B 20 A.

Accounting Equation

1)

The Basic accounting equation is

- A) Asset=Expense +Income
- B) Assets=Cash+Capital
- C) **Assets=Capital+Liabilities**
- D) Assets=Expenses+Capital

2)

Find out the value of assets if: Liabilities=\$5000 and Capital=\$1000

- A) \$4000
- B) **\$6000**
- C) \$7000
- D) \$3000

3)

Calculate the amount of cash if: Total assets=\$10,000 Total liabilities=\$10,000
Total Capital=\$5000

- A) \$6000
- B) \$10,000
- C) **\$5000**
- D) \$1000

4)

Capital increases if _____ increases

- A) Expenses
- B) Drawings
- C) Interest on capital
- D) Revenue**

5)

Capital of a business decreases if there is an increase in

- A) Drawings**
- B) Income
- C) Gains
- D) Fresh capital

6)

If the total liabilities of a business decrease by \$5000 what will be the effect on total asset?
(assuming the amount of capital remain same)

- A) Remain constant
- B) Decrease by \$5000**
- C) Increase by \$5000
- D) Increase by \$10,000

7)

If the business's owner withdraws cash for his/her personal use what will be the effect on capital?

- A) Increase in capital
- B) Remain the same
- C) Decrease in capital**
- D) No effect on capital

8)

Net income equal to Revenues minus

- A) Gains
- B) Depreciation
- C) Expenses**
- D) Capital expenditures

9)

Collection of account receivable will

- A) Increase assets and decrease assets**
- B) Increase assets and decrease liabilities
- C) Increase assets and increase capital
- D) Increase assets and increase cash

10)

Payment of expenses will _____ the assets

- A) Increase
- B) Reduce**
- C) apportion
- D) Overstate

11)

Which of the following is the practical implementation of the accounting equation?

- A) Cash flow statement
- B) Income statement
- C) Statement of changes in equity
- D) Statement of financial position**

12)

Which of the following accounting equation is correct?

- A) Cash+Other assets=Capital-Liabilities
- B) Capital+ Liabilities=Assets+Income
- C) Assets-Liabilities=Capital**

D) $\text{Assets} + \text{Capital} = \text{Liabilities}$

13)

Fresh capital introduction will increase

- A) Assets and liabilities
- B) Assets and equity**
- C) Liabilities and equity and bank balance
- D) Capital and liabilities

14)

Cash received for services rendered will

- A) Increase cash and liability
- B) Increase equity and liability
- C) Increase fixed assets and cash
- D) Increase cash and equity**

15)

Which of following best describes the increase in equity expands _____

- A) Business operations**
- B) cash outflows
- C) Inflows of cash
- D) Appropriation expenses

16)

**If Cash=\$1000 inventories=\$4000 Debtors=\$5000 fixed assets=?
Capital+Liabilities=\$15000 What is the Amount of total assets?**

- A) \$5000**
- B) \$10,000
- C) \$15,000
- D) \$20,000

17)

Depreciation decreases

- A) Liabilities
- B) Cash
- C) Bank
- D) Capital**

18)

An increase in provision for bad debt will

- A) Decrease net income**
- B) Decrease liabilities
- C) Increase net income
- D) Increase liabilities

19)

Current assets - Current liabilities=?

- A) Capital
- B) Absorbed capital
- C) Net assets
- D) Net working capital**

20)

Assets-Liabilities=?

- A) Cash
- B) Equity**
- C) Net income
- D) Net expenses

Answer:

**1 c 2 b 3 c 4 d 5 a 6 b 7 c 8 c 9 a 10 b 11 d 12 c 13 b 14 d 15 a
16 a 17 d 18 a 19 d 20 b.**

Ledger or T Accounts

Ledger or T Accounts

1)

Transferring entries from journal to ledger account is commonly known as

- A) Recording
- B) Transferring**
- C) Posting
- D) Entry making

2)

An account records the _____ in the balance of an item

- A) Increase
- B) Decrease
- C) Increase or decrease**
- D) Appreciation

3)

If credit side of a bank account is greater than the debit side, it indicates which of the following?

- A) Bank overdraft**
- B) Cash at bank
- C) Bank balance
- D) Current Asset

4)

If debit side of a bank account is greater than credit side it indicates which of the following?

- A) Cash at bank**
- B) Bank understatement
- C) Bank overdraft
- D) Balance overstatement

5)

_____ will be credited if goods are given as charity

- A) Cash

B) Charity

C) Purchases

D) Sales

6)

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

A) Journal

B) Cash account

C) Ledger account

D) Balance sheet

7)

If debit balance is greater than credit balance then the account balance will be:

A) Credit balance

B) Debit and credit balance

C) Cash balance

D) Debit balance

8)

The normal balance of capital account is

A) Credit balance

B) Debit balance

C) Cash balance

D) Neither debit nor credit balance

9)

The normal balance of asset account is

A) Credit balance

B) Debit balance

C) Cash balance

D) Neither debit nor credit balance

10)

The normal balance of liability account is

- A) Debit balance
- B) Credit balance**
- C) Cash balance

11)

Which of the following statements is incorrect regarding capital account?

- A) Debit increases the capital account balance**
- B) Credit increases the capital account balance
- C) Fresh capital increases the capital account balance
- D) Net income increases the capital account balance

12)

Which of the following is the normal balance of a rent expense account?

- A) Credit balance
- B) Cash balance
- C) Overdraft
- D) Debit balance**

13)

Revenue and expense accounts are referred as

- A) Nominal accounts**
- B) Real account
- C) Cash accounts
- D) Banks account

14)

The real accounts are accounts of Assets, liabilities and _____

- A) Expenses
- B) Revenues

C) Capital

D) Drawing

15)

Building account is classified as _____ account

A) Nominal

B) Real

C) Cash

D) Capital

16)

Office equipments account is classified as _____ account

A) Nominal

B) Real

C) Cash

D) Capital

17)

_____ helps business to classify transactions according to their nature

A) General journal

B) Real accounts

C) Ledger accounts

D) Cash accounts

18)

Which of the following is a real account?

A) Office equipment

B) Rent expenses

C) Rent income

D) Insurance expense

19)

Which of the following accounts are closed at the end of an accounting period?

- A) **Nominal accounts**
- B) Balance sheet accounts
- C) Real accounts
- D) None of them

20)

Which of the following is the closing balance of a ledger account?

- A) **Blance c/d**
- B) Balance b/d
- C) Balance e/d
- D) Balance f/c

Answers:

1 c 2 c 3 a 4 a 5 c 6 c 7 d 8 a 9 b 10 b 11 a 12 d 13 a 14 c 15 b 16 b 17 c 18 a 19 a 20 a.

Trial balance Mcqs

1)

Trial balance is prepared to check accuracy of

- A) **Ledger accounts balances**
- B) Balance sheet balances
- C) Income statement balances
- D) Cash flow statement balances

2)

If a transaction is completely omitted from the books of accounts, will it affect the agreement of a trial balance?

- A) Yes
- B) **No**
- C) Transactions can't be omitted

3)

_____ is the common base for preparing a trial balance

A) **Ledger accounts**

B) General Journal

C) Specialized journals

D) Balance sheet

4)

Which of the following is true about a trial balance?

A) **It lists down the balances of accounts**

B) It lists down the balances of a balance sheet

C) It is a kind of financial statement

D) It is not a part of accounting cycle

5)

Debit balance = Credit balance in a trial balance indicates that

A) No error in recording transactions

B) No error in posting entries to ledger accounts

C) Account balances are correct

D) **Mathematically Capital+Liabilities=Assets**

6)

Trial balance is commonly prepared

A) Frequently during the year

B) **At the end of an accounting period**

C) At the end of a month

D) At the end of a year

7)

Which of the following will affect the agreement of a trial balance?

- A) Complete omission of a transaction
- B) Partial omission of a transaction**
- C) Error of principle
- D) Compensating errors

8)

If debit balances = credit balances, trial balance only shows or check the

_____ and it does not indicate that no errors were made during recording and posting

- A) Arithmetic accuracy**
- B) Errors of commission
- C) Omissions of economic events
- D) Understatements of balances

9)

Which of the following account with normal balance is shown at the debit side of a trial balance?

- A) Rent income account
- B) Creditors account
- C) Unearned income account
- D) Cash account**

10)

Which of the following account with normal balance is shown at the credit side of a trial balance?

- A) Cash account
- B) Bank account
- C) Equipment account

D) Accrued expenses account

Answers :

1 a 2 b 3 a 4 a 5 d 6 b 7 b 8 a 9 d 10 d.

Book of original entries - Cash book MCQs

1)

The closing balance of petty cash book is considered as

A) Liability

B) Asset

C) Expenses

D) Income

2)

Payment of rent expenses is recorded on which side of cash book?

A) Receipts

B) Payments

C) Income

D) Expense

3)

An entry which is made on both sides of a cash book is called

A) Cash entry

B) Contra entry

C) Payment entry

D) Compound entry

4)

A cash book with cash, bank and discount column is commonly referred as

A) Cash book

B) Two columns cash book

C) Three columns cash book

D) Petty cash book

5)

Cash book records

A) Cash payments

B) Cash receipts

C) Cash payments and cash receipts

D) Neither cash payments nor cash receipts

6)

Cash discount is allowed on _____ repayment of debt

A) Lump sum

B) Prompt

C) Actual

D) None of them

7)

Cash book is prepared by

A) Bank

B) Accountant of business

C) Manager of a company

D) Bank's cashier

8)

The most common imprest system is the _____ system

A) petty cash

- B) Cash book
- C) Cash receipt
- D) Discount

9)

Discount received is recorded on which of the following side of a cash book?

- A) Receipts**
- B) Payments
- C) Incomes
- D) Expenditures

10)

Drawings by owner of business are generally recorded on which of the following side of a cash book?

- A) Receipts
- B) Payments**
- C) Incomes
- D) Expenditures

11)

Introduction capital by owner of business is recorded on which side of a cash book?

- A) Receipts**
- B) Payments
- C) Incomes
- D) Expenditures

12)

Cash book with cash and discount column is mostly referred as

- A) Simple cash book
- B) Two column cash book**

C) Three column cash book

D) Petty cash book

13)

A cash book that is used to record the small payments of cash is generally referred as

A) Simple cash book

B) Two column cash book

C) Three column cash book

D) Petty cash book

14)

A simple or one column cash book usually has which of the following main columns?

A) Bank

B) Payments

C) Discount

D) Cash

15)

Purchase of office equipment for cash will be recorded on which of the following sides of a cash book?

A) Receipts

B) Payments

C) Incomes

D) Expenditures

16)

Postdated checks are considered as

A) Cash

B) Bank balance

C) **Accounts receivable**

D) Cash reserve

17)

Postage stamps on hand are considered as

A) Bank

B) Prepaid expenses

C) Accounts receivable

D) Creditor

18)

Petty cash fund is supposed to be replenished

A) Every day

B) Every half year

C) Every year

D) At the end of every accounting period

19)

Which of the following is generally not the party to a check?

A) Payee

B) Payer

C) Bank

D) Seller

20)

A credit balance in cash book indicates

A) Bank balance

B) Cash at bank

C) **Bank overdraft**

D) Bank underdraft

Answers:

1 B 2 B 3 B 4 C 5 C 6 B 7 B 8 A 9 B 10 B 11 A 12 B 13 D 14 D
15
B 16 C 17 B 18 D 19 D 20 C.

Favourable balance of cash book implies that

A) Credit balance of cash book

B) Debit balance of cash book

C) Bank overdraft

D) Adjusted balance of cash book

2)

A cash deposit made by business appears on the bank statement as _____ balance

A) Debit

B) Credit

C) Expenses

D) Liability

3)

Bank reconciliation statement is the comparison of a bank statement (sent by bank) with the _____ (prepared by business)

A) Cash receipt journal

B) Cash payment journal

C) Cash book

D) Financial statements

4)

A check returned by bank marked "NSF" means that

A) Bank can't verify your identity

B) There are not sufficient funds in your account

C) Check has been forged

D) Check can't be cashed being illegal

5)

In the Bank reconciliation statement "Deposit in transit" is usually

A) Subtracted from bank balance

B) Added to bank balance

C) Added to Cash book balance

D) Subtracted from cash book balance

6)

Bank reconciliation statement is prepared by

A) Accountant of the business

B) Manager of the business

C) Controller of the bank

D) Accountant of the bank

7)

Which of the following error results in unadjusted cash book balance?

A) Outstanding checks

B) Unpresented checks

C) Deposit in transit

D) Omission of Bank charges

8)

Bank charges amounting to \$5000 was not entered in the cash book. Identify the correct adjustment in cash book

A) Bank charges will be debited in cash book

B) Bank charges will be added to cash book balance

C) Bank charges will be credited in cash book

D) Bank charges need no adjustment in cash book

9)

Unpresented checks also referred as

A) Uncollected checks

B) Uncredited checks

C) Outstanding checks

D) Bounced checks

10)

_____ are checks that are issued by the business but not yet presented to bank

A) Uncollected checks

B) Uncredited checks

C) Outstanding checks

D) Bounced checks

11)

_____ Checks that are presented to bank but not yet credited by the bank

- A) Unpresented checks
- B) Uncredited checks**
- C) Outstanding checks
- D) Bounced checks

12)

Uncollected checks also referred as

- A) Unpresented checks
- B) Uncredited checks**
- C) Outstanding checks
- D) Bounced checks

13)

Favourable balance of bank statement implies that

- A) Credit balance**
- B) Debit balance
- C) Bank overdraft
- D) Adjusted balance

14)

Standing orders are _____

- A) Credited in the cash book**
- B) Debited in the cash book
- C) Entered in the bank statement
- D) Entered in the petty cash balance

15)

A company was entered in hire purchase agreement and had to pay \$1000 per month. Three payments were made via bank account but no entry was found in cash book. Identify the correct adjustment in cash book

- A) \$1000 will be added to cash book balance
- B) \$2000 will be deducted from cash book balance
- C) \$3000 will be added to cash book balance
- D) \$3000 will be subtracted from cash book balance**

16)

\$5000 deposited in bank account was entered twice in the cash book. Identify the correct adjustment in cash book

- A) \$5000 will be credited
- B) \$5000 will be debited
- C) \$10,000 will be credited
- D) \$10,000 will be debited

17)

Bank sent debit advice of \$500 to company being interest on overdraft. It wasn't entered in cash book. Identify the correct adjustment in cash book

- A) \$500 will be debited
- B) \$500 will be credited**
- C) Non-adjustable
- D) \$1000 will be subtracted

18)

In bank reconciliation statement the amount of outstanding checks is added to _____ balance of cash book

- A) Adjusted**
- B) Unadjusted
- C) Understated
- D) Overstated

19)

Balance as per cash book (adjusted) = \$1000, Unpresented checks = \$2000, Uncredited checks = \$500, Deposit in transit = \$500. Compute the balance as per bank statement

- A) \$2000**
- B) Zero
- C) \$3000
- D) \$2500

20)

A discount of \$2000 was given to a supplier on his prompt repayment of debt but the cashier entered the gross amount in cash book. What should be the adjustment in cash to work out the correct balance of cash book?

- A) \$2000 will be debited in cash book
- B) \$2000 will be credited in cash book**
- C) \$4000 will be debited in cash book
- D) \$4000 will be credited in the cash book

ANSWERS.

1 B

2 B

3 C

4 B

5 B

6 A

7 A

8 C

9 C

10 C

11 B

12 B

13 A

14 A

15 D

16 A

17 B

18 A

19 A

20 B

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FINANCIAL ACCOUNTING MCQS SET 1

MCQ FOR FINANCIAL ACCOUNTING

1. Which English alphabet is similar to the shape of an account?

- (a) I
- (b) T
- (c) H
- (d) None

2. Gross Profit is the difference between

- (a) Net Sales and Cost of goods sold

- (b) PAT and Dividends
- (c) Net Sales and Cost of production
- (d) Net Sales and Direct costs of productions

[Hints: (a) Trading account is prepared to find out the Gross Profit due to the operations of a business. It is the difference between the Net Sales (i.e., Sales less sales return) and the Cost of goods sold. $\text{Cost of goods sold} = \text{Opening Stock} + \text{Net Purchases} - \text{Closing Stock} + \text{Direct expenses}$.

Hence option (a) is the right option. Option (c) is incorrect because cost of production does not consider the opening stock and closing stock adjustment. Similarly option (d) ignores stock balance adjustment.]

3. Recording of Capital contributed by the owner as liability ensures the adherence of principle of

- (a) Double Entry
- (b) Going Concern
- (c) Separate Entry
- (d) Materiality

[Hints: (c) Recording of capital contributed by the owner as liability ensures the adherence of

principle of the —Separate entity or Business entity concept. The concept requires the business to

be treated as distinct from the persons who own it; then it becomes possible to record transactions

of the business with the proprietor also. Without such a distinction, the affairs of the firm will be

mixed up with the private affairs of the proprietor and the true picture of the firm will not be

available.

Under the Going Concern Concept, it is assumed that the business will exist for a long time and

transactions are recorded from this point of view. It is this that necessitates distinction between

expenditure that will render benefit over a long period and that whose benefit will be exhausted

quickly.

Under Double-entry or Dual aspect concept, each transaction has two aspects, if a business has

acquired an asset, it must have resulted in one of the following:

- ⊖ Some other asset has been given up.
- ⊖ The obligation to pay for it has arisen.
- ⊖ There has been a profit, leading to an increase in the amount that the business owes to the proprietor.
- ⊖ The proprietor has contributed money for the acquisition of the asset.
- ⊖ The concept of Materiality requires all the material items to be recorded and disclosed separately.]

4. The basic concepts related to Balance Sheet are

- (a) Cost Concept
- (b) Business Entity Concept

- (c) Accounting Period Concept
- (d) Both (a) and (b) above

[Hints: (d) Cost concept requires the transactions to be recorded in the books of accounts at the amounts actually involved. Suppose a firm purchases a piece of land for ` 1,50,000 but considers its worth ` 3,00,000. The purchase will be recorded at ` 1,50,000. Business entity concept requires the business to be treated as distinct from the persons who own it; then it becomes possible to record transactions of the business with the proprietor also. Without such a distinction, the affairs of the firm will be mixed up with the private affairs of the proprietor and the true picture of the firm will not be available. Accounting period concept is applicable to the Profit & Loss Account which is prepared for the year ending and cannot be applied to Balance Sheet as it is a statement prepared as on a particular date. Therefore, cost and entity concepts are related to Balance Sheet.]

5. The basic concepts related to P & L Account are

- (a) Realization Concept
- (b) Matching Concept
- (c) Cost Concept
- (d) Both (a) and (b) above

[Hints: (d) Under Realization concept, accounting is a historical record of transactions and unless money has been realized – either cash has been received or a legal obligation to pay has been assumed by the customer- no sale can be said to have taken place and no profit can be said to have arisen. Matching concept requires that all the revenues must be matched with the expenses. Therefore, the above concepts are related to the Profit & Loss Account.]

6. Which of the following is (are) characteristic(s) of Bad Debt?

- (a) It is a definite loss to the business
- (b) It must be shown in Profit & loss account
- (c) No provision is necessary for it
- (d) All of the given options

7. Only the significant events which affect the business must be recorded as per the principle of

- (a) Separate Entity
- (b) Accrual
- (c) Materiality
- (d) Going Concern

[Hints: (c) The concept of materiality requires that only the significant events that affect the

business must be recorded.]

8. P & L Account is prepared for a period of one year by following

- (a) Consistency Concept
- (b) Conservatism Concept
- (c) Accounting Period Concept
- (d) Cost Concept

[Hints: (c) P&L A/C is prepared for a period of one year by following the concept of Accounting Period.]

9. If the Going Concern concept is no longer valid, which of the following is true?

- (a) All prepaid assets would be completely written-off immediately
- (b) Total contributed Capital and Retained Earnings would remain unchanged
- (c) Intangible Assets would continue to be carried at net Amortized historical cost
- (d) Land held as an Investment would be valued at its realizable value

[Hints: (d) Under the Going Concern Concept, it is assumed that the business will exit for a long time and transactions are recorded from this point of view. It is this that necessitates distinction between expenditure that will render benefit over a long period and that whose benefit will be

10. Under which of the following concepts are shareholders treated as creditors for the amount they

paid on the shares they subscribed to?

- (a) Cost Concept
- (b) Duality Concept
- (c) Business Entity Concept
- (d) Since the shareholders own the business, they are not treated as creditors

[Hints: (c) Under business entity concept, the shareholders are treated as creditors of the company.

It is also known as separate entity concept.]

Answers:

1 b 2 a 3 c 4 d 5 d 6 d 7 c 8 c 9 d 10 c

11. The underlying accounting principle(s) necessitating amortization of intangible asset(s) is/are

- (a) Cost Concept
- (b) Realization Concept
- (c) Matching Concept
- (d) Both (a) and (c) above

[Hints: (c) The matching concept requires that all the revenues must be matched with the expenses incurred during the accounting period. The expenses relating to intangible assets are amortized over the periods in which the benefit from intangible assets accrue and therefore the underlying principle is the matching concept.]

12. Which of the following practices is not in consonance with the convention of conservatism?

- (a) Creating Provision for Bad debts
- (b) Creating Provision for Discount on Creditors
- (c) Creating Provision for Discount on Debtors
- (d) Creating Provision for tax

[Hints: (b) The principle of conservatism seeks provisions for all the probable losses. Creating provision for discount on creditors tantamount to recognition of probable gain in the form of discount and hence it is not in consonance with conservatism.]

13. The accounting measurement that is not consistent with the Going Concern concept is

- (a) Historical Cost
- (b) Realization
- (c) The Transaction Approach
- (d) Liquidation Value

[Hints: (d) Liquidation value is the value of the business when the business is wound up and is under liquidation whereas the going concern concept assumes that the business will continue over a long time and therefore the accounting measurement —Liquidation Value is inconsistent with going concern concept.]

14. Recording of Fixed Assets at cost ensures adherence of

- (a) Conservatism Concept
- (b) Going Concern Concept
- (c) Cost Concept
- (d) Both (a) and (b) above

[Hints: (c) Cost concept requires the transactions to be recorded in the books of accounts at the amounts actually involved. Suppose a firm purchases a piece of land for ` 1,50,000 but considers its worth ` 3,00,000. The purchase will be recorded at ` 1,50,000. Therefore, recording of fixed assets at cost ensures the adherence of cost concept.]

15. Omission of paise and showing the round figures in financial statements is based on

- (a) Conservatism Concept
- (b) Consistency Concept
- (c) Materiality Concept
- (d) Realization Concept

[Hints: (c) Omission of paise and showing the round figure in financial statements is based on the concept of materiality.]

16. X Ltd., purchased goods for ` 5 lakh and sold 9/10th of the value of goods for ` 6 lakh. Net expenses during the year were ` 25,000. The company reported its net profit as ` 75,000. Which of the following concept is violated by the company?

- (a) Realization
- (b) Conservation
- (c) Matching
- (d) Accrual

[Hints: (c) Matching concept requires the expenses must relate to the goods and services sold during that period to arrive at the net profits of the enterprise. Hence matching concept requires the recognition of revenue and expenses on a comparable basis. In the above question that amount of ` 75,000 as net profit was arrived at by deducting ` 5,00,000 (being cost of purchases) + ` 25,000 expenses from the sale proceeds of ` 6,00,000. This does not follow matching concept since the cost of goods sold is to be deducted and not the cost of purchases, since some purchases have been left in stock. So the net profit using matching concept is ` 6,00,000 less cost of goods ` 4,50,000 (i.e. ` 5,00,000 x 9/10) less expenses of ` 25,000 = ` 1,25,000.]

17. Accounting does not record non- financial transactions because of

- (a) Entity Concept
- (b) Accrual Concept
- (c) Cost Concept
- (d) Money Measurement Concept

[Hints: (d) The money measurement concept: Accounting records only those transactions which are expressed in monetary value, though quantitative records are kept. Hence, accounting does not record non – financial transactions.]

18. Mr. Rohit, owner of Rohit Furniture Ltd., owns a personal residence that cost ` 6,00,000, but has a market value of ` 9,00,000. During preparation of the financial statement for the business, the entire value of property was ignored and was not shown in the financial statements. The principle that was followed was

- (a) The concept of the Business Entity
- (b) The concept of the Cost Principle
- (c) The concept of Going Concern Principle
- (d) The concept of Duality Principle

[Hints: (a) Business entity concept requires the business to be treated as a separate entity.]

19. Provision for bad debt is made as per the

- (a) Entity Concept
- (b) Conservatism Concept
- (c) Cost Concept
- (d) Going Concern Concept

[Hints: (b) Provision for bad debts is made as per the concept of conservatism.]

20. Fixed Assets and Current Assets are categorized as per concept of

- (a) Separate Entity
- (b) Going Concern
- (c) Consistency
- (d) Time

Answers:

11 c 12 b 13 d 14 c 15 c 16 c 17 d 18 a 19 b 20

Total depreciation of an asset cannot exceed its:

- (a) Scrap value
- (b) Residual value
- (c) Market value
- (d) Depreciable value

102. Amount paid to Gagan posted to the credit side of his account would affect

- (a) Gagan's account
- (b) Cash account
- (c) Cash account and Gagan's account
- (d) None of these

103. Which of the following statements is/are true ?

- (a) A sale of an asset is recorded in the Sales Book
- (b) Total of Return Outward Book is debited to Return Outward Account

- (c) The balance of Petty Cash Book is a liability
- (d) Cash Book is a subsidiary book as well as a ledger

[Hints: (d) The sale of an asset is recorded in the Asset Account and not in the Sales book (which

pertains to sale of goods). Statement (a) is false.

Total of Return Outwards book (being purchase return) has a credit balance. The total is transferred

at the end of the period to the credit of the Purchase Account and not debited to Return Outwards Account. Statement (b) is false.

The balance of Petty Cash book is not a liability, it is an asset as it is the balance of cash left with

the petty cashier. Statement (c) is incorrect.

Cash Book is both a subsidiary book or book of original entry where all cash transactions are

directly recorded and a ledger, it plays the role as a Cash Account (a ledger). Hence statement

(d) is true.

104. Which of the following is true regarding closing entries?

- (a) They must be followed by reversing entries
- (b) They transfer the balances in all of the Nominal Accounts to the Trading and Profit and Loss Account
- (c) They must be made after the reversing entries but before the adjusting entries
- (d) They must be made after the adjusting entries but before the reversing entries

[Hints: (d) Closing entries are required to transfer the nominal accounts to the Profit & Loss Account

and the Trading account. Real accounts and personal account are not closed to Profit & Loss

Account or Trading Account. Their balance is carried in the Balance Sheet and appears as opening Balance in the next accounting period.]

105. Closing stock is generally valued at

- (a) Cost Price
- (b) Market Price
- (c) Cost price or Market price whichever is higher
- (d) Cost price or Market price whichever is lower

[Hints: (d) Para 5, of AS-2 states that inventories should be valued at the lower of cost and net

realizable value.]

106. Which of the following assets is/are to be valued at the lower of cost and net realizable value?

- (a) Goodwill
- (b) Inventories
- (c) Investments
- (d) Both (b) and (c) above.

[Hints: (b) Inventories (b) are to be valued at the lower of cost and net realizable value. All the

other assets stated in other alternatives are valued as per the cost concept. Goodwill (a) is a fixed

intangible asset and is shown at the cost of its acquisition. Investments (c) are valued at cost or market value whichever is less. The combination of (b) and (c) is incorrect because a correct answer with incorrect answer is an incorrect answer. Thus, the correct answer is (b).

107. A few errors committed in Ahhiwalia's books of account are given below. State which errors would affect the Trial Balance.

- (a) Sales of `950 to Ram completely omitted from books of account
 - (b) Purchases of `720 from Shyam entered in the purchases journal as `700
 - (c) Purchases Journal is overcast by `1,000
 - (d) Sales returns journal is undercast by `200
 - (e) Amount paid to Agarwal wrongly posted to the debit to Mittal's account
 - (f) Bank overdraft shown under debit column in the Trial Balance
 - (g) Sales of `500 to Sadiq entered in sales journal as sales to Mushtaq
 - (h) Wages paid for installation of machinery debited to wages account
- (a) a, c and g
 - (b) c, d and f
 - (c) c, d, e and h
 - (d) c, d, f and h

108. Which of the following methods is not a practical way of realizing revenue?

- (a) Delivery method
- (b) Percentage-of-completion method
- (c) Production method
- (d) Moving average method

[Hints: (d) The following methods are the practical ways of realizing revenue applying the conservatism concept and realization concept and the (a) Delivery method in case of sale of goods, (b) Percentage-of-completion method in case of rendering of services and (c) Production method in case of agriculture produce. Thus, these are the various ways of recognizing revenue and the methods adopted to recognize revenue. Moving average method (d) is the method of valuing inventory and it is not the method adopted to recognize revenue. Thus, (d) is the correct answer.]

109. The amount payable to a person as consideration for the use of rights vested in him is

- (a) Dividend
- (b) Royalty
- (c) Purchase consideration
- (d) Installment

[Hints: (b) The amount paid to the landlord for use of rights vested in him is the royalty. Dividend is the amount paid for the investment made in an enterprise and is not the correct answer. Purchase consideration is the price paid for receiving a title of a property moveable and immovable and is not the correct answer. Installment is the payment of amount in stages and is not the amount paid for using the rights vested in the landlord and is not the correct answer.]

110. Buildings account is debited with an amount towards repairs. This is an example of

- (a) Error of commission
- (b) Error of principle
- (c) Error of omission
- (d) Compensating error

[Hints: (b) Buildings account debited with an amount towards repairs is an error of principle. Error of principle is a wrong classification of expenditure or receipt.]

111. The concept of conservatism will have the effect of

- (a) Overstatement of Assets
- (b) Understatement of Assets
- (c) Overstatement of Liabilities
- (d) Understatement of Liabilities

[Hints: (b) The concept of conservatism will have the effect of understatement of assets since the financial statements are usually drawn up on rather a conservative basis. Window-dressing i.e., showing a position better than what it is, is not permitted.]

112. During the year 2011-2012, the value of closing inventory was overstated by ₹ 25,000. Which of the following is true?

- (a) The cost of goods sold was overstated during 2011-2012 and income will be understated during 2012-2013
- (b) The income was overstated during 2011-12 and closing inventory will be overstated during 2012-2013
- (c) The retained earnings was overstated during 2011-2012 and retained earnings will be understated during 2012-2013
- (d) The cost of goods sold was understated during 2011-2012 but retained earnings will not be affected during 2012-2013

[Hints: (c) Closing Stock's overstatement increases the profit of the current period and results in the increase of retained earnings relating to the current accounting period. It decreases the profit and thereby retained earnings of the next accounting period since the closing stock of the current accounting period becomes the opening stock of the next accounting period, the overstatement of which has the effect of decreasing the profits and retained earnings.]

113. Which of the following errors is an error of omission?

- (a) Sale of ₹ 100 was recorded in the Purchases Journal
- (b) Wages paid to Mohan have been debited to his account
- (c) The total of the sales journal has not been posted to the Sales Account
- (d) Repairs to buildings have been debited to buildings account

[Hints: (c) Error of omission occurs when a transaction is entirely omitted from record in the original books partially omitted while posting. Therefore, omission of posting of the sales journal to

the Sales Account is an error of omission.]

114. Which of the following statements is /are true?

- (a) Entering wrong amount in the subsidiary book affects the agreement of the Trial Balance
- (b) Undercasting or overcasting of a subsidiary book is an example of error of commission
- (c) Errors of principle do not affect the agreement of Trial Balance
- (d) Both (b) and (c) above

[Hints: (d) Entering wrong amount in the subsidiary book does not affect the agreement of the Trial Balance as the same amount is posted in both the accounts affected. Undercasting or overcasting of a subsidiary book is an error of commission. Errors of principle do not affect the agreement of the Trial Balance. Hence both (b) and (c) options are true.]

115. Which of the following is true?

- (a) Error of casting affects personal accounts
- (b) Omission of a transaction from a subsidiary record affects only one account
- (c) Error of carry forward affects two accounts
- (d) Error of principle involves an incorrect allocation of expenditure or receipt between capital and revenue

[Hints: (d) Errors of casting can appear in any account and not personal accounts alone. Hence statements (a) is false. Omission of a transaction from subsidiary affects two accounts are subsidiary books are books of original entry hence posting in two accounts is omitted. Statement (b) is false. Error of carry forward affects only one account i.e., the account in whose an error has been made. Statement (c) is false. Errors of principle involve incorrect allocation of an item between capital and revenue. Hence statement (d) is true.]

116. Journal proper is meant for recording

- (a) Credit purchase of fixed assets
- (b) Return of goods
- (c) All such transactions for which no special journal has been kept by the business
- (d) None of these

117. Closing stock in the Trial Balance implies that

- (a) It is already adjusted in the opening stock
- (b) It is adjusted in the Purchase A/c
- (c) It is adjusted in the Cost of Sale A/c
- (d) It is adjusted in the Profit & Loss A/c

[Hints: (b) Closing Stock appearing in the Trial Balance implies that it has already been adjusted in the Purchases Account and hence appears as an asset in the Balance Sheet.]

118. Which of the following statements is true?

- (a) If a Trial Balance tallies, it always means that none of the transactions has been completely omitted
 - (b) A Trial Balance will not tally if a transaction is omitted
 - (c) A customer to whom goods have been sold on credit cannot avail himself of a cash discount
 - (d) A credit balance in the Pass Book indicates excess of deposits over withdrawals
- [Hints: (d) A credit balance in the Pass Book implies a favourable balance indicates excess of deposits over withdrawals and a debit balance in the Pass Book implies unfavorable balance i.e., a overdraft. Hence statement (d) is the true statement.]

119. The adjustment to be made for income received in advance is:

- (a) Add income received in advance to respective income and show it as a liability
- (b) Deduct income received in advance from respective income and show it as a liability
- (c) Add income received in advance to respective income and show it as asset
- (d) Deduct income received in advance from respective income and show it as an asset in the Balance Sheet

[Hints: (b) Income received in advance given as an adjustment requires a deduction of the same from the income amount and disclosure of the same as a liability in the Balance Sheet]

120. Which of the following statements is correct?

- (a) The Trial Balance is prepared after preparing the Profit and Loss Account
- (b) The Trial Balance shows only balances of Assets and Liabilities
- (c) The Trial Balance shows only nominal account balances
- (d) The Trial Balance has no statutory importance from the point of view of law

[Hints: (d) A Trial Balance is a summary of all General Ledger Balances outstanding as on a particular date. All the debit balances from the ledger are shown on one side and all the credit balances are shown on the other side. A Trial Balance is prepared before Final Accounts are prepared. From the point of view of law, a Trial Balance has no statutory importance.]

121. While finalizing the current year's accounts, the company realized that an error was made in the calculation of closing stock of the previous year. In the previous year, closing stock was valued more by ` 50,000. As a result

- (a) Previous year's profit is overstated and current year's profit is also overstated.
- (b) Previous year's profit is understated and current year's profit is overstated.
- (c) Previous year's profit is overstated and current year's profit is understated.
- (d) There will be no impact on the profit of either the previous year or the current year.

[Hints: (c) Closing stock overstatement and opening stock understatement increases the profits and vice versa is also equally true.]

122. Which of the following is not correct?

- (a) Errors which affect one account can be errors of posting
- (b) Errors of omission arise when any transaction is left to be recorded
- (c) Errors of carry forward from one year to another year affect both Personal and Real A/c
- (d) Errors of commission arise when any transaction is recorded in a fundamentally incorrect manner

[Hints: (d) Error of Commission arises because of wrong recording, wrong casting, wrong carry forward, wrong posting, wrong balancing etc.]

123. Which of the following errors is an error of omission?

- (a) Purchase of ` 2,000 has been recorded in the Sales Return Book
- (b) Repairs to machinery has been debited to Machinery Accounts
- (c) The total of purchase journal has not been posted to the Purchase Account
- (d) Legal charges paid to Mr. Lawyer have been debited to his account

[Hints: (c) Error of complete omission arises when a particular transaction is completely or partially omitted to be recorded in the books of accounts.]

124. If goods worth ` 1,750 returned to a supplier is wrongly entered in sales return book as ` 1,570 , then

- (a) Net Profit will decrease by ` 3,140
- (b) Gross Profit will increase by ` 3,320
- (c) Gross Profit will decrease by ` 3,500
- (d) Gross Profit will decrease by ` 3,320

125. For the past 3 years, DK Ltd. has failed to accrue unpaid wages earned by workers during the last week of the year. The amounts omitted, which were considered material, were as follows:

March 31, 2010 - ` 56,000

March 31, 2011 - ` 51,000

March 31, 2012 - ` 64,000

The entry on March 31, 2012 to rectify these omissions would include a

- (a) Credit to wage expense for ` 64,000
- (b) Debit to wage expense for ` 64,000
- (c) Debit to wage expense for ` 51,000
- (d) Debit to wage expense for ` 13,000

126. Purchase journal is kept to record

- (a) All purchases of goods
- (b) All credit purchases of goods
- (c) All credit purchases
- (d) None of these

127. The beginnings inventory of the current year is overstated by ` 5,000 and closing inventory is

overstated by ` 12,000.

These errors will cause the net income for the current year by

- (a) ` 17,000 (overstated)
- (b) ` 12,000 (understated)
- (c) ` 7,000 (overstated)
- (d) ` 7,000 (understated)

[Hints: (c) Overstatement of closing stock results in overstatement of profit and overstatement of opening stock results in understatement of profit. In the instant case, there will be overstatement of profit by ` 12,000 - ` 5,000 = ` 7,000.]

128. The accountant of Leo Ltd. recorded a payment by cheque to a creditor for supply of materials as ` 1,340.56. The bank recorded the cheque at its correct amount of ` 3,140.56. The Company has not passed any rectification entries and the error is not detected through the bank reconciliation. The impact of this error is

- (a) The Trial Balance will not agree
- (b) The balance of creditors is understated
- (c) The purchases are understated
- (d) The favorable bank balance as per Pass Book is less than the Bank balance as per Cash book

[Hints: (d) The favourable bank balance as per Pass Book will be less than the bank balance as per Cash Book, since the debit in the bank account is more than the debit in the Cash Book (d). As debit and credit are for equal amount there is no disagreement of the Trial Balance; Creditors balance is overstated but not understated: The favourable bank balance as per Pass Book will be less than the Bank balance as per Cash Book, since the debit in the Bank Account is more than the debit in the Cash book. Purchases are not affected, as it is a payment to the creditor. Thus, the correct answer is (d).]

129. Which of the following errors affects the agreement of a Trial Balance?

- (a) Mistake in balancing an account
- (b) Omitting to record a transaction entirely in the subsidiary books
- (c) Recording of a wrong entry in the subsidiary books
- (d) Posting an entry on the correct side but in the wrong account

[Hints: (a) The mistake in balancing an account affects the agreement of a Trial Balance (a) is the correct answer. The other mistakes do not affect the agreement of Trial Balance. The omission to record a transaction entirely in the subsidiary books (b) will not affect the agreement of a Trial Balance because both the aspects of a transaction are omitted to be recorded. Recording of a wrong entry in the subsidiary books (c) will not cause disagreement of a Trial Balance because, the wrong entry so recorded has the effect of posting the transaction in the manner it is

recorded.

Posting an entry on the correct side in the wrong account (d) does not affect the tallying of a Trial

Balance because the aspect of the transaction is posted to the correct side of an account.

Thus

(a) is the correct answer.]

130. Which of the following statements is/are true?

(i) An error in casting the subsidiary books is an error of commission

(ii) An error in wrong casting of the sales day book will not affect the personal accounts of debtors

(iii) Mistake in transferring the balance of an account to the Trial Balance will not affect the

agreement of the Trial Balance

(iv) The mistake of treating a liability as an income or vice versa will not affect the agreement of a

Trial Balance

(a) Only (i) above

(b) Only (ii) above

(c) Both (i) and (ii) above

(d) (i),(ii) and (iv) above

[Hints: (d) An error in casting the subsidiary books is an error of commissions (i), an error in wrong

casting of the sales day book will not affect the personal accounts of debtors (ii) and the mistake

of treating a liability as an income or vice versa will not affect the agreement of a Trial Balance (iv)

are the true statements and the combination of these statements alternatives (d) is the correct

answer. The other alternatives are incorrect because (a) states only the statement in (i); (b) states

only the statement (ii) and the alternative (c) is the combination of (i) and (ii) which is incomplete.

Thus, the correct answer is (d).]

131. Which of the following should not be treated as revenue expenditure?

(a) Interest on loans and debentures

(b) Annual fire insurance premiums on Plant and Equipment

(c) Sales tax paid in connection with the purchase of office equipment

(d) Small expenditures on long- lived assets, such as ` 20 for a paper weight.

[Hints: (c) A revenue expenditure is an expenditure whose benefit expires within the current

accounting period and is in the nature of recurring and is therefore written off to P&L A/c. Sales tax

paid in connection with the purchase of office equipment is a non-recurring expenditure whose

benefit is going to last for more than one accounting period and hence not a revenue expenditure.

132. Capital expenditure is an expenditure which

(a) Benefits the current accounting period

- (b) Will benefit the next accounting period
- (c) Results in the acquisition of a permanent asset
- (d) Results in the acquisition of a current asset

[Hints: (c) A capital expenditure is a non- recurring expenditure whose benefit lasts for more than one accounting period. Example is the acquisition of a fixed or permanent assets.]

133. Which of the following is not a deferred revenue expenditure?

- (a) Expenses in connection with issue of equity shares
- (b) Preoperative expenses
- (c) Heavy advertising expenses to introduce a new product
- (d) Legal expenses incurred in defending a suit for breach of contract to supply goods

[Hints: (d) Deferred revenue expenditure is a revenue expenditure whose benefit lasts for more than one accounting periods and is therefore written off during the periods over which the benefit lasts(However, AS 26 requires that Deferred revenue expenditure is expensed wholly in the year of incurrence). Legal expenses incurred in defending a suit for breach of contract for supply of goods does not satisfy the prerequisites of a deferred revenue expenditure.]

134. Any donation received for a specific purpose is a

- (a) Liability
- (b) Assets
- (c) Revenue receipts
- (d) Capital receipts

135. Which of the following is an item of capital expenditure?

- (a) Research and development costs during the year
- (b) Interest on borrowed fund utilized for acquisition of Office Furniture
- (c) Installation charges paid in conjunction with the purchase of Office Equipment
- (d) Monthly rent of a machinery used in the business

[Hints: (c) A capital expenditure is a non- recurring expenditure whose benefit lasts for more than one accounting period. Installation charges paid in conjunction with the purchase of office equipment is an one-time expenditure whose benefit lasts for more than one accounting period.]

136. Which of the following statements is true?

- (a) Provision for doubtful debts represents the amount that cannot be collected
- (b) The distinction between capital and revenue items is important because it is of fundamental importance to the determination of profits
- (c) Goods lost by fire need not be accounted for since they are not sales
- (d) Free samples received are business gains

137. The balance of which of the following accounts do not disappear, once they are debited/credited to Trading Account.

- (a) Sales
- (b) Purchases
- (c) Inward returns
- (d) Closing stock

[Hints: (d) The closing stock (d) is the value of goods which remain unsold at the end of the period whose balance appears once in Trading Account and once in Balance Sheet of the business. All other accounts sales (a), purchases (b) and Inward Returns (c) are closed once they are absorbed by the Trading Account. Thus (d) is the correct answer.]

138. Which one of the following should be considered a revenue expenditure?

- (a) `1000 paid for the execution of a new plant
- (b) Loss of `10,000 incurred in increasing the sitting accommodation of a hotel
- (c) Damage paid on account of breach of a contract to supply certain goods
- (d) Repair to machinery purchased, second hand.

139. Which of the following statements are / is true? —Events after Balance Sheet are

- (a) All the significant events after the Balance Sheet date
- (b) The events after Balance Sheet date but before submitting it to the Registrar of Companies
- (c) The events after Balance Sheet date but before its approval by the board
- (d) All changes after Balance Sheet date before its approval

[Hints: (c) Events occurring after the Balance Sheet date are those significant events, both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and by the corresponding approving authority in the case of any other entity.]

140. Which one of the following is a capital expenditure?

- (a) Compensation paid to Directors on termination of their services
- (b) Expenditure incurred in connection with the renewal of a Trade Mark.
- (c) Gratuities paid to Directors on termination of their services.
- (d) Royalty paid in installments for the purchase of rights to manufacture and sell patent medicines.

141. Which of the following enhances the earning capacity of an asset?

- (a) Increase in working capacity of an asset
- (b) Reduction in operating costs
- (c) Replacing damaged parts of an asset
- (d) Both (a) and (c) above

[Hints: (d) Enhancement of earning capacity can be by way of replacement of worn out or damaged parts which retarded the earning capacity and increase in the working capacity increases the earning capacity of the asset.]

142. Which of the following items should not be capitalized relating to fixed assets?

- (a) Interest payable on loans or deferred credits taken for the acquisition or construction of fixed assets before they are ready for use
- (b) Stand by equipment and servicing equipment
- (c) Expenditure incurred on test runs and experimental production
- (d) Administration and general expenses

[Hints: (d) Only those expenses which relate to and specifically attributable to the asset are capitalized. Administration and general expenses cannot be specifically attributable to the asset and hence cannot be capitalized.]

143. Which of these errors affect only one account

- (a) Errors of casting
- (b) Errors of carry forward
- (c) Errors of posting
- (d) All the three

144. Which of these errors affect two or more accounts

- (a) Errors of complete omission
- (b) Errors of principle
- (c) Errors of posting to wrong account
- (d) All the three

145. Which of the following error is an error of principle

- (a) ` 5,000 received from Sham credited to Ram A/c
- (b) ` 5,000 incurred on installation of new plant debited to travelling expenses A/c
- (c) ` 500 paid for wages debited to salary A/c
- (d) ` 500 being purchase of raw material debited to purchase A/c ` 50

146. Which of the following is an one sided error

- (a) ` 500 purchase of old equipment not recorded in the books of A/c at all
- (b) ` 500 being expense on travelling expense credited to travelling expenses
- (c) Both
- (d) None

147. Any gain on the sale of non-current assets should be _____ from the net profit and the loss must be _____ to the net profit in determining fund from operation

- (a) Added, Reduced
- (b) Added, Added
- (c) Deducted, Added
- (d) Deducted, Deducted

148. Cash book records—

- (a) Only cash sales
- (b) All types of cash receipts and payments
- (c) Only revenue receipts
- (d) Only capital receipts

149. In a three column cash book ----- does not exist

- (a) Cash column
- (b) Bank column
- (c) Petty cash column
- (d) Discount column

150. Which of these transactions will not be recorded in cash book—

- (a) Cash received from debtors
- (b) Cash paid to creditors
- (c) Salary remained outstanding
- (d) Cash deposited with bank

151. The closing balance of a petty cash book is a / an —

- (a) Liability
- (b) Gain
- (c) Assets
- (d) Loss

152. Which column of a cash book will not have credit balance —

- (a) Bank column
- (b) Discount column
- (c) Cash column
- (d) None

153. Petty cash balance is a/an —

- a) Assets
- (b) Expenditure
- (c) Liability
- (d) None

154. Which of these is a Part of cash in hand

- (a) Postage stamps
- (b) B/R
- (c) Cheque Deposited with Bank
- (d) B/R endorsed

155. Which of the following is a Real A/c

- (a) Salary A/c
- (b) Bank A/c
- (c) Building A/c
- (d) Goodwill A/c

156. Which of the following is a Personal A/c

- (a) Outstanding Salary A/c
- (b) Rent A/c
- (c) SBI A/c
- (d) Bad debts A/c

157. Which of the following is a representative Personal A/c

- (a) Outstanding Salary A/c
- (b) Rent A/c
- (c) SBI A/c
- (d) Bad debts A/c

158. Which of the following is a Nominal A/c

- (a) Outstanding Salary A/c
- (b) Rent A/c
- (c) SBI A/c
- (d) Debtors A/c

159. Goodwill A/c is a/an —

- (a) Nominal A/c
- (b) Tangible Asset
- (c) Intangible Asset
- (d) Fictitious Asset

160. Posting is the process of —

- (a) Posting the letters in drop box
- (b) Posting suitable person to a suitable job
- (c) Entering in the ledger the information contained in the ledger
- (d) All the three

161. A book wherein various accounts are opened is called—

- (a) Subsidiary books
- (b) Journal
- (c) Ledger
- (d) Trial Balance

162. Which of these is not a special purpose journal

- (a) Cash journal
- (b) Purchase journal
- (c) Debtors journal
- (d) Sales journal

163. The periodic total of sales day book is posted to —

- (a) Sales A/c
- (b) Cash sales A/c
- (c) Sales return A/c
- (d) Credit sales A/c

164. The periodic total of purchase day book is posted to —

- (a) Purchase register
- (b) Purchase A/c
- (c) Cash purchase A/c
- (d) Credit purchase A/c

165. Capital expenses are shown in —

- (a) Balance Sheet
- (b) Profit and Loss A/c
- (c) Trading A/c
- (d) None of these

166. Revenue receipts are shown in —

- (a) Balance Sheet
- (b) Profit and Loss appropriation A/c
- (c) Manufacturing A/c
- (d) Trading and Profit and Loss A/c

167. Revenue is generally recognised as being earned at that point of time when

- (a) sale is effected
- (b) cash is received
- (c) production is completed
- (d) debts are collected

168. Which of the following is a revenue expenses

- (a) Raw material consumed
- (b) Plant purchased
- (c) Long term loan raised from bank
- (d) Share Capital

169. Which of the following is a capital expenditure

- (a) Repair of plant and machinery
- (b) Salary paid to workers
- (c) Cost of stand by equipment
- (d) Annual whitewash of the office building

170. Which of these types of expenditure would not be treated as a Capital Expenditure

- (a) Acquisition of an Asset
- (b) Extension of an Asset
- (c) Improvement of the existing Asset
- (d) Maintenance of the Asset

171. Expenses of the following nature are treated as a Revenue expenses except —

- (a) Expenses for day to day running of the business
- (b) Putting the new asset in working condition
- (c) Depreciation
- (d) Purchase of raw material

172. Cash received from debtors would be deemed as of funds.

- (a) No flow
- (b) Sources
- (c) Uses
- (d) Gain

173. Purchase day book records

- (a) All cash purchases
- (b) All credit purchases
- (c) Only credit purchase of raw material or goods purchased for resale
- (d) All purchases

174. Journal is also known by —

- (a) Memorandum A/c
- (b) Kaccha books
- (c) Books of original entry
- (d) Proper books

175. Generally the term fund is used to mean the difference between

- (a) Current assets and current liabilities
- (b) Profit and loss A/C and Balance sheet
- (c) Current assets and non-current liabilities
- (d) Current liabilities and non-current liabilities

176. The periodic total of purchase day book is posted to —

- (a) Creditors A/c
- (b) Debtors A/c
- (c) Purchase A/c
- (d) None

177. Which of these documents is not required for Bank Reconciliation

- (a) Bank column of Cash Book
- (b) Bank Pass Book
- (c) Bank Statement
- (d) Trial Balance

178. Which of these will not affect Bank and Cash balance

- (a) Cash received from X credited to Y
- (b) Cheques issued to A but debited to B
- (c) Cheques deposited and cleared on the same date
- (d) All the three

179. Which of these items are taken into consideration for preparation of adjusted Cash Book

- (a) Mistake in Cash Book
- (b) Mistake in Pass Book
- (c) Cheque issued but not presented for payment
- (d) Cheques deposited but not cleared

180. Credit balance as per Cash Book mean-

- (a) Surplus cash
- (b) Bank overdraft
- (c) Terms deposits with bank
- (d) None of these

181. Debit side of Bank Pass book corresponds to —

- (a) Credit side of Cash Book
- (b) Debit side of Cash Book
- (c) Debit side of Trial Balance
- (d) Credit side of Balance Sheet

182. Difference in Bank Balance as per Pass Book and Cash Book may arise on account of

- (a) Cheque issued but not presented
- (b) Cheque issued but dishonoured
- (c) Cheque deposited and credited by bank
- (d) All of (a) and (b) above

[Hints: (d) Differences in Bank Balance as per Bank Pass Book and Cash Book arise due to many reasons. Few of them are Cheques issued (a credit entry in Cash Book made) but not presented for payment (so no corresponding entry in Pass Book). Cheques issued (a credit entry in Cash Book made) but dishonoured (so no corresponding entry made in Pass Book). In case of cheques deposited and credited by bank, entries in both Cash Book and the Bank Pass book are made, hence no difference arises. Hence option (d) is the right option. Only in situations (a) and (b) result in difference.]

183. Which of the following statements is/are true?

- (a) When there are cheques deposited but not collected by the banker, overdraft balance as per Pass Book will be less than that as per Cash Book
- (b) When the payment side of the Cash Book is undercast, overdraft balance as per Cash Book will be more than overdraft balance as per Pass Book
- (c) When reconciliation is to be done with the extracts of the Cash Book and Pass Book relating to the same period, the transactions which do not figure in one of the extracts are to be noted
- (d) Bank interest debited in the Pass Book is to be added to Overdraft Balance as per Pass Book to arrive at the Overdraft balance as per Cash Book

[Hints: (c) Statement (a) is false, since when cheques are deposited at bank, the existing overdraft balance as per Cash Book decreases whereas when the cheques have not been collected the overdraft balance as per Pass book is more than that of Cash book. Statement (b) is false, when the payments side of the Cash Book is undercast results in undercasting of overdraft balance, hence the overdraft balance as per Cash Book will be less, than the overdraft balance as per Pass Book. Statement (c) is true, since when extracts of Cash Book and extracts of the Pass Book relating to same period are taken and compared, the entries which do not figure in both the extracts imply that these entries create the difference in the balances, hence are to be noted for the preparation of reconciliation statement. Statement (d) is false, since Bank interest debited in the Pass Book increases the overdraft balance hence to arrive at the balance as per cash, since the above corresponding entry is not made

in
the Cash Book, the interest amount is to be deducted from the overdraft balance as per
Bank Pass
Book.
Hence only option (c) is true, all other options are false.]

184. The Bank Reconciliation Statement is prepared

- (a) To rectify the mistakes in the Cash Book
- (b) To arrive at the Bank Balance
- (c) To arrive at the Cash Balance
- (d) To bring out the reasons for the difference between the Balance as per Cash Book and the
Balance as per Bank Statement

[Hints: (d) The basic objective of the preparation of the Bank Reconciliation Statement is to locate
the reasons for differences between the balance as per Cash book and the balance as per
Bank
Statement. The ancillary benefits during this process of preparation can be said to be
rectification
of mistakes in cash book, rectification of mistake in bank statement etc. Hence option (d) is
the
right choice.]

185. Which of the following statements is false?

- (a) When the bank column of a Cash Book shows a credit balance, it means an amount is due to
the bank
- (b) When Pass Book shows a debit balance, it means overdraft as per Pass Book
- (c) While preparing Bank Reconciliation Statement, cheques paid into bank but not yet
cleared
are deducted from the Debit balance as per Cash Book to arrive at the balance as per Pass
Book
- (d) A Bank Reconciliation Statement is a part of Pass Book

[Hints: (d) A credit balance in the Cash Book(bank column) denotes an overdraft balance.
It
implies that the business is due to the bank respect of that amount it has overdrawn. Hence
option
(a) is true.
A credit balance in the Pass book refers to favourable balance and a debit balance in the
pass
book refers to Unfavorable balance or overdraft. Hence option (b) is true.
When preparing a BRS, where there is a debit balance or favourable balance in the Cash
book
(bank column), cheques paid into bank but not yet cleared are deducted from the cash book
(bank column) balance to arrive at the balance in the bank Pass book. Hence statement (c)
is
true.
A Bank Reconciliation Statement does not form part of pass book. It is prepared by the
business to
reconcile the balances as per Pass Book or Bank Statement and the Cash Book (bank
column).
Hence statement (d) is false.]

186. Which of the following statements is true?

- (a) Bank charges increase debit balance shown as per Bank Column of the Cash Book.
- (b) Bank charges increase debit balance as per Bank pass book.
- (c) A cash sale of a non-trading asset is recorded in the journal proper.
- (d) Cash discount allowed by the business will appear on the debit side of the debtor's account.

[Hints: (b) Bank charges increase debit balance as per Bank Pass Book (b) is the correct answer.

The debit balance as per Bank Pass Book indicates the overdraft balance and the bank charges

being the expenditure increase the debit balance. The alternative (a) is incorrect because the bank charges decrease the debit balance shown as per Bank column of the Cash Book and do

not increase the debit balance as per Cash Book signifies the favourable balance. A cash sale of a

non-trading asset is recorded in the Journal Proper is incorrect (c) because all in transactions

involving cash receipts and payments are recorded in the Cash book cash discount allowed by

the business will appear on the debit side of the debtor's account (d) is incorrect because, the

cash discount allowed is a reduction in the balance of a debtor's account which appears on the

credit side. Thus (b) is the correct answer.]

187. Bank reconciliation is a statement prepared to reconcile—

- (a) Trial balance
- (b) Cash book
- (c) Bank A/c
- (d) Cash as per cash book with bank balance as per bank pass book

188. Bank reconciliation statement is a part of —

- (a) Cash book
- (b) Trial balance
- (c) Auditors report
- (d) None of these

189. Benefits of preparing Bank Reconciliation Statement includes —

- (a) It bring out any errors committed in preparation of Cash book / Bank Pass Book
- (b) Highlights under delay in clearance of cheques deposited but not credited
- (c) Help know actual bank balance
- (d) All the three

190. Debit balance as per bank pass book mean —

- (a) Surplus cash
- (b) Bank Overdraft
- (c) Terms deposits with bank
- (d) None of these

191. Which of the following is not a cause of difference in balance as per cash book and balance as

per bank pass book—

- (a) Errors in cash book
- (b) Errors in pass book
- (c) Cheques deposited and cleared
- (d) Cheques issued but not presented for payment

192. Provision is created for —

- (a) Unknown Liabilities
- (b) Known Liabilities
- (c) Creation of Secret Reserves
- (d) All the Three

193. Which of the following is not a method of charging depreciation

- (a) Straight line Method
- (b) Written down value Method
- (c) Discounted present value Method
- (d) Sum of digits Method

194. A second hand car is purchased for ` 2,00,000 and sold at ` 1,40,000 after two years. If depreciation is charged @ 10% on SLM method, find the profit or loss on sale of the car.

- (a) ` 20,000 Loss
- (b) ` 20,000 Profit
- (c) ` 10,000 Loss
- (d) ` 10,000 Profit

195. In the above question if the depreciation is charged @10% on written down value method, find the profit or loss on sale of the Second hand car.

- (a) Loss of ` 20,000
- (b) Loss of ` 22,000
- (c) Loss of ` 11,000
- (d) Profit of ` 11,000

196. The term — ReserVEL has been defined in ----- of the Companies Act, 1956

- (a) Part III Schedule VI
- (b) Part III Schedule V
- (c) Part II Schedule VI
- (d) Part I Schedule I

197. Which of the following is true with respect to providing depreciation under diminishing balance method?

- (a) The amount of depreciation keeps increasing every year while the rate of depreciation keeps decreasing
- (b) The amount of depreciation and the rate of depreciation decrease every year
- (c) The amount of depreciation decreases while the rate of depreciation remains the same
- (d) The amount of depreciation and the rate of depreciation increases every year

[Hints: (c) Under the written down value method of depreciation, the rate of percentage of

depreciation is fixed, but it applies to the value of the asset at which the asset stands in the books in the beginning of the year. Therefore, the amount of depreciation decreases as the fixed rate of depreciation is charged on written down values of the asset.]

198. Which of the following statements best describes the purpose of depreciation?

- (a) Regular reduction of asset value to correspond to changes in market value as the asset ages
- (b) A process of correlating the market value of an asset with its gradual decline in physical efficiency
- (c) Allocation of cost in a manner that will ensure that Plant and Equipment items are not carried on the Balance Sheet in excess of net realizable value
- (d) Allocation of the cost of an asset to the periods in which services are received from the asset

[Hints: (d) AS-6 defines depreciation as a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.

Depreciation includes amortization of assets whose useful life is predetermined. The ultimate outcome of accounting for depreciation is cash available to replace the asset; however this cannot be the purpose of depreciation.]

199. The main objective of providing depreciation is to

- (a) Calculate the true profit
- (b) Show the true financial position in the Balance Sheet
- (c) Provide funds for replacement of fixed assets
- (d) Both (a) and (b) above

[Hints: (d) The main objective of providing depreciation is to find out the true Net Profit or Loss for an accounting period and to present a true and fair view of the state of affairs of the business.

Providing funds for replacement is only an ancillary objective and not the main objective.]

200. Depreciation is a process of

- (a) Valuation
- (b) Valuation and allocation
- (c) Allocation
- (d) Appropriation

[Hints: (c) AS-6 on depreciation accounting defines ‘depreciation’ as the measure of wearing out, consumption or other loss of a value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is

predetermined.

ANSWERS:

101 a 102 a 103 d 104 d 105 d
 106 b 107 b 108 d 109 b 110 b 111 b 112 c
 113 c 114 d 115 d 116 c 117 b 118 d 119 b
 120 d 121 c 122 d 123 c 124 d 125 d 126 b
 127 c 128 d 129 a 130 d 131 c 132 c 133 d
 134 d 135 c 136 b 137 d 138 c 139 c 140 a
 141 d 142 d 143 d 144 d 145 b 146 b 147 c
 148 b 149 c 150 c 151 c 152 c 153 a 154 a
 155 c 156 c 157 a 158 b 159 c 160 c 161 c
 162 c 163 a 164 b 165 a 166 d 167 a 168 a
 169 c 170 d 171 b 172 a 173 c 174 c 175 a
 176 c 177 d 178 d 179 a 180 b 181 a 182 d
 183 c 184 d 185 d 186 b 187 d 188 a 189 d
 190 b 191 c 192 b 193 c 194 a 195 b 196 a
 197 c 198 d 199 b 200 c

201. The portion of the acquisition cost of the asset yet to be allocated is known as

- (a) Written down value
- (b) Accumulated value
- (c) Salvage value
- (d) Residual Value

202. Which of the following statements is true with regard to written down value method of depreciation?

- i. The rate at which the asset is written off reduces year after year
- ii. The amount of depreciation provided reduces from year to year
- iii. The rate of depreciation as well as the amount of depreciation reduce year after year
- iv. The value of the asset gets reduced to zero over a period of time

- (a) Only (i) above
- (b) Only (ii) above
- (c) Both (i) and (ii) above
- (d) (i),(ii) and (iii) above

203. The accounting process of gradually converting the unexpired cost of fixed assets into expenses over a series of accounting periods is

- (a) Depreciation
- (b) Physical deterioration of the asset
- (c) Decrease in market value of the asset
- (d) Valuation of an asset at a point of time

204. Which of the following factors are primarily considered to determine the economic life of an asset?

- (a) Passage of time, asset usage, and obsolescence
- (b) Tax regulations and SEBI guidelines
- (c) Tax regulations and asset usage
- (d) SEBI guidelines and Asset usage

205. In which of the following methods, the cost of the asset is spread over in equal proportion during its useful economic life?

- (a) Straight-line method
- (b) Written down value method
- (c) Units-of-production method
- (d) Sum-of-the years'-digits method

206. Which of the following statements is correct?

- (a) Depreciation cannot be provided in case of loss in a financial year
- (b) Depreciation is a charge against profit
- (c) Depreciation is provided in the books only when there is profit
- (d) Depreciation is an appropriation of profit

[Hints: (b) Depreciation is provided as a charge against profits. It is not an appropriation of profit. It is provided irrespective of whether the business is making a loss or a profit. Hence statement (b) is a true statement.]

207. Depreciation is calculated on the

- (a) Cost price of asset
- (b) Market price
- (c) Cost+ Transport+ Installation expenses
- (d) Cost or market values whichever is less

208. Which of the following is an external cause of depreciation

- (a) Routine repair and maintenance
- (b) Misuse
- (c) Obsolescence
- (d) Wear and tear

209. Depreciation is a process of —

- (a) Valuation of fixed assets
- (b) Allocation of cost over the useful life of assets
- (c) Generating funds replacements of the assets
- (d) Avoidance of tax

210. Which of the following is not depreciated

- (a) Building
- (b) Land
- (c) Plant and Machinery
- (d) Office equipment

211. Schedule XIV of the Companies Act specifies _____ as minimum rate of depreciation (WDV) on ship fishing vessels

- (a) 27%
- (b) 33%
- (c) 10%
- (d) 15%

212. _____ is also known as Appraisal system of depreciation

- (a) Inventory system
- (b) Survey system
- (c) Annuity system
- (d) Insurance

213. Bad debts recovered account will be transferred to

- (a) Debtor's Account
- (b) Profit and Loss Account
- (c) Provision for Doubtful Debt Account
- (d) Either (b) or (c) above

[Hints: (d) When Bad debts are recovered the entry is

Cash A/cDr.

To Bad debts recovered A/c

This A/c can either be transferred to P&L A/c or Provisions for Doubtful Debts A/c.]

214. The entry for creating a Provision for bad debts is

- (a) Debit Provision for Bad Debts A/c and credit Debtors A/c
- (b) Debit Debtors A/c and credit Provision for Bad Debts A/c
- (c) Debit Provision for Bad Debts A/c and credit Profit & Loss A/c
- (d) Debit Profit and Loss A/c and credit Provision for Bad Debts A/c.

[Hints: (d) Provision for bad debt is a charge against profit and therefore, the entry for creating

provision for bad debts is done by debiting P&L A/c and crediting provision for bad debts account.]

215. When a person purchasing goods on credit he becomes a..... in the books of the seller-

- (a) Debtor
- (b) Creditor
- (c) Defaulter
- (d) Offender

216. Which of these is not a Business expense-

- (a) Fire Insurance of other building
- (b) LIC Premium of proprietor
- (c) Interest on Capital
- (d) Commission on sales

217. Cost of goods sold excludes-

- (a) Opening Stock
- (b) Carriage inward
- (c) Wages & Salary
- (d) Postage & Stamps

218. Tax deducted at source A/c appears in-

- (a) Assets side
- (b) Liability side
- (c) Profit & Loss A/c
- (d) Debited to Capital A/c

219. Investment in own share A/c appears in –

- (a) Asset side
- (b) Liability side
- (c) Netted from Capital
- (d) Profit & Loss A/c

220. Payments received in advance from a customer for a contract can be

- (a) Shown as a deduction from contract work-in-progress on asset side
- (b) Shown as a liability
- (c) Credited to P&L A/c
- (d) Either (a) or (b) above

221. If a company has contingent liabilities, they appear in the

- (a) Balance Sheet
- (b) Directors' report
- (c) Notes on account to Balance Sheet
- (d) Chairman's report

[Hints: (c) Contingent liabilities are disclosed in the notes to Balance Sheet.]

222. Recent developments have made much of a company's inventory obsolete. This obsolete inventory should be

- (a) Written down to zero or its scrap value
- (b) Shown in the Balance Sheet at its replacement cost
- (c) Shown in the Balance Sheet at cost, but classified as a non-current asset
- (d) Carried in the accounting records at cost until it is sold

223. Which of the following is not classified as inventory in the financial statements?

- (a) Finished goods
- (b) Work-in-process
- (c) Stores and spares
- (d) Advance payments made to suppliers for raw materials

224. Which of the following statements is true?

- (a) Inventory valuation affects only the income statement
- (b) Undercasting or overcasting of subsidiary book is an example of error of commission
- (c) Capital expenditure wrongly treated as revenue is an example of error of commission
- (d) Inventories should be valued at lower of historical cost and current replacement cost

225. Which of the following statements is / are not correct?

- (a) Provision for bad debts appears as a liability on the Balance Sheet
- (b) The provision for bad debts is owed to the proprietor

- (c) Bad debts could be less than the provision for bad debts
- (d) Bad debts could exceed the provision for bad debts

[Hints: (b) Provision for bad debts is created to adjust the loss of future bad debts. This account is created by a debit to the Profit & Loss Account i.e., a charge against profits. This account shows a credit balance and appears on the liabilities side of the Balance Sheet. Actual bad debts for a particular period may exceed the provision provided or may be less than the provision made.]

226. If actual bad debts are more than the provision for bad debts, then there will be a

- (a) Credit balance of Provision for Bad Debts Account
- (b) Debit balance of Provision for Bad Debts Account
- (c) Debit balance of Bad Debts Account
- (d) Debit balance of Discount on Debtors Account

[Hints: (b) Provision for Bad Debts Account is created for writing off bad debts. Since the provision for bad debts is a credit balance account, If the actual bad debts exceed the provision created then there will be debit balance of provision for bad debts account.]

227. The creation of provision for doubtful debts given as an adjustment requires

- (a) Debit Profit and Loss Account and deduct the provision from debtors
- (b) Credit Profit & Loss Account and deduct the provision from debtors
- (c) Credit Profit and Loss Account and add the provision to debtors
- (d) Debit Profit & Loss Account and add the provision to debtors

[Hints: (a) The adjustment for provision for bad debts account given in the adjustments is to debit P&L A/c and deduct from Sundry Debtors, the amount of provision for bad debts. Provision for bad debts is created against Sundry Debtors and therefore deducted from Sundry Debtors and Debited to P&L A/c as it is a charge against P&L A/c.]

228. Under the direct write-off method of recognizing a bad debt expense. Which of the following statements is/are true?

- (a) The bad debt expense is not matched with the related sales
- (b) Revenue is overstated in the year of sales
- (c) It violates the matching principle of accounting
- (d) All of the above

[Hints: (d) Under the direct write off method of recognizing a bad debt expense, the alternative (d) is the correct answer which the combination of the following statements (a) The bad debt expense is not matched with the related sales because the expense is written off in the year of occurrence and it is not matching with the related sales. (b) Revenue is overstated in the year of Sales as a

result not making any provision for possible loss on account of non-recoverable account.

(c) It

violates the matching principle of accounting as the expense of bad debt is not matched for the

same period of income. Thus, (d) is the correct answer.

229. At the time of preparation of financial accounts, bad debt recovered account will be transferred to

- (a) Debtors A/c
- (b) Profit & Loss A/c
- (c) Profit & Loss Adjustment A/c
- (d) Profit & Loss Appropriation A/c

[Hints: (b) Bad debt recovered is a windfall gain and it is transferred to Profit & Loss Account at the

time of preparation of Final Accounts. If provisions account is there in the books it will be transferred

to Provision A/c and the balance if any in the provision account will be transferred to Profit & Loss

Account. It is recovery of bad debt written off and hence it is not transferred to Debtors Account. It

is not transferred to Profit & Loss Adjustment Account. It is not an appropriation to be transferred to

Profit & Loss Appropriation Account. Thus, the answer is (b).]

230. The balance of Revaluation Reserve pertaining to an asset that has been disposed off or retired can be transferred to

- (a) General Reserve A/c
- (b) Profit & Loss A/c
- (c) Asset A/c
- (d) Capital Reserve A/c

[Hints: (d) According to AS-10 on disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited

to the Profit & Loss Statement except that to the extent that such a loss is related to an increase

which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilized, it may be charged directly to that account.

This balance (no longer needed) being of capital nature should be transferred to Capital Reserve

Account.]

231. Property, Plant and Equipment are conventionally presented in the Balance Sheet at

- (a) Replacement cost – Accumulated Depreciation
- (b) Historical cost – Salvage Value
- (c) Historical cost – Depreciation portion thereof
- (d) Original cost adjusted for general price-level changes

[Hints: (c) As per AS-10 on fixed assets, property plant equipment should be presented in the

Balance Sheet at historical cost (gross book value) less depreciation = net book value.]

232. Outstanding salaries is shown as

- (a) An Asset in the Balance Sheet
- (b) A Liability
- (c) By adjusting it in the P & L A/c
- (d) Both (b) and (c) above

[Hints: (d) Outstanding salaries is the expense relating to the current accounting period but has not been paid yet and therefore, it is a current liability.]

233. Insurance prepaid is shown as

- (a) Current Asset
- (b) Current Liability
- (c) Fixed Asset
- (d) Income

[Hints: (a) Prepaid insurance is the expense relating to the next accounting period but has been paid in the current accounting period and hence it is a current asset. The adjustment would be to deduct it from the respective expense account in the P&L A/c and show it as a current asset in the Balance Sheet.]

234. Depreciation appearing in the Trial Balance should be

- (a) Debited to P&L A/c
- (b) Shown as liability in Balance Sheet
- (c) Reduced from related asset in Balance Sheet
- (d) Both (a) and (c) above

[Hints: (a) Any item appearing in the Trial Balance will have one effect i.e., depreciation appearing in the Trial Balance will be debited to the Profit & Loss Account. However, if depreciation is given in the adjustments, it will have double effect i.e., it should be debited to P&L A/c and deducted from the gross fixed asset block in the Balance Sheet also.]

235. A club paid subscription fees of `1,400. Out of which ` 200 is prepaid. In such case

- (a) P&L A/C is debited with ` 1,400
- (b) P&L A/C is debited with ` 1,200
- (c) ` 200 is shown as current asset
- (d) Both (b) and (c) above

[Hints: (d) Adjustments for prepaid subscription fees:

P&L A/c Extract

Total subscription fees paid 1,400

Less: Subscription fees prepaid

Relating to next A/c period 200

Subscription fees 1200

The prepaid subscription fees of ` 200 will be shown as a current asset in the Balance Sheet as it is

an expense relating to the next accounting period but has been paid in the current accounting

period.]

236. Bad debts recovered is

- (a) Credited to P&L A/c
- (b) Debited to P&L A/c
- (c) Reduced from debtors in Balance Sheet
- (d) Added to debtors in Balance Sheet

[Hints: (a) Bad debts earlier written-off and later recovered is a profit to the firm and hence they are transferred to Profit & loss Account.]

237. The adjustment to be made for prepaid expenses is

- (a) Add prepaid expenses to respective expenses and show it as an asset
- (b) Deduct prepaid expenses from respective expenses and show it as an asset
- (c) Add prepaid expenses to respective expenses and show it as a liability
- (d) Deduct prepaid expenses from respective expenses and show it as a liability

[Hints: (b) Prepaid expense is an expense relating to the next accounting period but has been paid in the current accounting period and hence it is a current asset. The adjustment would be to deduct it from the respective expense account in the P&L A/c and show it as a current asset in the Balance Sheet.]

238. On scrutiny of a firm's books of accounts, it was observed that the following errors have occurred in the previous years but have not yet been rectified.

- i. Depreciation for 2011-2012- ` 7,000 understated
- ii. Accrued expenses as at March 31, 2013 - ` 10,000 understated

The impact of this on the reported net income for the year ending March 31, 2013 is

- (a) ` 7,000 Overstated
- (b) ` 10,000 Overstated
- (c) ` 17,000 Understated
- (d) ` 17,000 Overstated

[Hints: (b) Net income will be overstated by ` 10,000 because the accrued expense are understated. Under/ Overstatement of depreciation of the year 2011-2012 does not affect the net income of current year i.e., 2012-13.]

239. Which of the following entries is correct in respect of reserve for discounts on accounts payable?

- (a) Debit P&L A/c and Credit Reserve for Discount on Accounts Payable A/c
- (b) Debit Accounts Payable A/c and Credit P&L A/c
- (c) Debit Reserve for Discount on Accounts Payable A/c and Credit P&L A/c
- (d) Debit Reserve for Discount on Accounts Payable A/c and credit Accounts Payable A/c

[Hints: (c) The entry will be as follows:

Reserve for Discount on Creditors A/c..... Dr.
To Profit & Loss A/c

It will be shown on the credit side as a separate item and will be shown on the Liabilities side by way of deduction from the Sundry Creditors.]

240. Sundry debtors as per Trial Balance is ` 43,000 which includes ` 2,200 due from H in respect of goods sent to him on approval basis, the cost price of which is ` 1,800. Rectification would involve:

- (a) Adding ` 2,200 to closing stock
- (b) Deducting ` 1,800 from closing stock and deducting ` 2,200 each from debtors and sales
- (c) Adding ` 1,800 to closing stock and deducting ` 2,200 each from debtors and sales
- (d) Deducting ` 1,800 from debtors

241. Goods in stock worth ` 800 are destroyed by fire and the Insurance Co. is accepted the claim for 600. Adjustment would involve:

- (a) Debit of ` 800 to Trading Account and credit of ` 600 and ` 200 to insurance company and Profit and Loss Account respectively
- (b) Deduct the ` 800 from closing stock in the Trading Account
- (c) Credit insurance company for ` 600
- (d) Debit of ` 600 and ` 200 to insurance company and Profit and Loss Account respectively and credit of ` 800 to Trading Account

242. Prepaid expenses are valued on the Balance Sheet at

- (a) Replacement cost
- (b) Current cost
- (c) Cost to acquire less accumulated amortization
- (d) Cost less expired portion

[Hints: (d) Prepaid expenses are the expenses which relate to the unexpired portion of the benefit of the expense. Hence, these are valued on the Balance Sheet at the cost less expired portion.]

243. Which of the following relationships is/are false?

- (a) Net Profit = Gross Profit – Administration and Other expenses
- (b) Net Profit = Gross Profit + Administration expenses and Other expenses
- (c) Opening Stock + Purchases – Closing Stock = Cost of Sales
- (d) Both (b) and (c) above

[Hints: (d) Net Profit= Gross Profit- Administration and other expenses. Hence option (b) is false.

Opening stock+ Purchases-Closing stock= Cost of material consumed not cost of sales. Option (c) is false.]

244. Gross Profit is equal to

- (a) Sales – Cost of goods sold
- (b) Sales – Closing Stock + Purchases
- (c) Opening Stock + Purchases – Closing Stock
- (d) None of the above

245. Which of the following shall not be deducted from net profit while calculating managerial

remuneration?

- (a) Loss on sale of undertaking
- (b) Debts considered bad and written off
- (c) Liability arising from a breach of contract
- (d) Director's remuneration

[Hints: (d) Director's remuneration shall not be deducted from net profit while calculating managerial remuneration.]

246. Which of the following equations is correct?

- (a) $\text{Gross Profit} + \text{Sales} + \text{Direct expenses} + \text{Purchases} + \text{Closing stock} = \text{Opening stock}$
- (b) $\text{Gross Profit} + \text{Sales} + \text{Direct expenses} + \text{Purchases} - \text{Closing stock} = \text{Opening Stock}$
- (c) $\text{Gross Profit} + \text{Opening Stock} + \text{Direct expenses} + \text{Purchases} - \text{Closing stock} = \text{Sales}$
- (d) $\text{Gross Profit} - \text{Opening Stock} + \text{Direct expenses} + \text{Purchases} + \text{Closing stock} = \text{Sales}$

247. Which of the following is not true with regard to preparation of Profit & Loss Account?

- (a) Profit & Loss Account is prepared for a certain period and hence it is an interim statement
- (b) Profit & Loss Account does not disclose the effect of non-financial items
- (c) Net Profits are ascertained on the basis of current costs
- (d) Net Profits as disclosed by P&L Account is not absolute

248. The Profit and Loss Account shows the

- (a) Financial results of the concern for a period
- (b) Financial position of the concern on a particular date
- (c) Financial results of the concern on a particular date
- (d) Cost of goods sold during the period

[Hints: (a) A profit and Loss Account is prepared for the period ending which shows the financial or operating results of the concern for a period.]

249. Which of the following statements is true?

- (a) Provision for doubtful debts represents the amount that cannot be collected
- (b) Cash balance on hand shows whether the business has earned Profit or Loss
- (c) Free samples received are business gains
- (d) The WDV of an asset depreciated on the reducing balance method can never become zero

250. Cash Profit is

- (a) $\text{Net profit} - \text{Non-trading Profit} - \text{Depreciation and provision}$
- (b) $\text{Gross Profit} - \text{Non-trading Profit} + \text{Depreciation and provision}$
- (c) $\text{Net Profit} + \text{Depreciation and provision}$
- (d) $\text{Gross Profit} - \text{Operational expenses}$

[Hints: (c) Cash Profit is the Net Profit + Depreciation and Provision. Depreciation is a non-cash outflow which is deducted from the profit and therefore, it is added back to the net profit to arrive at the net cash profit.]

251. Which of the following statements is false?

- (a) Provision for discount on debtors can be estimated only after computing the provision for doubtful debts
- (b) All pre-received incomes under the cash system of accounting are current gains
- (c) Cash balance on hand shows whether the business has earned Profit or Loss
- (d) Capital expenditure should be shown in the books by debiting asset account and crediting supplier or cash account

252. Which of the following will not appear in Profit and Loss Account of a business?

- (a) Drawings
- (b) Bad debts
- (c) Accrued expenses
- (d) Reserve for discount on Sundry Creditors

[Hints: (a) Profit and Loss Account is an income statement which depicts all incomes/gains and expenses/losses during an accounting period. Drawings are neither an income nor an expense to be recorded in Profit and Loss Account. Thus (a) is the correct answer. The items in other alternatives are either expenses or accrued expenses or probable income of discount on sundry creditors. The depreciation, bad debts and provision for doubtful debts and accrued expenses appear in the Profit and Loss Account and provision for income i.e., provision for discount on sundry creditors. Hence (a) is the correct answer.]

253. Which of the following is not a financial statement?

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

[Hints: (d) Trial Balance (d) is not a financial statement. It is a list of all accounts showing outstanding balances at the end of the accounting period. It helps in the preparation of financial statements. The Profit and Loss Account (a); Balance Sheet (b) and Funds Flow statement (c) are the financial statements prepared by a business entity. Funds flow statement though categorized as one of the financial statements, its preparation is not mandatory. Thus (d) is the correct answer.]

254. If unexpired insurance appears in the Trial Balance, it should be

- (a) Credited to the Profit & Loss Account
- (b) Debited to the Profit & Loss Account
- (c) Shown on the liabilities side of the Balance Sheet
- (d) Shown on the assets side of the Balance Sheet

[Hints: (d) Unexpired insurance or prepaid insurance must be shown on the assets side of

the

Balance Sheet, because it is an asset. It cannot be shown on the liabilities side of the Balance

Sheet. It cannot be debited to Profit & Loss A/c. Also it cannot be credited to Profit & Loss A/c.

Hence (d) is true.]

255. Which of the following are/is not a fixed asset?

- (a) Stock
- (b) Vehicle
- (c) Fixed deposit in bank
- (d) Both (a) and (c) above

256. Which of the following are/is a current asset?

- (a) Sundry Debtors
- (b) Stock
- (c) Prepaid insurance
- (d) All of (a), (b) and (c) above

257. Tax deducted at source appears in the Balance Sheet

- (a) On the assets side under current assets
- (b) On the assets side under loans and advances
- (c) On the liabilities side under current liabilities
- (d) On the liabilities side under provisions

258. Which of the following statements is false?

- (a) Balance Sheet discloses financial position of the business
- (b) A person who owes to the business is called Debtor
- (c) Decrease in the value of the asset could decrease the value of a liability
- (d) Assets are to be shown in the Balance Sheet at the realizable value

[Hints: (d) AS-10 on Accounting for Fixed Assets states that fixed assets are to be shown in the Balance Sheet at their actual cost.]

259. Which of the following statements is true?

- (a) The balance of the goods account shows the value of stock in hand
- (b) Balancing of all accounts must be done at the end of each day
- (c) Assets which are to remain in business for continuous use and not meant for conversion into cash are fixed assets
- (d) Balance Sheet discloses income position of the business

260. The Balance Sheet gives information regarding the

- (a) Results of operations for a particular period
- (b) Financial position during a particular period
- (c) Profit earning capacity for a particular period
- (d) Financial position as on a particular date

261. Which of the following accounts appear(s) in the Balance Sheet of a business?

- i. Stock at the end of the financial year
- ii. Stock at the beginning of the financial year
- iii. Drawings
- iv. Prepaid Rent
- v. Interest received but not yet earned
- (a) Only (i) above
- (b) Only (iii) above
- (c) Both (i) and (iii) above
- (d) (i), (iii), (iv) and (v) above

[Hints: (d) Stock at the end of the financial year is the closing stock, drawings are the amounts withdrawn by the owner of the business for personal use; and prepaid rent is the amount of rent which is paid in advance of the current financial year and interest received but not yet earned is the amount of interest received which does not pertain to the current year are the items that appear in the Balance Sheet of a business. Stock at the beginning of the financial year is the opening stock that appears in Trading Account of a business and not in the Balance Sheet. Thus (d), the combination of all the accounts in alternatives (i), (iii), (iv) and (v) is the correct answer.]

262. Computers taken on hire by a business for a period of twelve months should be classified as

- (a) Current assets
- (b) Intangible assets
- (c) Deferred revenue expenditure
- (d) Not an asset

[Hints: (d) Computers taken on hire by a business for a period of twelve months is not an asset because it is not owned by the business to be classified as asset. Thus, the correct answer is (d). Since it is not an asset it cannot be classified as any asset and other alternatives are not the correct answers.]

263. Which of the following is not an intangible asset?

- (a) Trade mark
- (b) Franchise
- (c) Accounts Receivable
- (d) Secret Profit

[Hints: (c) An accounts receivable is not an intangible asset. It is the amount that the business has to receive from its debtors. The other assets mentioned in alternatives a, b, and d- trademark, franchises and secret processes are intangible assets. Hence, the correct answer is (c).]

264. Which of the following is a current liability?

- (a) Prepaid expenses
- (b) Trademark
- (c) Discount on issue of shares

(d) Outstanding Salaries

[Hints: (d) Outstanding salaries are short term obligations expected to be paid off during the short period of time. So, it is a current liability. Prepaid expenses, trademark and discount on issue of shares are assets. Hence, (d) is correct answer.]

265. Based on which of the following concepts, is Share Capital Account shown on the liabilities side of a Balance Sheet?

- (a) Business entity concept
- (b) Money measurement concept
- (c) Going concern concept
- (d) Matching concept

[Hints: (a) Share capital is the contribution made by the owner(s) and is regarded as a liability to the business in the nature of owner's equity. The underlying feature for this treatment is the distinction between the owner(s) and that of the business owned by them. According to business entry concept whenever an owner brings capital into the business, the business in turn is deemed to owe the capital to the owner. As such the share capital account is treated as a liability to the business and shown under liabilities. The other concepts are not correct because, (b) Money measurement concept explains that in financial accountancy, a record is made only of information that can be expressed in monetary terms and ignores other events, however significant they may be. It is silent about the treatment of share capital account. (c) Going concern concept explains that the resources of the concern would continue to be used for the purposes for which they are meant to be used. The very categorization of assets into fixed and current presupposes the going concern concept. It does not deal about the treatment of share capital account. (d) Conservatism concept: The theme behind this principle is that recognition of revenue requires better evidence than recognition of expenses. It deals with revenues and expenses and not the share capital account.]

266. Which of the following is not a contingent liability?

- (a) Debts included in Sundry Debtors which are doubtful in nature
- (b) Uncalled liability on partly paid shares
- (c) Claims against the company not acknowledged as debts
- (d) Arrears of fixed cumulative dividend

[Hints: (a) A contingent liability is the loss which will be known or determined only on the occurrence or non- occurrence of one or more future uncertain events. Debts of debtors is not an uncertain event but only the realization of a part of the debt in doubtful for which provision must be provided and hence it is not a contingent liability. Items in other alternatives uncalled

liability on partly paid shares (b) may be called up in the event of necessity, claims against the company not acknowledged as debts (c) they may or may not turn out to be debts in future. Arrears of cumulative fixed dividend (d) are contingent liabilities.]

267. Which of the following are current assets of a business?

- i. Income received in advance
- ii. Stock
- iii. Debtors
- iv. Pre-paid expenses
- v. Accrued income

- (a) Both (i) and (iv) above
- (b) Both (ii) and (iii) above
- (c) (i),(ii) and (iii) above
- (d) (ii),(iii),(iv) and (v) above

268. Which of the following statements is true?

- (a) Bad Debts Recovered Account is transferred to Sundry Debtors Account
- (b) Bill of exchange is drawn by the purchaser
- (c) Trial Balance establishes the arithmetical accuracy of the accounting records
- (d) A well maintained asset need not be depreciated

[Hints: (c) Bad debts recovery amount will be transferred to Profit & Loss Account and not to Sundry Debtors Account. Hence (a) is not correct. Bill of exchange is drawn by the drawer i.e., the seller and not the purchaser. According to Companies Act, all assets must be depreciated. Hence (a), (b) and (d) are not true. By tallying Trial Balance always proves the arithmetical accuracy of the accounting records. Hence (c) is correct.]

269. Closing entries are generally passed —

- (a) At the time of opening new books of account
- (b) At the time of closing the accounts
- (c) During the course of accounting period any time
- (d) After certification of accounts

270. Closing stock appearing in the Trial Balance is shown in —

- (a) Trading A/c and Balance Sheet
- (b) Profit and Loss A/c
- (c) Balance Sheet only
- (d) Trading A/c only

271. Depreciation Account appearing in the Trial Balance is shown in —

- (a) Profit and Loss A/c
- (b) Trading A/c
- (c) Deducted from the concerned assets A/c
- (d) Shown on the liability side

272. Profit on sale of old plant is shown –

- (a) In Trading A/c
- (b) In Profit and Loss Appropriation A/c
- (c) Profit and Loss A/c
- (d) Being a non operating item ignored

273. Carriage on goods purchased is shown in —

- (a) Profit and Loss A/c
- (b) Capitalized with work in progress
- (c) Trading A/c
- (d) Shown in Balance Sheet

274. Which of these is not an operating income

- (a) Income from sale of trading goods
- (b) Bad debts recovered
- (c) Interest on FDs
- (d) None

275. ABC holds an average inventory of ` 36,000(CP) with an inventory turnover of 5 times. If the firm makes a gross profit of 25% on sales, find the total sales of the company

- (a) ` 2,40,000
- (b) ` 2,10,000
- (c) ` 2,00,000
- (d) ` 1,80,000

276. From the following details what will be the partners' commission?

Net profit before charging partners' commission `65,000. Partners' commission @ 11% after charging such commission

- (a) 6441
- (b) 5431
- (c) 7654
- (d) 9876

277. From the following details what will be the partners' commission?

Net profit before charging partners' commission `65,000. Partners' commission 11% before charging such commission

- (a) 6441
- (b) 5431
- (c) 7150
- (d) 5876

278. Arrangement of Balance Sheet in a logical order is known as —

- (a) Dressing Balance Sheet
- (b) Marshalling Balance Sheet
- (c) Formatting Balance Sheet
- (d) Make up of Balance Sheet

279. Improper valuation of inventory effects—

- (a) Profitability
- (b) Financial position
- (c) Both
- (d) Cash inflows

280. Find the cost of goods sold if goods are sold for ` 2,000 at 25% profit on cost

- (a) ` 1,600
- (b) ` 1,500
- (c) ` 1,000
- (d) ` 1,800

281. Find the value of opening stock from the following data.

Purchases ` 1,50,000, Closing stock ` 30,000 , Sales ` 2,20,000, Gross profit ` 40,000.

- (a) ` 50,000
- (b) ` 55,000
- (c) ` 60,000
- (d) ` 65,000

282. A Bill of Exchange is drawn on 1st April, 2012 payable after 3 months. The due date of the bill is

- (a) 30th June,2012
- (b) 1 st July,2012
- (c) 4 th July,2012
- (d) 4 th August,2012

[Hints: (d) Bill drawn on 1st April, 2012 payable after 3 months. The due date is 1st April, 2012 + 3 months + 3 days of grace = 4th July, 2012.]

283. Which of the following statements is/are true?

- (a) Noting charges are paid by the holder of the bill on the date of default
- (b) A bill can be endorsed only thrice
- (c) On renewal of bill the old bill is canceled
- (d) Both (a) and (c) above

[Hints: (d) Noting charges are paid by the holder of the bill to get the bill noted for dishonour on the date of its dishonour. Statement (a) is true.

A bill can be endorsed any number of times, there is no limit to the number of endorsements.

Statement (b) is false.

Renewal of bill takes place when the acceptor requests the drawer to cancel the old bill and draw

a new bill. Hence statement (c) is true.

Hence option (d) stating that statement (a) and (c) are the right choice.]

284. When bill discounted with the bank is dishonoured?

- (a) Acceptor's Account is debited in the books of drawer
- (b) Bills Receivable Account is credited in the books of drawer
- (c) Bank Account is debited in the books of drawer

(d) Bills Payable Account is debited in the books of drawer

[Hints: (a) When a bill discounted with bank has been dishonoured, the drawer debits the Acceptors Account (restores the acceptor status a debtor for the amount due) and credits the Bank Account or Cash Account (the amount he pays to bank).

The acceptor debits the Bills Payable Account, the noting charges and credits the Drawer's Account (Restores the status quo of the creditor to whom he is due to pay).

Hence option (a) is correct. All other options are incorrect.]

285. Which of the following statements is/are false?

- (a) Accommodation bills are drawn for the benefit of drawer only
- (b) Bills sent for collection is an asset
- (c) Bills of exchange cannot be drawn on a banker
- (d) Both (a) and (c) above

[Hints: (d) Accommodation bills are drawn for the benefit of both the parties to the bill.

Hence

statement (a) is false.

Bills sent for collection in the books of the drawer is an asset replacing the Bills Receivable (asset).

A cheque is a bill of exchange which is drawn on a banker, payable at sight. Hence option (c) is false.

Hence option (d) the statements (a) and (c) are false, is the right choice.]

286. In the books of the drawer, the accounting treatment involved on receipt of a bill of exchange duly accepted by the drawee is

- i. Debit Bills Receivable Account
- ii. Debit Drawee's Account
- iii. Credit Drawee's Account
- iv. Credit Sales Account

- (a) Only (i) above
- (b) Both (ii) and (iv) above
- (c) Both (i) and (iii) above
- (d) Both (i) and (iv) above

[Hints: (c) In the books of the drawer, the accounting treatment involved on receipt of a bill of

exchange duly accepted by the drawee is debit Bills Receivable Account and credit Drawee's

Account i.e., the combination of statements in (i) and (iii) alternative (c) is the correct answer. The

other alternatives are incorrect because the combination of one correct answer with the statement of incorrect answer. Drawee's Account is debited (ii) as soon as a sale is made or any

advances is made and Drawee's Account is not debited when the bill of exchange is accepted

and sales is credited (iv) when the sale is made and not at the time of acceptance of bill of exchange. Thus, the alternatives (a), statement (i) (b), combination of (ii) and (iv) (d)

combination

of (i) and (iv) are incorrect.]

287. The noting charges levied on dishonour of an endorsed bill by the Notary Public are to be borne by

- (a) The drawer of the bill
- (b) The person responsible for dishonour
- (c) The holder of the bill
- (d) The endorser of the bill

[Hints: (b) The noting charges are the charges paid to Notary Public for presenting a bill for payment and to note the fact of dishonour. The charges are to be borne by the person responsible

for dishonour who is none other than the drawee. Thus, the correct answer is (b).

The drawer of the bill (a) is incorrect answer because the drawer may pay the charges initially but

ultimately they are to be borne by the drawee. The holder of the (c) is entitled to receive the payment of the bill and to bear the noting charges on the bill. The endorser (d) may be the drawer

of the bill in which case he will recover the noting charges from the drawee of the bill.

Thus (b) is

the correct answer.]

288. The drawer of a trade bill passes relevant entries with regard to the transaction involved in it. But, in case of an accommodation bill, he passes an entry in addition to the usual entries. The additional entry so passed is with respect to

- (a) Discounting of the bill with the bank
- (b) Payment of the bill on due date
- (c) Remitting or receiving the amount
- (d) Sending the bill to bank for collection

[Hints: (c) In case of accommodation bills, the additional entry that is to be passed other than the

usual entries passed with regard to trade bills in the books of the drawer is in respect of (c) remitting or receiving the amount at the time of discounting the bill and honouring the bill at

maturity. The entries passed are the same in case of discounting the bill with the bank (a) and no

additional entry is passed except for sending the share of proceeds to the drawee. On payment of

the bill on due date (b) no additional entry is passed in the books of the drawer. If the bill is sent to

the bank for collection, (d) the purpose behind the accommodation bill is defeated.

However, no

additional entry is required to be passed at the time of sending the bill to the bank for collection

(d). Thus, (c) is the correct answer.]

289. Under which of the following situations, is journal entry not passed in the books of the drawer?

- (a) When a discounted bill is honoured by the drawee on the due date
- (b) When a bill is sent to the bank for collection
- (c) When a bill is renewed at the request of the drawee
- (d) When a debtor accepts a bill drawn by the drawer

[Hints: (a) When a discounted bill is honoured by the drawee on the due date, (a) no journal entry

is passed in the books of the drawer. The entry is passed at the time of discounting of the bill itself

and no entry is required if the discounted bill is honoured on due date. Hence, (a) is the correct

answer. The other alternatives are incorrect because, when a bill is sent to the bank for collection

(b) a journal entry debiting bills sent to bank for collection and crediting Bills Receivable is passed.

When a bill is renewed at the request of the drawee (c) a journal entry is passed canceling the old

bill and raising a new bill with interest. When a debtor accepts a bill drawn by the drawer (d) when

a debtor is converted to bills receivable and debtors balance is reduced and Bills Receivable account is increased to extent of the amount passing a journal entry to that effect. Thus, (a) is the

correct answer.]

290. Which of the following is not a feature of a promissory note?

- (a) It must be in writing
- (b) It contains an unconditional promise to pay
- (c) It is payable to the bearer
- (d) It must be signed by the maker

[Hints: (c) According to the Negotiable Instrument Act, promissory note is not payable to the

bearer. It must contain an order to pay. So this is not the characteristic of promissory note. Other

options are the characteristics of promissory note.]

281 c 282 c 283 d 284 a 285 d 286 c 287 b

288 c 289 a 290 c

291. How many parties are generally found in a Bill of Exchange

- (a) 4
- (b) 2
- (c) 3
- (d) 5

292. X draws a Bill of Exchange on Y for ` 10,000 on 1-1-2013 for 3 months. The due date of the bill will be —

- (a) 4-4-2013
- (b) 3-4-2013
- (c) 1-4-2013
- (d) 31-3-2013

293. When a B/R is endorsed by the Drawer what entry is passed by the Drawee—

- (a) B/R A/c Dr. to Drawer A/c Cr.
- (b) B/P A/c Dr. to Drawer A/c Cr.
- (c) 3rd Party's A/c Dr. to B/P A/c Cr.
- (d) No entry at all

294. When a B/R is discounted, what entry is passed by the Drawee—

- (a) Bank A/c Dr. to B/R Cr.
- (b) Drawer A/c Dr. to B/R A/c Cr.
- (c) B/R A/c Dr. to B/P A/c Cr.
- (d) No entry

295. Noting charges are ultimately borne by—

- (a) Drawee
- (b) Drawer
- (c) Payee
- (d) None

296. Negotiable Instrument Act was enacted in—

- (a) 1981
- (b) 1881
- (c) 1871
- (d) 2001

297. Which of these is not an essential feature of a bill of exchange

- (a) Unconditional
- (b) Certainty of amount
- (c) In writing
- (d) Amount to be paid in foreign currency

298. A foreign bill of exchange is generally drawn up in —

- (a) Triplicate
- (b) Duplicate
- (c) Single
- (d) Quadruplicate

299. Which of these are not required in a promissory note

- (a) Acceptance
- (b) Unconditional promise to pay
- (c) Properly stamped
- (d) Payment to be made legal currency

300. Accommodation bills are generally for —

- (a) Genuine trade reasons
- (b) For mutual financial accommodation
- (c) To help augment money supply
- (d) All the three

ANSWERS:

201 a 202 b 203 a
 204 a 205 a 206 b 207 c 208 c 209 b 210 b
 211 a 212 a 213 d 214 d 215 a 216 b 217 d
 218 a 219 a 220 d 221 c 222 a 223 d 224 b
 225 b 226 b 227 a 228 d 229 b 230 d 231 c
 232 d 233 a 234 a 235 d 236 a 237 b 238 b
 239 c 240 c 241 d 242 d 243 d 244 a 245 d

246 c 247 a 248 a 249 d 250 c 251 c 252 a
253 d 254 d 255 d 256 d 257 c 258 d 259 c
260 d 261 d 262 d 263 c 264 d 265 a 266 a
267 d 268 c 269 b 270 c 271 a 272 c 273 c
274 c 275 a 276 a 277 c 278 b 279 c 280 a
281 c 282 c 283 d 284 a 285 d 286 c 287 b
288 c 289 a 290 c 291 c 292 a 293 d 294 d
295 a 296 b 297 d 298 a 299 a 300 b 301 b

- A) Purchase journal
- B) Sales journal
- C) Purchases return journal
- D) Sales return journal

2)

SALES

on credit is recorded in which of the following journal?

- A) Purchase journal
- B) Sales journal
- C) Purchases return journal
- D) Sales return journal

3)

Transactions that a BUSINESS
doesn't record in any

specialised journal are recorded in which of the following journals or day books?

- A) Cash payments journal
- B) Cash receipts journal
- C) Purchases return journal
- D) General journal

4)

Another name of journal is

- A) Specialized journal
- B) Day book
- C) Cash book
- D) Record book

5)

Which of the following specialised journals will record

"goods returned by the BUSINESS

"?

- A) Purchase journal
- B) Sales journal
- C) Purchases return journal
- D) Sales return journal

6)

Sales and purchase journal don't record

- A) Credit sales
- B) Credit purchases
- C) Credit sales and purchases
- D) Cash sales and purchases

7)

Cash received from debtor is recorded in which of the following SPECIALIZED journals?

- A) Purchase journal
- B) Sales journal
- C) Cash receipts
- D) Cash payments journal

8)

Which of the following is a type of cash receipt journal + cash payment journal?

- A) Bank statement
- B) Statement of cash flow
- C) Cash book
- D) Cash documents

9)

Cash purchases is recorded in which of the following specialized journals?

- A) Purchase journal
- B) Sales journal
- C) Purchases return journal

D) Cash payments journal

10)

A brief explanation recorded below every entry in general journal is commonly known as

A) Narration

B) Explanation

C) Summary

D) Other information

11)

Credit purchase of plant and machinery is recorded in which of the following SPECIALIZED

journals?

A) General journal

B) Cash journal

C) Purchase journal

D) Purchase return journal

12)

Debit note is the basis for recoding a transaction in which of the following journals?

A) General journal

B) Cash journal

C) Purchase journal

D) Purchase return journal

13)

"SALE

of old furniture" will be recorded in which of the following specialised journals?

A) Purchase journal

B) Sales journal

C) General journal

D) Cash receipt journal

14)

Credit note is the basis for recording a transaction in which of the following SPECIALIZED

journals?

A) Purchase journal

B) Sales return journal

C) General journal

D) Cash receipt journal

15)

Specialized journals are more adequate for which TYPE OF BUSINESSES

?

A) Small businesses

B) Big businesses

C) Sole proprietorship

D) Partnership

16)

Which of the following is known as an evidence that a transaction took place?

- A) Cash receipts journal
- B) General journal
- C) Source document
- D) Cash book

17)

BUSINESS paid rent amounting to \$100" which of the following specialized journals records this transaction?

- A) Cash receipts journal
- B) Cash payments journal
- C) Sales journal
- D) Purchase journal

18)

Credit memo or credit note No. is entered in which of the following journal?

- A) General journal
- B) Cash journal
- C) Purchase journal
- D) Sales return day book

ANSWER:

1 D 2 B 3 D 4 B 5 C 6 D 7 C 8 C 9 D 10 A

11 A 12 A 13 C 14 B 15 B 16 C 17 B 18 A.

Costs that change in response to alternative courses of action are called:

- a. Relevant costs
- b. Differential costs
- c. Target costs
- d. Sunk costs

2. The cost data pertaining to Product —Xl of XL Ltd. are as follows :

Maximum capacity 30,000 units

Normal capacity 15,000 units

Increase in inventory 1,880 units

Variable cost per unit ` 12

Selling price per unit ` 50

Fixed manufacturing overhead costs ` 3,60,000

If the profit under Absorption costing method is ` 1,01,000, the profit under Marginal costing method

would be

- a. ` 1,46,120
- b. ` 1,23,560
- c. ` 55,880
- d. ` 73,340

[Hint : Fixed cost per unit = ` 3,60,000 / 15,000 units = ` 24

Profit under absorption costing = ` 1,01,000

Adjustment of fixed manufacturing overhead costs of increased inventory = 1,880 units x ` 24 = `

45,120

Profit under marginal costing = ` 1,01,000 – ` 45,120 = ` 55,880]

3. The total cost incurred in the operation of a business undertaking other than the cost of manufacturing and production is known as

- a. Direct cost
- b. Variable cost
- c. Commercial cost
- d. Conversion cost

4. Consider the following data for a company during the month of June 2012

Budgeted hours 4,000

Standard hours for actual production 4,400

Maximum possible hours in the budget period 4,800

Actual hours 3,800

The activity ratio of the company during the month is

- a. 111%
- b. 120%
- c. 95%
- d. 117%

[Hint : Activity ratio = Standard hours for actual production x 100

Budgeted hours

= 4,440 hours x 100 = 111%]

4,000 hours

5. Total unit costs are

- a. Independent of the cost system, used to generate them
- b. Needed for determining product contribution
- c. Irrelevant in marginal analysis
- d. Relevant for cost-volume-profit analysis

6. Which of the following bases is not appropriate for apportionment of Transport department's cost ?

- a. Crane hours
- b. Crane value
- c. Truck Mileage
- d. Truck value

7. The cost of obsolete inventory acquired several years ago, to be considered in a keep vs. disposal decision is an example of :

- a. Uncontrollable cost
- b. Sunk cost
- c. Avoidable cost
- d. Opportunity cost

[Hint : Costs of obsolete inventory represent the sunk cost because the costs have already been incurred.]

8. Budgeted sales for the next year is 5,00,000 units. Desired ending finished goods inventory is

1,50,000 units and equivalent units in ending W-I-P inventory is 60,000 units. The opening

finished

goods inventory for the next year is 80,000 units, with 50,000 equivalent units in beginning W-I-P

inventory How many equivalent units should be produced?

- a. 5,80,000
- b. 5,50,000
- c. 5,00,000
- d. 5,75,000

[Hint : Using production related budgets, units to produce equals budgeted sales + desired ending

finished goods inventory + desired equivalent units in ending W-I-P inventory – beginning

finished goods inventory – equivalent units in beginning W-I-P inventory. Therefore, in this case,

units to produce is equal to $5,00,000 + 1,50,000 + 60,000 - 80,000 - 50,000 = 5,80,000$.

9. If the asset turnover and profit margin of a company are 1.85 and 0.35 respectively, the return on investment is

- a. 0.65
- b. 0.35
- c. 1.50
- d. 5.29

[Hint : Return on investment = Asset turnover x Profit margin = $1.85 \times 0.35 = 0.65$]

10. A company is currently operating at 80% capacity level. The production under normal capacity

level is 1,50,000 units. The variable cost per unit is ₹ 14 and the total fixed costs are ₹ 8,00,000. If the

company wants to earn a profit of ₹ 4,00,000, then the price of the product per unit should be

- a. ₹ 37.50
- b. ₹ 38.25
- c. ₹ 24.00
- d. ₹ 35.00

[Hint : Total fixed cost - ₹ 8,00,000

Expected profit - ₹ 4,00,000

Variable cost at 80% level

$(80\% \times 1,50,000 \text{ units} \times ₹ 14) = ₹ 16,80,000$

Total price - ₹ 28,80,000

Per unit price at 80% level = $(₹ 28,80,000 / 1,20,000 \text{ units}) = ₹ 24.00$.]

11. Consider the following data pertaining to the production of a company for a particular month :

Opening stock of raw material ₹ 11,570

Closing stock of raw material ₹ 10,380

Purchase of raw material during the month ₹ 1,28,450

Total manufacturing cost charged to product ₹ 3,39,165

Factory overheads are applied at the rate of 45% of direct labour cost.

The amount of factory overheads applied to production is

- a. ₹ 65,025

- b. ₹ 94,287
 c. ₹ 95,020
 d. ₹ 1,52,624

[Hint : Raw material used = Op. Stock + Purchases – Cl. Stock
 $= ₹ 11,570 + ₹ 1,28,450 - ₹ 10,380 = ₹ 1,29,640$

Manufacturing cost = Raw material used + Direct labour + Factory overhead
 $₹ 3,39,165 = ₹ 1,29,640 + \text{Direct labour} + 45\% \text{ of Direct labour}$
 $1.45 \text{ Direct labour} = ₹ 2,09,525$

Direct labour = ₹ 1,44,500

The amount of factory overhead = 45% of ₹ 1,44,500 = ₹ 65,025.]

12. The budgeted annual sales of a firm is ₹ 80 lakhs and 25% of the same is cash sales. If the average amount of debtors of the firm is ₹ 5 lakhs, the average collection period of credit sales months.

- a. 1.50
 b. 1.00
 c. 0.50
 d. 1.75

[Hint : Total annual sales = ₹ 80 lakhs

Total cash sales = 25 % of 80 lakhs. = 20 lakhs.

Total credit sales = 75% of 80 lakhs = 60 lakhs

Average amount of debtors = 5 lakhs = 1 months average credit sales.

Therefore, average collection period is 1 month.]

13. If the minimum stock level and average stock level of raw material — All are 4,000 and 9,000 units respectively, find out its reorder quantity.

- a. 8,000 units
 b. 11,000 units
 c. 10,000 units
 d. 9,000 units

[Hint : Average stock level = Minimum stock level + $\frac{1}{2}$ Reorder quantity

$9,000 \text{ units} = 4,000 \text{ units} + \frac{1}{2} \text{ Reorder quantity}$

$\frac{1}{2} \text{ Reorder quantity} = 9,000 \text{ units} - 4,000 \text{ units}$

Reorder level = $5,000 \text{ units} / 0.5 = 10,000 \text{ units}$]

14. A worker has a time rate of ₹ 15/hr. He makes 720 units of component (standard time : 5 minutes/unit) in a week of 48 hours. His total wages including Rowan bonus for the week is

- a. ₹ 792
 b. ₹ 820
 c. ₹ 840
 d. ₹ 864

[Hint : Standard time = 5 times x 720 units = 60 hours
 60 minutes

Time taken = 48 hrs.

Time saved = 12 hrs.

Total earning of a worker under Rowan plan

$= (48 \text{ hrs.} \times ₹ 15) + (12 \text{ hrs.} \times 48 \text{ hrs.} \times ₹ 15)$

60 hrs.

$= ₹ 720 + ₹ 144 = ₹ 864$

15. A company maintains a margin of safety of 25% on its current sales and earns a profit of ` 30 lakhs per annum. If the company has a profit volume (P/V) ratio of 40%, its current sales amount to

- a. ` 200 lakhs
- b. ` 300 lakhs
- c. ` 325 lakhs
- d. None of the above

[Hint : Margin of safety = Profit/ P/V Ratio
 $= 30/0.40 = ` 75$ lakhs
 0.25 of sales = ` 75 lakhs
 Hence, Sales = $75/0.25 = ` 300$ lakhs]

16. Sale for two consecutive months, of a company are ` 3,80,000 and ` 4,20,000. The company's net profits for these months amounted to ` 24,000 and ` 40,000 respectively. There is no change in contribution/sales ratio or fixed costs. The contribution/sales ratio of the company is

- a. 1/3
- b. 2/5
- c. 1/4
- d. None of the above

[Hint : Contribution / sales = Increase in profit / Increase in sales
 $= (40,000 - 24,000) / (4,20,000 - 3,80,000)$
 $= 16,000/40,000 = 2/5$]

17. A Limited has fixed costs of ` 6,00,000 per annum. It manufactures a single product which it sells for 200 per unit. Its contribution to sales ratio is 40%. A Limited's break-even in units is

- a. 7,500
- b. 8,000
- c. 3,000
- d. 1,500

[Hint : Break-even units = Fixed cost / contribution per unit
 $= ` 6,00,000 / 40\% \text{ of } ` 200$
 $= 7,500$]

18. The current liabilities of Akash Ltd. is ` 30,000. If its current ratio is 3:1 and Quick ratio is 1:1, the value of stock-in-trade will be

- a. ` 20,000
- b. ` 30,000
- c. ` 60,000
- d. Insufficient information

[Hint : Current Ratio = Current Assets = 3:1
 Current Liabilities
 Current Assets = ` 30,000 x 3 = ` 90,000
 Quick Ratio = Quick Assets = 1:1
 Quick Liabilities

Liquid assets = ₹ 30,000 × 1 = ₹ 30,000

Hence, value of stock-in-trade : CA – LA = ₹ (90,000 – 30,000)
= ₹ 60,000]

19. If the capacity usage ratio of a production department is 90% and activity ratio is 99% then the efficiency ratio of the department is

1. 100%
2. 120%
3. 110%
4. 105%

[Hint : Efficiency ratio (ER) = Std. hr. of production ÷ Actual hrs.

Activity ratio (AR) = Std. hrs. for production ÷ Budgeted hrs.

Capacity ratio (CR) = Actual hrs. ÷ Budgeted hrs.

Hence, ER = AR / CR = 99% / 90% = 110%]

20. In two consecutive periods, sales and profit were ₹ 1,60,000 and ₹ 8,000 respectively in the first period and ₹ 1,80,000 and ₹ 14,000 respectively during the second period. If there is no change in fixed cost between the two periods then P-V ratio must be

1. 20%
2. 25%
3. 30%
4. 40%

[Hint : Change in profit = P/V Ratio

Change in sales

= 14,000 – 8,000

1,80,000 – 1,60,000

= 6,000

20,000

= 0.30 or 30%]

21. Horizon Ltd. Manufactures product BM for last 5 years. The company maintains a margin of safety of 37.5% with overall contribution to sales ratio of 40%. If the fixed cost is ₹ 5 lakh, the profit of the company is

- a. ₹ 24.00 lacs
- b. ₹ 12.50 lakh
- c. ₹ 3.00 lakh
- d. None of A, B, C

[Hint : Break even sales = ₹ 5 lakhs ÷ 0.40 = ₹ 12.50 lakhs

Total sales = 12.50 × 1.6 = ₹ 20.00 lakhs

(1 – 0.375)

Hence the profit of the company : ₹ 20 lakh × 0.375 × 0.40 = ₹ 3.00 lakhs]

22. The cost-volume-profit relationship of a company is described by the equation $y = ₹ 8,00,000 + 0.60x$, in which x represents sales revenue and y is the total cost at the sales volume represented by x . If the company desires to earn a profit of 20% on sales, the required sales will be.

- a. ` 40,00,000
- b. ` 35,50,000
- c. ` 24,00,000
- d. ` 20,00,000

[Hint : Variable cost = 60% , therefore, contribution to sales ratio = 40% (P/V ratio)
 Company's target profit 20% in sales, therefore, revised contribution which covers only fixed cost =
 $40\% - 20\% = 20\%$.
 Required sales = fixed cost / revised contribution = ` 8,00,000/ 20% = ` 40,00,000.]

23. ABC Ltd. is having 400 workers at the beginning of the year and 500 workers at the end of the year. During the year 20 workers were discharged and 15 workers left the organization. During the year the company has recruited 65 workers. Of these, 18 workers were recruited in the vacancies of those leaving, while the rest were engaged for an expansion scheme. The labour turnover rate under separation method is :

- a. 22.20%
- b. 7.78%
- c. 4.00%
- d. 14.40%

[Hint : Average number of workers = $(400 + 500)/2 = 450$
 Separation method
 = No. of separations during the period x 100
 Average number of workers during the period
 $= 20 + 15 \times 100$
 450
 $= 7.78\%$

24. One of the most important tools in cost planning is:

- a. Direct cost
- b. Cost Sheet
- c. Budget
- d. Marginal Costing.

25. Economies and diseconomies of scale explain why the:

- a. Short-run average fixed cost curve declines so long as output increases.
- b. Marginal cost curve must intersect the minimum point of the firm's average total cost curve.
- c. Long-run average total cost curve is typically U-shaped.
- d. Short-run average variable cost curve is U-shaped.

26. Which of the following is not a relevant cost?

- a. Replacement cost
- b. Sunk cost
- c. Marginal cost
- d. Standard cost.

27. Which of the following is an accounting record?

- a. Bill of Material
- b. Bin Card
- c. Stores Ledger.
- d. All of these.

28. The fixed-variable cost classification has a special significance in preparation of :

- a. Flexible Budget
- b. Master Budget
- c. Cash Budget
- d. Capital Budget

29. Input in a process is 4000 units and normal loss is 20%. When finished output in the process is only 3240 units, there is an :

- a. Abnormal loss of 40 units
- b. Abnormal gain of 40 units
- c. Neither abnormal loss nor gain.
- d. Abnormal loss of 60 units.

30. Idle capacity of a plant is the difference between:

- a. Maximum capacity and practical capacity
- b. Practical capacity and normal capacity
- c. Practical capacity and capacity based on sales expectancy
- d. Maximum capacity and actual capacity.

31. When P/V ratio is 40% and sales value is ₹10,000, the variable cost will be

- a. ₹ 4000
- b. ₹ 6000
- c. ₹ 10000
- d. Variable Cost cannot be calculated from data given.

32. The forex component of imported material cost is converted

- a. At the rate on the date of settlement
- b. At the rate on the date of transaction
- c. At the rate on date of delivery
- d. None of the above.

33. Maximum possible productive capacity of a plant when no operating time is lost , is its

- a. Practical capacity
- b. Theoretical capacity
- c. Normal capacity
- d. Capacity based on sales expectancy

[Hint : Theoretical capacity is the denominator-level concept that is based on producing at full

efficiency all the time.,

Practical capacity is a denominator-level concept that reduces the theoretical capacity by unavoidable operating interruptions such as scheduled maintenance time, shutdowns for holidays and so on.

Normal capacity measures the denominator level in terms of demand for the output of the plant.

Normal capacity utilization is a concept based on the level of capacity utilization that specifies the average customer demand over a time period, that includes seasonal, cyclical and trend factors.]

34. When production is below standard specification or quality and cannot be rectified by incurring additional cost, it is called

- a. Defective
- b. Spoilage
- c. Waste
- d. Scrap

[Hint : (1) Spoiled goods-goods that do not meet production standards and are either sold for their salvage value or discarded; (2) Defective units-goods that do not meet standards and are sold at a reduced price or reworked and sold at the regular or a reduced price; (3) Waste-material that is lost in the manufacturing process by shrinkage, evaporation, etc., and (4) Scrap-by-product of the manufacturing process that has a minor market value.]

35. CAS 8 requires each type of utility to be treated as

- a. Separate cost object
- b. Not part of cost as not include in material
- c. Not part of cost as they do not form part of product
- d. Treated as administrative overheads.

36. Selling and distribution overhead does not include:

- a. Cost of warehousing
- b. Repacking cost
- c. Transportation cost
- d. Demurrage charges.

37. When overtime is required for meeting urgent orders, overtime premium should be

- a. Charged to Costing Profit and Loss A/c
- b. Charged to overhead costs
- c. Charged to respective jobs
- d. None of the above.

[Hint : When cost is incurred for specified job, the cost should be charged to that job only.]

38. Exchange losses or gains after purchase transaction is complete is treated as

- a. Product cost.
- b. Overhead cost.
- c. Purchase cost.
- d. Finance cost

39. Selling price per unit ` 15.00; Direct Materials cost per unit ` 3.50; Direct Labour cost

per unit ` 4.00

Variable Overhead per unit ` 2.00; Budgeted fixed production overhead costs are ` 60,000 per

annum charged evenly across each month of the year. Budgeted production costs are 30,000 units

per annum. What is the Net profit per unit under Absorption costing method.

- a. ` 9.50
- b. ` 15.00
- c. ` 11.50
- d. ` 3.50

40. Which of the following cost is linked with the calculation of cost of inventories?

- a. Product cost
- b. Period cost
- c. Both product and period cost
- d. Historical cost

41. If, Sales = ` 800,000

Markup rate = 25% of cost

What would be the value of Gross profit?

- a. ` 200,000
- b. ` 160,000
- c. ` 480,000
- d. ` 640,000

42. Which of the following is TRUE when piece rate system is used for wage determination?

- a. Under this method of remuneration a worker is paid on the basis of time taken by him to perform the work
- b. Under this method of remuneration a worker is paid on the basis of production
- c. The rate is expressed in terms of certain sum of money for total production
- d. The rate is not expressed in terms of certain sum of money for total production

43. The salary of factory clerk is treated as:

- a. Direct labor cost
- b. Indirect labor cost
- c. Conversion cost
- d. Prime cost

44. Average consumption x Emergency time is a formula for the calculation of:

- a. Lead time
- b. Re-order level
- c. Maximum consumption
- d. Danger level

45. EOQ is a point where:

- a. Ordering cost is equal to carrying cost
- b. Ordering cost is higher than carrying cost
- c. Ordering cost is lesser than the carrying cost
- d. Total cost is maximum

46. A worker is paid ` 0.50 per unit and he produces 18 units in 7 hours. Keeping in view the piece rate system, the total wages of the worker would be:

- a. $18 \times 0.50 = ` 9$
- b. $18 \times 7 = ` 126$
- c. $7 \times 0.5 = ` 3.5$
- d. $18 \times 7 \times 0.50 = ` 63$

47. When closing stock is over valuate, what would its effect on profit?

- a. Cannot determined with given statement
- b. It will Increase the profit
- c. It will decrease the profit
- d. No effect on profit

48. A firm sells bags for ` 14 each. The variable cost for each unit is ` 8. What is the contribution margin per unit?

- a. ` 6
- b. ` 12
- c. ` 14
- d. ` 8

49. Which of the following is NOT true? A small company's breakeven point:

- a. Occurs where its revenue equals its expenses
- b. Shows entrepreneurs' minimum level of activity required to keep the company in operation
- c. Is the point at which a company neither earns a profit nor incurs a loss
- d. Total contribution margin equals total variable expenses

50. Keller Co. sells a single product for ` 28 per unit. If variable costs are 65% of sales and fixed costs total ` 9,800, the break-even point will be:

- a. 15,077 units
- b. 18,200 units
- c. 539 units
- d. 1,000 units

51. If B Limited shows required production of 120 cases of product for the month, direct labor per case is 3 hours at ` 12 per hour. Budgeted labor costs for the month should be:

- a. ` 1,360
- b. ` 1,440
- c. ` 4,320
- d. ` 5,346

52. Which of the following is a process by which managers analyze options available to set courses of action by the organization?

- a. Heuristics method
- b. Decision making

- c. The Delphi technique
- d. Systematic error

53. Which of the following is not true about differential costs?

- a. It is a broader concept than variable cost as it takes into account additional fixed costs caused by management decisions
- b. With the passage of time and change in situation, differential costs will vary
- c. The difference in cost between buying them from outside or make them in the company is differential cost, irrelevant for decisions
- d. They are extra or incremental costs caused by a particular decision

54. Which one of the following is the Traditional approach for costing?

- a. Contribution approach
- b. Absorption costing approach
- c. Decision making approach
- d. Marginal costing approach

55. What would be the margin of safety ratio based on the following information?

Sales price = ` 100 per unit
 Variable cost = ` 25 per unit
 Fixed cost = ` 50 per unit

- a. 25%
- b. 33.333%
- c. 66.666%
- d. 75%

56. If:

Cost of opening finished goods ` 2,000
 Cost of goods to be produced ` 6,000
 Operating expenses ` 1,000.

Which of the following is the cost of goods available for sale?

- a. ` 8,000
- b. ` 4,000
- c. ` 7,000
- d. ` 9,000

57. Ahmed Corporation has sales of ` 500,000 for the period. The selling expenses are estimated as

12% of sales. The gross profit for the period is amounting to ` 150,000.

Calculate the amount of selling expenses for the period?

- a. ` 60,000
- b. ` 45,000
- c. ` 90,000
- d. ` 210,000

58. Which of the following would be considered to be an investment centre?

- a. Managers have control over marketing
- b. Managers have a sales team
- c. Managers have a sales team and are given a credit control function
- d. Managers can purchase capital assets and are given a credit control function

59. Which of the following would NOT lead to an increase in net cash flow?

- a. Larger sales volume
- b. Higher selling price
- c. Reduced material cost
- d. Charging of lower depreciation

60. All of the following are features of a relevant cost EXCEPT:

- a. They affect the future cost
- b. They cause an increment in cost
- c. Relevant cost is a sunk cost
- d. They affect the future cash flows

61. Which of the following statement is TRUE about the relevant cost?

- a. It is a sunk cost
- b. It is an opportunity cost
- c. It do not affect the decision making process
- d. All costs are relevant

62. In decision making all costs already incurred in past should always be:

- a. Ignored
- b. Considered
- c. Partially ignored
- d. Partially considered

63. Which of the following statement is TRUE about historical cost?

- a. It is always relevant to decision making
- b. It is always irrelevant to decision making
- c. It is always an opportunity cost
- d. It is always realizable value

64. In cost accounting, unavoidable loss is charged to which of the following?

- a. Factory over head control account
- b. Work in process control account
- c. Marketing overhead control account
- d. Administration overhead control account

65. Merrick Differential Piece Rate Plan based on _____ piece rates is fixed.

- a. Two
- b. Three
- c. Four
- d. Five

66. Which of the given is (are) the method(s) of measurement of Labor Turnover?

- a. Separation method
- b. Flux method
- c. Replacement method
- d. All of the given options

67. What will be the impact of normal loss on the overall per unit cost ?

- a. Per unit cost will increase
- b. Per unit cost will decrease
- c. Per unit cost remain unchanged
- d. Normal loss has no relation to unit cost

68. Which of the given units can never become part of first department of Cost of Production Report?

- a. Units received from preceding department
- b. Units transferred to subsequent department
- c. Lost units
- d. Units still in process

69. Details of the process for the last period are as follows:

Put into process 5,000 kg

Materials ` 2,500

Labor ` 700

Production overheads 200% of labor

Normal losses are 10% of input in the process. The output for the period was 4,200 Kg from the

process. There was no opening and closing Work- in- process. What were the units of abnormal loss?

- a. 500 units
- b. 300 units
- c. 200 units
- d. 100 units

70. ABC Company makes a single product which it sells for ` 20 per unit. Fixed costs are ` 75,000 per

month and product has a profit/volume ratio of 40%. In that period actual sales were ` 225,000.

Required: Calculate ABC Company Break Even point in `

- a. ` 187, 500
- b. ` 562, 500
- c. ` 1,500,000
- d. None of the given options

71. All of the following are the features of fixed costs EXCEPT:

- a. Although fixed within a relevant range of activity level but are relevant to a decision

- making
when it is avoidable.
- b. Although fixed within a relevant range of activity level but are relevant to a decision making
when it is incremental.
- c. Generally it is irrelevant
- d. It is relevant to decision making under any circumstances

72. A typical factory overhead cost is:

- a. Distribution
- b. Internal audit
- c. Compensation of plant manager
- d. Design

73. An average cost is also known as:

- a. Variable cost
- b. Unit cost
- c. Total cost
- d. Fixed cost

74. Period costs are:

- a. Expensed when the product is sold
- b. Included in the cost of goods sold
- c. Related to specific period
- d. Not expensed

75. While calculating the EOQ, number of orders is calculated by:

- a. Dividing required unit by ordered quantity
- b. Multiplying the required units with ordered quantity
- c. Multiplying the ordered quantity with cost per order
- d. Multiplying the required units with cost per order

76. Which of the following best describe piece rate system?

- a. The increased volume of production results in decreased cost of production
- b. The increased volume of production in minimum time
- c. Establishment of fair standard rates
- d. Higher output is a result of efficient management

77. The term Cost apportionment is referred to:

- a. The costs that can not be identified with specific cost centers.
- b. The total cost of factory overhead needs to be distributed among specific cost centers but must be divided among the concerned department/cost centers.
- c. The total cost of factory overhead needs to be distributed among specific cost centers.
- d. None of the given options

78. Which of the following loss is not included as part of the cost of transferred or finished goods, but rather treated as a period cost?

- a. Operating loss
- b. Abnormal loss
- c. Normal loss
- d. Non-operating loss

79. Hyde Park Company produces sprockets that are used in wheels. Each sprocket sells for \$50 and the company sells approximately 400,000 sprockets each year. Unit cost data for the year follows:

Direct material \$15
 Direct labor \$10
 Other cost:
 Manufacturing
 Distribution
 Fixed
 \$5
 \$4
 Variable
 \$7
 \$3

Required: Identify the unit cost of sprockets under direct costing

- a. \$44
- b. \$37
- c. \$32
- d. \$35

80. When production is equal to sales, which of the following is TRUE?

- a. No change occurs to inventories for either use absorption costing or variable costing methods
- b. The use of absorption costing produces a higher net income than the use of variable costing
- c. The use of absorption costing produces a lower net income than the use of variable costing
- d. The use of absorption costing causes inventory value to increase more than they would though the use of variable costing

81. Selling price per unit is \$15, total variable cost per unit is \$9, and total fixed costs are \$15,000 of

—XIT|. What is the breakeven point in units for —XIT|?

- a. 3,000 units
- b. 1,000 units
- c. 1,667 units
- d. 2,500 units

82. While constructing a Break even chart, the gap between sales line and variable cost line shows which of the following?

- a. Fixed cost
- b. Break even point
- c. Contribution margin
- d. Variable cost

83. All of the following compose cost of goods sold EXCEPT:

- a. Raw material
- b. Labor
- c. Capital
- d. Factory overhead

84. Amount of Depreciation on fixed assets will be fixed in nature if calculated under which of the following method?

- a. Straight line method
- b. Reducing balance method
- c. Some of year's digits method
- d. Double declining method

85. Which of the following is NOT a relevant cost to decision making?

- a. Opportunity costs
- b. Relevant benefits
- c. Avoidable costs
- d. Sunk costs

86. What would be the attitude of the management in treating Sunk costs in decision making?

- a. A periodic investment of cash resources that has been made and should be relevant for decision making
- b. It is a past cost which is not directly relevant in decision making
- c. Management will treat it as variable cost each time in decision making
- d. None of the given options

87. Mr. Aslam is running his own personal Financial services business. He has been offered a job for a salary of ` 45,000 per month which he does not availed. ` 45,000 will be considered as:

- a. Sunk Cost
- b. Opportunity cost
- c. Avoidable cost
- d. Historical cost

88. Which of the given cost does not become the part of cost unit?

- a. Advertising expenses
- b. Direct labor cost
- c. Factory overhead cost
- d. Cost of raw material

89. Budgeted Factory overhead at two activity levels is as follows for the period.

Activity level Budgeted factory overhead

Low 10,000 Hours ` 40,000

High 50,000 Hours ` 80,000

Required: Identify variable rate with the help of above mentioned data.

- a. ` 4.00 per hour
- b. ` 1.60 per hour
- c. ` 1.00 per hour
- d. ` 2.00 per hour

90. Which of the given cost is NOT required to prepare Cost of Production Report?

- a. Period cost
- b. Material cost
- c. Labour cost
- d. Factory overhead cost

91. Identify the FOH rate on the basis of machine hour?

- a. ` 4.00
- b. ` 4.08
- c. ` 4.210
- d. ` 4.35

92. Which of the given will NOT be included for the calculation of equivalent units of material under weighted average costing method?

- a. Opening work in process units
- b. Closing work in process units
- c. Unit completed and transferred out
- d. None of the given options

93. The basic assumption made in direct costing with respect to fixed costs is that

- a. Fixed cost is a controllable cost
- b. Fixed cost is a product cost
- c. Fixed cost is an irrelevant cost
- d. Fixed cost is a period cost

94. The little Rock Company shows Break even sales is ` 40, 500 and Budgeted Sales is ` 50,000.

Identify the Margin of safety ratio?

- a. 19%
- b. 81%
- c. 1.81%
- d. Required more data to calculate

95. A machine cost ` 60,000 five years ago. It is expected that the machine will generate future

revenue of 40,000. Alternatively, the machine could be scrapped for ` 35,000. An equivalent machine in the same condition cost 38,000 to buy now.
Required: Identify the realizable value with the help of given data.

- a. ` 60,000
- b. ` 40,000
- c. ` 35,000
- d. ` 38,000

Budgeted production overheads `2,80,000
Actual machine hours 70,000 hours
Actual production overheads `2,95,000

96. Cost of finished goods inventory is calculated by:

- a. Deducting total cost from finished goods inventory
- b. Multiplying units of finished goods inventory with the cost per unit
- c. Dividing units of finished goods inventory with the cost per unit
- d. Multiplying total cost with finished goods inventory

97. Assuming no returns outwards or carriage inwards, the cost of goods sold will be equal to:

- a. Opening stock Less purchases plus closing stock
- b. Closing stock plus purchases plus opening stock
- c. Sales less gross profit
- d. Purchases plus closing stock plus opening stock plus direct labor

98. All of the following are essential requirements of a good wage system EXCEPT:

- a. Reduced labor and overhead costs
- b. Reduced per unit variable costs
- c. Increased production
- d. Increased operating costs

99. Profit under absorption costing will be higher than under marginal costing if :

- a. Produced units > Units sold
- b. Produced units < Units sold
- c. Produced units = Units sold
- d. Profit cannot be determined with given statement

100. Good Job Plc makes one product which sells for ` 80 per unit. Fixed costs are ` 28,000 per month and marginal costs are ` 42 per unit. What sales level in units will provide a profit of ` 10,000?

- a. 350 units
- b. 667 units
- c. 1,000 units
- d. 1,350 units

Answers:

1 b 2 c 3 c 4 a 5 c 6 b 7 b
 8 a 9 a 10 c 11 a 12 b 13 c 14 d
 15 b 16 b 17 a 18 c 19 c 20 c 21 c
 22 a 23 b 24 c 25 c 26 b 27 c 28 a
 29 b 30 d 31 b 32 b 33 c 34 b 35 a
 36 d 37 c 38 d 39 d 40 a 41 b 42 b
 43 b 44 d 45 a 46 a 47 b 48 a 49 d
 50 d 51 c 52 b 53 c 54 b 55 b 56 a
 57 a 58 d 59 d 60 c 61 b 62 a 63 b
 64 a 65 b 66 d 67 a 68 a 69 b 70 d
 71 d 72 c 73 b 74 c 75 a 76 b 77 c
 78 b 79 d 80 a 81 d 82 c 83 c 84 a
 85 d 86 b 87 b 88 a 89 c 90 a 91 a
 92 d 93 d 94 a 95 c 96 b 97 c 98 d
 99 a 100 c

A store ledger card is similar to the _____ .

- a. Stock ledger
- b. Bin card
- c. Material card
- d. Purchase requisition card

202. Which of the following element must be taken into account while calculating total earnings of a worker under different incentive wage schemes?

- a. Rate per unit
- b. Units of production
- c. Extra time taken by employee to complete the production
- d. Number of workers employed

203. The journal entry of purchase of stock under periodic inventory system would be?

- a. Inventory to Cash
- b. Cash to Purchases
- c. Purchases to Inventory
- d. None of the given options

204. Closing work in process Inventory of last year:

- a. Is treated as Opening inventory for current year
- b. Is not carried forward to next year
- c. Become expense in the next year
- d. Charge to Profit & Loss account

205. Sales are ` 4,50,000. Beginning finished goods were ` 23,000. Ending finished goods are ` 30,000. The cost of goods sold is ` 3,00,000. What is the cost of goods manufactured?

- a. ` 323,000
- b. ` 330,000
- c. ` 293,000

d. None of the given options

206. While transporting petrol, a little quantity will be evaporated; such kind of loss is termed as:

- a. Normal Loss
- b. Abnormal Loss
- c. It is incremental loss
- d. It cannot be abnormal loss

207. The cost of electricity bill of the factory is treated as:

- a. Fixed cost
- b. Variable cost
- c. Step cost
- d. Semi variable cost

[Hint : Semi Variable Cost : It is also known as mixed cost. It is the cost which is part fixed and part variable. It is in fact the mixture of both behaviors.

Examples include: Utility bills – there is a fixed line rent plus charges for units consumed. Salesman's salary – there is a fixed monthly salary plus commission per units sold.]

208. A cost centre is :

- a. A unit of product or service in relation to which costs are ascertained
- b. An amount of expenditure attributable to an activity
- c. A production or service location, function, activity or item of equipment for which costs are accumulated
- d. A centre for which an individual budget is drawn up

209. Cost accounting department prepares _____ that helps them in preparing final accounts.

- a. Cost sheets
- b. Cost of goods sold statement
- c. Cost of production Report
- d. Material requisition form

210. When FOH is under applied and charged to Net Profit , the treatment would be:

- a. Under applied Add net profit
- b. Under applied Less net profit
- c. Under applied Less operating expense
- d. None of the given options

211. Weighted average cost per unit is calculated by which of the following formula?

- a. Cost of goods issued/number of units issued
- b. Total Cost/Total Units
- c. Cost of goods manufactured/closing units
- d. Cost of goods sold/total units

212. Buyer produced 20,000 units and their total factory cost was ` 450,000, other cost like property tax on factory building was ` 10,000 included in that cost till year ended the cost of per unit would be:

- a. ` 22.5
- b. ` 23.5
- c. ` 24.5
- d. ` 26.5

[Hint : Cost per unit = Cost of goods manufactured / Number of units manufactured]

213. A standard rate is paid to the employee when he completed his job:

- a. In time less than the standard
- b. In standard time
- c. In time more than standard
- d. Both in standard time and more than the standard time

214. Store incharge after receiving the material as per the goods received note, places the material at its location and makes an entry in_____ .

- a. Bin Card
- b. Store Ledger Card
- c. Stock Ledger
- d. None of the given options

215. If opening inventory of material is ` 20,000 and closing inventory is ` 40,000.the Average inventory amount will be:

- a. ` 40,000
- b. ` 30,000
- c. ` 20,000
- d. ` 10,000

[Hint : Average Inventory= Opening Inventory + Closing Inventory/2]

216. PVC Company has ordering quantity 10,000 units. They have storage capacity 20,000 units, the average inventory would be:

- a. 20,000
- b. 5,000
- c. 10,000
- d. 25,000

[Hint : Average ordering quantity= Ordering Quantity/2]

217. All Indirect cost is charged/record in the head of

- a. Prime cost
- b. FOH cost
- c. Direct labor cost
- d. None of the given options

218. Under/Over applied FOH cost can be adjusted in which of the following:

- a. Entire Production
- b. Cost of Goods Sold

- c. Net Profit
- d. All of given options

219. The danger Level can be calculated?

- a. Average consumption x Lead time to get urgent supplies
- b. Normal consumption x Lead time to get urgent supplies
- c. Maximum consumption x Lead time to get urgent supplies
- d. Minimum consumption x Lead time to get urgent supplies

[Hint: Danger Level = Average consumption x Emergency time]

220. Nelson Company has following FOH detail.

	Budgeted (₹)	Actual (₹)
Production Fixed overheads	36,000	39,000
Production Variable overheads	9,000	12,000
Direct labor hours	18,000	20,000

- a. Under applied by ₹ 1,000
- b. Over applied by ₹ 1,000
- c. Under applied by ₹ 11,000
- d. Over applied by ₹ 38,000

221. Factory Over head cost includes :

- a. Factory Rent
- b. Property Tax
- c. Salaries of Factory Clerk
- d. All of the given

222. Which of the following cannot be used as a base for the determination of overhead absorption rate?

- a. Number of units produced
- b. Prime cost
- c. Conversion cost
- d. Discount Allowed

223. Cost of goods sold ₹ 30,000, opening Inventory ₹ 9,000, Closing inventory ₹ 7,800. What was the inventory turnover ratio?

- a. 3.57 times
- b. 3.67 times
- c. 3.85 times
- d. 5.36 times

[Hint : Inventory turnover ratio = Cost of goods sold/Average inventory]

224. FOH applied rate of Rs. 5.60 per machine hour. During the year the FOH to Rs. 275,000 and 48,000 machine hours were used. Which one of following statement is correct?

- a. Overhead was under-applied by Rs.6,200
- b. Overhead was over-applied by Rs.6,200
- c. Overhead was under-applied by Rs.7,200

d. Overhead was over-applied by Rs.7,200

225. Cost accounting concepts include all of the following EXCEPT:

- a. Planning
- b. Controlling
- c. Sharing
- d. Costing

226. ___ are future costs that effect the current management decision.

- a. Sunk Cost
- b. Standard Cost
- c. Relevant Cost
- d. Irrelevant Cost

[Hint : Relevant cost is which changes with a change in decision. These are future costs that effect the current management decision.

227. Which of the following costs is part of the prime cost for manufacturing company?

- a. Cost of transporting raw materials from the suppliers premises
- b. Wages of factory workers engaged in machine maintenance
- c. Depreciation of truck used for deliveries to customers
- d. Cost of indirect production materials

228. Direct material opening inventory add net purchases is called

- a. Material consumed
- b. Material available for use
- c. Total material purchased
- d. Material ending inventory

229. Which of the following is to be called product cost ?

- a. Material cost
- b. Labor cost
- c. FOH cost
- d. All of the given options

230. A Blanket Rate is:

- a. A single rate which used throughout the organization departments
- b. A double rates which used throughout the organization departments
- c. A single rates which used in different departments of the organization
- d. None of the given options

[Hint : A blanket absorption rate is a single rate of absorption used throughout an organization's production facility and based upon its total production costs and activity.]

231. All of the following are characteristics of Group Bonus Scheme EXCEPT:

- a. A standard time is set for the completion of a job
- b. If the time taken is greater than the time allowed, the workers in the group receive time wages

- c. If the time taken is less than the time allowed, the group receives a bonus on time saved
- d. If the time taken is greater than the time allowed, the workers in the group receive time deductions for extra hours

232. Which of the following best describes the manufacturing costs?

- a. Direct materials, direct labor and factory overhead
- b. Direct materials and direct labor
- c. Direct materials, direct labor, factory overhead, and administrative overhead
- d. Direct labor and factory overhead

233. High labor turnover is NOT desirable because:

- a. It denotes the instability of the labor force
- b. It is an indication of high labor cost
- c. It shows frequent changes in the labor force
- d. All of the given options

234. Manufacturing entities classified the inventory in which of three kinds?

- a. Material inventory, WIP inventory, Finished goods inventory
- b. Material inventory, purchased good inventory, WIP inventory
- c. Material inventory, purchased good inventory, Finished goods inventory
- d. WIP inventory, Finished goods inventory, purchased good inventory

235. Which of the following is correct for maximum level?

- a. Reorder level – (Minimum consumption x Lead time) + EOQ
- b. (Maximum consumption x Lead time) – (Minimum consumption x Lead time) + EOQ
- c. [(Maximum consumption - Minimum consumption) Lead time] + EOQ
- d. All of the given options

236. Inventory turnover ratio can be calculated as follow?

- a. Cost of goods sold/Average inventory
- b. Gross profit/Average inventory
- c. Cost of goods sold/sale
- d. Cost of goods sold/Gross profit

237. The component of Factory overhead are as follow

- a. Direct material + Indirect material + Direct expenses
- b. Indirect material + Indirect labor + Others indirect cost
- c. Direct material + Indirect expenses + Indirect labor
- d. Direct labor + Indirect labor + Indirect expenses

238. Overtime that is necessary in order to fulfill customer orders is called:

- a. Avoidable overtime
- b. Unavoidable overtime
- c. Premium Overtime
- d. Flex time

239. The Process of cost apportionment is carried out so that:

- a. Cost may be controlled
- b. Cost unit gather overheads as they pass through cost centers

- c. Whole items of cost can be charged to cost centers
- d. Common costs are shared among cost centers

240. Taylor's Differential Piece Rate Plan uses-----piece rates.

- a. Three
- b. Two
- c. Four
- d. Five

241. Under Halsey premium plan, if the employee completes his job in less than the standard time fixed for the job, he is given:

- a. Only wages for the actual hours taken
- b. Wages for the actual hours taken plus bonus equal to one half of the wage of the time saved
- c. Wages for the actual hours taken plus bonus equal to one third of the wage of the time saved
- d. Only the bonus equal to one half of the time saved

242. Increase in material Inventory means:

- a. The ending inventory is greater than opening inventory
- b. The ending inventory is less than opening inventory
- c. Both ending and opening inventories are equal
- d. Cannot be determined

243. Working hours of labor can be calculated with the help of all except:

- a. Smart card
- b. Time sheet
- c. Clock card
- d. Store card

244. Amount of net purchase can be calculated as follow

- a. Purchase of direct material add trade discount less purchase return add carriage inward less other material handling cost
- b. Purchase of direct material less trade discount l add purchase return add carriage inward less other material handling cost
- c. Purchase of direct material less trade discount less purchase return less carriage inward add other material handling cost
- d. Purchase of direct material less trade discount less purchase return add carriage inward add other material handling cost

245. All of the following are terms used to denote Factory Overheads EXCEPT:

- a. Factory burden
- b. Factory expenses
- c. Manufacturing overhead
- d. Conversion costs

246. Reduction of labor turnover, accidents, spoilage, waste and absenteeism are the results of which of the following wage plan?

- a. Piece rate plan
- b. Time rate plan
- c. Differential plan
- d. Group bonus system

247. Costs which are constant for a relevant range of activity and rise to new constant level once that range exceeded is called:

- a. A fixed cost
- b. A variable cost
- c. A mixed cost
- d. A step cost

248. Cost of goods sold can be calculated as follow

- a. Cost of goods manufactured Add Opening finished goods inventory Less Closing finished goods inventory
- b. Cost of goods manufactured Less Opening finished goods inventory Less Closing finished goods inventory
- c. Cost of goods manufactured Less Opening finished goods inventory Add Closing finished goods inventory
- d. Cost of goods manufactured Add Opening finished goods inventory Add Closing finished goods inventory

249. If, COGS = ` 70,000 GP Margin = 30% of sales What will be the value of Sales?

- a. ` 200,000
- b. ` 66,667
- c. ` 100,000
- d. ` 62,500

[Hint : Sales = $30000 * 100\% / 30\% = ` 100,000$]

250. Annual requirement is 7800 units; consumption per week is 150 units. Unit price ` 5, order cost ` 10 per order. Carrying cost ` 1 per unit and lead time is 3 week, The Economic order quantity would be.

- a. 395 units
- b. 300 units
- c. 250 units
- d. 150 units

251. What will be the impact of normal loss on the overall per unit cost ?

- a. Per unit cost will increase
- b. Per unit cost will decrease

- c. Per unit cost remain unchanged
- d. Normal loss has no relation to unit cost

252. Alpha company purchased a machine worth Rs 200,000 in the last year. Now that machine can be use in a new project which company has received this year. Now the cost of that machine is to be called

- a. Project cost
- b. Sunk cost
- c. Opportunity cost
- d. Relevant cost

253. FOH absorption rate is calculated by the way of :

- a. Estimated FOH Cost/Direct labor hours
- b. Estimated FOH Cost/No of units produced
- c. Estimated FOH Cost/Prime Cost
- d. All of the given options

254. Which of the following is/are not associated with ordering costs?

- a. Interest
- b. Insurance
- c. Opportunity costs
- d. All of the given options

255. Under perpetual Inventory system at the end of the year:

- a. No closing entry passed
- b. Closing entry passed
- c. Closing value find through closing entry only
- d. None of the above.

256. The Hino Corporation has a breakeven point when sales are ` 160,000 and variable costs at that level of sales are ` 100,000. How much would contribution margin increase or decrease, if variable expenses dropped by ` 20,000?

- a. 37.5%.
- b. 60%.
- c. 12.5%.
- d. 26%

[Hint : Sales=160,000; VC=100,000; CM=60,000

Contribution to sales ratio (C/S ratio) =Contribution Margin in `/Sales in `
 $60,000/160,000=0.375$

$0.375*100=37\%$

New VC=80,000,

Sales=160,000

CM=80,000

Contribution to sales ratio (C/S ratio) =Contribution Margin in `/Sales in `
 $80,000/160,000=0.5=50\%$

Rise in CM=(37.5-50)=12.5]

257. The short run is a time period in which:

- a. All resources are fixed.
- b. The level of output is fixed.
- c. The size of the production plant is variable.
- d. Some resources are fixed and others are variable

258. Opportunity cost is the best example of:

- a. Sunk Cost
- b. Standard Cost
- c. Relevant Cost
- d. Irrelevant Cost

259. The components of factory overhead are as follows:

- a. Direct material + Indirect material + Direct expenses
- b. Indirect material + Indirect labor + Others indirect cost
- c. Direct material + Indirect expenses + Indirect labor
- d. Direct labor + Indirect labor + Indirect expenses

260. The term Maximum level represents:

- a. The maximum stock level indicates the maximum quantity of an item of material which can be held in stock at any time.
- b. The maximum stock level indicates the maximum quantity of an item of material which cannot be held in stock at any time.
- c. The average stock level indicates the maximum quantity of an item of material which can be held in stock at any time.
- d. The available stock level indicates the maximum quantity of an item of material which can be held in stock at any time.

261. The FIFO inventory costing method (when using a perpetual inventory system) assumes that the cost of the earliest units purchased is allocated in which of the following ways?

- a. First to be allocated to the ending inventory
- b. Last to be allocated to the cost of goods sold
- c. Last to be allocated to the ending inventory
- d. First to be allocated to the cost of good sold

262. A firm Uses its own capital or Uses its owner's time and/or financial resources both are examples of

- a. Implicit Cost
- b. Explicit Cost
- c. Sunk Cost
- d. Relevant Cost

[Hint : A cost that is represented by lost opportunity in the use of a company's own resources, excluding cash

These are intangible costs that are not easily accounted for. For example, the time and

effort that
an owner puts into the maintenance of the company rather than working on expansion]

263. If Direct Material = 12,000; Direct Labor = 8000 and other Direct Cost = 2000 then what will be the Prime Cost?

- a. 12000
- b. 14000
- c. 20000
- d. 22000

264. Wage, Rent & Materials are examples of :

- a. Implicit Cost
- b. Explicit Cost
- c. Direct Cost
- d. Manufacturing Cost

[Hint : A business expense that is easily identified and accounted for. Explicit costs represent clear, obvious cash outflows from a business that reduce its bottom-line profitability. This contrasts with less-tangible expenses such as goodwill amortization, which are not as clear cut regarding their effects on a business's bottom-line value
Good examples of explicit costs would be items such as wage expense, rent or lease costs, and the cost of materials that go into the production of goods. With these expenses, it is easy to see the source of the cash outflow and the business activities to which the expense is attributed]

265. An investor invests in stock exchange he foregoes the opportunity to invest further in his hotel. The profit which the investor will be getting from the hotel is _____.

- a. Opportunity cost
- b. Period Cost
- c. Product Cost
- d. Historical Cost

[Hint : 1. The cost of an alternative that must be forgone in order to pursue a certain action. Put another way, the benefits you could have received by taking an alternative action.
2. The difference in return between a chosen investment and one that is necessarily passed up.
Say you invest in a stock and it returns a paltry 2% over the year. In placing your money in the stock, you gave up the opportunity of another investment - say, a risk-free government bond yielding 6%. In this situation, your opportunity costs are 4% (6% - 2%)]

266. It is possible for an item of overhead expenditure to be shared amongst many departments. It is also possible that this same item may relate to just one specific department. If the item was not charged specifically to a single department this would be an example

of:

- a. Apportionment
- b. Allocation
- c. Re-apportionment
- d. Absorption

267. Generally, the danger level of stock is fixed _____ the minimum level

- a. Below
- b. Above
- c. Equal
- d. Danger level has no relation to minimum level

268. Which of the following is / are time based incentive wage plan?

- a. Hasley Premium Plan
- b. Hasley Weir Premium Plan
- c. Rowan Premium Plan
- d. All of the given options

269. Which of the following is/are reported in production cost report?

- a. The costs charged to the department
- b. How the costs were assigned to the output?
- c. The equivalent units of production by the department
- d. All of the given options

270. Direct materials cost is ` 80,000. Direct labor cost is ` 60,000. Factory overhead is ` 90,000.

Beginning goods in process were ` 15,000. The cost of goods manufactured is ` 245,000. What is the cost assigned to the ending goods in process?

- a. ` 45,000
- b. ` 15,000
- c. ` 30,000
- d. There will be no ending Inventory

[Hint : Direct Material ---- 80,000 (Given)

Direct labor ----- 60,000 (Given)

FOH ----- 90,000 (Given)

Open WIP----- 15,000

Total 245000 (cost of goods manufactured is also 245000 so balance is zero)]

271. Sales are ` 450,000. Beginning finished goods were ` 23,000. Ending finished goods are ` 30,000. The cost of goods sold is ` 300,000. What is the cost of goods manufactured?

- a. ` 323,000
- b. ` 330,000
- c. ` 293,000
- d. None of the given options

272. Under Periodic Inventory system Purchase of inventory is treated as:

- a. Assets

- b. Expense
- c. Income
- d. Liability

273. When prices are rising over time, which of the following inventory costing methods will result in the lowest gross margin/profits?

- a. FIFO
- b. LIFO
- c. Weighted Average
- d. Cannot be determined

274. The main difference between the profit center and investment center is:

- a. Decision making
- b. Revenue generation
- c. Cost incurrence
- d. Investment

275. The Inventory Turnover ratio is 5 times and numbers of days in a year is 365. Inventory holding period in days would be

- a. 100 days
- b. 73 days
- c. 50 days
- d. 10 days

276. Over applied FOH will always result when a predetermined FOH rate is applied and:

- a. Production is greater than defined capacity
- b. Actual overhead costs are less than budgeted overhead
- c. Budgeted capacity is less than normal capacity
- d. Actual overhead incurred is less than applied Overhead

277. The flux method of labor turnover denotes:

- a. Workers appointed against the vacancy caused due to discharge or quitting of the organization
- b. Workers appointed in replacement of existing employees
- c. Workers employed under the expansion schemes of the company
- d. The total change in the composition of labor force

[Hint : The flux method of labor turnover denotes the total change in the composition of labor force. While replacement method takes into account only workers appointed against the vacancy caused due to discharge or quitting of the organisation.]

278. Which of the following statement is TRUE about FOH applied rates?

- a. They are used to control overhead costs
- b. They are based on actual data for each period
- c. They are predetermined in advance for each period
- d. None of the given

279. Cost of Goods Manufactured can be calculated as follow

- a. Total factory Cost Add Opening Work in process inventory Less Closing Work in process inventory
- b. Total factory Cost Less Opening Work in process inventory Add Closing Work in process inventory
- c. Total factory Cost Less Opening Work in process inventory Less Closing Work in process inventory
- d. Total factory Cost Add Opening Work in process inventory Add Closing Work in process inventory

280. _____ is the time worked over and above the employee's basic working week.

- a. Flex time
- b. Overtime
- c. Shift allowance
- d. Commission

281. In furniture manufacturing use of nail, pins, glue, and polish which use to increase its esteem value that cost is treated as:

- a. Direct material cost
- b. Indirect material cost
- c. FOH cost
- d. Prime cost

282. If labor is satisfied with high wages it may ultimately lead to:

- a. Increased production and productivity
- b. Increased efficiency
- c. Reduced labor and overhead costs
- d. All of the given options

283. Which of the following is a mechanical device to record the exact time of the workers?

- a. Clock Card
- b. Store Card
- c. Token System
- d. Attendance Register

284. Which of the following is / are element / s of production payroll?

- a. Direct labor force wages
- b. Administrative wages
- c. Selling wages
- d. All of the given options

285. If a predetermined FOH rate is not applied and the volume of production is reduced from the planned capacity level, the cost per unit expected to:

- a. Remain unchanged for fixed cost and increase for variable cost
- b. Increase for fixed cost and remain unchanged for variable cost
- c. Increase for fixed cost and decrease for variable cost
- d. Decrease for both fixed and variable costs

286. Which of the following is NOT an assumption of the basic economic-order quantity model?

- a. Annual demand is known
- b. Ordering cost is known
- c. Carrying cost is known
- d. Quantity discounts are available

287. In order to ensure efficient functioning of the stores department and steady flow of materials to the production departments, the restocking of stores is duty of:

- a. Managers
- b. Storekeeper
- c. Production In charge
- d. Sales supervisor

288. In cost Accounting, abnormal loss is charged to:

- a. Factory overhead control account
- b. Work in process account
- c. Income Statement
- d. Entire production

289. A high inventory turnover may indicate:

- a. An efficient use of the investment in inventory
- b. A high risk of stock-outs
- c. Stock position of store room
- d. All of the given options

290. Which of the following cost is used in the calculation of cost per unit?

- a. Total production cost
- b. Cost of goods available for sales
- c. Cost of goods manufactured
- d. Cost of goods Sold

291. If, COGS = ` 50,000 GP Margin = 25% of sales What will be the value of Sales?

- a. ` 200,000
- b. ` 66,667
- c. ` 62,500
- d. None of the given options

292. When a manufacturing Company has highly automated manufacturing plant producing many different products, the most appropriate basis for applying FOH cost to work in process is:

- a. Direct labor hours
- b. Direct labor costs
- c. Machine hours
- d. Cost of material used

293. All of the following are cases of labor turnover EXCEPT:

- a. Workers appointed against the vacancy caused due to discharge or quitting of the organization
- b. Workers employed under the expansion schemes of the company
- c. The total change in the composition of labor force
- d. Workers retrenched

294. The Term Minimum Level Represents.

- a. The quantity below which the stock of any item should not be allowed to fall
- b. The quantity below which the stock of any item should be allowed to fall
- c. The estimated time period in number of days or in weeks or in months.
- d. The Lead time period in number of days or in weeks or in months.

295. Which of the following would be considered a major aim of a job order costing system?

- a. To determine the costs of producing each job or lot
- b. To compute the cost per unit
- c. To include separate records for each job to track the costs
- d. All of the given option.

296. The Economic order quantity can be calculated by

- a. Formula Method
- b. Table Method
- c. Graph Method
- d. All of the given

297. A chemical process has normal wastage of 10% of input. In a period, 2,500 Kg of material were

input and there was abnormal loss of 75 Kg. What quantity of good production was achieved?

- a. 2,175 kg
- b. 2,250 kg
- c. 2,425 kg
- d. 2,500 kg

298. Which of the following is likely to be classified as a direct material cost of a motor car wheel?

- a. The metal used to manufacture it.
- b. The metal used to manufacture one of the tools used in the car wheel factory.
- c. The cost of operating the raw material stores in the factory.
- d. The cost of the quality operation on the finished car wheels.

[Hint : (b) is part of the cost of either a fixed asset or an indirect cost depending upon the

amount
involved; (c) and (d) are factory indirect costs.]

299. The first in, first out method of pricing raw material issues, exhibits which one of the following features?

- a. The issue price is recalculated each time new deliveries are made into stock.
- b. The issue price is always at the latest price.
- c. The goods are always issued strictly in the physical order in which they are received.
- d. The issue price is always at the earliest price.

[Hint : (a) refers to the continuous weighted average price method. (b) this method is known as the last in, first out method. Under (c) it will rarely be possible to issue goods to correspond with the physical order of receipt unless there is a stock control system dealing with, for example perishable items.]

300. Which of the following is not a method of pricing raw material issues from stock?

- a. Standard costing.
- b. Unit cost.
- c. Marginal cost.
- d. Continuous weighted average.

Answers:

201 b 202 b 203 d 204 a 205 d 206 a 207 d 208 a 209 b 210 a

211 b 212 a 213 b 214 a 215 b 216 b 217 b 218 d 219 a 220 a 221 d 222 d 223 a 224 b

225 c 226 c 227 a 228 b 229 d 230 a 231 d 232 a 233 d 234 c 235 a 236 a 237 b 238 b

239 d 240 b 241 b 242 a 243 d 244 a 245 a 246 d 247 d 248 a 249 c 250 a 251 a 252 d

253 d 254 d 255 a 256 c 257 d 258 c 259 b 260 a 261 d 262 a 263 d 264 b 265 a 266 a

267 b 268 d 269 d 270 d 271 d 272 b 273 b 274 a 275 b 276 d 277 d 278 c 279 a 280 b

281 b 282 d 283 a 284 d 285 b 286 d 287 b 288 b 289 a 290 c 291 b 292 b 293 d 294 a

295 d 296 d 297 a 298 a 299 d 300 c

Which of the following is not a method of pricing raw material issues from stock?

- a. Standard costing.
- b. Unit cost.
- c. Marginal cost.
- d. Continuous weighted average.

301. Which of the following is a direct labour cost?

- a. Supervisors' salaries in the factory.
- b. Costs of the payroll accounting section.
- c. A bonus paid to the storeman.
- d. The wages of an operative paid on the basis of output achieved.

302. Production overheads are absorbed into production units by the use of an overhead absorption rate. Which one of the following best describes how the absorption rate is calculated?

- a. Total number of units produced divided by the total cost centre overheads.
- b. Total number of units produced multiplied by the unit overhead cost.
- c. Total cost centre overheads divided by the cost centre activity level.
- d. Total indirect costs for the business divided by the total number of units produced.

[Hint : (d) would produce an overhead absorption rate, but it would be far too generalised to be of any practical use to the business]

303. Sales commissions are classified as

- a. Prime costs
- b. Period costs
- c. Product costs
- d. Indirect labour

304. XYZ Ltd has the following data relating to its assembly plant in the year ended 31 December 2012:

`000

Direct material costs 500

Direct labour cost 250

Assembly plant indirect costs 100

In addition, the stores department has total costs of ` 30,000 and spends 50% of its time servicing

the assembly plant. There were 50,000 labour hours worked and 25,000 machine hours run in the assembly plant in 2012.

The overhead cost per direct labour hour was:

- a. ` 2.0
- b. ` 4.0
- c. ` 2.3
- d. ` 4.6

[Hint : The overhead cost per labour hour is ` 1,00,000 plus 50% of the stores costs `15,000, = `1,15,000 divided by 50,000 hours.

305. If a company uses predetermined overhead recovery rates and at the end of a period finds that there has been an under-recovery of overhead, which of the following best explains how the under-recovery has occurred?

- a. Actual overhead cost has exceeded the amount used as a basis for the establishment of the

predetermined rate.

- b. Actual overhead cost has been less than the amount used as a basis for the establishment of the predetermined rate.
- c. Actual activity levels were higher than planned due to an increase in demand.
- d. An expected price increase in the overhead costs which was built into the overhead recovery rate did not take place.

[Hint : (b), (c) and (d) would lead to over-recovery of overheads.]

306. If there has been an over recovery of overheads, at the end of the accounting period the amount concerned should be?

- a. Debited to the company profit and loss account.
- b. Credited to the company profit and loss account.
- c. Carried forward to the next accounting period as a cost saving.
- d. Used to reduce next period's overhead recovery rate.

[Hint : Variances should always be dealt with in the profit and loss account for the period they relate to.]

307. A variable cost is?

- a. One which varies in proportion to the level of fixed cost incurred.
- b. One which tends to vary with the level of activity.
- c. One which changes over time.
- d. One which cannot be estimated with any great degree of accuracy.

308. The term 'contribution' refers to?

- a. The actual amount of profit made per unit.
- b. The budgeted profit per unit.
- c. The amount of profit which goes towards meeting the overheads of the business.
- d. The difference between sales revenue and variable costs per unit.

[Hint : Contribution only becomes profit when fixed costs have been covered in full.]

309. The break-even point is that at which:

- a. The level of activity at which the business operates most economically.
- b. The level of activity at which the business makes neither a profit nor a loss.
- c. The fixed costs are lowest.
- d. The variable cost per unit is minimized.

310. When a business is faced with a limiting factor (one which limits the activity of an entity) and there

is a choice to be made between options to follow, which of the following statements describes the optimal course of action?

- a. Choose the option which gives the highest unit profit.
- b. Choose the option which gives the highest unit contribution.
- c. Aim to achieve a balance of activities covering all of the options.
- d. Choose the option which gives highest contribution per unit of limiting factor.

[Hint : (d) would give the optimal course of action in financial terms. Sometimes, where resource constraints operate in 'not for profit organizations', other non-financial factors may mean that a sub-optimal course of action is followed.]

311. XYZ Ltd has the following alternative planned activity levels:

Level A Level B Level C

Total costs ` 1,00,000 ` 1,50,000 ` 2,00,000

Number of units produced 5,000 10,000 15,000

(Fixed overhead remains constant over the activity range shown.)

The fixed overhead cost per unit is:

- a. ` 20.00
- b. ` 15.00
- c. ` 13.33
- d. ` 10.00

[Hint : The total cost increased by ` 1,00,000 in moving from Level A to Level C, therefore if fixed overheads are constant, variable costs are ` 1,00,000 for 10,000 units, which = ` 10/unit. At Level A, total cost is ` 20/unit so fixed overheads absorbed on a unit basis are ` 10.]

312. Which of the following statements regarding marginal costing is incorrect?

- a. It is a useful long-term planning technique.
- b. It assumes that fixed costs remain fixed over relevant activity ranges.
- c. It assumes that other costs vary in proportion to activity.
- d. It assumes that costs can be classified as variable or fixed.

[Hint : (b), (c) and (d) are characteristics of the marginal costing approach which render it less than useful as a long-term decision-making technique, hence (a) is correct.]

313. Which phrase best describes the current role of the managerial accountant?

- a. Managerial accountants prepare the financial statements for an organization.
- b. Managerial accountants facilitate the decision-making process within an organization.
- c. Managerial accountants make the key decisions within an organization.
- d. Managerial accountants are primarily information collectors.

314. LG has incurred cost of ` 60,000 for material. Further it incurred ` 35,000 for labor and ` 70,000 for

factory overhead. There was no beginning and ending work in process. 7,500 units were completed and transferred out. What would be the unit cost for material?

- a. ` 22
- b. ` 16
- c. ` 14
- d. ` 8

315. Manufacturing costs typically consist of

- a. Direct materials, direct labor, and manufacturing overhead.
- b. Production and shipping costs.
- c. Production and marketing costs.

d. Direct materials, direct labor, marketing and administrative costs.

316. In comparison to the traditional manufacturing environment, overhead costs in a JIT environment

all the following are true except:

- a. Are more easily tracked to products.
- b. Are frequently direct in nature.
- c. Include rent, insurance and utilities.
- d. Most of the costs are likely to be indirect in nature.

317. As production increases within the relevant range

- a. Variable costs will vary on a per unit basis.
- b. Variable costs will vary in total.
- c. Fixed costs will vary in total.
- d. Fixed and variable cost stay the same in total.

318. You are given the cost and volume information below:

Volume Cost

1 unit ` 15

10 units ` 150

100 units ` 1500

What type of a cost is given?

- a. Fixed cost
- b. Variable cost
- c. Step cost
- d. Mixed cost

319. Which of the following statements regarding graphs of fixed and variable costs is true?

- a. Variable costs can be represented by a straight line where costs are the same for each data point.
- b. Fixed costs can be represented by a straight line starting at the origin and continuing through each data point.
- c. Fixed costs are zero when production is equal to zero.
- d. Variable costs are zero when production is equal to zero.

320. ABC Ltd. has three product lines - A, B, and C.

A B C Total

Total Sales ` 10,000 9,000 12,000 31,000

Variable costs 4,500 7,000 6,000 17,500

Contribution Margin 5,500 2,000 6,000 13,500

Fixed costs 3,500 6,000 3,000 12,500

Net income 2,000 (4,000) 3,000 1,000

Product line B appears unprofitable, and management is considering discontinuing the line.

How

would the discontinuation of Product line B affect net income?

- a. Increase by \$4,000
- b. Decrease by \$4,000
- c. Increase by \$2,000
- d. Decrease by \$2,000

321. Coed Novelties manufactures key chains for college bookstores. During 2012, the company had the following costs:

Direct materials used ` 31,000; Direct labor ` 18,000; Factory rent ` 12,000; Equipment depreciation –

factory ` 2,000; Equipment depreciation – office ` 750; Marketing expense ` 2,500;

Administrative

expenses ` 40,000

35,000 units produced were in 2003.

What is the product cost per unit?

- a. Approximately `1.24
- b. `1.80
- c. Approximately ` 3.04
- d. `1.40

322. The Cape Cod Cotton Candy Company had the following information available regarding last

year's operations:

Sales (100,000 units) ` 2,00,000 ; Variable costs ` 1,00,000; Contribution margin ` 1,00,000; Fixed

costs ` 50,000; Net Income ` 50,000

If sales were to increase by 200 units, what would be the effect on net income?

- a. `400 increase
- b. `200 increase
- c. `150 increase
- d. ` 200 loss

323. If B Limited shows required production of 120 cases of product for the month, direct labor per case is 3 hours at Rs. 12 per hour. Budgeted labor costs for the month should be:

- a. ` 360
- b. ` 1,440
- c. ` 4,320
- d. ` 5,346

324. A firm, which makes yachts, has fixed costs of ` 260,000 per month. The product sells for ` 35,000

per boat, and the variable costs of production are ` 15,000 per boat. The boatyard can manufacture 20 boats each month. What is the firms' margin of safety at the moment?

- a. 20%
- b. 35%
- c. 54%
- d. 57%

325. Janet sells a product for ` 6.25. The variable costs are ` 3.75. Janet's break-even units are 35,000. What is the amount of fixed costs?

- a. ` 87,500
- b. ` 35,000
- c. ` 131,250
- d. ` 104,750

326. Good Job Plc makes one product which sells for ` 80 per unit. Fixed costs are ` 28,000 per month and marginal costs are ` 42 a unit. What sales level in units will provide a profit

of ₹ 10,000?

- a. 350 units
- b. 667 units
- c. 1,000 units
- d. 1,350 units

327. If computational and record-keeping costs are about the same under both FIFO and weighted average, which of the following method will generally be preferred?

- a. Weighted Average
- b. FIFO
- c. They offer the same degree of information
- d. Cannot be determined with so little information

328. A business always absorbs its overheads on labor hours. In the 8th period, 18,000 hours were worked, actual overheads were ₹ 279,000 and there was ₹ 36,000 over-absorption. The overhead absorption rate per hours was:

- a. ₹ 15.50
- b. ₹ 17.50
- c. ₹ 18.00
- d. ₹ 13.50

329. Bharat Ltd estimated that during the year 75,000 machine hours would be used and it has been using an overhead absorption rate of ₹ 6.40 per machine hour in its machining department. During the year the overhead expenditure amounted to ₹ 472,560 and 72,600 machine hours were used. Which one of the following statements is correct?

- a. Overhead was under-absorbed by ₹ 7,440
- b. Overhead was under-absorbed by ₹ 7,920
- c. Overhead was over-absorbed by ₹ 7,440
- d. Overhead was over-absorbed by ₹ 7,920

330. Inventory of ₹ 96,000 was purchased during the year. The cost of goods sold was ₹ 90,000 and the ending inventory was ₹ 18,000. What was the inventory turnover ratio for the year?

- a. 5.0
- b. 5.3
- c. 6.0
- d. 6.4

331. The FIFO inventory costing method (when using under perpetual inventory system) assumes that the cost of the earliest units purchased is allocated in which of the following ways?

- a. First to be allocated to the ending inventory

- b. Last to be allocated to the cost of goods sold
- c. Last to be allocated to the ending inventory
- d. First to be allocated to the cost of good sold

332. High Class Interiors had beginning merchandise inventory of ` 75,000. It made purchases of `160,000 and recorded sales of ` 220,000 during January. Its estimated gross profit on sales was 30%. On January 31, the store was destroyed by fire. What was the value of the merchandise inventory loss?

- a. ` 154,000
- b. ` 160,000
- c. ` . 235,000
- d. ` 81,000

333. Where there is mass production of homogeneous units or where few products are produced in batches, which of the following cost driver would be regarded as best base for the determination of Factory overhead absorption rate?

- a. Number of units produced
- b. Labor hours
- c. Prime cost
- d. Machine hours

334. Which of the following is a factor that should be taken into account for fixing re-order level?

- a. Average consumption
- b. Economic Order Quantity
- c. Emergency lead time
- d. Danger level

335. The contribution margin increases when sales volume and price remain the same and:

- a. Variable cost per unit decreases
- b. Variable cost per unit increases
- c. Fixed costs per unit increase
- d. All of the given options

336. Opening work in process inventory can be calculated under which of the following method?

- a. FIFO and Average costing
- b. LIFO and Average costing
- c. FIFO and LIFO costing
- d. None of given options

337. _____ is a part of cost of production report that explains the cost incurred during the process.

- a. Quantity schedule
- b. Cost accounted for as follow
- c. Cost charged to the department

d. None of the given options

338. A company makes one product, which has variable manufacturing costs of ` 3.25 per unit and variable selling and administrative costs of ` 1.17 per unit. Fixed manufacturing costs are ` 42,300 per month and fixed selling and administrative costs are ` 29,900 per month. The company wants to earn an average monthly profit of ` 15,000 and they expect to produce and sell an average of 40,000 units of the product per month. What is the minimum selling price management can be expected to set to meet their profitability goals?

- a. ` 4.69
- b. ` 4.42
- c. ` 6.60
- d. ` 6.23

339. A cost that remains unchanged across the relevant range of units produced is what kind of cost?

- a. Fixed cost
- b. Product cost
- c. Mixed cost
- d. Period cost

340. A company has the following cost data for the month:

Conversion cost: ` 78,900; Prime Cost: ` 115,700; Beginning Work in Process Inventory: ` 4,700; Ending Work in Process Inventory: ` 2,800; Beginning Finished Goods Inventory: ` 27,600; Ending Finished Goods Inventory: ` 29,200; Manufacturing Overhead Costs: ` 14,500.
What is the Cost of Goods Sold for the month?

- a. ` 132,100
- b. ` 116,000
- c. ` 130,200
- d. ` 130,500

341. Material cost = ` 4.00 per unit; Labor cost = Re. 0.60 per unit; Factory overhead cost = ` 1.00 per unit; Administrative cost = ` 1.20 per unit; Selling cost = 15% of sales; Profit = ` 1.02 per unit.

What will be the sales price per unit?

- a. 6.0
- b. 9.2
- c. 7.0
- d. None of the given option

342. ABC & Company has maintained the following data of inventory control Under the periodic inventory system:

Date	Units	Total
Jan 01	100 @ ` 10	` 1000
Jan 05	100 @ ` 11	` 1100
Jan 10	150 @ ` 12	` 1600

During the period 300 units were sold.

Calculate the cost of ending inventory under FIFO method.

- a. 600
- b. 500
- c. 400
- d. 300

343. National chains of tyre fitters stock a popular tyre for which the following information is available:

Average usage = 140 tyres per day

Minimum usage = 90 tyres per day

Maximum usage = 175 tyres per day

Lead time = 10 to 16 days

Re-order quantity = 3000 tyres

Based on the above data calculate the maximum level of stock possible:

- a. 2800
- b. 3000
- c. 4900
- d. 5800

344. The total labor cost incurred by a manufacturing entity includes which one of the following elements:

- a. Direct labor cost
- b. Indirect labor cost
- c. Abnormal labor cost
- d. All of the given options

345. If, Opening stock 1,000 units; Material Purchase 7,000 units; Closing Stock 500 units; Material consumed ` 7,500.

What will be the inventory turnover ratio?

- a. 10 Times
- b. 12 times
- c. 14.5 times
- d. 9.5 times

346. If Units sold = 10,000; Closing finished goods = 2,000; Opening finished goods = 1,500;

What will be the value of units manufactured?

- a. 9,500
- b. 10,500
- c. 13,500
- d. 6,500

347. Calculate the amount of direct labor if:

Direct material = 15,000; Direct labor = 70% of prime cost

- a. 6,429
- b. 30,000
- c. 10,500
- d. 35,000

348. In increasing production volume situation, the behavior of Fixed cost & Variable cost will be:

- a. Increases, constant
- b. Constant, increases
- c. Increases, decreases
- d. Decreases, increases

349. While calculating the finished goods ending inventory, what would be the formula to calculate per unit cost?

- a. Cost of goods sold / number of units sold
- b. Cost of goods to be manufactured/ number of units manufactured
- c. Cost of goods manufactured / number of units manufactured
- d. Total manufacturing cost / number of units manufactured

350. If the direct labor is Rs. 42,000 and FOH is 40% of conversion cost. What will be the amount of FOH?

- a. 63,000
- b. 30,000
- c. 28,000
- d. 16,800

351. Which one of the following centers is responsible to earn sales revenue?

- a. Cost center
- b. Investment center
- c. Revenue center
- d. Profit center

352. While preparing the Cost of Goods Sold and Income Statement, the over applied FOH is;

- a. Add back, subtracted
- b. Subtracted, add back
- c. Add back, add back
- d. Subtracted, subtracted

353. Which of the following ratios expressed that how many times the inventory is turning over towards the cost of goods sold?

- a. Net profit ratio
- b. Gross profit ratio
- c. Inventory turnover ratio
- d. Inventory holding period

MCQ # 354, 355, 356 and 357 are based on the following data:

The following is the Income Statement of a Company for last month:

Particulars`

Sales 4,000,000

Less: variable expenses 1,800,000

Contribution margin 2,200,000

Less: fixed expenses 720,000

Net income 1480,000

The company has no beginning or ending inventories. A total of 80,000 units were produced and

sold last month.

354. What is the company's contribution margin ratio?

- a. 30%
- b. 50%
- c. 150%
- d. None of given options

355. What is the company's break-even in units?

- a. 48,000 units
- b. 72,000 units
- c. 80,000 units
- d. None of the given options

356. How many units would the company have to sell to attain target profits of ` 600,000?

- a. 48,000 units
- b. 88,000 units
- c. 106,668 units
- d. None of given options

357. What is the company's margin of safety in `?

- a. ` 1,600,000
- b. ` 2,400,000
- c. ` 25,60,000
- d. None of the given options

358. The margin of safety can be defined as:

- a. The excess of budgeted or actual sales over budgeted or actual variable expenses
- b. The excess of budgeted or actual sales over budgeted or actual fixed expenses
- c. The excess of budgeted sales over the break-even volume of sales
- d. The excess of budgeted net income over actual net income

359. The contribution margin ratio is calculated by using which one of the given formula?

- a. $(\text{Sales} - \text{Fixed Expenses})/\text{Sales}$
- b. $(\text{Sales} - \text{Variable Expenses})/\text{Sales}$
- c. $(\text{Sales} - \text{Total Expenses})/\text{Sales}$
- d. None of the given options

360. Data of a company XYZ is given below

Particulars `

Sales 15,00,000

Variable cost 9,00,000

Fixed Cost 4,00,000

Break Even Sales in ` _____

- a. ` 1, 00,000
- b. ` . 2, 00,000
- c. ` 13, 00,000
- d. None of the given options

361. The break-even point is the point where:

- a. Total sales revenue equals total expenses (variable and fixed)
- b. Total contribution margin equals total fixed expenses
- c. Total sales revenue equals to variable expenses only
- d. Both a & b

362. The break-even point in units is calculated using_____

- a. Fixed expenses and the contribution margin ratio
- b. Variable expenses and the contribution margin ratio
- c. Fixed expenses and the unit contribution margin
- d. Variable expenses and the unit contribution margin

363. Marginal costing is also known as:

- a. Indirect costing
- b. Direct costing
- c. Variable costing
- d. Both (b) and (c)

364. The difference between total revenues and total variable costs is known as:

- a. Contribution margin
- b. Gross margin
- c. Operating income
- d. Fixed costs

365. Percentage of Margin of Safety can be calculated in which one of the following ways?

- a. Based on budgeted Sales
- b. Using budget profit
- c. Using profit & Contribution ratio
- d. All of the given options

366. Which of the following represents a CVP equation?

- a. Sales = Contribution margin (Rs.) + Fixed expenses + Profits
- b. Sales = Contribution margin ratio + Fixed expenses + Profits
- c. Sales = Variable expenses + Fixed expenses + profits
- d. Sales = Variable expenses –Fixed expenses + profits

367. If 120 units produced, 100 units were sold @ ` 200 per unit. Variable cost related to production & selling is ` 150 per unit and fixed cost is ` 5,000. If the management wants to decrease sales price by 10%, what will be the effect of decreasing unit sales price on profitability of company?

- a. Remains constant
- b. Profits will increased
- c. Company will have to face losses
- d. None of the given options

368. A disadvantage of an hourly wage plan is that it:

- a. Provides no incentive for employees to achieve and maintain a high level of production.
- b. Is hardly ever used and is difficult to apply.
- c. Establishes a definite rate per hour for each employee.

d. Encourages employees to sacrifice quality in order to maximize earnings.

369. The cost expended in the past that cannot be retrieved on product or service

- a. Relevant Cost
- b. Sunk Cost
- c. Product Cost
- d. Irrelevant Cost

370. When a manufacturing process requires mostly human labor and there are widely varying wage rates among workers, what is probably the most appropriate basis of applying factory costs to work in process?

- a. Machine hours
- b. Cost of materials used
- c. Direct labor hours
- d. Direct labor dollars

371. The main purpose of cost accounting is to:

- a. Maximize profits.
- b. Help in inventory valuation
- c. Provide information to management for decision making
- d. Aid in the fixation of selling price

372. The combination of direct material and direct labor is

- a. Total production Cost
- b. Prime Cost
- c. Conversion Cost
- d. Total manufacturing Cost

373. _____ method assumes that the goods received most recently in the stores or produced recently are the first ones to be delivered to the requisitioning department.

- a. FIFO
- b. Weighted average method
- c. Most recent price method
- d. LIFO

374. Fixed cost per unit decreases when:

- a. Production volume increases.
- b. Production volume decreases.
- c. Variable cost per unit decreases.
- d. Variable cost per unit increases.

375. Prime cost + Factory overhead cost is:

- a. Conversion cost.
- b. Production cost.
- c. Total cost.
- d. None of given option.

376. Find the value of purchases if Raw material consumed ₹ 90,000; Opening and closing stock of raw material is ₹ 50,000 and 30,000 respectively.

- a. ₹ 10,000
- b. ₹ 20,000
- c. ₹ 70,000
- d. ₹ 1,60,000

377. If Cost of goods sold = ₹ 40,000; GP Margin = 20% of sales
Calculate the Gross profit margin.

- a. ₹ 32,000
- b. ₹ 48,000
- c. ₹ 8,000
- d. ₹ 10,000

378. Annual requirement is 7800 units; consumption per week is 150 units. Unit price ₹ 5, order cost ₹ 10 per order. Carrying cost ₹ 1 per unit and lead time is 3 week, The Economic order quantity would be:

- a. 395 units
- b. 300 units
- c. 250 units
- d. 150 units

382. The distinction between direct and indirect labour helps to :

- a. Measure efficiency of performance
- b. Determine product cost more accurately
- c. Ensure better cost analysis for decisions and control
- d. All of the above

383. Which would be an implicit cost for a firm? The cost:

- a. Of worker wages and salaries for the firm.
- b. Paid for leasing a building for the firm.
- c. Paid for production supplies for the firm.
- d. Of wages foregone by the owner of the firm.

384. The difference between gate time and time booked for jobs in respect of a worker in due to the following reasons except :

- a. Change-over time
- b. Illness
- c. Waiting for materials, instructions, etc.
- d. Breakdown of machine

385. The period of time for which a work station is available for production but is not utilized due to shortage of tooling, materials, operators, etc. is known as :

- a. Down time
- b. Operation time

- c. Idle time
- d. Set-up time

386. The objective of work study are :

- a. Material conservation
- b. Time saving
- c. Quality improvement and cost reduction
- d. All of the above

387. Time study serves the following purposes except :

- a. Standardizing jobs, operation etc.
- b. Assessing labour time
- c. Fixation of factory overhead rate
- d. Fixation of wage rates and introduction of incentive schemes

388. The methods of job evaluation include :

- a. Grading
- b. Ranking
- c. Points value
- d. All of the above

389. Merit rating helps the following except :

- a. Determining right worker for the right job/work
- b. Delinking rewards with merits
- c. Simplifying wage structure
- d. Improving labour relations and reducing labour turnover

390. The factors to be taken into consideration in formulating incentive schemes include :

- a. Quantity and quality of output
- b. Incidence of overhead, and effect upon workers
- c. Simplicity and legal provisions
- d. All of the above

391. Contribution margin contributes to meet which one of the following options ?

- a. Variable cost
- b. Fixed cost
- c. Operating cost
- d. Net profit

392. Favourable conditions for the operation of piece rates include :

- a. Homogeneous products
- b. Long, uninterrupted run of production
- c. Inspection
- d. High proportion of indirect labour

393. If time allowed for a job is 10 hours, time taken for the job is 8 hours and rate of pay is ` 2 per hour, he bonus to the worker is :

- a. ` 1.20

- b. ` 2.00
- c. ` 3.20
- d. None of the above

394. Group bonus schemes are generally suitable where :

- a. Output depends on individual efforts
- b. Output of individual workers can be measured easily
- c. It is necessary to create a collective interest in the work
- d. Normal loss rate is high

395. In a profit sharing scheme the available surplus is shared by the following except :

- a. Government
- b. Shareholders
- c. Employees
- d. Firm

396. Non-monetary incentives may include the following except :

- a. Health and safety
- b. Housing facilities
- c. Education and training
- d. Dearness allowance

397. The purposes served by preparation of payroll or wages sheet include :

- a. Spreading the volume of work to be done
- b. Computation of labour rate for each department
- c. Comparing actual wages with budgeted wages for control
- d. All of the above

398. The authorized heads of deduction from wages payable include the following except :

- a. Car allowance
- b. Income tax
- c. Provident fund
- d. Employees' state insurance

399. Wages analysis include :

- a. Gross wages per product
- b. Gross wages per operation or department
- c. Gross wages per labour classification
- d. Analysis of constituent of gross wages – direct/ lost time

400. In account ting for labour cost :

- a. A. direct labour cost and indirect labour cost are charged to prime cost
- b. Direct labour cost and indirect labour cost are charged to overheads
- c. Direct labour cost is charged to prime cost and indirect labour cost is charged to overheads
- d. All of the above

ANSWERS:

1 d 302 c 303 b 304 c 305 a 306 b 307 b 308 d
 309 b 310 d 311 d 312 a 313 b 314 d 315 a
 316 d 317 b 318 b 319 d 320 d 321 b 322 b
 323 c 324 b 325 a 326 c 327 b 328 b 329 a
 330 c 331 d 332 d 333 a 334 b 335 a 336 a
 337 c 338 c 339 a 340 d 341 b 342 a 343 c
 344 d 345 a 346 b 347 d 348 b 349 c 350 c
 351 c 352 b 353 c 354 b 355 d 356 a 357 c
 358 c 359 b 360 d 361 d 362 c 363 d 364 a
 365 d 366 c 367 c 368 a 369 b 370 c 371 c
 372 b 373 d 374 a 375 b 376 c 377 d 378 b
 379 a 380 c 381 a 382 d 383 d 384 b 385 b
 386 d 387 c 388 d 389 b 390 d 391 b 392 b
 393 c 394 c 395 a 396 d 397 d 398 a 399 a
 400 c

Which of the following is not a production cause of idle capacity ?

- a. Set-up and change-over time
- b. Lack of supervision and instruction
- c. Lack of materials and tools
- d. Strike

451. Functionally, administration expenses may comprise expenses of the following activities :

- a. Secretarial and board of directors
- b. Accounting, financing, tax and legal
- c. Audit and personnel
- d. All of these

452. Which of the following is not a possible method of accounting for administration overheads ?

- a. Include as part of production overheads
- b. Apportion to production, selling and distribution functions
- c. Treat administration as a separate entity and treat the costs as such
- d. Transfer to costing profit and loss account

453. Which of the following is not used as a base for apportionment of administration overheads ?

- a. Direct wages
- b. Works cost
- c. Conversion cost
- d. Sales value

454. Which of the following is/are the basic object/s of job analysis?

- a. Determination of wage rates
- b. Ascertain the relative worth of each job
- c. Breaking up job into its basic elements
- d. All of the given options

455. Analysis of selling and distribution overheads is done by :

- a. Nature of expenses and functions
- b. Areas, products and salesmen
- c. Types of customers and channels of distribution
- d. All of the above

456. For exercising control over selling and distribution overheads, the following techniques may be used :

- a. Comparison with past results
- b. Budgetary control
- c. Standard costing
- d. All of the above

457. Depreciation is a :

- a. Measure of consumption of assets
- b. Process of allocation and not of valuation
- c. Wear and tear due to use and/or lapse of time
- d. All of the above

458. Which of the following does not influence the useful life of an asset ?

- a. Expected physical wear and tear
- b. Cost of the asset
- c. Obsolescence
- d. Legal or other limits on the use of the asset

459. For computing depreciation of an asset, the factors that are taken into consideration include the following except :

- a. Historical cost
- b. Expected useful life
- c. Insurance premium
- d. Estimated residual value

460. Depreciation on plant and machinery is :

- a. Not a cash cost, so is ignored in the cost accounts
- b. Part of manufacturing overheads
- c. Part of prime cost

d. Always calculated using the straight-line method

461. Which of the following methods of depreciation results in fixed per unit cost of depreciation ?

- a. Straight line
- b. Reducing balance
- c. Sinking fund
- d. Production unit

462. Types of maintenance include the following except :

- a. Routine
- b. Overhaul
- c. Emergency
- d. Periodic

463. Which of the following is not included in the objectives of maintenance of plant and machinery ?

- a. Reducing idle time
- b. Reducing breakdown
- c. Maintaining efficiency
- d. Increasing life

464. Regular maintenance expenses are :

- a. Capitalized
- b. Part of manufacturing overheads
- c. Written-off to costing profit and loss account
- d. Part of prime cost

465. Obsolescence is the measure of the loss of value of an asset due to :

- a. Technological innovation
- b. Changes in market conditions
- c. Both (a) and (b) above
- d. None of the above

466. Interest on own capital is a:

- a. Cash cost
- b. Notional cost
- c. Sunk cost
- d. Part of prime cost

467. Objectives of research and development costs include :

- a. Maintaining present competitive position
- b. Improving enterprise's competitive position
- c. Exploring new market/products
- d. All of the above

468. Normal stores losses are :

- a. Part of prime cost
- b. Part of production overheads

- c. Part of selling and distribution overheads
- d. Written-off to costing and profit and loss account

469. Secondary packing expenses are :

- a. Part of prime cost
- b. Part of production overheads
- c. Part of distribution overheads
- d. Written-off to costing profit and loss account

470. If you know that with 8 units of output, average fixed cost is `12.50 and average variable cost is 81.25, then total cost at this output level is:

- a. ` 93.75.
- b. ` 97.78.
- c. ` 750.
- d. ` 880.

471. The methods of treating cost of small tools in cost accounts include :

- a. Charging to expense
- b. Charging to stores
- c. Capitalizing in a small tools account
- d. All of the above

472. Under marginal costing :

- a. All costs are classified into two groups – variable and fixed
- b. Variable costs form part of the product cost and inventory valuation
- c. Fixed costs are treated as period costs
- d. All of the above

473. Which of the following definitions describe marginal cost ?

- a. The variable cost of one unit of product or service
- b. A principle whereby variable costs are charged to cost units and the fixed costs attributable to the relevant period are written-off in full against the contribution for that period
- c. Costs appropriate to aiding the making of specific management decisions
- d. The price at which material identical to that which is used up could be replaced on the date of usage

474. According to Rowan premium plan, which of the following formula is used to calculate the bonus rate?

- a. $(\text{Time saved}/\text{time allowed}) \times 100$
- b. $(\text{Time allowed}/\text{time saved}) \times 100$
- c. $(\text{Actual time taken}/\text{time allowed}) \times 100$
- d. $(\text{Time allowed}/\text{actual time taken}) \times 100$

475. Which of the following is not an assumption underlying the accountant's break-even chart ?

- a. Fixed costs remain fixed throughout the range charted
- b. Selling prices do not change
- c. Variable costs fluctuate inversely with volume

d. Unit variable costs remain constant throughout the range charted

476. With regard to break –even charts and break-even analysis, which of the following is true ?

- a. It is assumed that variable cost fluctuates in direct proportion to output
- b. The break the break-even point is at the intersection of the sales line and the variable cost line
- c. A break-even chart shown the maximum profit possible
- d. A break-even chart is capable of dealing with any change of product mix

477. The following data relate to two output levels of a department :

Machine hours 17,000 18,500

Overheads (`) 2,46,500 2,51,750

The variable overhead rate per hour is ` 3.50. The amount of fixed overheads is:

- a. ` 5,250
- b. ` 59,500
- c. ` 1,87,000
- d. ` 2,46,500

478. The following data relate to two activity levels of an out-patients‘ department in a hospital :

No. of consultations per patient 4,500 5,750

Overheads ` 2,69,750 ` 2,89,125

Fixed overheads are ` 2,00,000 per period. The variable cost per consultation is :

- a. ` 15.50
- b. ` 44.44
- c. ` 59.94
- d. ` none of the above

479. Break-even analysis assumes that over the relevant range :

- a. Total costs are unchanged
- b. Unit variable costs are unchanged
- c. Variable costs are non-linear
- d. Unit fixed costs are unchanged

480. ABC Ltd. Has fixed costs of ` 60,000 p.a.. It manufactures a single product, which it sells for ` 20 per unit. Its contribution to sales ratio is 40%. ABC Ltd’s break-even point in units is :

- a. 1,800
- b. 3,000
- c. 5,000
- d. 7,500

481. Sun Ltd. Makes a single product which it sells for ` 10 per unit. Fixed costs are ` 48,000 per month and the product has a contribution to sales ratio of 40%. In a period when actual sales were `

1,40,000. Sun Ltd.’s margin of safety in units was :

- a. 2,000
- b. 6,000
- c. 8,000
- d. 12,000

482. A company produced 500 units of a product and incurred the following costs :

Direct materials 8,000

Direct wages 10,000

Overheads (20% fixed) 45,000

If the sales value of 500 units was ` 1,02,000, what is contribution margin ?

- a. 44%
- b. 47%
- c. 53%
- d. 74%

Use the following data for questions 483 and 484:

Budget data for the Happy Ltd.

Sales (1,00,000 units) ` 10,00,000

Costs :

Variable ` 7,00,000

Fixed ` 2,10,000 9,10,000

Operating profit ` 90,000

483. If fixed costs increased by ` 31,500 with no other cost or revenue factors changing, the break-even sales in units would be :

- a. 34,500
- b. 80,500
- c. 69,000
- d. 94,500

484. If Happy Ltd. Is subject to an effective income tax rate of 40%, the number of units Happy Ltd.

Would have to sell to earn an after-tax profit of ` 90,000 is :

- a. 1,00,000 units
- b. 1,20,000 units
- c. 1,12,000 units
- d. 1,45,000 units

485. Selling a product at a price equivalent to or below marginal cost is recommended for a short period in certain special circumstances, such as :

- a. Introducing a new product
- b. Exploring foreign market
- c. Driving out a weaker competitor
- d. All of the above

486. Which of the following is not a relevant cost information in a make or buy decision ?

- a. Variable cost of making
- b. General fixed cost
- c. Purchase price
- d. Loss of contribution to make the product

487. Which of the following factors are not qualitative factors in a make or buy decision ?

- a. Doubt as to the ability of the subcontractor to meet delivery dates

- b. Doubt as to ability of the subcontractor to maintain quality
- c. The case with which improvements can be made to the product
- d. The effect of redundancy on labour relations

488. Raymond Corporation estimates factory overhead of ₹ 345,000 for next fiscal year. It is estimated that 60,000 units will be produced at a material cost of ₹ 575,000. Conversion will require 34,500 direct labor hours at a cost of ₹ 10 per hour, with 25,875 machine hours. FOH rate on the bases on Budgeted Production would be?

- a. ₹ 5.75 per unit
- b. ₹ 6.65 per unit
- c. ₹ 6.0 per unit
- d. ₹ 1 per unit

489. In a shutdown decision, one has to consider :

- a. Contribution
- b. Identifiable fixed cost, if any
- c. Impact of shutdown on other products, if any
- d. All of the above

490. When a firm doubles its inputs and finds that its output has more than doubled, this is known as:

- a. Economies of scale.
- b. Constant returns to scale.
- c. Diseconomies of scale.
- d. A violation of the law of diminishing returns.

491. The firms monthly cost of production is ₹ 1,46,000 at an output level of 8,000 units. If it achieves an output level of 12,000 units it will incur production cost of ₹ 1,94,000 cost of production for 15,000 units is :

- a. ₹ 1,80,000
- b. ₹ 2,00,000
- c. ₹ 50,000
- d. ₹ 2,30,000

492. The basic research cost should be treated as :

- a. Product cost
- b. Production cost
- c. Production overhead
- d. Period cost

493. A firm requires 16,000 nos. of a certain component, which is buys at ₹ 60 each. The cost of placing an order and following it up is ₹ 120 and the annual storage charges works out to 10% of the cost of the item. To get maximum benefit the firm should place order for Units at a time.

- a. 1,000
- b. 900
- c. 800

d. 600

494. About 50 items are required every day for a machine. A fixed cost of ₹ 50 per order is incurred for placing an order. The inventory carrying cost per item amounts to Re. 0.02 per day. The lead period is 32 days. Compute reorder level.

- a. 1,200 items
- b. 1,400 items
- c. 1,600 items
- d. 1,800 items

495. The standard time required per unit of a product is 20 minutes. In a day of 8 working hours a worker given an output of 30 units. If he gets a time rate of ₹ 20/hr., his total earnings under Halsey bonus scheme was :

- a. ₹ 200
- b. ₹ 192
- c. ₹ 180
- d. ₹ 160

496. A material loss during production or storage due to evaporation or shrinkage is called :

- a. Scrap
- b. Waste
- c. Spoilage
- d. Material loss

497. The process of distribution of overheads allotted to a particular department or cost centre over the units produced is called :

- a. Allocation
- b. Apportionment
- c. Absorption
- d. Departmentalization

498. Angle of incidence defines :

- a. Systematic risk in CAPM model
- b. Post BEP relationship between total cost and total revenue
- c. Incidental factors in investments
- d. Marginal cost of production

499. A Ltd. Has sales of ₹ 2,200, total fixed cost of ₹ 570, variable cost of ₹ 1,540, raw material consumed of ₹ 1,100, number of units sold 22,000. What shall be the BEP (in units) if raw material price is reduced by 2%?

- a. 18,387
- b. 18,560
- c. 18,750
- d. 19,000

500. If an item of overhead expenditure is charged specifically to a single department this would be an example of:

- a. Apportionment
- b. Allocation

- c. Re-apportionment
- d. Absorption

ANSWERS:

451 d 452 a 453 a 454 b 455 d
 456 d 457 d 458 b 459 c 460 b 461 d 462 b
 463 d 464 b 465 c 466 b 467 d 468 b 469 c
 470 c 471 d 472 d 473 a 474 a 475 c 476 a
 477 c 478 a 479 b 480 d 481 a 482 b 483 b
 484 b 485 d 486 b 487 d 488 a 489 d 490 a
 491 d 492 c 493 c 494 c 495 c 496 b 497 c
 498 b 499 a 500 b THE MAIN OBJECT OF AN AUDIT IS ____

- A) EXPRESSION OF OPINION
- B) DETECTION AND PREVENTION OF FRAUD AND ERROR
- C) BOTH (A) AND (B)
- D) DEPENDS ON THE TYPE OF AUDIT.

2. THE TITLE OF AAS2 ISSUED BY COUNCIL OF ICAI IS.

- A) OBJECTIVE AND SCOPE OF THE FINANCIAL STATEMENTS
- B) OBJECTIVE AND SCOPE OF THE AUDIT OF FINANCIAL STATEMENTS
- C) OBJECTIVE AND SCOPE OF BUSINESS OF AN ENTITY
- D) OBJECTIVE AND SCOPE OF FINANCIAL STATEMENTS AUDIT

3. WHICH OF THE FOLLOWING IS NOT TRUE ABOUT OPINION ON FINANCIAL STATEMENTS?

- A) THE AUDITOR SHOULD EXPRESS AN OPINION ON FINANCIAL STATEMENTS.
- B) HIS OPINION IS NO GUARANTEE TO FUTURE VIABILITY OF BUSINESS
- C) HE IS RESPONSIBLE FOR DETECTION AND PREVENTION OF FRAUDS AND ERRORS IN FINANCIAL STATEMENTS
- D) HE SHOULD EXAMINE WHETHER RECOGNIZED ACCOUNTING PRINCIPLE HAVE BEEN CONSISTENTLY

4. A SALE OF RS. 50,000 TO A WAS ENTERED AS A SALE TO B. THIS IS AN EXAMPLE OF

- A) ERROR OF OMISSION
- B) ERROR OF COMMISSION
- C) COMPENSATING ERROR
- D) ERROR OF PRINCIPLE

5. 'GOODS SENT ON APPROVAL BASIS' HAVE BEEN RECORDED AS 'CREDIT SALES'. THIS IS AN EXAMPLE OF

- A) ERROR OF PRINCIPLE
- B) ERROR OF COMMISSION

- C) ERROR OF OMISSION
- D) ERROR OF DUPLICATION

6. WHICH OF THE FOLLOWING STATEMENTS IS NOT TRUE?

- A) MANAGEMENT FRAUD IS MORE DIFFICULT TO DETECT THAN EMPLOYEE FRAUD
- B) INTERNAL CONTROL SYSTEM REDUCES THE POSSIBILITY OF OCCURRENCE OF EMPLOYEE FRAUD AND MANAGEMENT FRAUD
- C) THE AUDITOR'S RESPONSIBILITY FOR DETECTION AND PREVENTION OF ERRORS AND FRAUDS IS SIMILAR.
- D) ALL STATEMENTS ARE CORRECT.

7. AS PER AAS4 IF AUDITOR DETECTS AN ERROR THEN

- A) HE SHOULD INFORM THE MANAGEMENT.
- B) HE SHOULD COMMUNICATE IT TO THE MANAGEMENT IF IT IS MATERIAL
- C) THE AUDITOR SHOULD ENSURE FINANCIAL STATEMENTS ARE ADJUSTED FOR DETECTED ERRORS.
- D) BOTH (B) AND (C)

8. WHICH OF THE FOLLOWING IS NOT A LIMITATION OF AUDIT AS PER AAS4?

- A) OBJECTIVITY OF AUDITOR'S JUDGMENT
- B) SELECTIVE TESTING
- C) PERSUASIVENESS OF EVIDENCE
- D) LIMITATIONS OF INTERNAL CONTROL SYSTEM.

9. HOW MANY PRINCIPLES ARE LISTED IN AAS1, WHICH GOVERN AUDITOR'S PROFESSIONAL OBLIGATION?

- A) NINE
- B) FOURTEEN
- C) SEVEN
- D) EIGHT

10. BOTH AUDITING AND ACCOUNTING ARE CONCERNED WITH FINANCIAL STATEMENTS. WHICH OF THE FOLLOWING

- A) AUDITING USES THE THEORY OF EVIDENCE TO VERIFY THE FINANCIAL INFORMATION MADE AVAILABLE BY ACCOUNTANCY
- B) AUDITING LENDS CREDIBILITY DIMENSION AND QUALITY DIMENSION TO THE FINANCIAL STATEMENTS PREPARED BY THE ACCOUNTANT.
- C) AUDITOR SHOULD HAVE THROUGH KNOWLEDGE OF ACCOUNTING CONCEPTS AND CONVENTION TO ENABLE HIM TO EXPRESS AN OPINION ON FINANCIAL STATEMENTS
- D) ALL OF THE ABOVE.

11. THE RISK OF MANAGEMENT FRAUD INCREASES IN THE PRESENCE OF:

- A) FREQUENT CHANGES IN SUPPLIES
- B) IMPROVED INTERNAL CONTROL SYSTEM
- C) SUBSTANTIAL INCREASES IN SALES

D) MANAGEMENT INCENTIVE SYSTEM BASED ON SALES DONE IN A QUARTER

12. AUDITING STANDARDS DIFFER FROM AUDIT PROCEDURES IN THAT PROCEDURES RELATE TO

- A) AUDIT ASSUMPTIONS
- B) ACTS TO BE PERFORMED
- C) QUALITY CRITERION
- D) METHODS OF WORK

13. WHICH OF THE FOLLOWING FACTORS LIKELY TO BE IDENTIFIED AS A FRAUD FACTOR BY THE AUDITOR?

- A) THE COMPANY IS PLANNING AN INITIAL PUBLIC OFFER OF QUALITY SHARES TO RAISE ADDITIONAL CAPITAL FOR EXPANSION.
- B) BANK RECONCILIATION STATEMENT INCLUDES DEPOSITS IN TRANSIT.
- C) PLANT AND MACHINERY IS SOLD AT A LOSS.
- D) THE COMPANY HAS MADE POLITICAL CONTRIBUTIONS.

14. THE MOST DIFFICULT TYPE OF MISSTATEMENT TO DETECT FRAUD IS BASED ON:

- A) RELATED PARTY PURCHASES B) RELATED PARTY SALES
- C) THE RESTATEMENT OF SALES D) OMISSION OF A SALES TRANSACTION FROM BEING RECORDED.

15. WHICH OF THE FOLLOWING STATEMENTS IS CORRECT CONCERNING THE REQUIRED DOCUMENTATION IN?

WORKING PAPERS OF FRAUD RISK ASSESSMENT UNDERTAKEN BY THE AUDITOR.

- A) ALL RISK FACTORS AS MENTIONED IN AAS4, SHOULD BE CONSIDERED AND DOCUMENTED ALONG WITH RESPONSE TO THEM.
- B) DOCUMENT THE IDENTIFICATION OF FRAUD RISK FACTORS ALONG WITH RESPONSE TO THEM.
- C) DOCUMENT MATERIAL FRAUD, RISK FACTORS AND RESPONSE TO THEM.
- D) NO DOCUMENTATION IS REQUIRED.

16. WHICH OF THE FOLLOWING IS THE MOST APPROPRIATE POTENTIAL REACTION OF THE AUDITOR TO HIS?

ASSESSMENT THAT THE RISK OF MATERIAL MISSTATEMENT DUE TO FRAUD IS HIGH IN RELATION TO EXISTENCE OF INVENTORY?

- A) VISIT LOCATION ON SURPRISE BASIS TO OBSERVE TEST COUNTS
- B) REQUEST INVENTORY COUNT AT A DATE CLOSE TO YEAREND
- C) VOUCH GOODS SENT ON APPROVAL VERY CAREFUL Y
- D) PERFORM ANALYTICAL PROCEDURES.

17. WHICH OF THE FOLLOWING IS NOT LIKELY TO BE A FRAUD RISK FACTOR RELATING TO MANAGEMENT'S? CHARACTERISTICS

- A) TAX EVASION B) FAILURE TO CORRECT KNOWN WEAKNESS IN INTERNAL CONTROL SYSTEM

- C) ADOPTION OF CONSERVATIVE ACCOUNTING PRINCIPLES
- D) HIGH MANAGEMENT TURNOVER

18. PROFESSIONAL SKEPTICISM REQUIRES THAT THE AUDITOR ASSUME THAT MANAGEMENT IS

- A) REASONABLY HONEST
- B) NEITHER HONEST NOR DISHONEST
- C) NOT NECESSARILY HONEST
- D) DISHONEST UNLESS PROVED OTHERWISE

19. WHICH OF THE FOLLOWING INFORMATION SHOULD A SUCCESSOR AUDITOR OBTAIN DURING THE INQUIRY OF?

THE PREDECESSOR AUDITOR BEFORE ACCEPTING ENGAGEMENT?

- I) INFORMATION ABOUT INTEGRITY OF MANAGEMENT
 - II) DISAGREEMENT WITH MANAGEMENT CONCERNING AUDITING PROCEDURES
 - III) REVIEW OF INTERNAL CONTROL SYSTEM.
 - IV) ORGANIZATION STRUCTURE
- A) (I) AND (II) B) (I) AND (III) C) (I), (II) AND (IV) D) I) AND (IV)

20. THE AUDIT ENGAGEMENT LETTER, GENERAL Y, SHOULD INCLUDE A REFERENCE TO EACH OF THE FOLLOWING EXCEPT

- A) LIMITATIONS OF AUDITING
- B) RESPONSIBILITIES OF MANAGEMENT WITH RESPECT TO AUDIT WORK
- C) EXPECTATION OF RECEIVING A WRITTEN MANAGEMENT REPRESENTATION LETTER.
- D) A DESCRIPTION OF THE AUDITOR'S METHOD OF SAMPLE SELECTION.

21. THE USE OF AN AUDIT ENGAGEMENT LETTER IS THE BEST METHOD OF ASSURING THE AUDITOR WILL HAVE WHICH OF THE FOLLOWING?

- A) AUDITOR WILL OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE.
- B) MANAGEMENT REPRESENTATION LETTER
- C) ACCESS TO ALL BOOKS, ACCOUNTS AND VOUCHERS REQUIRED FOR AUDIT PURPOSE
- D) COOPERATION FROM OTHER AUDITORS

22. THE USE OF AN AUDIT ENGAGEMENT LETTER IS THE BEST METHOD OF DOCUMENTING

- I) THE REQUIRED COMMUNICATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL
 - II) SIGNIFICANTLY HIGHER CONTROL RISK THAN THAT ASSESSED IN PRIOR AUDIT.
 - III) OBJECTIVE AND SCOPE OF AUDITOR'S WORK
 - IV) NOTIFICATION OF ANY CHANGES IN THE ORIGINAL ARRANGEMENTS OF THE AUDIT.
- A) (I) AND (II) B) (I) AND (III) C) I AND (IV) D) (I) AND (IV)

23. AN AUDITOR WHO ACCEPTS AN AUDIT BUT DOES NOT POSSESS THE INDUSTRY EXPERTISE OF THE BUSINESS ENTITY SHOULD

- A) ENGAGE EXPERTS
- B) OBTAIN KNOWLEDGE OF MATTERS THAT RELATE TO THE NATURE OF ENTITY’S BUSINESS
- C) INFORM MANAGEMENT ABOUT IT
- D) TAKE HELP OF OTHER AUDITORS

24. THE LEAST IMPORTANT ELEMENT IN THE EVALUATION OF AN AUDIT FIRM’S SYSTEM OF QUALITY CONTROL WOULD RELATE TO

- A) ASSIGNMENT OF AUDIT ASSISTANTS
- B) SYSTEM OF DETERMINING AUDIT FEES
- C) CONSULTATION WITH EXPERTS
- D) CONFIDENTIALITY OF CLIENT’S INFORMATION

25. THE PRIMARY PURPOSE OF ESTABLISHING QUALITY CONTROL POLICIES AND PROCEDURES FOR DECIDING ON CLIENT EVALUATION IS TO

- A) ENSURE ADHERENCE TO GENERAL Y ACCEPTED AUDITING STANDARDS
- B) ACCEPTANCE OR RETENTION OF CLIENTS WHOSE MANAGEMENT DOES NOT LACK INTEGRITY
- C) ENSURE AUDIT FEES IS CHARGED ACCORDING TO THE TYPE OF AUDIT WORK ASSIGNED
- D) ALL OF THE ABOVE

26. WHICH OF THE FOLLOWING IS NOT A QUALITY CONTROL CONSIDERATION ON ACCEPTING A NEW CLIENT?

- A) AVAILABILITY OF AUDIT ASSISTANTS WITH NECESSARY SKILL AND COMPETENCE.
- B) PROVISION OF OTHER SERVICES TO THE CLIENT WHICH MAY IMPAIR INDEPENDENCE
- C) PREDECESSOR AUDITOR’S ADVICE AS TO WHETHER AUDIT FEES WERE PAID PROMPTLY
- D) REVIEW OF AUDIT WORK DONE BY ONE PARTNER BY THE OTHER

27. AN AUDITOR OBTAINS KNOWLEDGE ABOUT A NEW CLIENT’S BUSINESS AND ITS INDUSTRY TO

- A) MAKE CONSTRUCTIVE SUGGESTIONS CONCERNING IMPROVEMENTS TO THE CLIENT’S INTERNAL CONTROL SYSTEM
- B) EVALUATE THE APPROPRIATENESS OF AUDIT EVIDENCE OBTAINED
- C) UNDERSTAND THE EVENTS AND TRANSACTIONS THAT MAY HAVE AN EFFECT ON CLIENT’S FINANCIAL STATEMENTS.
- D) ALL OF THE ABOVE

INTRODUCTION TO AUDITING

1. D 2. B 3. C 4. B 5. A 6. B 7. D 8. A 9. A 10. B 11. D 12. B 13. A 14. D 15. b
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16. A 17. C 18. B 19. A 20. D 21. C 22. D 23. B 24. B 25. B 26. C 27. c

CONCEPTS OF AUDITING

1. Audit of banks is an example of

- a) Statutory audit
- b) Balance sheet audit
- c) Concurrent audit
- d) Both (a) and (b)
- e) All of the above

2. Concurrent audit is a part of

- a) Internal check system
- b) Continuous audit
- c) Internal audit system
- d) None

3. In Pakistan, balance sheet audit is synonymous to

- a) Annual audit
- b) Continuous audit
- c) Detailed audit
- d) Statutory audit

4. Audit in depth is synonymous for

- a) Complete audit
- b) Completed audit
- c) Final audit
- d) Detailed audit

5. Balance sheet audit includes verification of_

- a) Assets
- b) Liabilities
- c) Income and expense accounts where appropriate
- d) All of the above

6. Which of the following statements is not true about continuous audit?

- a) It is conducted at regular interval
- b) It may be carried out on daily basis
- c) It is needed when the organization has a good internal control system
- d) It is expensive

7. Which of the following is not a fact of EPA?

- a) Economic audit

- b) Efficiency audit
- c) Expenditure audit
- d) Effectiveness audit

8. The Delhi Government had constructed six bungalows for its ministers. They are lying unoccupied for last three years. This would be a matter of concern for

- a) Propriety Auditor
- b) Performance Auditor
- c) Financial Auditor
- d) None of the above

9. Financial auditor is not concerned with propriety of business transactions. However, the exceptions to this rule are contained for audit of limited companies in_

- a) Section 227 (IA) of the Companies Act, 1956
- b) Section 227 (IA) and section 227(4A) of the Act
- c) CARO, 2003
- d) Section 227 (IA) and CARO, 2003

10. Balance Sheet does not include ---

- a) Verification of assets and liabilities
- b) Vouching of income and expense accounts related to assets and liabilities
- c) Examination of adjusting and closing entries
- d) Routine checks

11. Which of the following statements is not correct about materiality?

- a) Materiality is a relative concept
- b) Materiality judgments involve both quantitative and qualitative judgments
- c) Auditor's consideration of materiality is influenced by the auditor's perception of the needs of an informed decision maker who will rely on the financial statements
- d) At the planning stage, the auditor considers materiality at the financial statement level only

12.....the audit risk, the materiality and ...the audit effort

- a) Lower, Higher, Lower
- b) Lower, Lower, Higher
- c) Higher, Lower, Lower
- d) Lower, Higher, Higher

13. When issuing unqualified opinion, the auditor who evaluates the audit findings should be satisfied that the

- a) Amount of known misstatement is documented in working papers
- b) Estimates of the total likely misstatement is less than materiality level

- c) Estimate of the total likely misstatement is more than materiality level
- d) Estimates of the total likely misstatement cannot be made

14. In determining the level of materiality for an audit, what should not be considered?

- a) Prior year's errors
- b) The auditor's remuneration
- c) Adjusted interim financial statements
- d) Prior year's financial statements

15. Analytical procedures issued in the planning stage of an audit, generally

- a) helps to determine the nature, timing and extent of other audit procedures
- b) directs attention to potential risk areas
- c) indicates important aspects of business
- d) All of the above

16. Which of the following statements is most closely associated with analytical procedure? Applied at substantive stage?

- a) It helps to study relationship among balance sheet accounts
- b) It helps to discover material misstatements in the financial statements
- c) It helps to identify possible oversights
- d) It helps to accumulate evidence supporting the validity of a specific account balance

17. For all audits of financial statements made in accordance with AAS14, the use of analytical procedures are at the discretion of the auditor in which stage?

- a) Substantive testing
- b) Planning stage
- c) Overall review stage
- d) All of the above

18. The basic assumption underlying the use of analytical procedures is:

- a) It helps the auditor to study relationship among elements of financial information
- b) Relationship among data exist and continue in the absence of known condition to the contrary
- c) Analytical procedures will not be able to detect unusual relationships
- d) None of the above.

19. What are analytical procedures?

- a) Substantive tests designed to assess control risk
- b) Substantive tests designed to evaluate the validity of management's representation letter
- c) Substantive tests designed to study relationships between financial and nonfinancial

d) All of the above

20. Which of the following is not an analytical procedure?

- a) Tracing of purchases recurred in the purchase book to purchase invoices.
- b) Comparing aggregate wages paid to number of employees
- c) Comparing the actual costs with standard costs
- d) All of them are analytical procedure

21. When applying analytical procedures, an auditor could develop independent estimate of an account balance to compare it to

- a) client's unedited account balance
- b) client's unedited account balance adjusted for trends in the industry
- c) Prior year audited balance
- d) Prior year audited balance adjusted for trends in the industry

22. What is the primary objective of analytical procedures used in the overall review stage of an Audit?

- a) To help to corroborate the conclusions drawn from individual components of financial statements
- b) To reduce specific detection risk
- c) To direct attention to potential risk areas
- d) To satisfy doubts when questions arise about a client's ability to continue

CONCEPTS OF AUDITING

1. E 2. C 3. A 4. D 5. D 6. C 7. C 8. D 9. D 10. d
11. D 12. A 13. B 14. B 15. D 16. D 17. A 18. B 19. C 20. A 21. D 22. A

AUDIT OF CASH TRANSACTION

1. WHICH OF THE FOLLOWING DOCUMENTS IS NOT RELEVANT FOR VOUCHING CASH SALES?

- A) DAILY CASH SALES SUMMARY
- B) SALESMEN'S SUMMARY
- C) MONTHLY STATEMENTS SENT TO CUSTOMERS
- D) BANK STATEMENT

2. THE AUDITOR SHOULD EXAMINE SUBSEQUENT REALIZATION OF REVENUE SUCH AS DIVIDENDS, INTEREST, COMMISSION, ETC TO

- A) IDENTIFY CASES OF UNRECORDED REVENUE
- B) ENSURE PROPER DISCLOSURE IN THE BALANCE SHEET
- C) RECOMPUTE ACCRUED INCOME ON THE DATA OF BALANCE SHEET
- D) ANY OF THESE

3. TO TEST WHETHER SALES HAVE BEEN RECORDED, THE AUDITOR SHOULD DRAW A SAMPLE FROM A FILE OF

- A) PURCHASE ORDERS
- B) SALES ORDERS
- C) SALES INVOICES
- D) BILL OF LADING

4. FOR VOUCHING OF WHICH ITEM, THE AUDITOR IS MOST LIKELY TO EXAMINE COST RECORDS?

- A) COMMISSION EARNED
- B) BAD DEBTS RECORDED
- C) CREDIT SALES
- D) SALE OF SCRAP

5. THE "GUIDANCE NOTE ON REVENUE" ISSUED BY THE ICAI DOES NOT DEAL WITH

- A) SALES REVENUE
- B) REVENUE RENDERING SERVICE
- C) REVENUE FROM SALE OF FIXED ASSETS
- D) INCOME FROM INTEREST, DIVIDEND

6. AN AUDITOR CONDUCTS A SURPRISE CHECK ON THE PAY DAY (I.E) THE DAY WAGES AND SALARIES ARE PAID. THE PRIMARY PURPOSE OF THIS AUDIT PROCEDURES IS

- A) TO ENSURE THAT THERE ARE NO GHOST WORKERS
- B) TO ENSURE THE CASUAL WORKERS EMPLOYED ARE AUTHORIZED BY THE SUPERVISOR
- C) TO TEST PROCEDURES FOR DISTRIBUTING PAY CHEQUES
- D) TO OBTAIN UNDERSTANDING OF INTERNAL CONTROL SYSTEM

7. WHICH OF THE FOLLOWING WOULD PREVENT DOUBLE PAYMENT OF THE SAME VOUCHER?

- A) THE PERSON SIGNING THE CHEQUE SHOULD CANCEL THE SUPPORTING DOCUMENTS
- B) CHEQUES SHOULD BE SIGNED BY AT BEST TWO PERSONS
- C) THE DATA OF PAYMENT OF VOUCHERS OF SIMILAR NATURE SHOULD BE THE SAME OR CLOSE TO EACH

OTHER

D) ALL OF THE ABOVE

8. IN CASE OF UNCLAIMED WAGES, THE AUDITOR SHOULD EXAMINE WHETHER

A) THE AMOUNT HAS BEEN DEPOSITED IN A SEPARATE BANK ACCOUNT

B) DEPOSITED WITH THE CASHIER

C) HELD IN A SAFE DEPOSIT BOX

D) ALL OF THESE

9. WHILE VOUCHING WAGES, AUDITOR SHOULD EXAMINE WHETHER THERE IS PROPER SEGREGATION OF DUTIES. WHICH OF THE FOLLOWING ACTIVITIES SHOULD NOT BE DONE BY SAME DEPARTMENT?

A) MAINTAINING PERSONNEL RECORDS AND APPROVING CHANGING IN WAGES RATES

B) PROPOSING PAY ROLL SUMMARY AND DISBURSEMENT OF WAGES

C) MAKING SALARY STATEMENTS AND FILING TAX RETURNS

D) COMPARING TIME CLOCK RECORDS WITH TIME REPORTS PREPARED BY SUPERVISORS AND PREPARING

LIST OF WORKERS EMPLOYED ALONG WITH THE UNITS OF PRODUCTION FOR EACH ONE OF THEM

10. IN ORDER TO VOUCH, WHICH OF THE EXPENSES, THE AUDITOR WILL EXAMINE BILL OF ENTRY?

A) CUSTOM

B) EXCISE DUTIES

C) SALES TAX

D) INCOME TAX

11. WHILE VOUCHING, HOW WILL THE AUDITOR ENSURE HIMSELF THAT ALL CREDIT SALES TRANSACTIONS HAVE BEEN RECORDED BY THE ENTITY?

A) EXAMINING CUTOFF POINTS

B) MATCHING ENTRIES IN THE SALES BOOK AGAINST RENUMBERED SALES INVOICES AND GOODS OUTWARD NOTES

C) COUNTING THE NUMBER OF INVOICES AND MATCHING THE NUMBER WITH ENTRIES ON SALES BOOK

D) BOTH (A) AND (B)

12. IN CASE OF SALES RETURN, THE AUDITOR SHOULD EXAMINE WHICH DOCUMENTS?

A) CREDIT NOTES, ADVICE NOTES AND INWARD RETURN NOTES

B) DEBIT NOTES, ADVICE NOTES AND INWARD RETURN NOTES

C) PURCHASE INVOICES, ADVICE NOTES AND INWARD RETURN NOTES

D) CREDIT NOTES, INSPECTION REPORT AND INWARD RETURN NOTES

13. AN INTERNAL AUDITOR DISCOVERED THAT FICTITIOUS PURCHASES HAVE BEEN RECORDED BY THE PURCHASE CLERK. THIS INDICATES ABSENCE OF WHICH CONTROL?

- A) PURCHASE INVOICES ARE INDEPENDENTLY MATCHED WITH PURCHASE ORDERS AND GOODS RECEIVED NOTES
- B) GOODS RECEIVED NOTES REQUIRES THE SIGNATURE OF INDIVIDUAL WHO AUTHORIZED THE PURCHASE
- C) ROUTINE CHECKS ARE PERFORMED BY INTERNAL AUDITOR FORTNIGHTLY.
- D) PURCHASE FUNCTION AND PRODUCTION FUNCTION ARE CLUBBED IN ONE DEPARTMENT

14. WHICH OF THE FOLLOWING IS MOST CRUCIAL TO A PURCHASE DEPARTMENT?

- A) REDUCING THE COST OF ACQUISITION
- B) SELECTING SUPPLIES
- C) AUTHORIZING THE ACQUISITION OF GOODS
- D) ASSURING THE QUALITY OF GOODS

15. THE AUDITOR IS MOST LIKELY TO EXAMINE RELATED PARTY TRANSACTIONS VERY CAREFULLY WHILE VOUCHING

- A) CREDIT SALES
- B) SALES RETURNS
- C) CREDIT PURCHASES
- D) CASH PURCHASES

16. IN ORDER TO VOUCH BOUGHT LEDGER, THE AUDITOR OBTAIN CONFIRMATIONS FROM CREDITORS. THE PRINCIPAL REASON FOR THE AUDITOR TO EXAMINE SUPPLIERS STATEMENTS AT BALANCE SHEET DATE IS TO OBTAIN EVIDENCE THAT

- A) THE SUPPLIER EXIST
- B) THERE ARE NO UNRECORDED LIABILITIES
- C) RECORDED PURCHASES ACTUALLY OCCURRED
- D) TO LINK CREDITORS WITH CASH BOOK ENTRIES

17. THE CREDITORS ACCOUNTS, GENERALLY, HAVE CREDIT BALANCE. DEBIT BALANCE MAY BE DUE TO

- A) ADVANCE PAID AGAINST AN ORDER
- B) GOODS RETURNED
- C) WRONG DEBIT TO SUPPLIER ACCOUNT
- D) ANY OF THESE

18. IN CASE OF VOUCHING, THE AUDITOR IS LEAST LIKELY TO EXAMINE AUTHORIZATION BY APPROPRIATE AUTHORITY IN CASE OF –

- A) BAD BADS WRITTEN OFF
- B) SALES RETURN
- C) PURCHASE RETURN
- D) DISCOUNT ALLOWED TO CUSTOMERS AS PER ORGANIZATIONAL POLICY

19. VENDORS SHOULD BE APPROVED BY MANAGEMENT BEFORE PURCHASE DEPARTMENT EXECUTES AN ORDER. IF THIS IS NOT DONE, THEN WHICH OF THE FOLLOWING SITUATIONS MAY ARISE

- A) PURCHASES COULD BE MADE FROM VENDORS WHOSE PRODUCT QUALITY MAY NOT BE GOOD
- B) PURCHASES MAY BE MADE FROM RELATED PARTIES WITHOUT MANAGEMENT'S KNOWLEDGE
- C) PURCHASES COULD BE MADE FROM VENDORS WHO MAY HAVE OFFERED PRICE TO VICE-PRESIDENT PURCHASES
- D) ANY OF THESE

AUDIT OF CASH TRANSACTION

1. C 2. A 3. C 4. D 5. C 6. C 7. A 8. A 9. B 10. A 11. D 12. D 13. 14. C 15. C 16. B 17. D 18. D 19. D

VERIFICATION & VALUATION OF ASSETS VERIFICATION & VALUATION OF ASSETS

1. WHICH OF THE FOLLOWING IS NOT TRUE WITH REGARD TO VERIFICATION OF ASSETS?

- A) IT INVOICES SUBSTANTIATION OF OCCURRENCE OF TRANSACTIONS
- B) ITS OBJECTIVE IS TO ESTABLISH EXISTENCE, OWNERSHIP, POSSESSION, VALUATION AND DISCLOSURE OF ASSETS
- C) THE AUDITOR HAS TO FORM AN OPINION ON DIFFERENT ASPECTS
- D) ALL ARE TRUE

2. WHICH OF THE FOLLOWING STATEMENTS IS NOT TRUE ?

- A) VALUATION OF ASSETS IS THE RESPONSIBILITY OF MANAGEMENT
- B) THE AUDITOR CAN RELY ON A CERTIFICATE ISSUED BY AN AUTHORIZED VALUATIONER AS TO THE VALUATION OF ASSETS IN THE BALANCE SHEET
- C) THE AUDITOR SHOULD VALUE THE ASSET AS PER GENERALLY ACCEPTED ACCOUNTING PRINCIPLE
- D) VALUATION IS NO PART OF AUDITOR'S DUTY

3. AN AUDITOR IS VERIFYING VALUATION OF BUILDING WHICH HAS BEEN SELF CONSTRUCTED

BY THE CLIENT. WHICH OF THE FOLLOWING DOCUMENTS IS LEAST RELEVANT TO THE AUDITOR FOR VERIFICATION PURPOSES

- A) BILLS OF CONTRACTOR
- B) MINUTES OF MEETING OF BOARD OF DIRECTORS
- C) CERTIFICATES OF ENGINEER AND ARCHITECT
- D) LOAN AGREEMENT

4. WHICH OF THE FOLLOWING ASSETS IS LEAST LIKELY TO BE SUBJECTED TO LIEN?

- A) FREEHOLD LAND
- B) PLANT AND MACHINERY
- C) LEASEHOLD PROPERTY
- D) MOTOR VEHICLES

5. AN ANALYSIS OF FIXED ASSETS ACCOUNT HAS REVEALED POSSIBILITY OF UNRECORDED SALE OF PLANT AND MACHINERY. WHICH OF THE FOLLOWING AUDIT PROCEDURES MAY BE ADOPTED TO DISCOVER IT?

- A) EXAMINATION OF PROPERTY TAX FILES
- B) INQUIRY OF PLANT MANAGER
- C) EXAMINATION OF DEBITS TO ACCUMULATED DEPRECIATION
- D) ALL OF THE ABOVE

6. THE AUDITOR HAS NOTICED EXISTENCE OF RECURRING LOSSES SALE OF FIXED ASSETS THIS INDICATES

- A) DEPRECIATION CHARGES ARE INSUFFICIENT
- B) POLICY OF SALE OR DISPOSAL OF FIXED ASSETS NEEDS TO BE REVIEWED
- C) THE SALE OF ASSETS HAVE NOT BEEN PROPERLY AUTHORIZED
- D) ACCOUNTING ERRORS

7. WHICH OF THE FOLLOWING FINANCIAL STATEMENTS ASSERTIONS ARE ADDRESSED BY TESTING THE CUT OFF FOR PLANT ASSET ADDITION

- A) EXISTENCE AND OWNERSHIP
- B) VALUATION AND DISCLOSURE
- C) POSSESSION AND OWNERSHIP
- D) COMPLETENESS AND VALUATION

8. THE AUDITOR WHILE VERIFYING PREPAID INSURANCE HAS CONCLUDED THAT THERE IS INADEQUATE INSURANCE OF BUILDING HE SHOULD__

- A) MODIFY HIS AUDIT REPORT
- B) INSIST IT SHOULD BE DISCLOSED IN THE NOTES TO FINANCIAL STATEMENTS
- C) WRITE IT IN LETTER OF WEAKNESS
- D) BOTH (B) AND (C)

9. WHILE VERIFYING INTANGIBLE ASSETS, AN AUDITOR WOULD RECOMPUTE AMORTIZATION CHARGES AND DETERMINE WHETHER AMORTIZATION PERIOD IS REASONABLE. THE AUDITOR TRIES TO ESTABLISHBY DOING IT

- A) VALUATION
- B) EXISTENCE
- C) DISCLOSURE
- D) POSSESSION

10. WHEN AUDITING PREPAID INSURANCE, AN AUDITOR DISCOVERS THAT THE INSURANCE POLICY BOND ON BUILDING IS NOT AVAILABLE FOR INSPECTION. THIS MAY INDICATE__

- A) NO INSURANCE HAS BEEN UNDERTAKEN FOR BUILDING
- B) LIEN ON BUILDING
- C) INSURANCE PREMIUM HAS NOT BEEN PAID
- D) INSURANCE PREMIUM PAID BUT NOT RECORDED

11. EQUITY SHARES OF XY LTD. HELD BY ABC LTD. ARE IN THE CUSTODY OF STOCK HOLDING CORPORATION OF INDIA LIMITED. THE AUDITOR MAY VERIFY THIS INVESTMENT BY A)

- A) REVIEWING LAST YEAR'S WORKING PAPERS.

- B) OBTAINING A CERTIFICATE FROM A RESPONSIBLE OFFICIAL OF THE ABC LTD.
- C) OBTAINING A CERTIFICATE FROM SHCIL
- D) OBTAINING A CERTIFICATE FROM XY LTD.

12. WHICH OF THE FOLLOWING CONTROLS WOULD ENSURE THAT SECURITIES ARE NOT LOST, STOLEN OR DIVERTED?

- A) ESTABLISH PHYSICAL BARRIERS OVER INVESTMENT SECURITIES
- B) MAINTAIN FILES OF AUTHORIZED SIGNATURES
- C) SEGREGATE INVESTMENT APPROVAL FORM ACCOUNTING AND FROM CUSTODY OF SECURITIES
- D) ALL OF THE ABOVE

13. WHICH OF THE FOLLOWING IS NOT A PROPER THIRD PARTY TO HOLD INVESTMENTS ON BEHALF OF THE CLIENT?

- A) REGIONAL LEVEL CUSTODIAN
- B) NATIONAL LEVEL CUSTODIAN
- C) INDIA TRILLS – NATIONAL LEVEL STOCK BROKING FIRM
- D) AEZ SECURITIES LTD. A STOCK BROKING FIRM

- A) SENDING DEBTOR'S CONFIRMATION LETTERS
- B) REVIEWING SUBSEQUENT COLLECTION
- C) VERIFY DEBTORS AGAINST SALES DOCUMENT
- D) BOTH (A) AND (B)

15. ANALYTICAL PROCEDURES ARE LEAST LIKELY TO BE USE IN THE AUDIT OF –

- A) CASH BALANCE
- B) INVESTMENTS
- C) BILLS RECEIVABLES
- D) DEBTORS

16. WHICH OF THE FOLLOWING STATEMENTS IS NOT TRUE WITH REGARD TO TEEMING AND LADING ?

- A) IT RESULTS IN THE DELIBERATE MISAPPROPRIATION OF CASH RECEIPTS
- B) IT IS ASSOCIATED WITH CASH RECEIPTS
- C) IF SAME INDIVIDUAL MAINTAINS CASH RECEIPTS AND CASH PAYMENTS TEEMING AND LADING IS LIKELY TO EXIST
- D) TO CONCEAL THE SHORTAGE, THE DEFRAUD, USUALLY, TRIES TO KEEP BANK AND BOOK AMOUNTS IN DAILY AGREEMENT SO THAT A BANK RECONCILIATION WILL NOT DETECT THE IRREGULARITY.

17. THE BALANCE OF CASH IN OFTEN BETWEEN ONE TO FIVE PERCENT OF TOTAL ASSETS. TICK THE MOST APPROPRIATE STATEMENT WITH REGARD TO VERIFICATION OF CASH IN CONTEXT OF THIS

- A) CASH IN ALWAYS MATERIAL AS MATERIALITY IS QUALITATIVE CONCEPT
- B) NO AUDIT OF CASH IS NEEDED WHEN, IN AUDITOR'S OPINION, CASH IS IMMATERIAL. MATERIALITY IS A RELATIVE CONCEPT
- C) THE CASH BALANCE NEED ONLY BE AUDITED IF THE BALANCE IS IN OVERDRAFT
- D) CASH IS TO BE VERIFIED IF CONTROL RISK IS ASSESSED AS HIGH

18. WHEN COUNTING CASH ON HAND THE AUDITOR SHOULD ____

- A) ENSURE PRESENCE OF SOMEBODY FROM MANAGEMENT
- B) OBTAIN A RECEIPT FROM CUSTODIAN AS TO ITS RETURN
- C) ENSURE POSTAGE AND REVENUE STAMPS ARE NOT COUNTED IN PHYSICAL COUNT
- D) TEMPORARY ADVANCES TO EMPLOYEES ARE COUNTED TO CALCULATE BALANCE OF CASH IN HAND

19. WHICH OF THE FOLLOWING STATEMENT IS NOT TRUE REGARD TO AUDITOR'S ATTENDANCE AT STOCK TAKING?

- A) AUDITOR SHOULD ATTEND PHYSICAL STOCK TAKING ONLY IF INVENTORY IS MATERIAL
- B) AUDITOR MAY NOT ATTEND PHYSICAL VERIFICATION OF STOCK BY MANAGEMENT, IF HE DOES NOT FIND IT APPROPRIATE TO RELY ON IT
- C) IF INVENTORY IS MATERIAL, EVEN WHEN THE AUDITOR IS NOT PLACING RELIANCE ON THE PHYSICAL VERIFICATION BY THE MANAGEMENT, HE SHOULD ATTEND IT
- D) THE PRIMARY OBJECTIVE OF AN AUDITOR'S OBSERVATION OF AN ENTITY'S OBSERVATION OF AN ENTITY'S STOCK TAKE IS TO OBTAIN DIRECT KNOWLEDGE THAT THE STOCK AND HAS BEEN PROPERTY COUNTED

20. WHILE OBSERVING A CLIENT'S ANNUAL PHYSICAL INVENTORY, AN AUDITOR CONDUCTED TEST COUNTS FOR CERTAIN TEST COUNTS WERE HIGHER THAN THE RECORDED QUANTITIES IN THE CLIENT'S PERPETUAL RECORDS. THIS SITUATION COULD BE THE RESULT OF THE CLIENT'S FAILURE TO RECORD –

- A) PURCHASE RETURNS
- B) SALES RETURNS
- C) GOODS WITH CONSIGNOR
- D) PURCHASE DISCOUNTS

21. INSPECTION REPORT/RECEIVING REPORT SUPPORTS ENTRIES IN

- A) SALES BOOK AND SALES RETURN BOOK
- B) PURCHASE BOOK AND SALES RETURN BOOK
- C) CASH BOOK AND PURCHASE BOOK
- D) SALES BOOK AND PURCHASE RETURN BOOK

VERIFICATION AND VALUATION OF ASSETS

1. A 2. C 3. B 4. C 5. D 6. A 7. D 8. D 9. A 10. B 11. C 12. D 13. C 14. D 15. A
16. C 17. A 18. C 19. C 20. B 21. B

AUDIT PREPARATION

1. WHICH OF THE FOLLOWING AUDITING ASSURANCE STANDARD DEALS WITH AUDIT PLANNING?

- A) AAS7
- B) AAS8
- C) AAS9
- D) AAS3

2. AUDIT PROGRAMME IS PREPARED BY

- A) THE AUDITOR
- B) THE CLIENT
- C) THE AUDIT ASSISTANTS
- D) THE AUDITOR AND HIS AUDIT ASSISTANTS

3. THE WORKING PAPERS WHICH AUDITOR PREPARES FOR FINANCIAL STATEMENTS AUDIT ARE _

- A) EVIDENCE FOR AUDIT CONCLUSIONS
- B) OWNED BY THE CLIENT
- C) OWNED BY THE AUDITOR

D) RETAINED IN AUDITOR'S OFFICE UNTIL A CHANGE IN AUDITORS

4. THE QUANTITY OF AUDIT WORKING PAPERS COMPLIED ON ENGAGEMENT WOULD MOST BE AFFECTED BY

- A) MANAGEMENT'S INTEGRITY
- B) AUDITOR'S EXPERIENCE AND PROFESSIONAL JUDGMENT
- C) AUDITOR'S QUALIFICATION
- D) CONTROL RISK

5. WHICH OF THE FOLLOWING BEST DESCRIBES THE PRIMARY PURPOSE OF AUDIT PROGRAMME PREPARATION?

- A) TO DETECT ERRORS OR FRAUD.
- B) TO COMPLY WITH GAAP
- C) TO GATHER SUFFICIENT APPROPRIATE EVIDENCE
- D) TO ASSESS AUDIT RISK

6. WHICH OF THE FOLLOWING IS NOT AN ADVANTAGE OF THE PREPARATION OF WORKING PAPER?

- A) TO PROVIDE A BASIS FOR REVIEW OF AUDIT WORK
- B) TO PROVIDE A BASIS FOR SUBSEQUENT AUDITS
- C) TO ENSURE AUDIT WORK IS BEING CARRIED OUT AS PER PROGRAMME
- D) TO PROVIDE A GUIDE FOR ADVISING ANOTHER CLIENT ON SIMILAR ISSUES

6. WHICH OF THE FOLLOWING IS NOT AN ADVANTAGE OF THE PREPARATION OF WORKING PAPER?

- A) TO PROVIDE A BASIS FOR REVIEW OF AUDIT WORK
- B) TO PROVIDE A BASIS FOR SUBSEQUENT AUDITS
- C) TO ENSURE AUDIT WORK IS BEING CARRIED OUT AS PER PROGRAMME
- D) TO PROVIDE A GUIDE FOR ADVISING ANOTHER CLIENT ON SIMILAR ISSUES

8. FOR WHAT MINIMUM PERIOD SHOULD AUDIT WORKING PAPERS BE RETAINED BY AUDIT FIRM?

- A) FOR THE TIME PERIOD THE ENTITY REMAINS A CLIENT OF THE AUDIT FIRM. B) FOR A PERIOD OF TEN YEARS
- C) FOR A PERIOD AUDITOR OPINES THEM TO BE USEFUL IN SERVICING THE CLIENT
- D) FOR THE PERIOD THE AUDIT FIRM IS IN EXISTENCE.

9. WHICH OF THE FOLLOWING FACTORS WOULD LEAST LIKELY AFFECT THE QUANTITY AND CONTENT OF AN AUDITOR'S WORKING PAPERS

- A) THE ASSESSED LEVEL OF CONTROL RISK
- B) THE POSSIBILITY OF PEER REVIEW
- C) THE NATURE OF AUDITOR'S REPORT
- D) THE CONTENT OF MANAGEMENT REPRESENTATION LETTER

10. WHICH OF THE FOLLOWING STATEMENT IS TRUE REGARDING AN AUDITOR'S WORKING PAPERS?

- A) THEY DOCUMENT THE LEVEL OF INDEPENDENCE MAINTAINED BY THE AUDITOR
- B) THEY SHOULD BE CONSIDERED AS THE PRINCIPLE SUPPORT FOR THE AUDITOR'S REPORT
- C) THEY SHOULD NOT CONTAIN DETAILS REGARDING WEAKNESSES IN THE INTERNAL CONTROL SYSTEM
- D) THEY HELP THE AUDITOR TO MONITOR THE EFFECTIVENESS OF THE AUDIT FIRM'S QUALITY CONTROL

11. WHICH OF THE FOLLOWING STATEMENT BEST DESCRIBES THE UNDERSTANDING WITH RESPECT TO?

OWNERSHIP AND CUSTODY OF WORKING PAPERS PREPARED BY AN AUDITOR?

- A) THE WORKING PAPERS MAY BE OBTAINED BY THIRD PARTIES WHEN THEY APPEAR TO BE RELEVANT TO ISSUES RAISED IN LITIGATION
- B) THE SAFE CUSTODY OF WORKING PAPERS IS THE RESPONSIBILITY OF CLIENT, IF KEPT AT HIS PREMISES
- C) THE WORKING PAPERS MUST BE RETAINED BY AN AUDIT FIRM FOR A PERIOD OF 10 YEARS
- D) SUCCESSOR AUDITORS MAY HAVE ACCESS TO WORKING PAPERS OF THE PREDECESSOR AUDITORS. THE APPROVAL OF CLIENT IS NOT REQUIRED.

12. THE CURRENT FILE OF THE AUDITOR'S WORKING PAPERS, GENERAL Y, SHOULD INCLUDE

- A) A FLOWCHART OF THE INTERNAL CONTROLS
- B) ORGANIZATION CHARTS
- C) A COPY OF FINANCIAL STATEMENTS
- D) COPIES OF BOND AND DEBENTURES

13. KNOWLEDGE OF THE ENTITY'S BUSINESS DOES NOT HELP THE AUDITOR TO

- A) REDUCE INHERENT RISK
- B) IDENTIFY PROBLEM AREAS
- C) EVALUATE REASONABLENESS OF ESTIMATES
- D) EVALUATE APPROPRIATES OF GAAP.

14. THE MAIN ADVANTAGE OF USING STATISTICAL SAMPLING TECHNIQUES IS THAT SUCH TECHNIQUES:

- A) MATHEMATICALLY MEASURE RISK
- B) ELIMINATE THE NEED FOR JUDGMENTAL SAMPLING
- C) DEFINES THE VALUES OF TOLERABLE ERROR
- D) ALL OF THE THEM.

15. WHICH OF THE FOLLOWING METHODS OF SAMPLE SELECTION IS LEAST SUITABLE FOR EXTRAPOLATING RESULTS TO THE POPULATION?

- A) SYSTEMATIC SAMPLING
- B) RANDOM SAMPLING
- C) HAPHAZARD SAMPLING

D) NONE

16. WHICH OF THE FOLLOWING STATEMENTS IS CORRECT?

A) LOWER THE SAMPLING RISK GREATER THE SAMPLE SIZE

B) SMALLER THE TOLERABLE ERROR, GREATER THE SAMPLE SIZE

C) LOWER THE EXPECTED ERROR, SMALLER THE SAMPLE SIZE D) ALL ARE CORRECT

17. WHICH OF THE FOLLOWING FEATURES IS MOST IMPORTANT FOR RANDOM BASED SELECTION?

A) SAMPLE SHOULD BE DRAWN FROM POPULATION

B) EVERY STRATA OF POPULATION SHOULD BE REPRESENTED IN THE SAMPLE

C) EVERY ITEM IN THE POPULATION HAS AN EQUAL CHANCE OF BEING SELECTED IN THE SAMPLE

D) ITEMS SHOULD BE SELECTED AT 'N' THE INTERVAL

18. RISK OF UNDER RELIANCE IS THE RISK THAT THE SAMPLE SELECTED TO TEST CONTROLS____

A) DOES NOT SUPPORT THE AUDITOR'S PLANNED ASSESSED LEVEL OF CONTROL RISK WHEN THE TRUE OPERATING EFFECTIVENESS OF THE CONTROL STRUCTURE JUSTIFIES SUCH AN ASSESSMENT

B) SUPPORTS THE AUDITOR'S PLANNED ASSESSED LEVEL OF CONTROL RISK WHEN THE ACTUAL POSITION

DOES NOT WARRANT SUCH RELIANCE

C) IS NOT SUPPORTED BY ADEQUATE DOCUMENTS

D) BOTH (A) & (C)

19. WHICH OF THE FOLLOWING FACTORS IS (ARE) CONSIDERED IN DETERMINING THE SAMPLE SIZE FOR TESTS OF CONTROL?

A) PROJECTED ERROR

B) TOLERABLE ERROR

C) EXPECTED ERROR

D BOTH (B) AND (C)

20. TOLERABLE ERROR, IS THE MAXIMUM MONETARY ERROR THAT THE AUDITOR IS PREPARED TO ACCEPT IN THE POPULATION AND STILL CONCLUDE THAT AUDIT OBJECTIVE HAS BEEN ACHIEVED, IS DIRECTLY RELATED TO

A) SAMPLE SIZE

B) AUDIT RISK

C) MATERIALITY

D) EXPECTED ERROR

AUDIT PREPARATION

1. B 2. D 3. C 4. B 5. C 6. D 7. A 8. C 9. D 10. B

11. A 12. C 13. A 14. A 15. C 16. D 17. C 18. A 19. D 20. C

CAPTIAL AND REVENUE EXPENDITURE

CAPTIAL AND REVENUE EXPENDITURE

1. WHICH OF THE FOLLOWING EXPENSES SHOULD NOT BE TREATED AS CAPITAL EXPENDITURE?

- A) EXPENSES PAID ON INSTALLATION OF A PLANT.
- B) COST OF DISMANTLING A BUILDING IN CASE A NEW BUILDING IS TO BE CONSTRUCTED ON THE LAND
- C) LEGAL EXPENSES INCURRED TO DEFEND A SUIT RELATED TO TITLE OF PATENT. THE SUIT HAS BEEN LOST
- D) THE FEES PAID TO ENGINEER WHO CONSTRUCTED THE PLANT.

2. WHICH OF THE FOLLOWING IS NOT A REVENUE EXPENSE?

- A) COST OF RAISING A LOAN
- B) COST OF ACCESSORIES OF MOTOR VEHICLES SPENT AT THE TIME OF PURCHASE
- C) EXPENSES INCURRED FOR LYING OF SEWERS ON LAND PURCHASED
- D) INSURANCE PREMIUM PAID AT THE TIME OF REGISTRATION OF THE SHIP

3. DEPRECIATION DOES NOT ARISE FORM _____

- A) EFFLUX ION OF TIME
- B) USE
- C) OBSOLESCENCE THROUGH TECHNOLOGY BE MARKET CHANGES
- D) REMARKET EXPECTATION

4. WHICH OF THE FOLLOWING SCHEDULE OF THE COMPANIES ACT, 1956 DEALS WITH DEPRECIATIONS?

- A) SCHEDULE XIV
- B) SCHEDULE V
- C) SCHEDULE XIII
- D) SCHEDULE X

5. SCHEDULE XIV HAS PRESCRIBED RATES OF DEPRECIATION FOR DOUBLE SHIFT AND TRIPLE SHIFT WORKING FOR WHICH ONE OF THE FOLLOWING ASSETS?

- A) BUILDING
- B) PLANT AND MACHINERY
- C) FURNITURE AND FITTINGS
- D) SHIPS

6. IF THE BOOK VALUE OF AN ASSET STANDS ATPER CENT OF THE ORIGINAL COST, A COMPANY NEED NOT PROVIDE DEPRECIATION ON IT.

- A) TWO
- B) FIFTEEN
- C) FIVE
- D) TEN

7. A COMPANY HAS BOUGHT PATENTS. WHICH OF THE FOLLOWING METHODS IS MOST SUITABLE FOR PROVIDING DEPRECIATION ON THEM?

- A) SLM
- B) WDV
- C) SUM OF YEAR DIGITS
- D) ANY OF THE ABOVE

8. WHICH OF THE FOLLOWING IS A REVENUE RESERVE?

- A) CAPITAL REDEMPTION RESERVE
- B) SECURITY PREMIUM ACCOUNT
- C) DEBENTURE REDEMPTION RESERVE
- D) CAPITAL RESERVE

9. WHICH OF THE FOLLOWING WILL NOT LEAD TO CREATION OF SECRET RESERVE?

- A) UNDERVALUATION OF CLOSING STOCK
- B) CHARGING CAPITAL EXPENDITURE TO REVENUE
- C) GOODS SENT ON CONSIGNMENT BEING SHOWN AS ACTUAL SALES
- D) CHARGING HIGHER RATES OF DEPRECIATION ON FIXED ASSETS THAN ACTUALLY REQUIRED

CAPTIAL AND REVENUE EXPENDITURE

1. B 2. D 3. C 4. B 5. C 6. D 7. A 8. C 9. D 10. B

EDP AUDIT

EDP AUDIT

1. WHICH OF THE FOLLOWING STATEMENT IS NOT DISTINGUISHING FEATURE FOR COMPUTER BASED PROCESSING

AND MANUAL PROCESSING?

A) ERRORS IN A CIS ENVIRONMENT ARE LESS SYSTEMIC AS COMPARED TO ERRORS IN MANUAL PROCESSING

B) THE POTENTIAL FOR HUMAN ERROR IN THE CIS ENVIRONMENT IS GREATER AS COMPARED TO MANUAL SYSTEM

C) IN A COMPUTER BASED ACCOUNTING SYSTEM, AUDIT TRAIL IS IN ELECTRONIC FORM

D) COMPUTER PROCESSING OFFERS MANAGEMENT A VARIETY OF ANALYTICAL TOOLS.

2. TO AVOID INVALID DATA INPUT, A BANK ADDED AN EXTRA NUMBER AT THE END OF EACH ACCOUNT NUMBER AND SUBJECTED THE NEW NUMBER TO AN ALGORITHM. THIS TECHNIQUES IS KNOWN AS

A) DUAL READ

B) TEST FOR REASONABLENESS

C) CHECK DIGIT

D) OCCURRENCE CORRECTION

3. WHEN COMPUTER PROGRAMME OR FILES CAN BE ACCESSED FROM TERMINALS, ACCESS CAN BE LIMITED TO AUTHORIZED INDIVIDUALS BY__

A) APPOINTING A LIBRARIAN

B) CONTROLLING PASSWORDS

- C) APPOINTING EDP AUDITOR
- D) BOTH (A) AND (B)

4. ERRONEOUS DATA HAS BEEN DETECTED BY COMPUTER PROGRAM CONTROLS. IT HAS BEEN EXCLUDED FROM PROCESSING AND PRINTED SEPARATELY "ERROR REPORT". WHO SHOULD MOST PROBABILITY BY REVIEW AND FOLLOW UP ON THIS REPORT?

- A) SYSTEM, ANALYST
- B) DATA CONTROL GROUP
- C) PROGRAMMER
- D) COMPUTER OPERATOR

5. GENERAL CONTROLS WILL BE INEFFECTIVE WHEN EDP DEPARTMENT

- A) PARTICIPATES IN COMPUTER SOFTWARE ACQUISITION DECISIONS
- B) DESIGN DOCUMENTATION FOR COMPUTERIZED OPERATIONS.
- C) ORIGINATE CHANGES IN MASTER FILES.
- D) PROVIDE PHYSICAL SECURITY FOR PROGRAMME FILES.

6. WHICH OF THE FOLLOWING ACTIVITIES WOULD MOST LIKELY BE PERFORMED BY EDP DEPARTMENT?

- A) AUTHORIZING TRANSACTIONS
- B) PARITY CHECKS
- C) DISTRIBUTING OUTPUT
- D) CORRECTION OF TRANSACTIONAL ERRORS

7. THE COMPLETENESS OF "WAGES" FIGURE CAN BE TESTED BY COMPARING THE NUMBER OF TIME CARDS TO BE PROCESSED WITH TRANSACTION ON WAGES SHEET. THIS TYPE OF CONTROL TECHNIQUE IS CALLED

- A) CHECK TOTAL
- B) CONTROL TOTAL
- C) OCCURRENCE CORRECTION
- D) CHECK DIGIT

8. WHICH OF FOLLOWING WILL NOT AFFECT AUDIT IN A CIS ENVIRONMENT?

- A) THE OBJECTIVE OF EXPRESSION OF OPINION ON FINANCIAL STATEMENTS
- B) COMPLIANCE PROCEDURES ADOPTED BY THE AUDITOR
- C) PERFORMANCE OF SUBSTANTIVE PROCEDURES
- D) EVALUATION OF INHERENT RISK AND CONTROL RISK

9. WHICH OF THE FOLLOWING STATEMENTS IS NOT TRUE OF THE TEST DATA APPROACH IN A TEST OF COMPUTERIZED ACCOUNTING SYSTEM?

- A) TEST DATA TESTS ONLY THOSE CONTROLS WHICH THE AUDITOR WISHES TO RELY

- B) TEST DATA SHOULD CONSIST OF DATA RELATED TO ALL CONTROLS PREVALENT IN THE ORGANIZATION
- C) THE RESULT OF TEST DATA INDICATES THAT ALL THE APPLICATION AND GENERAL CONTROLS ARE FUNCTIONING PROPERLY
- D) TEST DATA PROCESSED BY THE CLIENT'S COMPUTER PROGRAMME UNDER THE AUDITOR'S CONTROL

10. WHICH OF THE FOLLOWING CAATS ALLOW FICTITIOUS TRANSACTIONS PLANTED BY THE AUDITOR TO BE PROCESSED ALONG WITH REAL ONES ON CLIENT'S SYSTEM?

- A) INTEGRATED TEST FACILITY
- B) TEST DATA APPROACH
- C) GENERALIZED AUDIT SOFTWARE
- D) PARALLEL SIMULATION

11. AN AUDITOR IS LEAST LIKELY TO USE COMPUTER SOFTWARE TO

- A) ACCESS CLIENT DATA FILES
- B) ASSESS CONTROL RISK
- C) PERFORMING ANALYTICAL PRODUCERS
- D) NONE OF THE ABOVE

EDP AUDIT

1. A 2. C 3. D 4. A 5. C 6. C 7. D 8. A 9. B 10. A 11. D

GOVERNMENT AUDIT

GOVERNMENT AUDIT

1. AS PER C & AG ACT, 1971 THE TENURE OF THE COMPTROLLER AND AUDITOR GENERAL ISYEARS

- A) FOUR
- B) FIVE
- C) SIX
- D) SEVEN

2. THE PART OF GOVERNMENT AUDIT, WHICH IS CONCERNED WITH EXAMINING WHETHER THE MONEY HAS BEEN SPENT FOR THE PURPOSE SPECIFIED IN APPROPRIATION ACT, IS CALLED.

- A) AUDIT OF SANCTIONS
- B) AUDIT OF PROVISION OF FUNDS
- C) AUDIT OF RULES AND ORDERS
- D) AUDIT OF FINANCIAL PROPRIETY

3. AUDIT OF TRANSACTION DOES NOT INCLUDE –

- A) PROPRIETY AUDIT
- B) EFFICIENCY –CUM PERFORMANCE AUDIT
- C) AUDIT OF RECEIPTS

D) AUDIT OF EXPENDITURE

4. THE INCOME TAX DEPARTMENT HAS SENT MR. X DOUBLE REFUND OF ADVANCE TAX. THE GOVERNMENT AUDITOR DETECTED THIS WHILE CONDUCTING

- A) AUDIT OF EXPENDITURE
- B) PERFORMANCE AUDIT
- C) AUDIT OF STORES AND STOCK
- D) AUDIT OF RECEIPTS

5. AUDIT OF DEBT, DEPOSITS AND REMITTANCES DOES NOT COVER

- A) AUDIT OF BORROWINGS
- B) AUDIT OF AMORTIZATION OF DEBT
- C) AUDIT OF SANCTIONS
- D) REMITTANCE AUDIT

6. A STATE GOVERNMENT SPENT RUPEES FIFTY LAKHS ON RENOVATION OF RAJ BHAVAN' FOR ITS GOVERNOR. IN THE C & AG'S OPINION, THIS EXPENDITURE WAS MORE THAN WHAT OCCASION DEMANDED? IT IS AN EXAMPLED OF –

- A) PROPRIETY AUDIT
- B) PERFORMANCE AUDIT
- C) AUDIT AGAINST PROVISION OF FUNDS
- D) NONE OF THE ABOVE

7. AUDIT REPORTS ON PSU ARE

- A) SUBMITTED TO THE PRESIDENT/GOVERNOR FOR BEING LAID BEFORE THE PARLIAMENT
- B) SENT TO CONCERNED MINISTRIES/DEPARTMENTS
- C) SUBMITTED TO BOD OF CONCERNED PSU
- D) ANY OF THE ABOVE

8. THE C & AG, SOME YEARS AGO, GAVE ADVERSE COMMENTS ON EXPENDITURE INCURRED ON BUYING COFFINS FOR SOLDIERS KILLED IN A WAR. IN HIS OPINION, THE COFFINS CASES IMPORTED COULD HAVE BEEN REPLACE WITH LESS EXPENSIVE, DOMESTICALLY PRODUCED ONES. THIS IS AN ASPECT OF –

- A) AUDIT OF SANCTIONS
- B) AUDIT OF STORES AND STOCKS
- C) PROPRIETY AUDIT
- D) BOTH (B) AND (C)

9. WHO AMONG THE FOLLOWING IS ELIGIBLE TO BE APPOINTED AS AN AUDIT OF GOVERNMENT COMPANY?

- A) A CHARTERED ACCOUNTANT IN PRACTICE
- B) A CHARTERED ACCOUNTANT WHETHER IN PRACTICE OR NOT
- C) AN AUDITOR APPOINTED BY THE C & AG
- D) ANY OF THE ABOVE

10. THE STATUTORY AUDITOR OF A GOVERNMENT COMPANY SUBMITS HIS REPORT TO_

- A) THE BODS OF THE COMPANY
- B) THE C & AG
- C) THE LEGISLATURE
- D) THE COMPANY SECRETARY

GOVERNMENT AUDIT

1. C 2. B 3. B 4. D 5. C 6. A 7. B 8. D 9. A 10. B

INTERNAL CONTROL

INTERNAL CONTROL

1. Tests of control are not concerned with_

- a) Existence of controls
- b) Effectiveness of controls
- c) Continuity of controls
- d) Designing of controls

2. The sequence of steps in the auditor's consideration of internal control is as follows –

- a) Obtain an understanding, design substantive test, perform tests of control, make a preliminary assessment of control risk
- b) Design substantive tests, obtain an understanding, perform tests of control, make a preliminary assessment of control risk
- c) Obtain an understanding, make a preliminary assessment of control risk, perform tests of control, design substantive procedures.
- d) Perform tests of control, obtain and understanding, make a preliminary assessment of control risk, design

3. Which of the following is not an inherent limitation of internal control system?

- a) Management override
- b) Collusion among employees
- c) Inefficiency of internal auditor
- d) Abuse of authority

4. An auditor should study and evaluate internal controls to

- a) determine whether assets are safeguarded
- b) Suggest improvements in internal control
- c) Plan audit procedures
- d) express and opinion

5. XYZ Ltd. Conducts quarterly review of operations. It discovers that unrest in a south east

Asian country may affect the supply of raw materials to it the next quarter. This is an example of :

- a) risk assessment
- b) control procedure
- c) supervision
- d) control environment

6. The primary purpose of performing tests of control is to provide reasonable assurance that_

- a) there are no material misstatements due to fraud or error in financial statement
- b) accounting system is well documented
- c) Written evidence is there to support transactions
- d) if internal control is effective

7. If the auditor assesses control risk as high....

- a) Document the conclusions
- b) documents the reasons along with conclusions
- c) perform tests of control
- d) perform walk through tests

8. The overall attitude and awareness of an entity's board of directors concerning the importance of internal control is reflected in

- a) accounting controls
- b) control environment
- c) control procedures
- d) supervision

9. Which of the following are included in test of control?

- a) Performance and observation
- b) Inquiry and analytical procedures
- c) Comparison and conformation
- d) Inspection and verification

10. Control risk is assessed at

- a) Overall financial statements level
- b) Fraud risk factor level
- c) Financial statement assertion level
- d) Control environment level

11. Which of the following is not an example of a circumstance, in which additional tests of control will not be performed after obtaining an understanding to plan the audit?

- a) Controls are known to be cost ineffective
- b) Controls are effective but auditor opines that performing tests of control and reduced

substantive tests would not be cost effective

- c) Controls are effective and evidence already obtained is adequate to support a planned assessed level of control risk which is less than high
- d) Performing extensive substantive testing would not lead to efficiency

12. An auditor assesses control risk because it a)

affects the audit risk

- b) affects the level of detection risk that auditor may accept
- c) helps him to fix materiality level for each financial assertion
- d) is directly related to inherent risk

13. A flow chart, made by the auditor, of an entity's internal control system is a graphic representation that depicts the auditor's.

- a) understanding of the system
- b) understanding of fraud risk factors
- c) documentation of assessment of control risk
- d) Both (a) and (c)

14. The performance of tests of control is documented in

- a) audit programme
- b) flow charts
- c) working papers
- d) any of the above

15. Which of the following statements is not correct?

- a) Inherent risk and control risk cannot be controlled by the management i.e are uncontrollable
- b) Detection risk is related directly to the effectiveness of the auditor
- c) Detection risk related inversely to control risk
- d) Inherent risk and control risk are highly interrelated

16. The independence of an internal auditor will most likely be assured if he reports to the

- a) President Finance
- b) President System
- c) Managing Director
- d) CEO

17. In comparison to the independent auditor, an internal auditor is more likely to be concerned with

- a) cost accounting system
- b) internal control system
- c) legal compliance

d) accounting system

18. When an independent auditor decides that the work performed by internal auditors may have bearing on the nature, timing and extent of planned audit procedures, the independent auditor should evaluate objectivity of the internal auditor. The most important factor influencing it would be

- a) organizational level to which he reports
- b) qualification of internal auditor
- c) system of quality control of his work
- d) all of the above

19. When an independent auditor relies on the work of an internal auditor, he or she should

- a) examine the scope of internal auditor's work
- b) examine the system of supervising review and documentation of internal auditor's work
- c) adequacy of related audit programme
- d) all of the above

20. Proper segregation of duties reduces the opportunities in which a person would both

- a) establish controls and executes them
- b) records cash receipts and cash payments
- c) perpetuate errors and frauds and conceals them
- d) record the transaction in journal and ledger.

INTERNAL CONTROL

1. D 2. C 3. C 4. C 5. A 6. D 7. A 8. B 9. A 10. C 11. C 12. B 13. A 14. C 15. A

16. C 17. B 18. A 19. D 20. C

COMPANY AUDITOR

COMPANY AUDITOR

1. WHO IS RESPONSIBLE FOR THE APPOINTMENT OF STATUTORY AUDITOR OF A LIMITED COMPANY?

A) DIRECTORS OF THE COMPANY

- B) MEMBERS OF THE COMPANY
- C) THE CENTRAL GOVERNMENT
- D) ALL OF THE ABOVE

2. WHICH OF THE FOLLOWING SECTIONS DEAL WITH QUALIFICATIONS OF THE AUDITOR ?

- A) SECTION 226 (1) AND SECTION 226(2)
- B) SECTION 224 (1) AND SECTION 224 (2)
- C) SECTION 226 (3) AND SECTION 226(4)
- D) SECTION 224(3) & SEC.224

3. WHICH OF THE FOLLOWING STATEMENT IS NOT TRUE?

- A) A PARTNERSHIP FIRM CAN BE APPOINTED AS A STATUTORY AUDITOR OF LIMITED COMPANY
- B) APPOINTMENT CAN BE MADE IN THE NAME OF THE FIRM
- C) MAJORITY OF THE PARTNERS SHOULD BE PRACTICING IN INDIA
- D) ALL PARTNERS SHOULD BE CHARTERED ACCOUNTANTS

4. AS PER THE REQUIREMENTS OF SECTION 226(3) AND 226(4) A PERSON IS DISQUALIFIED FROM BEING APPOINTED AS A STATUTORY AUDITOR IF HE HOLDS

- A) EQUITY SHARES OR DEBENTURES OF THE COMPANY
- B) EQUITY SHARES CARRYING VOTING OF THE COMPANY
- C) SHARES CARRYING VOTING RIGHTS OF THE COMPANY
- D) SECURITY CARRYING VOTING RIGHTS OF THE COMPANY

5. THE BOARD OF DIRECTORS SHALL APPOINT FIRST AUDITOR OF A COMPANY

- A) WITH IN ONE MONTH OF COMPLETION OF CAPITAL SUBSCRIPTION STATE OF THE COMPANY
- B) WITH IN ONE MONTH OF THE PROMOTION OF THE COMPANY
- C) WITH IN ONE MONTH OF THE COMMENCEMENT OF THE BUSINESS OF THE COMPANY
- D) WITH IN ONE MONTH OF INCORPORATION OF THE COMPANY

6. THE TERM OF THE AUDITOR SHIP OF FIRST AUDITOR WOULD BE FROM THE DATE OF APPOINTMENT TIL ___

- A) THE CONCLUSION OF STATUTORY MEETING
- B) THE CONCLUSION OF FIRST ANNUAL GENERAL MEETING
- C) THE CONCLUSION OF NEXT ANNUAL GENERAL MEETING
- D) THE DATE OF REMOVAL

7. IN CASE THE DIRECTIONS FAIL TO APPOINT FIRST AUDITOR (S), THE SHAREHOLDERS SHALL APPOINT THEM

AT.....BY PASSING A RESOLUTION

- A) A GENERAL MEETING
- B) FIRST ANNUAL GENERAL MEETING
- C) STATUTORY MEETING
- D) ANNUAL GENERAL MEETING

8. LIFE INSURANCE CORPORATION OF INDIA HOLDS TWENTY FIVE PERCENT OF SUBSCRIBED CAPITAL OF XYZ

LTD. THE APPOINTMENT OF STATUTORY AUDITOR IN XYZ LTD. WOULD BE BY__

- A) ORDINARY RESOLUTION
- B) SPECIAL RESOLUTION
- C) (A) OR (B)
- D) NONE OF THE ABOVE

9. ICICI PRUDENTIAL, A LIFE INSURANCE COMPANY, HOLDS THIRTY-TWO PERCENT OF SUBSCRIBED SHARE CAPITAL OF DELTA LTD. THE STATUTORY AUDITOR OF DELTA LTD. WOULD BE APPOINTED BY__

- A) ORDINARY RESOLUTION
- B) SPECIAL RESOLUTION
- C) EITHER OF THE ABOVE
- D) NONE

10. WHICH OF THE FOLLOWING STATEMENT IS NOT TRUE REGARDING APPOINTMENT OF STATUTORY AUDITOR BY THE CENTRAL GOVERNMENT?

- A) SUCH POWERS HAVE BEEN CONFERRED UPON IT BY SECTION 224(3)
- B) IF A COMPANY FAILS TO APPOINT AN AUDITOR AT A GENERAL MEETING
- C) IF AN AUDITOR REFUSES TO ACCEPT APPOINTMENT, THE POWERS OF THE CENTRAL GOVERNMENT CAN BE EXERCISED.
- D) NONE OF THE ABOVE

11. IF A CASUAL VACANCY IN THE OFFICE OF AUDITOR ARISES BY HIS RESIGNATION IT SHOULD ONLY BE FIL ED BY

THE COMPANY IN A.....

- A) BOARD MEETING
- B) EXTRAORDINARY GENERAL MEETING
- C) GENERAL MEETING
- D) ANNUAL GENERAL MEETING

12. FOR THE PURPOSES OF SECTION 224(IB) THE NUMBER OF PARTNERS OF A FIRM WHICH SHALL BE TAKEN INTO ACCOUNT WOULD BE AS ON THE DATE OF _

- A) COMPLETION OF AUDIT
- B) AUDITOR'S REPORT
- C) ACCEPTANCE OF AUDIT
- D) STARTING OF AUDIT WORK

13. WHICH OF THE FOLLOWING IS COUNTED FOR THE PURPOSES OF SECTION 224(IB) THE NUMBER OF PARTNERS OF A FIRM WHICH SHALL BE TAKEN INTO ACCOUNT WOULD BE AS ON THE DATA OF ____

- A) JOINT AUDIT
- B) AUDIT TO NONPROFIT COMPANIES
- C) AUDIT OF UNLIMITED COMPANIES
- D) ALL OF THE ABOVE E) (A) AND (B) ONLY

14. MR. NARAYAN, A CHARTED ACCOUNTANT, HAS NINETEEN AUDITS, OUT OF FOL OWING AUDITS WHICH AUDITS SHOULD HE ACCEPT TO ENSURE HE DOESN'T VIOLATE PROVISIONS OF SECTION 224(IB) ____

- A) AUDIT OF ZEBA LTD. A PRIVATE COMPANY
- B) AUDIT OF BRANCH OF POINTEC LTD. A FOREIGN COMPANY
- C) AUDIT OF TWO BRANCHES OF VIRTUE LTD. AN INDIAN COMPANY
- D) ALL OF THEM

15. WHICH AUDIT OUT OF THE FOLLOWING WOULD NOT BE REGARDED AS ONE AUDIT FOR THE PURPOSES OF SECTION 224(IB)?

- A) AUDIT OF ONE BRANCH EACH OF TWO DIFFERENT COMPANIES
- B) JOINT AUDIT
- C) AUDIT HEAD OFFICE & BRANCHES
- D) AUDIT OF ONE OR MORE BRANCHES OF A COMPANY

16. THE AUDITOR OF A GOVERNMENT COMPANY IS APPOINTED BY THE C & AG. HIS REMUNERATION IS FIXED BY

- A) THE C & AG
- B) THE SHAREHOLDERS
- C) THE SHAREHOLDERS AT AN ANNUAL GENERAL MEETING
- D) THE BOARD OF DIRECTORS

17. THE SECTION, WHICH CONTAINS PROVISIONS REGARDING REMUNERATION OF THE AUDITOR IS _

- A) SECTION 224(9)
- B) SECTION 224 (7)
- C) SECTION 224 (8)
- D) SECTION 224 (6)

18. THE AUTHORITY TO REMOVE THE FIRST AUDITOR BEFORE THE EXPIRY OF TERM IS WITH_

- A) THE SHAREHOLDERS IN A GENERAL MEETING
- B) THE SHAREHOLDERS IN THE FIRST ANNUAL GENERAL MEETING
- C) THE BOARD OF DIRECTORS
- D) THE CENTRAL GOVERNMENT

19. WHICH OF THE FOLLOWING STATEMENTS IS NOT CORRECT REGARDING REMOVAL OF FIRST AUDITOR BEFORE EXPIRY OF THE TERM?

- A) HE IS REMOVED AT A GENERAL MEETING
- B) THE SHAREHOLDERS ARE AUTHORIZED TO DO SO
- C) THE APPROVAL OF THE CENTRAL GOVERNMENT IS REQUIRED FOR SUCH REMOVAL
- D) THE PROVISIONS FOR SUCH REMOVAL ARE CONTAINED IN SECTION 224(7)

20. THE RETIRING AUDITOR DOES NOT HAVE A RIGHT TO_

- A) MAKE WRITTEN REPRESENTATIONS
- B) GET HIS REPRESENTATIONS CIRCULATED.
- C) BE HEARD AT THE MEETING
- D) SPEAK AS A MEMBER OF THE COMPANY

21. WHO OUT OF THE FOLLOWING CANNOT BE APPOINTED AS A STATUTORY AUDITOR OF THE COMPANY?

- A) ERSTWHILE DIRECTOR
- B) INTERNAL AUDITOR
- C) RELATIVE OF A DIRECTOR
- D) ONLY (B) AND (C)

22. A STATUTORY AUDITOR HAS A RIGHT OF ACCESS AT ALL TIMES TO

- A) BOOKS AND ACCOUNTS OF A COMPANY
- B) BOOKS, ACCOUNTS AND DOCUMENTS OF THE COMPANY
- C) BOOKS, ACCOUNTS AND VOUCHERS OF THE COMPANY
- D) NOTICES AND DOCUMENTS OF THE COMPANY

23. THE AUDITOR HAS A RIGHT TO

- A) OBTAIN INFORMATION AND EXPLANATION
- B) OBTAIN INFORMATION AND EXPLANATION FROM THE EMPLOYEES AND OFFICERS
- C) OBTAIN INFORMATION AND EXPLANATION NECESSARY FOR THE PURPOSE OF AUDIT
- D) BOTH (B) AND (C)

24. THE PRINCIPAL AUDITOR, AS PER CLARIFICATION ISSUED BY THE ICAI, DOES NOT HAVE ANY RIGHT TO

- A) INSPECT WORKING PAPERS OF THE BRANCH AUDITOR
- B) VISIT BRANCHES

- C) SEEK INFORMATION NECESSARY FOR AUDIT PURPOSES
- D) INCORPORATE THE BRANCH AUDIT REPORT IN HIS AUDIT REPORT

25. UNDER WHICH OF THE FOLLOWING SECTION AUDITOR HAS A DUTY TO ENQUIRE INTO SIX SPECIFIED MATTERS AND REPORT BY EXCEPTION?

- A) SECTION 227(4A)
- B) SECTION 227 (IA)
- C) SECTION 227 (2)
- D) SECTION 227(3)

6. THE AUDITOR HAS TO ENQUIRE, UNDER SECTION 227 (IA) INTO DIFFERENT ASPECTS, RELATED TO SHARES ALLOTTED FOR CASH FOR THE PURPOSE OF AUDITOR INCLUDE

- A) SHARES AGAINST WHOSE ALLOTMENT CASH HAS ACTUALLY BEEN RECEIVED
- B) SHARES ALLOTTED FOR CONSIDERATION OTHER THAN CASH
- C) SHARES ALLOTTED AGAINST A DEBT PAYABLE
- D) ALL OF THEM

27. RIGHT TO VISIT BRANCHES HAS BEEN GIVEN TO THE AUDITOR UNDER WHICH SECTION?

- A) SECTION 222(3)
- B) SECTION 228(2)
- C) SECTION 228(4)
- D) SECTION 228(3)

28. WHICH OF THE FOLLOWING STATEMENTS WITH REGARD TO RULES REGARDING EXEMPTION FROM BRANCH AUDIT IS NOT TRUE?

- A) A BRANCH OFFICE OF A COMPANY CAN BE GRANTED EXEMPTION ON THE BASIS OF QUANTUM OF ACTIVITY CRITERION
- B) IF A SATISFACTORY ARRANGEMENT OF SCRUTINY CHECK OF THE BOOKS OF ACCOUNT OF A BRANCH OFFICE OF A MANUFACTURING COMPANY HAS BEEN MADE, IT CAN BE EXEMPTED FROM BRANCH AUDIT
- C) COST CONSIDERATION SHOULD BE CONSIDERED AS AN IMPORTANT FACTOR/GROUND FOR EXEMPTION FROM BRANCH AUDIT
- D) THE AUDITOR SHOULD STATE IN HIS AUDIT REPORT THAT BRANCH OFFICE IS EXEMPTED BY VIRTUE OF QUANTUM OF ACTIVITY OR ANY OTHER BASIS

29. THE BRANCH AUDITOR IS APPOINTED BY –

- A) SHAREHOLDERS IN AN ANNUAL GENERAL MEETING
- B) SHAREHOLDERS IN GENERAL MEETING

- C) BOARD OF DIRECTORS IN BOARD MEETING
- D) ANY OF THE ABOVE

30. AUDITOR OF A COMPANY DOES NOT HAVE RIGHT TO VISIT FOREIGN BRANCHES OF THE COMPANY

- A) UNLIMITED LIABILITY
- B) MANUFACTURING
- C) BANKING
- D) NONPROFIT MAKING

31. SPECIAL AUDIT IS CONDUCTED AT THE ORDER OF THE CENTRAL GOVERNMENT. WHICH SECTION GIVES SUCH POWERS?

- A) SECTION 233(A)
- B) SECTION 233A
- C) SECTION 242(A)
- D) SECTION 242A

32. WHO AMONG THE FOLLOWING CAN BE APPOINTED AS SPECIAL AUDITOR BY THE CENTRAL GOVERNMENT?

- A) THE STATUTORY AUDITOR
- B) CHARTERED ACCOUNTANT IN PRACTICE
- C) ANY CHARTERED ACCOUNTANT WHO IS NOT IN PRACTICE
- D) BOTH (A) AND (B)

33. THE SCOPE OF THE AUDIT INCLUDING REFERENCE TO THE PRONOUNCEMENTS OF THE ICAI, WHICH THE AUDITOR ADHERES TO, GENERALLY IS COMMUNICATED TO THE CLIENT IN THE

- I) AUDITOR'S REPORT
- II) ENGAGEMENT LETTER II) REPRESENTATION LETTER
- A) I) ONLY B) BOTH (I) AND (II) C) BOTH (I) AND (I I) D) ALL THE ABOVE

34. IF ANY DIRECTOR IS DISQUALIFIED FROM BEING APPOINTED UNDER SECTION 274(1) (G), THE AUDITOR SHOULD MENTION THIS FACT IN HIS AUDIT REPORT. FOR THIS PURPOSE, HOW DOES HE DETERMINE THEIR ELIGIBILITY :

- A) HE OBTAINS A REPRESENTATION FROM EACH DIRECTOR
- B) HE OBTAINS A MANAGEMENT REPRESENTATION
- C) HE ENQUIRES FROM REGISTRAR OF COMPANIES D) ANY ONE OF THE ABOVE

35. AS PER THE 'STATEMENT ON QUALIFICATION IN AUDITOR'S REPORT'S ISSUED BY THE ICAI, THE AUDITOR, UNDER SECTION 227(3) HAS TO GIVE A STATEMENT OF FACT ON_

- A) PROPER BOOKS OF ACCOUNT
- B) ACCOUNTING STANDARDS
- C) CESS PAYABLE UNDER SECTION 441A
- D) NONE OF THE ABOVE

36. THE DATE ON AUDITOR'S REPORT SHOULD NOT BE ___

- A) THE DATA OF AGM
- B) LATER THAN THE DATE ON WHICH THE ACCOUNTS ARE APPROVED IN BOARD'S MEETING
- C) EARLIER THAN THE DATE ON WHICH THE ACCOUNTS ARE APPROVED BY THE MANAGEMENT
- D) BOTH (A) AND (B)

37. SECTION 227(2) OF THE COMPANIES ACT, REQUIRES THE AUDITOR TO GIVE HIS REPORT TO THE MEMBERS OF THE COMPANY ON CERTAIN MATTERS. WHICH OF THE FOLLOWING IS NOT INCLUDED IN THE ABOVE?

- A) ACCOUNTS EXAMINED BY HIM
- B) EVERY BALANCE SHEET AND PROFIT AND LOSS ACCOUNT LAID BEFORE A GENERAL MEETING DURING HIS TENURE
- C) EVERY DOCUMENT THAT IS A PART OF OR 'ANNEXED TO' THE BALANCE SHEET
- D) EVERY DOCUMENT WHICH IS ATTACHED TO THE PROFIT AND LOSS ACCOUNT

38. WHEN RESTRICTIONS THAT SIGNIFICANTLY AFFECT THE SCOPE OF THE AUDIT ARE IMPOSED BY THE CLIENT,

THE AUDITOR GENERALLY SHOULD ISSUE WHICH OF THE FOLLOWING OPINION?

- A) QUALIFIED OPINION
- B) DISCLAIMER OF OPINION
- C) ADVERSE OPINION
- D) UNQUALIFIED REPORT WITH 'AN EMPHASIS OF MATTER' PARAGRAPH;

39. WHICH OF THE FOLLOWING REPORT NOT RESULT IN QUALIFICATION OF THE AUDITOR'S OPINION DUE TO A SCOPE LIMITATION?

- A) RESTRICTIONS THE CLIENT IMPOSED
- B) RELIANCE ON THE REPORT OF OTHER AUDITOR
- C) INABILITY TO OBTAIN SUFFICIENT APPROPRIATE EVIDENTIAL MATTER
- D) INADEQUACY OF ACCOUNTING RECORDS

40. THE INVENTORY CONSISTS OF ABOUT ONE PER CENT OF ALL ASSETS. THE CLIENT HAS IMPOSED RESTRICTION ON AUDITOR TO PROHIBIT OBSERVATION OF STOCK TAKE. THE AUDITOR CANNOT APPLY ALTERNATE AUDIT PROCEDURES.

- A) UNQUALIFIED OPINION
- B) QUALIFIED OPINION

- C) DISCLAIMER OF OPINION
- D) ADVERSE OPINION

41. IF IN THE ABOVE QUESTION, THE INVENTORY CONSISTED OF ABOUT TEN PER CENT OF TOTAL ASSETS, OTHER CONDITIONS REMAINING SAME, THE AUDITOR SHOULD ISSUE __

- A) UNQUALIFIED OPINION
- B) QUALIFIED OPINION
- C) DISCLAIMER OF OPINION
- D) ADVERSE OPINION

42. THE AUDITOR HAS SERIOUS CONCERN ABOUT THE GOING CONCERN OF THE COMPANY. IT IS DEPENDENT ON COMPANY'S OBTAINING A WORKING CAPITAL LOAN FROM A BANK WHICH HAS BEEN APPLIED FOR. THE MANAGEMENT OF THE COMPANY HAS MADE FULL DISCLOSURE OF THESE FACTS IN THE NOTES TO THE BALANCE SHEET. THE AUDITOR IS SATISFIED WITH THE LEVEL OF DISCLOSURE. HE SHOULD ISSUE_

- A) UNQUALIFIED OPINION
- B) UNQUALIFIED OPINION WITH REFERENCE TO NOTES TO THE ACCOUNTS
- C) QUALIFIED OPINION
- D) DISCLAIMER OF OPINION

43. WHICH OF THE FOLLOWING IS TRUE ABOUT EXPLANATORY NOTES?

- A) THESE ARE GIVEN BY THE DIRECTORS OF THE COMPANY
- B) THESE ARE GIVEN TO ADHERE TO REQUIREMENTS OF SECTION 211.
- C) THESE ARE GIVEN BY AUDITORS OF THE COMPANY IN AUDITOR'S REPORT
- D) ALL OF THE ABOVE

44. THE CLIENT CHANGED METHOD OF DEPRECIATION FROM STRAIGHT LINE TO WRITTEN DOWN VALUE METHOD. THIS HAS BEEN DISCLOSED AS A NOTE TO THE FINANCIAL STATEMENTS. IT HAS AN IMMATERIAL EFFECT ON THE CURRENT FINANCIAL STATEMENTS. IT IS EXPECTED, HOWEVER, THAT THE CHANGE WILL HAVE A SIGNIFICANT EFFECT ON FUTURE PERIODS. WHICH OF THE FOLLOWING OPTION SHOULD THE AUDITOR EXPRESS?

- A) UNQUALIFIED OPINION
- B) QUALIFIED OPINION
- C) DISCLAIMER OF OPINION
- D) ADVERSE OPINION

45. WHICH OF THE FOLLOWING IS NOT TRUE REGARDING REQUIREMENTS UNDER SECTION 227(3) (F) OF THE COMPANIES ACT, 1956?

A) THE AUDITOR HAS TO SATISFY HIMSELF WHETHER ANY OF THE DIRECTORS OF THE COMPANY, WHETHER PUBLIC OR PRIVATE, ARE DISQUALIFIED FROM BEING APPOINTED AS DIRECTORS AS PER SECTION 274(1) (G).

B) SECTION 274(1) (G) IS APPLICABLE TO APPOINTMENT OF DIRECTORS BOTH IN PUBLIC AND PRIVATE COMPANIES BUT REPORTING IS LIMITED TO ONLY THOSE DIRECTORS OF A COMPANY WHO ARE ALSO DIRECTORS OF A PUBLIC COMPANY

C) THE AUDITOR REQUIRES EVERY DIRECTOR TO SUBMIT A WRITTEN REPRESENTATION IN RESPECT OF EACH PUBLIC COMPANY, OF WHICH THE IS A DIRECTOR, AS TO WHETHER SUCH COMPANY HAS DEFAULTED IN TERMS OF PROVISIONS OF SECTIONS 274(1) (G)

D) THE DISQUALIFICATION SHOULD BE CONSIDERED ON THE DATE OF AUDIT REPORT.

46. THE MANAGEMENT OF A COMPANY, TO WHICH AS3. IS NOT APPLICABLE, DOES NOT INCLUDE STATEMENT OF CASH FLOWS IN ITS ANNUAL REPORT. THE AUDITOR SHOULD EXPRESS

A) UNQUALIFIED OPINION

B) QUALIFIED OPINION

C) ADVERSE OPINION

D) ANY OF THESE DEPENDING UPON MATERIALITY AND Pervasiveness AND ADEQUACY OF DISCLOSURE

47. IN CASE THE AUDITOR GIVES A DISCLAIMER OF OPINION IN THE AUDIT REPORT WHICH OF THE FOLLOWING PARAGRAPH(S) OF A STANDARD UNQUALIFIED AUDIT REPORT ARE MODIFIED?

A) SCOPE PARAGRAPH

B) OPINION PARAGRAPH

C) SCOPE AND OPINION PARAGRAPHS

D) INTRODUCTORY, SCOPE AND OPINION PARAGRAPH

48. A DEPARTURE FROM RECOGNIZED ACCOUNTING PRINCIPLE IS DISCLOSED IN A NOTE TO THE FINANCIAL STATEMENTS. THE AUDITOR SHOULD

A) ISSUE A STANDARD UNQUALIFIED AUDIT REPORT

B) ISSUE A QUALIFIED REPORT

C) ISSUE AN UNQUALIFIED REPORT WITH 'EMPHASIS OF MATTER' PARAGRAPH

D) DISCLAIM OPINION

49. AB & CO, CHARTERED ACCOUNTANT, HAVE BEEN REQUESTED BY THEIR CLIENT XYZ LTD. NOT TO CONFIRM ACCOUNTS RECEIVABLES BECAUSE OF CONCERNS ABOUT CREATING CONFLICTS WITH CUSTOMERS OVER AMOUNTS OWED. THE AUDITORS WERE SATISFIED CONCERNING

RECEIVABLES AFTER APPLYING ALTERNATIVE AUDIT PROCEDURES AB & CO.'S AUDITORS REPORT LIKELY CONTAINED

- A) QUALIFIED OPINION
- B) DISCLAIMER OF OPINION
- C) UNQUALIFIED I OPINION WITH AN EXPLANATORY PARAGRAPH
- D) UNQUALIFIED OPINION

50.THE AUDITOR SHOULD STATE THE REASONS FOR HIS RESERVATIONS IN AUDIT REPORT AND SHOULD TRY TO QUANTIFY THE EFFECT ON THEM. THIS SHOULD BE DONE IN CASE HE HAS EXPRESSED _

- I) A QUALIFIED OPINION II) AN UNQUALIFIED OPINION WITH EMPHASIS OF MATTER PARAGRAPH
- III) AN ADVERSE OPINION IV) A DISCLAIMER OF OPINION
- A) I) ONLY B) I) AND (IV) ONLY C) I), III) AND (IV) ONLY D) ALL OF THE ABOVE

51.COMPANIES EXEMPTED FROM APPLICATION OF CARO, 2003 DOES NOT INCLUDE_

- A) A BANKING COMPANY
- B) AN INSURANCE COMPANY
- C) A PRIVATE LIMITED COMPANY WITH PAID UP CAPITAL AND RESERVES NOT MORE THAN FIFTY FIVE LAKH
- D) A LICENSED COMPANY

52.UNDER CARO, 2003, THE AUDITOR'S REPORT SHOULD INCLUDE REPORT ABOUT MAINTENANCE OF PROPER RECORDING RELATING TO_____

- A) FIXED ASSETS AND COST
- B) FIXED ASSETS, COST AND INVESTMENTS
- C) FIXED ASSETS , COST INVESTMENTS AND INVENTORIES
- D) FIXED ASSETS, COST AND INVENTORY

53.UNDER CARO, 2003 THE AUDITOR IS REQUIRED TO REPORT ON

- A) ARREARS OF CUMULATIVE PREFERENCE DIVIDENDS
- B) PREFERENTIAL ALLOTMENT OF SHARES TO RELATED PARTY
- C) DISPOSAL OF FIXED ASSETS AND ITS EFFECT ON GOING CONCERN.
- D) UNSECURED LOANS GRANTED TO RELATED PARTY.

COMPANY AUDITOR

1. B 2. A 3. C 4. D 5. D 6. B 7. A 8. B 9. A 10. B 11. C 12. C 13. E 14. D 15. A

16. B 17. C 18. A 19. C 20. D 21. B 22. C 23. D 24. A 25. B 26. D 27. C 28. B 29. B 30. B

31. C 32. B 33. B 34. A 35. C 36. C 37. D 38. A 39. B 40. A

41. C 42. B 43. A 44. A 45. D 46. A 47. C 48. B 49. C 50. A

51. C 52. C 53. A

Chapter 2 - Types of Auditing

* Kinds of Auditing

* Final Audit

* Advantages of Final Audit

* Disadvantages of Final Audit

* Continuous Audit

* Advantages of Continuous Audit

* Disadvantages of Continuous Audit

Kinds of Auditing

Continuous Auditor Running Audit

Continuous auditor also known as running audit or detailed audit. In large-scale business it is not possible for the auditor to get the true and fair view about the business in a short time period. So for the purpose of finding the correct information the continuous audit is conducted. Continuous audit is the audit that is conducted throughout the year with the fixed or non-fixed period.

Interim Audit

In normal word *Interim* means half yearly. It is conducted usually between two annual general meetings and only one time, not in intervals.

Final Audits or Complete Audit or Balance Sheet Audit

Final audit is also called as the *Balance sheet audit* or the *Periodical Audit*. Final audit is started when the books of accounts closed at the end of the year. It is the most satisfactory form of audit from the point of view of an auditor. In this audit there is cent percent checking of the accounts. In case if the business has an effective and proper internal control system. Then the audit sampling is possible.

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Characteristics

The following are the main essentials or features or characteristics of the final audit.

- In one session an auditor make only one visit.
- This type of audit can be conducted on both the large and small type of business.
- It is conducted when the accounting period ended.
- In this audit the auditor can do test checking.
- Auditor report is a prerequisite.
- It is conducted to report to shareholders.
- The audit is completed on a short period.

Advantages of Final Audit

1. Alteration Chances Limited

In the other types of audit the alteration is possible in the audit. But in the final audit the alteration of any type is not possible after the audit.

2. Checking of Complete Record

In the final audit there is complete checking of the books of accounting. He can decide either to check cent percent or by sampling.

3. Advantage for the Shareholders

Final audit serves the shareholders by giving them the most reliable financial information for the investment purpose.

4. Advantage for the Owner

Sometimes the business is so large that even one owner doesn't know the real position about the business. So final audit throws light on the business position and provides him satisfaction.

5. Convenient or Suitable

Final audit is very suitable for the auditor and client staff. It saves both the parties from continuous disturbance.

6. Saving of Time

In the continuous audit the work of audit is continuous through out the year. It takes a lot of time. But as compare to it final audit takes a very short time. So, in the final audit the time is saved.

7. Legal Demand

Final audit is also helpful in checking either the management has fulfilled the legal requirements or not. The management is bound to fulfill the legal requirement.

8. Economical

Final audit is beneficial for the client. It is not a regular burden on him, because it is conducted only once in a year at the end of the accounting period. So, it gives the maximum benefit with minimum cost.

9. Improves the Efficiency

In this audit the performance of the staff improves due to finding out the weak points of the employees by the auditor by overcome these weakness the staff can improve his efficiency.

10. Submission of Report

About the fairness and correctness of accounts final report is very important for the good will of the company.

11. Staff Duties

In final audit there is no clash of duties between the audit and accounting staff. They performed their work accordingly. The accounting staff remains busy throughout the year in his work and the audit staff his work when the accounting staff ends his work.

12. Convenient for Management

The benefit of final audit is that it is convenient for management as well as for audit staff. The auditor can start and complete the audit at one session. The queries can be cleared on the same day.

13. Minimum Time Period

The time required for final audit is less as compared to continuous audit. The auditors can start and complete many audits. They can raise their income by means of new audit work.

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14. Planned Work

The final audit has minimum time. So, the work of audit is completed under planning. An audit programme is maintained which provides the schedule of the working of the audit staff and the principal auditor can control the audit work.

15. Work Continuity

In the final audit the work of audit go through without any break and same way the auditor can be satisfied for the doubt, which raise from his work on the same time.

16. Small Business

The final audit is useful for small-scale business units. The fee charged by auditor is less as compared to

continuous work. The small income of business can afford small audit fee.

17. No Relations

The merit of final audit is that it provides no chance to audit staff to develop friendly relation with accounting staff. The accounting staff is not in a position to get undue benefit from audit staff.

18. Full Information

The final audit is useful as it provides full information about business matters. The auditor can take decision on the spot for completion of audit work and submission of audit report.

19. Income of Auditor

This type of audit is also helpful for the auditor. Because this audit saves the time of the auditor and he can conduct many other audit of other business.

20. Information of Client

Final audit serves the shareholder by giving them the most reliable financial information for the investment purpose.

21. Technical Knowledge

According to the law all the companies are bound that a qualified and experienced person who must be a chartered accountant can conduct the audit. He is a qualified person and there are no chances of fraud or errors.

22. Element of Friendship

In final audit there is a short time for the auditor staff. So, in the auditor staff or accountant staff no friendship or soft corners created because their understanding is up to some limits. So there are no chances of fraud created by the both staffs.

23. Beneficial for Client's Staff

As final audit is conducted at the close of the books of Accounts. The client's staff is not distributed as in continuous audit. They can easily complete their work and the records are provided at the proper place.

24. Protection

In any business the directors can change the figures according to their interest but the final audit protect the rights of the shareholders by providing them correct information.

25. Guidance

The auditor not only provides the true and fair information but also guide the management how can they improve their accounting systems.

26. Thread of Work

In the final audit there is no interval in the work of auditor and it is carried on till its completion. So the audit staff cannot loose the thread of the work, which is performed by them.

27. Moral Check

In the final audit there is moral check of the person who performed the work. The signatures are specified on that work.

Disadvantages of Final Audit

1. Shortage of Time

The auditor has many clients and their financial year ends on the same date. So it becomes very difficult for the auditor to finish the work in time. It is a disadvantages of final audit.

2. Delay in Report

The decisions of the business are made on the basis of the audit report. But this report is made one or two months late. So there is also delay in the making of important decisions.

3. Complete Checking Not Possible

It is very difficult for the auditor to check the each and every entry made in the books of account. He applies only test to save the time. So many mistakes remain untouched.

4. May Misrepresent

There may be also a chance that audit report may not represent the correctness of accounts because each and every transaction is not checked.

5. No Moral Influence

In this audit there is less pressure on the accounting staff. The audit staff comes once in the year. So the employees are not altering in their work.

6. Late Corrections

In this audit the errors are locate at the end of the accounting period. Some way, the corrections of errors are also late. And the entire producer takes more time.

7. Audit Report

The demerit of final audit is that report is not presented in time. It may be submitted one or two months late. The decisions are to be made on the basis of audited accounts.

8. Planned Frauds

In this type of audit, the management has a whole year to think and decide how to make the frauds. So they commit

a planned fraud, which is very difficult to find by the auditor.

9. Previous Year Data

Past data is provided to the auditor for audit in this type of business. The errors and frauds are also previous they have no concern with present or future.

10. Thorough Checking

In the final audit there may not be thorough checking. The auditor may select the sampling. In this way the errors and frauds are not located and the purpose of audit dies.

11. Planning for Future

In the final audit the future planning is not prepared in time because audit work start when the accounting work ends. The audit work is completed late and the projected financial statements are also completed late.

12. Delay in Accounting

For the accounting staff it is not possible to prepare the financial accounts just at the end of the year. Due to audit there is delay in finalizing the accounting matters.

13. Monthly Report

If in a business monthly or quarterly report are required. In this type of business the final audit cannot be conducted.

14. Proper Attention

The auditor cannot pay the proper attention towards the audit because he is bound by the fixed time.

15. Proper Decision

As he is bound by the time period he cannot judge the weakness of the business properly and cannot give the proper decisions to workers.

16. Interim Dividend

The business, which conducts the final audit, it is very difficult for him to declare the interim dividend.

Continuous Audit

The audit that remains continue throughout the financial year is called continuous audit.

Characteristics of Continuous Audit

- * The auditor visits the business regularly.
- * It is conducted in the large business concern.
- * It is conducted through the year.
- * Throughout checking is possible.
- * It is an expensive audit.
- * Audit report is not prerequisite.
- * It is used to cover the deficiencies of the business.
- * Surprise visits are also possible by the auditor.
- * The manager can fix the time.

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Advantages of Continuous Audit

1. Early Location of Errors and Frauds

In the Continuous Audit, the audit visit the clients after a short period. So, he is in a position to check the information completely in detail. It is helpful in checking the errors and frauds easily. If the audit is conducted after the year ended. It is not possible to find the errors or frauds easily.

2. Check on Frauds

In the Continuous Audit the errors are located earlier. So it is also helpful in the early correction of errors and frauds because it is located at the time when it can be corrected earlier.

3. Quick Rectification

Due to Continuous Audit errors are located easily and rectified at an early stage.

4. Special Attention

Before the finalization of accounts an auditor has a sufficient time to pay proper attention to the checking of account and detection of frauds and errors.

5. Guidance to Client

The auditor remains in touch with the business details, so he also indicates about the mistakes and gives valuable suggestions to the client to keep the accounts in proper manner.

6. Useful for Declaration of Dividend

The continuous audit is also helpful for the declaration of the dividend. As the accounts are checked throughout the year, so the audit accounts are ready for the declaration of dividend.

7. Upto Date Accounts

Accounts of the business are kept up to date by the staff because they know that auditor may visit and check the accounts at any time.

8. Chance of Over Looking Reduces

Auditor has a close contact with the details of the accounts and he has also sufficient time to check the records. So the chances of over looking are reduced in this type of audit.

9. Quick Presentation of Accounts

Continuous audit is very useful because accounts are maintained regularly. So as the financial years end final audited accounts are presented before the shareholders.

10. Accounts Completion

Another audit benefit is the early completion of the accounts checking. The results of audit can be found out just at the end of the accounting period.

11. Moral Check

In the continuous audit the auditor make the surprise visit in the business. The clerks are not aware about the visit. So they are alert and efficient in their work. There is less chances of frauds in this type of business.

12. Convenient for Auditors

In this audit, the several visits paid by the auditor to the client's office in enable his work to proceed easily and smoothly. It also increases his confidence in his capacity to do his work efficiently and effectively.

13. Regular Staff

The regular visits performed by the auditor, make the clerks alert to maintain the accounts up to date and accurate for fear that the auditor may land up in the office any time.

14. Sufficient Time

Continuous audit provides sufficient time to the audit staff. The important and ambiguous matters may require more time to draw conclusion. There is ample time for such matters.

15. No Missing Entries

Continuous audit is also helpful in keeping the full record. In the record there is no missing entries.

16. Early Correction of Errors

The continuous audit is helpful for early correction of errors. The auditor can point out

17. Prompt Filing of Returns

The continuous audit is also helpful for the prompt filing of returns. The management can submit audited account to the registrar as soon as the end of the year.

18. Early Meetings

This audit is helpful for the early meeting of the shareholders. The accounts are presented for the distribution of profit.

19. Surprise Visits

The continuous audit provided chances of surprise visit to audit staff. The accounting staff becomes alert due to surprise visit. It is essential for eliminating the chances of error and frauds.

20. Upto Date Record

The continuous audit is useful for keeping the up to date record. Such record is needed by management for borrowing funds, settlement of tax and dealing with labour union.

21. Even Work Load

Due to even workload, the audit staff feels the satisfaction. The books of accounts are maintained as the routine matters. And there is less chances of errors and frauds.

22. Auditor Advice

In the continuous audit the auditor can find the weakness of the business during the year and he can make the suggestion for the improvement of the business.

23. Close and Extensive Check

As the auditor visits the client's office after a month or so, but at regular intervals, a detailed close and exhaustive check can be possible. If the audit is to be under taken after the end of the year, such detailed checking will be difficult.

24. Technical Detail

In a continuous audit, the auditor is more in touch with the technical details and business affairs. So, the auditor can help his clients by giving him the valuable suggestions to improve business.

25. Distribution of Work

Continuous audit is also helpful in distribution of load of work on the staff. The work of audit continues the whole year. The audit staff can easily make the audit programme according the time required.

Disadvantages of Continuous Audit

1. Alteration of Figures

The records and figures in the books of accounts, which have already been checked by the auditor, may be altered after the audit is over. A dishonest clerk can do it to defraud the accounts.

2. Expensive

Continuous audit is more expensive as compared to other kinds of audit, because the auditor has to devote more time to this audit.

3. Inconvenience

In this audit, the auditor visits the client's office at regular intervals to check the accounts and records these frequent visits made by the auditor may dislocate the work of his client and cause inconvenience to him.

4. Mechanical Work

The work of audit becomes too mechanical because it remains continuous throughout the year.

5. Queries Problem

If the auditor's two visits interval is long then so many queries remain outstanding.

6. Small Business

Continuous audit is not fit for small business concerns. A small business has few transactions so there is no need of audit for whole one year. The owner as manager can know facts behind books as details audit is burdensome.

7. Client Work

The demerit of continuous audit is that the work of the client suffers due to clash of duties and the client staff remaining busy for the whole year. When the audit work is started work of accounting staff as books are not spare.

8. Staff Intimacy

The accounting staff and audit staff work side by side for the whole year. Friendship among the employees and auditors may lead to error and frauds. The sympathetic view of audit staff may fail to show true and fair view.

9. Missing Link

In the audit the auditor has to come at regular interval to check the accounts and hence the link between the past and present work cannot be maintained. Consequently the thread of work is very likely to be lost.

10. Low Income

The continuous audit keeps the staff busy for one year. They are not able to start and complete many audits at the same time. The given to one business is much higher as compared to final audit. So it is not suitable for audit staff from financial point of view.

11. Spoon Feeding

Frequent visits by the auditor may induce the client's staff to depend upon him even for minor things.

12. Expensive

A continuous audit is an expensive form of audit in that the more frequent visits by the auditor means the higher fees of auditor.

13. Wastage of Time

This type of audit is not helpful for the auditor because in this time period they cannot conduct any other audit. So this is low-income audit for the auditor.

14. Words of Client

Another disadvantage of the audit is that the works of the client staff suffer due to the work of both positive. The books of the accounts are not free for the other party to do.

15. Type of Business Concern

This is not fir for the small type of business concern. In the small business concern, there are only few transactions. So there is no need for this concern.

16. Mechanical Work

In this type of audit, the auditor has to repeat all the products as bookkeeper does where as audit work by nature should not be under thinking and boring.

17. Extensive Notes Taking

In this type of audit possible alteration after audit can be avoided by taking note on diary regarding audit of internal control. So the continuous audit requires the compilation of bundle of notes.

18. Chances of Collusion

Frequent visits of auditor may establish some unhealthy relationship between the client's staff and auditor's staff. Thus there are chances of moral check. Upon them and there may be collusion between them.

Chapter 3 - Internal Control

* Internal Audit

* Internal Control

* Internal Check

* Various Types of Internal Control

* Principles of Internal Control

* Objects of Internal Control

* Limitations of Internal Control

* Principles of Internal Check

Internal Audit

Internal audit is an evaluation and analysis of the business operation conducted by the internal audit staff. (who are employee of the business)It is the part of over all system of internal control established in an organization. "Internal audit is the independent appraisal of activity with in an organization for the review of accouting, financial and other business practices as a protective and constructive arms of management. It is a type of control which functions by measuring and evaluating the effectiveness of other type of controls." Professor Walter B Meigs define internal audit

Internal auditing consist of a continuous, critical review of financial and operating activities by a staff of auditors functioning a full time salaried employees.

Internal Control

The concept of internal control has evolved gradually over the years, with the greatest development occurring at the beginning of 1940. Not only the complexities of modern business techniques but also the increased size of business units have encouraged the adoption of methods which, while increasing the efficiency of the business, also act as a safeguards against errors and frauds. Furthermore, the regulation of business activities under an efficient system of internal control may obviate the necessity of protracted detailed work by an independent auditor with beneficial results to all parties concerned. Thus the impetus for development of internal control has come from both management and auditor. The effect on auditing has been to reduce the need of routine mechanical verification of book-keeping, accuracy, permitting substitution of a less time-consuming approach that involves reasoning and judgment and stress on such activities as review, analysis, evaluation and statistical sampling.

Internal Check

Internal check is an arrangement of duties allocated in such a way that the work of one employee is automatically checked by another. These are no separate staff engaged to carry out the system of internal check. It, in fact, represents only the arrangements of duties of the staff in a way. The system of internal check is devised in such a way that the possibilities of errors, frauds and irregularities are minimized.

Following matters are included in the internal check

- Matters relating to allocation of power.
- Division of work.
- Methods of recording transactions

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Types of Internal Control

1. Organization

Organization is concerned with placement of workers on their jobs. Authority and responsibility go together. The workers are responsible for their activities. The head of department is responsible for looking after the worker of his own department.

2. Segregation of Duties

The segregation of duties is necessary. There are many employees. All aspects of a transaction are not complete by one person. The recording of transaction by many persons can reduce the risk of errors and frauds. The division of duties can improve the working of workers.

3. Physical

The physical internal control is desirable to safeguard assets. The access to assets must be limited. The authorized persons can be allowed to examine the assets. The persons may visit the warehouse or they may release the assets through requisition slips. The assets require lockers, iron safe possession of keys and use of passes of warehouse.

4. Approval

All transaction in any business requires proper approval of responsible person. The limit for approval may be fixed. The creditor recovery officer can approve credit sales. The foreman can approve overtime wages. Purchase officer can approve the purchase of goods.

5. Accounting

The accounting control is concerned with approval of transactions, accurately processing and correctly recording. The control of total, preparation of trail balance reconciliation's and control accounts is necessary. There is examination of vouchers that every aspect is not over looked so far this type of control is concerned.

6. Management

The top-level management can apply certain controls beyond the routine working of business. The management control, include internal audit review of management accounts comparing actual result with budgets, supervisory control and many other review procedure of business functions.

Principles of Internal Control**1. Simple Record and Books**

The principal of the internal control is also the simple records such as the record of employees, plant register list of shareholders etc are kept in usual simple manner books should be kept up to date and at regular intervals these should be balanced. He different persons should make handling of cash transactions. For instance the cashier should not be allowed to record the cash in the accounts book. He should have no concern with written ledgers.

2. Independent Checking

Another person should independently and automatically check work performed by one person.

3. Principle Relating to Staff

It is also the part of the internal control. The employees are placed on the business according to their ability. The employees are bound for the duties for which they are assigned. Duties of each staff member should be clear and there should be no confusion and doubt in this regard. In case of any staff member absence duties arrangements should be made in advance.

4. Changing

It is also an important principle that no one should handle the transaction from beginning to end, because in this situation there is a chance of fraud. Generally most of the frauds are committed due to this reason.

5. Proper Supervision

It is also a principal of the internal control. All the senior officers have a right to supervise the activities of their juniors. It is necessary for the benefit of the business.

6. Clear Rules

All those rules relating to cash stock receipts and issuance of goods should be very clear and well defined. It should be also checked that the employees should follow their rules properly.

7. Instructions in Writing

All the instructions should be in written form according to the best internal control system.

8. Qualified and Competent Staff

For the better internal control system the qualified staff is necessary. And it should also necessary that the stuff is

placed at a proper place.

9. Double System of Accounting

For the internal control the double accounting system is very helpful. No doubt, it is an expensive system but it helps a lot for the internal control.

10. Incentive for Honest Worker

Honest and hardworking person must be encouraged. He should be given some reward in the shape of promotion and cash. This principle is also very effective in improving the internal control.

11. Use of Machines

It is also the principal of the internal control how to use the machines. He has to check either the proper machines have been installed and if it does so the work can be completed in time.

12. Performance of Duties Record

For the best internal control it is necessary that the performance of all the employees must be recorded.

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13. Record of Goods and Assets

All the companies assets and property record should be maintained properly. There should be also the security measures for the property.

14. Surety Bonds

To protect the company from fraud and to make the internal control more effective surety bonds can be taken from the employees.

15. Division of Duties

Division of duties is a part of internal control. The employees can be placed on jobs according to their abilities. The duties are assigned to which they are accountable.

16. Rotation of Duties

Rotation of duties is a principle of internal control. An employee must be from one seat another. It is necessary for increasing the efficiency and avoiding the chances of errors and fraud.

17. Division of Work

Division of work is a principle of internal control. The total amount of work is determined. It is divided among the department's branches and sections. It has become possible due to specialization and division of labour.

18. Subsidiary Record

Subsidiary record is a principle of internal control. The detail every account is maintained. Stock of goods may consist of many items. As a whole it is called stock account or stock control account and every group of items can be stated in subsidiary record.

19. Confirmation From Outsiders

The confirmation from outsiders from outsiders is a principle of internal control. The letters may be written to debtors to confirm their accounts balances. There may be positive or negative approach in collecting information from sundry debtors.

20. Checking Physical Existence

The auditor can check the physical existence. He can see the asset in the possession of a responsible officer. He can touch, count and check the items at business premise.

21. Dependent Work

Dependent work is a principle of internal control. One person cannot be allowed to do every aspects of a transaction. The work depends upon many persons. Every person is dependent upon others to perform his duties.

22. Supervision

Supervision is a principle of internal control. The officer, foreman or supervisor has the right to look after activities of junior workers. The supervisory control is essential to make the business effective.

23. Internal Audit

Internal audit is a part of internal control. The management can ask expert employees to examine the accounts of the business. It helps the concern to check and frauds. The progress of the entity is disclosed through it.

24. Fidelity Bond

It is an agreement between the issuance of company and the employee. In case of loss the insurance company can pay compensation for loss of cash or goods. The cashier can get insurance from the insurance company.

25. Control Accounts

Control accounts are proposed to check the accuracy of the accounting books and other record. The total debtors accounts and total creditors accounts or sales ledger adjustments and purchase ledger adjustments accounts are prepared

Objects of Internal Control in Detail

1. Assets Protection

The assets are the backbone of any business. These assets are in the custody of some specific officers of the business. The internal control system checks the valuation and protect the assets of the business.

2. Accurate Record

The main object of the internal control is to maintain all records and transactions of the business according to the generally accepted accounting principal.

3. Follow Policies

The purpose of internal control is follow policies of management. The policies are guidelines for obtaining the business objectives. All employees try their best to follow the rules of the game.

4. Prevention of Error

The purpose of internal control is to prevent errors. There may be unintentional mistake due to overwork or carelessness. There is normal load work with every person. Others check the work of one person.

5. Prevention of Frauds

The purpose of internal control is to prevent fraud. It is an intentional misrepresentation of financial information by one or more individuals among management, employees or their parties.

6. Best Use of Resources

The purpose of internal control is the best use of resources. There is a need of optimum combination of resources for maximizing profits. Internal control can point out weakness, which can be removed.

7. Nature of Audit Test

The purpose of internal control is to determine nature and extent of audit test. When there is effective internal control there will be few audit test other wise there is need of through checking.

8. Reliable Record

The purpose of audit is to maintain reliable accounting record. The equal distribution of work among the employees provides complete and reliable record, as it is free from error and fraud.

9. Reduces Work Load

The purpose of internal control is the reduction of workload. The effective internal control can be useful for auditors. They can check few items and remaining items will be treated as checking by the auditor.

10. Location of Errors

The purpose of internal control is the location of errors. There are many types of error, which may be found in the accounting record. The internal control procedures are useful to locate the error in accounting.

11. Detection of Fraud

Detection of fraud is the purpose of internal control. The compliance procedure and substantive procedures can be applied to detect the fraud. Basically it is a management responsibility.

12. Record of Business

Internal control system is also required for the maintainers of the reliable accounting record. Due to the internal control the records are without the errors and frauds.

13. Record of Expenditures

Same way the internal control system keeps the records of all the expenditure of the business and there are fewer chances of errors and frauds.

14. Recording of Transaction

Due to the internal control system all the transactions are recorded properly in the correct account in the proper period.

15. Actual Comparison

The assets and the other records, which are recorded, can be easily compared with the actual existed information.

16. Preparation of Statement

Another object of the internal control is to ensure about the preparation of the financial statement at the proper time as the balance sheet or profit and loss.

17. Management Objectives

The objectives of the system of internal control are to ensure the achieving of the other important management control

Limitations of Internal Control

1. Cost

The management thinks that cost of a control procedures must not be in excess of potential loss due to error or frauds.

2. Transactions

The internal control tends to be directed a anticipated types of transactions and not at unusual transactions.

3. Error

There is possibility of human error due to carelessness distraction, mistake of judgement or the misunderstanding of instructions.

4. Circumstances

There may be collusion with parties outside the entity employees of the entity. Due to such collusion there is possibility of circumvention of control.

5. Responsibility

There is chance that a person responsible for exercising control could abuse that responsibility, for example, a member of management overriding a control.

6. Conditions

There is possibility that procedure may become inadequate due to changes in conditional and compliance with procedure may deteriorate.

Principles of Internal Check

1. Sufficient Staff

The principle of internal check is sufficient staff. The employees can be appointed according to the workload. The management can determine the amount of work, which is distributed among the departments. The persons are hired to perform their duties. The overloading can create trouble for management.

2. Division of Work

Division of work is a principle of internal check. The management can determine the total amount of work. The whole work is divided among departments. The heads of such department are responsible for completion of work according to timetable.

3. Co-Ordination

Coordination is a principle of internal check. All departmental managers are bound to coordinate with others in order to achieve organization objectives. When there is a fault in one department, the work of other departments suffers. The objectives cannot be achieved. Internal check determines the degree of coordination among the managers.

4. Rotation of Duties

Rotation of duties is a principle of internal check. The workers feel bored by doing the same work from year to year. There is a need for rotation of duties. It is in the interest of concern as well as employees. The efficiency is improved due to changes in duties.

5. Recreation Leave

The recreation leave is a principle of internal check. The employee can check recreation leave. It is necessary for mental health. He cannot commit fraud as the new employee in his place can disclose the matter. The internal check system can work in the interest of business. The weakness of one person is disclosed due to leave.

6. Responsibility

The responsibility is a principle of internal check. The employee can enjoy recreation leave. It is necessary for mental health. He cannot commit fraud as the new employee in his place can disclose the matter. The internal check system can work in the interest of business. The weakness of one person is disclosed due to leave.

7. Automatic Machines

The principles of internal check is that machines must be used to do accounting work if permissible. The machines can do a lot work without delay. The changes of fraud and error are reduced to a minimum. The working of machines improves efficiency of accounting staff.

8. Checking

The principle of internal check is to check the work of other employees. Many persons perform the work. The officers can put his signatures to verify the work done by his subordinate. In this way one work passes many hands. The changes of error and fraud are minimized due to checking and counter checking.

9. Simple

The principle of internal check is simples in working the employees can understand the working of internal check system. A person can work under the supervision of other employees. The line of authority moves from top to bottom level. All workers can understand their duties in the organization.

10. Documents Classification

The classification of documents is the principles of internal check. The business documents are prepared, collected, recorded and placed in proper files. The index is prepared to compile the data. The filing system is useful to place the latter. In case of need the documents are traced at once.

11. Dependent Work

Dependent work is a principle of internal check. The work of one employee is dependent upon others. One work passes in the hand of two or three persons till it is complete. Another person checks the passes done by one person. No person is all in all to start and complete the transactions.

12. Harmony

The principles of internal check are harmony among the employees and departments. The understanding is essential for business goals. The management is to achieve other social and national objectives. The harmony is basis for successful internal check.

Chapter 4 - Vouching

* Vouching

* Principles of Vouching

* Techniques of Vouching

* Objectives of Vouching

* Procedures of Vouching

Introduction

It means to test the truth of items appearing in the books of original entry. It is an important part of an auditor's duty to certify as correct the transactions recorded in the books of accounts. The Accountant of a business is responsible for passing entries in the books of prime entry. The question arises how and on what basis such entries have been passed. The auditor's primary duty is to check these entries and only then certify the accounts as correct and free from any error or fraud.

Definition

A careful examination of all original evidence such as invoice receipt of correspondence minutes, contracts etc.

Vouching is very useful in proving the accuracy of the entries in the books of accounts. It also indicates about that transaction, which is omitted from the books of account.

Importance

Vouching is called the essence of auditing. So audit is not possible without vouching. The object of vouching is to find out the accuracy of the entries appearing in the books of accounts and detect that no entry has been omitted from the books of account.

Principles of Vouching

1. Arranged Voucher

In the books of accounts the vouchers are based an entry. A voucher is helpful to support any transaction, which may be cash memo fill, voucher, ticket or others.

2. Checking of Date

The voucher date can also be checked; it must be related to the current year. The date of the last or future year must not be adopted.

3. Checking of Authority

The vouchers are considered correct only when the proper authority signs on them. For the approval of the dealing the owner or the management must put the signatures for the approval of dealing if the vouchers are without the signatures of the proper authority. They are not considered true.

4. Cutting or Change

There should be no changes in the vouchers. Any person for making the fraud can change the time, date, amount and name of concern. So, these changes cannot be acceptable till the approval authority has made the signature.

5. Compare the Words and Figures

The auditor should satisfy himself amount written on the vouchers, if figures and words are same or not.

6. Transaction Must Relate to Business

For the correctness of the vouchers it is necessary that it relate with the business. Concern, the vouchers must be in the name of the business and also the manager. If it does not the vouchers are not acceptable and doubtful.

7. Case of Personal Vouchers

The auditor should not accept the voucher in personal name. There is a chance that an officer of the company has purchased any item in his personal capacity.

8. Checking of Account Head

Auditor must be satisfied about the head of account in which cash is deposited and drawn. He should examine the documentary evidence in these regards.

9. Revenue Stamps

For the stamps, the stamps act 1899 is applicable while fixing the revenue stamps. The stamps are required according to the valuation of the amount or cash memo. There is no need of vouchers if amount is less than twenty rupees.

10. Case of Cancelled Voucher

The auditor should not accept the cancelled vouchers because it has already served the purpose of payment. There will be a danger of double payments, if it is accepted.

11. Important Notes

For finding the correct decision, the auditor can also take help from the working papers of the previous year and others paper or note related to business and available with the management.

12. Minutes Book

When the meeting of shareholders is held. All the resolutions and decisions of the directors and shareholders are recorded in the minute's book. This minutes book must be examine by the auditor. He has to check that these decisions have been implemented in the books of accounts or not.

13. By Laws

In case of company the article of association and memorandum are basically the rules and regulations. But on the other hand in the societies and clubs the by laws are used to determine the powers of management. The auditor goes through these rules and regulations to find the true and fair view.

14. Agreements

The auditor must examine all the related papers of the business such as the agreement, correspondence and others. The basic information can be received to the auditor by such papers.

15. Deed of Mortgage

Some times, you are the sale or purchase of any assets, the management can enter into the agreement is prepare in this case. If the agreement is prepare in this case. If the agreement is made for a loan against the immovable property then the mortgage deed is signed. It is compulsory for the auditor to study the content of the deed.

Techniques of Vouching

1. Correct Accounts

The auditor can check the accounts debited and credited are correct in all respects. The rules of debit and credit can be followed for dividing the transactions into accounts.

2. Agreements

The auditor must examine the agreements, correspondence and other papers relating to business activities. Such agreement provides basic information to the auditor. He can vouch the transactions based on such agreements.

3. By-Laws

The memorandum and articles of association are rules and regulations in case to company. The by-laws of societies and clubs and used to determine management power. The auditor has the right to go through these rules and regulation.

4. Mortgage Deeds

The management may enter into agreement with any party for the purpose and sale of assets. The deed or agreement is prepared. In case of loan against immoavable property mortgage deed is signed. The content of deed must be situated.

5. Minutes Book

The auditor should examine the minute's book. The resolution and decision of directors and shareholder are recorded there. He can see that such decision have been implemented in the books of accounts.

Objectives of Vouching

1. Proper Evidence

The purpose vouching is to note that proper evidence is available for every entry. The signatures, initials and rubber stamp are evidence that document has been authorized and checked.

2. Proper Authority

The purpose of vouching is to note that there is proper authority behind every transaction. In the absence of any signature of manager the transaction are not acceptable at all.

3. Right Period

The purpose of vouching is to check that date of the vouchers relate to accounting period. The adjustments in books are made on the basis of current year record of transactions.

4. Correct Amount

The purpose of vouching is to check that correct amounts have been recorded in the entry. The vouching is useful to record only correct amounts in the books of accounts.

5. Capitals and Revenue Analysis

The purpose of vouching is to examine the analysis of transaction into capital and revenue. The expense relating to one year is treated as revenue other wise it is called capital.

6. Purchase for Business

The purpose of vouching is to check that purchase relate to the nature of business. The private purchase cannot be recorded as business due to vouching.

7. Arithmetical Accuracy

The purpose of vouching is to see the arithmetical accuracy of books of accounts. The auditor to confirm that books are accurate can check the total subtotals, casting and posting.

8. Postings

The postings of total from journal to the ledger can be voucher by the auditor. He can see through vouchers that posting are complete and correct.

9. No Error

The purpose of total vouching is to check that there are no errors in the books of accounts. The errors are the result of carelessness or over work. But audit staff is not over loaded so they can locate error.

10. No Fraud

The purpose of vouching is to examine that no fraudulent payments are made. The fraud can be committed due to matching of minds of employees and customer. The auditor can vouch the entries top disclosed such frauds.

11. Castings

The purpose of vouching is to check castings or loads. The auditor can calculate all total by himself. He can compare the totals with books to maintain accuracy.

12. Cast at Bank

The purpose of vouching is to determine true cash at bank. He can vouch receipt and payments. The result is that he can check whether cashbook is correct or not.

13. Cash Balance

The purpose of vouching is to check that cash in hand figures are facts. The cash can be counted. He can compare it with cashbook. He can apply test checking to determine accuracy.

14. Reporting

The purpose of vouching is to form an opinion for the purpose of reporting. In case of true and fair view there is good report. In the absence of such result there may be qualified report.

Procedures of Vouching

1. Reading Out

The vouching is a task of the auditor. The junior audit can read out the contents of the vouchers. He can inform the senior auditor about the data name of organization, number of voucher and amount of vouchers.

2. Comparison

The senior can head the contents called out by junior auditor. He tally each and every item stated in the voucher with entries in the books of accounts. Thus comparison is a part of vouching procedure.

3. Ticking

The senior auditor can use various ticks or symbols to clear the items checked. The ticks may be an abbreviation of words. Such ticks or symbols may differ from auditor to auditor because these are code words.

4. Stamping

The senior auditor instead of signature or initials he can use stamps for checking the vouchers can use the rubber stamps. The rubber stamp may have the wording checking and cancelled on it.

5. Signatures

The senior auditor can vouch the entries with the help of vouchers. He can put his signature or initials on every voucher for safety measures. The signed vouchers cannot be presented again for another entry.

6. Query

The voucher may be missing. The entries may be doubtful due to over writing and erasing. The audit staff can make the word "Q" against such entry. This entry is recorded in working papers.

7. Management

The audit staff can be giving sometime to the management for clearing the objections. The doubtful entries are handed over in written form. The management can examine the record in detail.

8. Reply

The management may reply after one or two days about the doubtful entries. The auditor can examine the reply of the managers. The auditor can judge whether the reply is right or wrong.

9. Clearance

The audit staff can clear the query for which proper answer is made available. The auditor may not be satisfied with the answer of objections. He can inform the management about this query.

10. No Satisfactory

The auditor may reject the unsatisfactory reply. He has skill, training and experience. He can use all available means to test the truth. He can note down poor clarification in working papers.

11. Objections

The objection stated in the working papers can be discussed with the management at the end of audit. He can form an opinion on the basis of such objections. He can submit his report either clear or qualifie

* Liabilities of an Auditor

Liabilities of an Auditor

(A) Civil Liabilities

Civil liabilities arise when there are dispute between two parties for a loss caused to one due to the act of another. In this case, the auditor is called upon to pay damages as decided by the court. These may be of the following types

1. Liability of Negligence

Negligence means acting carelessly or failing to perform a duty enjoyed upon a person. An auditor is expected to perform his duties as an agent of the shareholders by exercising care and diligence in the implementation of statutory requirements for the maintenance and presentation of the financial statement. Auditor must be kept himself up to date with the information if he commits some negligence the purpose of audit is failed.

2. Liability of Liable

In the report the auditor may criticize any person. If it is based on the fact there is no liability of the auditor. On the other hand the auditor is liable in order to avoid this liability the auditor should take care that the report is based on facts and is prepare with good intention.

3. Liability of the Third Party

The auditor is expert in finding out the errors and frauds and is aware how to check the books of accounts. Many third parties as the shareholders, investors, tax authorities, creditors and government rely upon his reports. So if he makes any type of error or fraud, he is liable to pay the damages.

4. Misstatement in Prospectus

According to section 59 The civil liability of an auditor arises due to misstatement in prospectus. Where a prospectus invites person to subscribe for shares or debentures of a company, the auditor shall be liable to pay compensation to every person who subscribe for a purchase any shares or debentures on the faith of the prospectus for any loss or damage be may reason of any untrue statements.

5. Breach of Contract

If the auditor fails to fulfill the term of the contract the civil liability arises of an audited. In case if he omits the all or some conditions of contract, if he cannot make the secrecy, if fails to provide the true and fair view to the owner, he is liable to pay to the owner if sustain any finacial loss.

(B) Criminal Liabilities

Since for certain purpose of the companies Act, and auditor is deemed to be an officer of the company, he is a liable for such. Act of omission or commission constituting offence under the Act.

6. Misstatement in Prospectus (Sec-63)

Here a prospectus containing any untrue or misstatement is issued with the consent of auditor who shall be punished the with imprisonment which may extend up to two years or with fine which may extend up to Rs. 5,000/- or both.

7. Requirements of Reports (Sec-225)

Here the auditor does not confirm to the requirement of reports as per sec-229 he shall be punished with fine, which may extend up to Rs. 1,000.

8. Assistant to Investigate (Sec-240).

Auditor has statutory duty to assist any investigator appointed by the central Government in collecting any information of the company otherwise he shall be punished with imprisonment which may extend up to six month or with a fine up to Rs. 2,000/- or both for continuous default Rs. 200/- per day may also be charged.

9. Assistance to Prospectus (Sec-242)

On the basis of report of an inspector control Government may prosecute any officer. Auditor is to assist in such prosecution otherwise he is to be punished for contempt of court.

10. Return Books, Papers Property etc. (Sec-477)

At the time of winding up of a company, court may ask the auditor to return any property books or papers of the company otherwise he can be arrested.

11. Public Examination (Sec-478)

On the report of official liquidation, the audition of the companies to the publicly examined. Notes of such examination shall be used as evidence in any civil or criminal proceeding against the auditor.

12. Falsification of Books of Accounts (Sec-539)

Where the auditor is guilty of destruction, mutilation, alteration, falsification of any books papers securities, he shall be imprisoned which may extend up to 7 years and shall also be liable to fine.

13. Prosecution of Auditor (Sec-545)

Where auditor is found be guilty of any criminal offence by the liquidator of the company, he shall be prosecuted.

14. False Statement In Any Return

Where the auditor makes any false statements in any material respect in any return report, certification, balance sheet etc, he shall be imprisoned which may extend up to 2 year and shall also be liable to fine.

15. Disqualified Auditor (Sec-254(6))

The company ordinance has clearly stated the persons who are not qualified as auditor, but if an unqualified auditor may act as auditor of the company. He is liable to fine up to Rs. 5,000/- rupees.

16. Non-Compliance (Sec-260)

In case when the auditor makes any report or signed against the legal requirement and the report may be not true the auditor is liable to fine for Rupees 2,000/- if it is willful fault.

17. Auditor Report

If the auditor make the report with the extent to profit himself and the third party for any loss for a material consideration it is a criminal liability. He may be punished for six months and fine upto 2,000/- rupees.

18. Assist Inspector (Sec-268)

The auditor has to give all the necessary assistance in connection with investigation to the inspector. Some times the auditor may fail to give it. In this case he shall be punishable up to one year and fixed up to ten thousand rupees.

19. Auditor Account (Sec-384(4))

The auditor is liable to submit his report after or within he two months at the end of the period to which account relates. If he fails there is a fine up to rupees 5,000/-

20. False Evidence (Sec-419)

If any person provides false evidence he is punishable up to two years and liable for fine also. The evidence may be affidavit oath or some affirmation etc.

21. Winding (Sec-420)

The criminal liability of company officers including auditor may be composed may year before or during liquidation

of company of criminal offences like concealing or removing property, concealing or falsifying document and papers. The liquidation can go to the court of law for proving the breach of duty.

22. False Statement (Sec-492)

Whoever makes a statement false or incorrect or omits any material fact shall be punishable with imprisonment for a term, which may extend to three year and shall be liable to a fine not exceeding twenty thousand rupees.

23. Pakistan Penal Code (Sec-197)

Whoever makes a statement false or incorrect or omits any material fact shall be punishable with imprisonment for a term, which may extend to three year and shall be liable to a fine not exceeding twenty thousand rupees.

24. Professional Misconduct

If the auditor fails to follow the rules of their own profession he is liable for the criminal liability. For this default the council can withdraw the certificate of practice. The council can also go to the court of law for prosecuting the concerned auditor. The auditor can suffer the jail or fine or both.

(C) Other Liabilities

25. Honorary Audit

The auditor on the honorary basis may also accept an audit work. After the completion of the audit work he is bound to submit his report.

26. Joint Audit

When the two auditors carried out the work of audit it is called as the joint audit. It is possible by the two independent auditors under the agreement. Sometimes, a business concern may have two or more than two business places in different cities or countries conduct the audit by one auditor. So this audit is conducted the responsibilities lies on the head of every auditor who had done the work of audit. It is also stated in the audit report.

Chapter 6 - Audit Working & Audit Note Book * Definition of Audit Note Book * Advantages of Audit Note Book * Definition of Test Checking * Essentials of Test Checking * Advantages of Test Checking * Disadvantages of Test Checking * Routine Checking * Essentials of Routine Checking * Advantages of Routine Checking * Disadvantages of Routine Checking

Definition of Audit Note Book

Audit notebook is a diary on which auditor scribble down all important inquiries to avoid the possibility of unquestioned material facts.

Importance

Justice William throws light on the importance of audit notebook in the following words,

The audit notebook that contained detailed information proved to be very helpful to the auditor in every critical moment.

For preparing the audit report it is very useful for that auditor.

In case of negligence charge against the auditor, but note book good evidence can be presented. It may be also used for future guidance and reference. It also enables to auditor to know that what work his assistant at each audit has done.

Advantages of Audit Note Book

1. Audit Report

The audit notebook is helpful to prepare audit report. The auditor can record the weakness of accounting records. The queries not properly answered are started in the audit report when the auditor is satisfied he can submit a clear report.

2. Staff Honesty

The audit notebook is used to determine the integrity and honesty of audit clerks. The moral and ethical value can be examined through audit work. When a person completes his work in time. Time period auditor can appreciate him. If there is pending work after the expiry of time period, he can be held responsible for it. The audit staff must be honest in his work.

3. Helpful For Memory

The audit notebook is help to keep things fresh in memory. The auditor can read the book on daily basis. He can note the weakness on fingertips. The auditor can retain the data in his memory for a longer period of time. He can ask the management to clear the doubtful points before preparing audit report.

4. Reference

The audit notebook is useful for reference. In future it can provide information to the audit staff. The past data gives an insight into business matters. The auditor can note the changes. He can form an opinion about the changes in the nature and size of the business.

5. New Auditor

The audit notebook is useful for new auditor. They can see the weakness of previous years. The old weak points may not be repeated this year.

6. Court Cases

The audit notebook is helpful to defend an auditor in court cases. The people can go to court of law in order to fix liability for negligence of duty. The audit notebook is a written proof of work performed by an auditor.

Definition of Test Checking

According to Professor Meigs,

"Test Checking means to select or examine a representative sample from a large number of similar items."

It is clear that test checking is sample checking. The whole data must not be examined. The audit staffs can use statistical technique to check the facts and figures. A certain percentage of transaction can be selected for thorough examination. The remaining transactions are supposed as checked.

Essentials of Test Checking

1. Sample

The sample items selected from whole data must be representative. The selection can be made by any method. The entire data must be presented in the form of sample.

2. Last Month

The last month of the accounting year is most important. The items appearing in the last month must be given maximum importance at the time of selecting the sample.

3. First Month

The first month of accounting year provides essential information. The transactions recorded in the first month must be assigned high weightage in order to select the sample.

4. Surprise Testing

The auditors include the element of surprise in selection of test. The accounting staff must be unaware of test checking so that he should not make arrangement for test checking.

5. Checking Method

The auditor can change his method of selecting the sample. At one time he can use alternate method. The selection method must be changed in time to time.

6. Every Type of Transaction

The auditor must select every type of transaction in test checking. There is a need to include each type of dealing in the sample.

7. Every Employee

The auditor can select the work of every employee. The test checking can be used to examine the work of all employees in the organization.

8. Through Out The Year

The test checking can be applied to all items appearing in the books through out the year. The recurring items are most suitable for test checking.

9. Cash Book

The cash book entries must not be used for test checking. There is a need of cent percent checking of all cash items appearing in cashbook. The control over cash is essential for efficient business working.

Advantages of Test Checking**1. Time Saving**

The benefit of test checking is available in the shape of time saving. A sample of items is checked and remaining items are treated as checked. In this way there is saving in time.

2. Less Labour

The test checking is useful for saving in labour. A lot of work requires many clerks for completing the audit. But test checking is used to test few items so there is less labour work.

3. Accurate Books

The test checking is useful to note the accuracy of accounting books and other record. There is a demand of error free books. The test checking is a step in the right direction to prove accuracy.

4. Staff Efficiency

The efficiency of accounting staff improves due to test checking. The weakness of employee is reported to management. The employees try to improve their work by overcoming their deficiencies.

5. Timely Report

The benefit of test checking is that timely report can be submitted to the management. The large number of figures can be checked in short period of time so there is no delay.

6. Many Audits

Test Checking is useful to complete many audits in one year. It saves sufficient time, which can be used to check the books of new clients. The auditor is able to raise more income.

7. Special Attention

The auditor can pay special attention to important matters. Test Checking reduces the labour work on the part of audit staff. There is sufficient time period to settle the important matters.

Disadvantages of Test Checking**1. Errors**

The demerit of test checking is that errors are not disclosed by it. In the presence of error true and fair view is not possible. No doubt the location of errors is the duty of management but it effects the audit work.

2. Frauds

The demerit of test checking is that planned frauds may not be disclosed. The fraud discovers is the responsibility of management. The audited accounts cannot show true and fair view when fraud exists in books.

3. Responsibility

The demerit of test checking is that auditor cannot shift his responsibility of management. The errors of fraud can be discovered through cent percent checking. So auditor is responsible for test checking.

4. Report

The auditor report may fail to disclose true and fair view of business matters. After test the auditor signs checking the auditor report. The auditor is responsible for audit report based on test checking.

Routine Checking

The auditors check the arithmetic accuracy of journals and ledgers. It is called routine checking. The purpose is detected the error and fraud of simples nature. The audit staff can check the balance appearing in journal and ledgers. The sub-total and total are examined. The differences are calculated. These balance are transferred from one page to another. The amounts carries forward should be the same. The checking is useful for determine the accuracy of the books of accounts. The accounting staff cannot chance the figures after routine checking. The ledger posting is also tested by means of routine checking. The errors may be locked and frauds may be disclosed by it. The auditor is able to give his opinion about the fairness of the financial statements. The auditor can fix the responsibility of the accounting staff for negligence of dut

Essentials of Routine Checking

1. Sub-Cast

Sub-Cast is a part of routine checking. Sub-total is possible in accounts matters. The sub-cast must be correct.

2. Casts

Cast is part of routing checking. Total in journal and ledger accounts should be examined for accurate results.

3. Carry Forward

Carry forward is a part of routing checking. The balance of one page can be transferred to the next page.

4. Posting

Posting is a part of routing checking. The entries are posted in to the ledger accounts. Posting must be properly examined.

5. Balancing

Balancing is a part of routing checking. Taking the difference of debit and credit in the accounts is called balancing.

6. Carry Down

The amounts in an account can be transferred to next page. The carry down is a part of routing checking.

7. Transfer

Transfer is part of routing checking. The amount is one accounts can be transferred to another account.

dvantages of Routine Checking

1. Accuracy

The benefit of routine checking is that there is accuracy of accounting books and records. The sub-total, casts and carry forward posting, balancing and transfer are stated as correct.

2. Frauds

Routine checking is useful to checking fraud in the books of accounts. The responsibility lies on the head of management for location of fraud. The management can use this tool to meet its duty.

3. Positive Verification

Routine checking helps to verify positive made in the ledger. The correct posting can provide true and fair view of financial statements. The management can verify posting through it.

4. No Change in Figures

Routine checking is useful to eliminate the alternation of figures. The management can meet its obligation with the help of routine checking. The employees cannot alter figures.

5. Final Checking

The benefit of routine checking is that final checking work is reduced. The final checking become early as major work has already been completed through routine checking.

Disadvantages of Routine Checking

1. No Care

The work of routine checking is given to junior employee. They do not consider it as important matter. Therefore the expected result cannot be produced for audit purpose.

2. Fraud

The demerit of routine checking is that planned frauds are not disclosed. The responsibility of fraud lies on head of management. The audited accounts may fail to provide true and fair view.

3. Error

The demerit of routine checking is that errors of principle are not disclosed. The responsibility or error can be placed on the head of management. The audited accounts may fail to provide true and fair view.

4. Monotony

The work is routine checking is boring and time consuming. The clerks go on checking the totals and sub-totals and balances. It does not improve the performance of employee rather it bring monotony.

* Verification

* Advantages of Verification

* Objects of Verification

* Techniques of Verification

Verification

It means to prove the fact and confirmation about the both sides of the balance sheet as the assets and liabilities. The auditor not only checks the accuracy of the accounts in the arithmetic way but also check the existence of the actual items and their actual possession. Advantages of Verification

1. Use of Assets

The merit of the verification is to check that management had used the assets of the business properly. Through verification the auditor can find out if the management has misused the assets. By the verification the efficiency of the business is improve because it is used properly for the business purpose only.

2. True and Fair View

By the verification the auditor can show the facts of the business. For the report the auditor has to depend upon the verification technique as well as on the other techniques.

3. Protection of Lenders

For the lender also it is beneficial, because the auditor has to check the ownership, existence and the possession and valuation of the business assets. So the tender can rely upon this report.

4. Risk for Creditors

As the auditor accounts provide the true and fair view about the affair of business so it is also the protection for the creditors. The creditors are those who provide the goods and services to the business. And for them the risk of loss is eliminated.

5. Location of Assets

Through the verification the correct view about the assets of the business can be find out. The auditor can visit the assets personally. He can cheek that the assets are not stolen or destroyed. So the auditor beings the fair view about the assets.

6. Performance of Management

The verification is also very useful for the owners, because by the verification the auditor can check the performance of the management. So the management can improve the efficiency of his work.

7. Loan Arranged

The verification is also helpful for the protection of the life of the business. Through verification the assets are physically examined and these assets are used to take the loan from the financial institution, which save the life of the business.

8. Manipulation of Accounts

The verification is also very useful to check that there is no manipulation of accounts and the figures are not altered. It is the moral check on the management, which shows the true position of the business.

9. Embezzlement

The merit of the verification is also that there is no embezzlement. The management cannot misuse the stocks or cash or any other asset and cannot use them for their personal use. So, the fair view of the statement can disclose.

10. Recording of Assets

The assets are recorded in a proper way and manners. For the writing of all the information of the sale, purchase and depreciation and other records. The GAAP (general accounting accepted principals) are used. The auditor has to check that the rules are followed.

11. Valuation of Assets

The verification is also helpful for the valuation of the assets properly. The assets may be fixed or floating. So the valuations of these are also made in different ways. The auditor can check the valuation of the assets through the accounting principals.

12. Stability of Business

Another benefit of the verification is that it is also helpful in the disclosure of the true position of the assets and liabilities. In the balance sheet the fictitious assets and liabilities are usually recorded. The business is considered stable when the real assets are in excess over the real liabilities. On the other hand it is not stable. So the verification discloses the facts.

13. Liabilities Valuation

The verification is also helpful for the owner by the verification they can come to know about the business. Which must be valued under the accounting rules.

14. Proper Disclosure

It is also useful for the public. The true valuation and the position of the assets and liabilities are disclosed and the public can come to know the proper position of the business.

15. Business Resources

There are many powers, which have a vital role in the running of the business as the man, machine material and also money. In fact it is the deriving forces of the business. So, the reasonable rate of return puts on them. In this way also the verification is helpful to determine the true value of profit.

Objects of Verification

The object of verification of assets is the satisfaction by the auditor as to its existence, proper disclosure, proper valuation and correct ownership on the balance sheet. The following are the main objects of the verification.

1. Certify the Ownership

The object of verification is to certify the ownership. The document deeds, vouchers and agreements etc can obtain the real ownership.

2. Position of Assets

The audit by the verification of the assets in the business the assets may be mortgaged or pledged for borrowing money. The auditor has to check that the same has been written in the balance sheet in the proper way.

3. Existence of Assets

The object of the verification is to ascertain the existence of the assets. The existence of assets is stated in the proper but there may be the assets be sold, stolen or destroyed. In this case the auditor has to check the assets physically.

4. Detect Fraud

Another purpose of verification is to find out the frauds if conducted. In come cases the assets may be stole or misused. The auditor can verify the real position of assets. The responsibilities of fraud are to be the management.

5. Verify Possession

The purpose of verification is to check the possession of the assets. The assets should be safeguarded the assets of the business is used for the business only. The possessions of the assets are in the management.

6. True and Fair View

Another object of the verification is to determine the true and fair view about the business financial statements. After the verification it is confirmed that the financial statements are according to the requirements and is fact.

7. Depreciation Plans

Another purpose of the verification is the examination of the depreciation of assets of the business. The auditor has to check that the proper state the depreciation is charge on the assets according to the accounting principal. As the life of each assets is different, so the depreciation is charged as per rule.

8. Valuation of Assets

The object of the verification is also to check the assets valuation. Which does the management value. The auditor has to fine that the valuation is true and according to the accounting principal.

9. Valuation of Liabilities

The management determines the valuations of the liability. The object of verification is to check that the valuation is the true and according to the accounting principals.

10. Evaluation Methods

The object of the verification is to the check the methods of evaluation. To evaluate the recorded items the compliance and substantive test are applied. According to the business requirements the auditor can rely upon anyone method from above.

11. Recording Methods

The object of the verification is to determine the method of recording of the both sides of the balance sheet as the assets and liabilities. The auditor has check that all types of assets recorded separately and the depreciation is deducted and the value of asset is charged according to the rule.

12. Internal Control

To evaluate the internal control is also the object of the verification. The business management is efficient if the

internal control is effective. And if the internal control is not effective the assets cannot be used properly.

13. Arithmetic Accuracy

Another object of the verification is to note down the arithmetical accuracy of the balance sheet. All the recording of the transactions, their posting of totals, sub-totals, addition and depreciation must required the calculation. The auditor has to require the accuracy of the figure work.

14. Treatment of Items

The object of the verification is to check that the different items have been treated correctly as the treatment of the taxes and discount etc.

15. Current Period

The object of verification is to check that the transactions of the business are related to the current year for which the audit work is being done.

Techniques of Verification

In the process verification following techniques are used

1. Physical Existence of Assets

Verification techniques of an asset are to check the physical existence of the asset. The auditor can count, measure and also the inspect of the various assets.

2. Proper Disclosure

It is also the techniques of the verification that the auditor has satisfied himself that the management has disclosed all the assets and the liabilities as required by law.

3. Ownership of Assets

Another technique of the verification is to determine the ownership of business. The assets must be held in the name of the business.

4. Assets in Possession

In the technique of the verification the auditor has to check the possession of the assets, which are in the custody of the management. It is in the possession of the cashier and the stock in trade is in the fold of the store officer. The auditor has to check the custody of different employees.

5. Proper Valuation of Assets

The technique is also to check the valuation of an asset. The assets may be fixed or circulating. The auditor can check the valuation of assets, which are determined by the management. In this case the arithmetical accuracy can be examined.

6. Valuation of Liabilities

Auditors should also satisfy themselves about the liabilities that these are properly valued, which are shown on the balance sheet, overstated or understated liabilities do not give a true picture about the financial position.

7. Correct Valuation

Auditor should pay special attention to this point, because profit and loss account also depends upon the accuracy of valuation of assets and liabilities. Valuation main object is that balance sheet should show a true and correct

view about the financial position of a client firm.

8. Purchase By Proper Authority

Another technique of the verification is that The Auditor satisfied himself that there is a proper authorization for any acquisition or disposal or any other form of movement for the assets and liabilities which is stated in the articles and memorandum of association.

9. Business Motive

Keeping in mind the business motive, the auditor has to be satisfied himself that all the assets, which are purchased are for the business motive only and not for the use of personal requirements.

10. Charge Free

The technique of verification is the examination of charge on assets. In case of lend the loan the assets are transferred in the name of the lender the auditor has to check that the assets are free.

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