Solved MCQs of Accounting & Auditing

Courtesy Xarra Hussain cssforum

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Accounting & Auditing Paper –I (2000)

(1) Double entry book-keeping was fathered by:
(a) F.W.Taylor
(b) Henry Fayol
(c) Lucas Pacioli.

(2) Funds Flow Statement and sources and application statement are:'
(a) Synonymous
(b) Antagonistic
(c) None of these.

(3) Depreciation in spirit is similar to:
(a) Depletion
(b) Amortization
(c) Depression.

4) Balance Sheet is always prepared:
(a) for the year ended.
(b) As on a specified date.
(c) None of these.

(5) In Insurance, the following Profit and Loss Accounts are prepared:
(a) Separate for Fire, Marine, and Accidents etc.
(b) Consolidated for Fire, Marine, and Accidents etc.(c) None of these.

(6) Partners in Pakistan can today be fixed at the following numbers:
(a) 20
(b) 50
(c) 75.

(7) Flexible budget is a budget with the following features:
(a) Changes with volume of production.
(b) Changes with variable expenses
(c) Changes in Direct material.

(8) Break Even can be calculated as under:
(a) ______VC_______
FC– TR TC
(b) FC
I– VC TR(c) None of these.

(9) Quick Ratio can be computed as under:
(a) Quick . Assets/Quick Liabilities
(b) Quick . Liabilities Current Assets
(c) Current Assets/ Current Liabilities

(10) In straight line method of depreciation, the written down value of a fixed asset will be at the end of the life of the asset as under:
(a) Rupee one
(b) Rupee zero (c) None of these.

(11) Sales budget must be prepared:
(a) Independently
(b) Depending on production capacity
(c) Based on Sales forecasts of market.

(12) Consolidation of subsidiary accounts in the balance sheet of a unlisted Holding company is at present in Pakistan:
(a) Compulsory
(b) Voluntary
(c) Required.

(13) Retained earning is synonymous to:
(a) Accumulated profit and loss account
(b) Profit for the year
(c) None of these.

(14) The requirements of an audit report for a Banking Company in Pakistan is under:
(a) Under the Banking Companies Ordinance, 1962.
(b) Under the Companies Ordinance, 1984.
(c) Under (a) and (b) above.

(15) Deferred Taxation is:
(a) Fixed asset
(b) Fixed liabilities
(c) Part of Owners Equity.

(16) Investment Corporation of Pakistan follows:
(a) Open-end mutual funds
(b) Closed-end mutual funds
(c) None of these.

(17) Directors Report is ---- in respect of financial report constituent.
(a) Mandatory for a limited Company
(b) Voluntary for a limited Company
(c) None of these.

(18) Every limited Company in Pakistan is required by law to include the following along with financial reports:
(a) Ratio Analysis
(b) Chairman's Review
(c) None of these.

(19) Cash budget excludes the following:
(a) Non-Cash items
(b) Cash items
(c) Purchase on Credit items.

(20) NGOs are legally required to:
(a) Prepare accounts in a prescribed manner under the law.(b) Prepare accounts as desired by donors.
(c) None of these.

Accounting & Auditing Paper -II (2000)

1. Fixed Cost:
a. Changes with production
b. Never changes even if production capacity is doubled
c. None of the above

2. Conversion cost is:
a. Material Cost + Overhead Cost
b. Direct Labour + Material Cost
c. Labour Cost + Overhead Cost

3. Process Costing is relevant to:
a. Cement industry
b. Job Order cost oriented Projects
c. None of the above

4. Operating Profit is:
a. Profit after deducting financial costs
b. Profit after deducting taxes
c. Profit after deducting normal operating expenses including depreciation

5. A good Cost Accounting System is:
a. If it computes estimated cost only
b. If it cannot be reconciled with financial accounts
c. If it enables management to increase productivity and rationalize cost structure

6. Verification includes:
a. Checking Vouchers
b. Examining audit report
c. None of the above

7. Stratified audit sample means:
a. Randomly selected items for audit
b. Purposively selected items for audit
c. Items carefully selected from each group
8. Internal Control is totally synonymous with:

a. Internal check
b. Internal audit
c. None of above

9. Audit of a bank is generally conducted through:
a. Routine checking
b. Couching
c. Balance sheet audit

10. An auditor is liable for his annual audit of accounts o:
a. Creditors
b. Bankers
c. Owners

11. Income Tax is levied on:
a. Agricultural Income
b. Presumptive Income
c. None of above

12. If a firm has paid super-tax, its partners may follow any one of the following behaviours:
a. No need to pay income tax, even if the income exceeds the taxable limit.
b. Pay income tax, even if the income does not exceed the taxable income.
c. Pay income tax as required under the law.

13. A resident multinational company need not:
a. Pay income tax, if it s caused under Double Taxation agreement.
b. If it is not enjoying tax exemption under the Income Tax Ordinance, 1979 (Second Schedule).
c. None of above

14. Income Tax rates are the same for:
a. Limited Companies
b. Banking Companies
c. None of above

15. Super Tax on companies is:
a. In vogue in Pakistan
b. Not in vogue in Pakistan
c. None of above

16. Current Ratio is calculated as:
a. Fixed Assets/Current Liabilities
b. Current Liabilities/Current Assets
c. Current Assets/Current Liabilities

17. Short-term loan can be described as:
a. If the period is three years

b. If the period is less than one year
c. If the period is over one year

18. A partnership, in today's Pakistan, under the current law can have the following number of partners:
a. 50
b. 20
c. 100

19. Combination can be best described as:
a. Restructuring of Capital of a Company
b. Reduction of Capital of a Company
c. Amalgamation of two different types of businesses

20. Sources of funds can be increased by:
a. Describing selling prices
b. Increasing expenditure
c. None of above

Accounting & Auditing paper-I (2001)

Write only the correct answer in the Answer Book. Do not reproduce the questions.

(1) Books of original entry are called:
(a) Ledger
(b) Work sheets
(c) Journal
(d) None of these

(2) For preparing balance sheets prepaid expenses are shown as part of:
(a) Liability
(b) Equities
(c) Assets
(d) None of these

(3) Unpaid and unrecorded expenses are called:
(a) Prepaid expenses
(b) Accrued expenses
(c) Additional expenses
(d) None of these

(4) Amount, cash, or other assets removed from business by owner is:
(a) Capital
(b) Drawings
(c) Assets
(d) None of these

(5) Under the diminishing balance method, depreciation amount is:
(a) Payment
(b) Receipt
(c) Expenditure
(d) None of these

(6) Users of accounting information include:
(a) The tax authorities
(b) Investors
(c) Creditors
(d) All of these

(7) The business form(s) in which the owner(s) is (are) personally liable is (are) the:
(a) Partnership only
(b) Proprietorship
(c) Corporation only
(d) Partnership and proprietorship
(e) None of these

(8) The investment of personal assets by the owner:
(a) Increases total assets and increases owner's equity
(b) Increases total assets only
(c) Has no effect on assets but increases owner's equity
(d) Increase assets and liabilities
(e) None of these

(9) All of the following are forms of organizations except:
(a) Proprietorship
(b) Corporation
(c) Retailer
(d) Partnership
(e) None of these

(10) Economic resources of a business that are expected to be of benefit in the future are referred to as:
(a) Liabilities
(b) Owner's equity
(c) Withdrawals
(d) Assets
(e) None of these

(11) An owner investment of land into the business would:
(a) Decrease withdrawals
(b) Increase liabilities
(c) Increase owner's equity
(d) Decrease assets
(e) None of these

(12) A cash purchase of supplies would:

(a) Decrease owner's equity
(b) Increase liabilities
(c) Have no effect on total assets
(d) None of these

(13) An owner investment of each into the business would:
(a) Increase assets
(b) Decrease liabilities
(c) Increase withdrawals
(d) Decrease owner's equity
(e) None of these

(14) The payment of rent each month for office space would:
(a) Decrease total assets
(b) Increase liabilities
(c) Increase owner's equity
(d) None of these

(15) Real accounts are related to:
(a) Assets
(b) Expenses and incomes
(c) Customers and Creditors etc.
(d) None of these

(16) Which one of the following accounts would usually have a debit balance?
(a) Cash
(b) Creditors
(c) Accounts payable
(d) Salaries Expenses
(e) None of these

(17) Quick assets include which of the following?
(a) Cash
(b) Accounts Receivable
(c) Inventories
(d) Only (a) and (b)
(e) None of these

(18) Net income plus operating expenses is equal to:
(a) Net sales
(b) Cost of goods available for sale
(c) Cost of goods sold
(d) Gross profit
(e) None of these

(19) The maximum number of partners in Pakistan can be fixed at the following:
(a) 20
(b) 50
(c) 75

(d) None of these

(20) Balance sheet is always prepared:
(a) For the year ended
(b) As on a specific date
(c) None of these

Accounting & Audting Paper-II (2001)

Write only the correct answer in the Answer Book. Do not reproduce the questions.

(1) The measureable value of an alternative use of resources is referred to as:
(a) An opportunity cost
(b) An imputed cost
(c) A different cost
(d) A sunk cost
(e) None of these

(2) A quantitative expression of management objectives is an:
(a) Organizational chart
(b)Management chart
(c) Budget
(d) Procedural chart
(e) None of these

(3) A cost center is:
(a) A unit of production in relation to which costs are ascertained
(b) A location which is responsible for controlling direct costs
(c) Part of the factory overhead system by which costs are gathered
(d) Any location or department which incurs cost
(e) None of these

(4) At break-even point of 400 units sold the variable costs were Rs. 400 and the fixed costs were Rs.200. What will be the 401 units sold contributing to profit before income tax?
(a) Rs. 0.00
(b) Rs. 0.50
(c) Rs. 1.00
(d) Rs. 1.50
(e) None of these

(5) In considering a special order situation that will enable a company to make use of currently idle capacity, which of the following cost will be irrelevant:
(a) Materials
(b) Depreciation
(c) Direct labour
(d) Variable factory overhead
(e) None of these

(6) A fixed cost:
(a) May change in total when such change is not related to changes in production
(b) Will not change in total because it is not related to changes in production
(c) Is constant per unit for each unit of change in production
(d) May change in total, depending on production with the relevant range
(e) None of these

(7) Completion of a job is result in:
(a) DR finished goods …….. CR WIP
(b) DR Cost of goods ……... CR finished goods
(c) DR WIP ……………..….….. CR FOH control
(d) DR FOH control …….….. CR FOH applied
(e) None of these

(8) Operating cost in often named as:
(a) Manufacturing cost plus commercial expenses
(b) Prime cost plus factory overheads
(c) Direct material plus direct labour
(d) Selling plus administrative expenses
(e) None of these

(9) Expenses such as rent and depreciation of a building are shared by several departments these are:
(a) Indirect expenses
(b) Direct expenses
(c) Joint expenses
(d) All of the above
(e) None of these

(10) If under applied FOH is closed to cost of goods sold, the journal entry is:
(a) DR Cost of goods sold …….. CR FOH control
(b) DR FOH control ……..……….. CR Cost of goods sold
(c) DR FOH control ……..……….. CR Profit % loss account
(d) None of these

(11) Re-order quantity …… 3600 units
Maximum consumption ...… 900 units per week
Minimum comsumption ….... 300 units per week
Re-order period ……………..….5 weeks
Based on this data Re-order level is:
(a) 4500 units
(b) 3900 units
(c) 1200 units
(d) 400 units
(e) None of these

(12) The time lag between indenting and receiving material is called:
(a) Lead time
(b) Idle time
(c) Stock out time
(d) None of these

(13) A credit balance remaining in FOH Control account is called:
(a) Over-applied overhead
(b) Under-applied overhead
(c) Actual overhead
(d) None of these

(14) Direct material cost plus direct labour cost is called:
(a) Prime cost
(b) Conversion cost
(c) Product cost
(d) All of these
(e) None of these

(15) Productivity means:
(a) The ability to produce
(b) All units produced
(c) Good units produced
(d) None of these

(16) A segment of the business that generates both revenue and cost is called:
(a) Profit Center
(b) Cost Center
(c) Cost driver
(d) All of these
(e) None of these

(17) Verification includes:
(a) Checking vouchers
(b) Examining audit report
(c) None of these

(18) Audit of a bank is generally conducted through:
(a) Routine checking
(b) Vouching
(c) Balance sheet audit
(d) None of these

(19) Economics resources of a business that are expected to be of benefit in the future are referred to as:
(a) Liabilities
(b) Owner's equity
(c) Withdrawals

(d) Assets
(e) None of these

(20) Short term Loan can be best described as:
(a) If the period is three years
(b) If the period is less than one year
(c) If the period is over one year
(d) None of these

Accounting & Auditing Paper-I (2002)

(1) Maximum number of partners in a partnership firm set up in Pakistan under Partnership Act, 1932 is:
(a) 5
(b) 25
(c) 20
(d) None of these

(2) Preparation of final financial reports is governed in Pakistan under:
(a) No law
(b) Companies Ordinance 1984
(c) None of these

(3) Depreciation is based on:
(a) Economic life of asset
(b) Declared life of asset by supplier
(c) Normal life of asset
(d) None of these

(4) Inventory turnover is calculated as under:
(a) **Cost of Goods sold/Closing Inventory**
(b) Gross profit/Closing Inventory
(c) Sales/Opening Inventory
(d) None of these

(5) There is a difference between:
(a) Worksheet and Balance Sheet
(b) Worksheet and profit and loss account
(c) Worksheet as combination of results of profits and financial positions
(d) None of these

(6) Deferred Revenue is:
(a) Liability
(b) Asset
(c) None of these

(7) Preparation of annual report of a firm is governed under:

(a) Partnership Act 1932
(b) Under partnership Deed
(c) None of these

(8) Deferred Taxation amount be treated as:
(a) Foot note
(b) An item in the Balance Sheet on asset side
(c) None of these

(9) Return of Equity will be calculated as under:
(a) Operating Profit x 100/Equity
(b) Net profit x 100/Paid up Capital only
(c) None of these

(10) Current maturity of long term loan is:
(a) Current Liability
(b) Long Term Liability
(c) None of these

Accounting & Auditing Paper-II (2002)

Write only the correct answer in the Answer Book. Do not reproduce the questions.

(1) Prime cost is calculated as under:
(a) Manufacturing Cost/Cost of Goods Sold
(b) Direct Method plus factory overheads
(c) Direct labour + Direct Material
(d) None of these

(2) Process Cost is very much applicable in:
(a) Construction Industry
(b) Pharmaceutical Industry
(c) Air line company
(d) None of these

(3) The latest computation of variances of manufacturing overheads is in one the following ways:
(a) Two variance approaches
(b) Three variance approaches
(c) Four variance approaches
(d) None of these

(4) Random sampling in auditing means:
(a) Selection through convenience sampling
(b) Selection through scientific sampling approach
(c) None of these

(5) Expenditure incurred in procuring machinery is:
(a) An admissible expenditure for tax purposes
(b) No admissible for tax purposes
(c) None of these

(6) Increase in income constitutes:
(a) Inflows
(b) Outflows
(c) None of these

(7) M & A stands for:
(a) Mergers & Analysis
(b) Mergers & Acquisitions
(c) Mergers & Allocation
(d) None of these

(8) An endowment insurance policy can be taken in respect of:
(a) Fire insurance
(b) Accident insurance
(c) Life insurance
(d) None of these

(9) Audit and special audit are the same:
(a) In Insurance Company
(b) In Banking Company
(c) None of these

(10) Acid test is the same as:
(a) Quick test
(b) Liquid test
(c) None of these

Accounting & Auditing Paper–I (2003)

(1) Acid Test Ratio is calculated as under:
(a) Current Assets/Current Liabilities
(b) Fixed Assets/Current Liabilities
(c) Liquid Assets/Current Liabilities
(d) None of these

(2) Deferred cost is a:
(a) Liability
(b)Asset
(c) None of these

(3) Work Sheet is:
(a) Balance Sheet
(b) Fund Flows Statement
(c) A combination of Profit and Loss Account and Balance Sheet items
(d) None of these

(4) Banks, for the preparation of financial statements, are governed under:
(a) Banking Companies Ordinance, 1962
(b) State Bank of Pakistan Act
(c) None of these

(5) Return on investment is computed:
(a) Investment/Profit x 100
(b) Profit x 100/Investment
(c) None of these

Accounting & Auditing Paper-II (2003)

Write only the correct answer in the Answer Book. Do not reproduce the questions.

(1) Rent of the premises constitutes variable expenses for cost allocation:
(a) True
(b) False

(2) Sugar used in a sugarcane company is:
(a) Variable cost
(b) Fixed cost
(c) None of these

(3) An auditor is liable under the following circumstances:
(a) Third Party Liabilities
(b) Fraud perpetrated in highly sophisticated circumstances
(c) None of these

(4) Agricultural income is taxable under the Income Tax Laws of Pakistan:
(a) True
(b) False

(5) Principal and markup payment within one year constitutes long term liability for disclosure in the balance sheet of a company.
(a) True
(b) False

(6) Ordinarily one can have the following partners in a partnership in Pakistan under the Partnership Act 1932.
(a) 10
(b) 20
(c) 30

(d) None of these

(7) Working Capital finance can be termed as "Running Finance" in a limited company.
(a) True
(b) False

(8) Income from Capital gains arising out of trading on a stock strange in Pakistan is taxable these days:
(a) True
(b) False

(9) Conversion Cost is calculated as under:
(a) Labour Plus Materials
(b) Labour plus overheads
(c) None of these

(10) Current Ratio can be calculated as under:
(a) Current Liabilities/Current Assets
(b) Current Assets/Current Liabilities
(c) None of these

Accounting & Auditing (2004)

(1) The need for keeping a record of income and expenditure is a clear and systematic manner has given rise to the subject of:
(a) Book keeping
(b) Accounting cycle
(c) Manufacturing
(d) None of these

(2) If proper books of accounts are not kept in a business the amount of profit:
(a) Can be ascertained
(b) Cannot be ascertained
(c) Easily ascertained
(d) None of these

(3) The stage under which transactions are recorded chronologically in the books of accounts is called:
(a) Summarizing
(b) Classifying
(c) Recording
(d) None of these

(4) Book-keeping is mainly concerned with:
(a) Recording of a financial data relating to business transactions
(b) Designing the systems in recording, classifying, summarizing the recorded data

(c) Interpreting the data for internal and external users
(d) None of these

(5) The term expenses and expenditure are:
(a) Same in nature
(b) Different in nature
(c) Opposite in nature
(d) None of these

(6) When goods are given away as charity or free samples, the purchases account should be:
(a) Debited
(b) Credited
(c) Recorded in balance sheet
(d) None of these

(7) The sale of a business asset on credit is recorded in:
(a) Sales journal
(b) General journal
(c) Cash receipt journal
(d) None of these

(8) The discount account is a:
(a) Personal account
(b) Real account
(c) Nominal account
(d) Asset account
(e) None of these

(9) The payment side of the cash book is under cost by Rs. 200 when overdraft as per bank statement is the starting point:
(a) Rs 200 will be deducted
(b) Rs 200 will be added
(c) Rs 400 will be added
(d) Rs 400 will be deducted

(10) All the direct expenses are charged to:
(a) Balance sheet
(b) Profit and Loss account
(c) Trading account
(d) None of these

(11) Those liabilities which arise only on the happening of some event, are called:
(a) Current liabilities
(b) Contingent liabilities
(c) Outstanding liabilities
(d) Fixed liabilities

(12) Marshalling of balance sheet means:
(a) The ordering of its assets and liabilities
(b) The totaling of its assets and liabilities
(c) Excess of assets over liabilities
(d) None of these

(13) Commission received in advance is to be considered as:
(a) Outstanding expense
(b) Accrued income
(c) Prepaid expense
(d) Unearned income

(14) The provision for discount on creditors is often not provided in keeping with the principle of:
(a) Materiality
(b) Consistency
(c) Conservatism
(d) Realization

(15) Which one of the following is not considered the permanent part of the accounting record:
(a) Journal
(b) Trial Balance
(c) Balance sheet
(d) Final accounts

(16) A working paper which is prepared by the accountant for his own convenience is called:
(a) Work sheet
(b) Cash flows statement
(c) Balance sheet
(d) Final accounts

(17) Any expenditure incurred to increase the profit earning capacity of the concern is a:
(a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) Capital expenditure

(18) Depreciation on fixed assets is an example of:
(a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) None of these

(19) The capital receipts are shown in the balance sheet on the:
(a) Liability
(b) Asset side
(c) Debit side
(d) None of these

(20) Error due to wrong allocation as expenditure between capital and revenue is regarded as:
(a) Error of omission
(b) Error of principle
(c) Compensation errors
(d) Error of commission

Accounting & Auditing (2005)

(1) The purchase of machinery on account would
(a) Increase an asset and decrease another asset
(b) Increase an asset and decrease liability
(c) Increase an asset and increase liability
(d) Decrease an asset and increase liability

(2) In general, the accounts in the income statement are known as:
(a) Real account
(b) Contra asset
(c) Nominal account
(d) Unrecorded revenue account

(3) In general terms, financial assets appear in the balance sheet at:
(a) Face value
(b) Current cash value
(c) Cash
(d) Estimated future sales value

(4) A limited Co. sold marketable securities cost Rs. 80,000 for Rs. 92,000 cash. In Co.'s income statement and statement of cash flows respectively, this will appear as:
(a) A Rs. 12,000 gain and Rs. 92,000 cash receive
(b) A Rs. 92,000 gain and Rs. 8,000 cash receive
(c) A Rs. 12,000 gain and Rs. 80,000 cash receive
(d) A Rs. 92,000 sales and Rs. 92,000 cash receive

(5) Which of the following is least important as a measure of short term liquidity?
(a) Debtor ratio
(b) Current ratio
(c) Cash flow from operating activities
(d) Quick ratio

(6) Uzma Ltd. Net income was Rs. 4,00,000 in 2003 and Rs. 1,60,000,in 2004. What percentage increase in net income must achieve in 2005 to off set the decline in profits in 2004?
(a) 60%
(b) 150%
(c) 200%
(d) 70%

(7) Which of the following does not describe accounting?
(a) Language of Business
(b) Is an end rather than a mean to an end
(c) Useful for decision making
(d) Used by business government, nonprofit organizations and individuals.

(8) External uses of financial accounting information include all of the following except:
(a) Investors
(b) Labour unions
(c) Line manager
(d) General public

(9) A fixed budget is:
(a) A budget for single level of activity
(b) A budget which ignored inflation
(c) Used only for fixed cost
(d) An overhead cost budget

(10) Heavy expenditure on advertisement of a new product is a:
(a) Capital expenditure
(b) Revenue expenditure
(c) Deferred revenue expenditure
(d) None of these

(11) Subscriptions received in advance is:
(a) An income
(b) An asset
(c) A liability
(d) A loss

(12) At the time of admission of a new partner, goodwill raised should be written off in:
(a) New profit sharing ratio
(b) Old profit sharing ratio
(c) Sacrificing ratio
(d) Gaining ratio

(13) A and B are partners in the ratio of 2:1. They admit C for $\frac{1}{4}$ shares who contributes Rs. 3000 for his share of goodwill. The total value of the goodwill of the firm is:
(a) Rs. 3,000
(b) Rs. 9,000
(c) Rs. 12,000
(d) Rs. 15,000

(14) Sales to Mustafa of Rs. 10,000 not recorded in the books would affect:
(a) Sales account
(b) Mustafa account
(c) Sales account and Mustafa Account
(d) None of these

(15) Depreciation is a process of:
(a) Valuation
(b) Allocation
(c) Both a & b
(d) None of these

(16) Loss on sale of an asset should be written off against:
(a) Share premium account
(b) Sales account
(c) Depreciation fund account
(d) None of these (P & L A/C Dr and Fixed Asset Cr)

(17) Income and expenditure account reveals
(a) Cash in hand
(b) Surplus or deficiency
(c) Capital account
(d) None of these

(18) Which of the following is true regarding the work sheet.
(a) It is the form, which an accountant uses for his own aid and convenience.
(b) It assists in the orderly preparation of the adjustments and financial statements at the end of the account period.
(c) It can substitute for Journal and ledger
(d) Only a & b are true

(19) The post closing trial balance will:
(a) Contain only income statement accounts
(b) Contain only balance sheet accounts
(c) Contain both income statement and balance sheet accounts
(d) Be prepared before closing entries are posted to the ledger

(20) The cost of goods and services used up in the process of obtaining revenue are called:
(a) Net income
(b) Revenue
(c) Expenses
(d) Liabilities

Accounting & Auditing (2006)

(1) There is no difference between Financial Report and Financial statement. (True/**False**)

(2) Calculating number of days uncollected of sales is known as Collection Index. (True/**False**) (No such a word exist in accounting lexicon)

(3) Wages paid for construction of a plant is revenue expenditure. (True/**False**)

(4) Times interest earned is a great interest for a banker. (True/**False**)

(5) Budgeted Profits are always high when pessimistic approach for preparing budget is followed. (True/**False**)

(6) Work Sheet only presents Balance Sheet figures. (True/**False**)

(7) Trial Balance is prepared from ledger. (**True**/False)

(8) Banks are governed under the Companies Ordinance, 1984 only for preparation of their financial statements. (True/**False**)

(9) Suspense Account is a clear account with no question to be asked. (True/**False**)

(10) Ledgers are prepared from vouches much before transactions are recorded in the Journal. (True/**False**)

Accounting & Auditing (2007)

(1)Which of the following best describes the nature of an asset?
(a) Something with a ready market value
(b) An economic resource, which will provide some future benefits, owned by a business.
(c) The amount of the owner's investment in a business
(d) None of these

(2) A balance sheet is prepared to find out financial position of a firm:
(a) For a specified period
(b) On a particular date

(c) At the time of sale of business
(d) None of these

(3) The preparation of work sheet:
(a) Constitutes creation of a formal financial statement
(b) Eliminates the need for entering adjusting entries in the journal
(c) Provides the information needed for journalizing adjusting and closing entries
(d) None of these

(4) Assets would be overstated if necessary adjusting entry was omitted for:
(a) Expired Insurance
(b) Accrued Salaries
(c) Accrued Interest Earned
(d) None of these

(5) The book value of the depreciable asset is best defined as:
(a) The un-depreciated cost of the asset
(b) The price that the asset would fetch if offered for sale
(c) Accumulated depreciation of the asset since acquisition
(d) None of these

(6) Which of the following is not an intangible asset?
(a) A patent
(b) A trademark
(c) An investment in marketable securities
(d) None of these

(7) A company has current ratio of 2 to 1 at the end of year 1. Which one of the following transactions will increase this ratio?
(a) Sales of bonds payable at a discount
(b) Declaration of a 20% cash dividend
(c) Collection of a large account receivable
(d) None of these

(8) If sales increase by 10% from year 1 to 2 and cost of goods sold increases only 6%, the gross profit on sales will increase by:
(a) 4%
(b) 10%
(c) 6%
(d) None of these

(9) Which of the following is not an acceptable inventory method?
(a) Lower of cost or market
(b) Sales value
(c) Specific identification
(d) None of these

(10) which of the following amounts appears in both the income statement and balance sheet?

(a) Net Income
(b) Accumulated depreciation
(c) Dividends
(d) None of these

(11) Both the accounts for depreciation expense and accumulated depreciation:
(a) Are closed at the end of the period
(b) Appear in the Adjusted Trial Balance Columns of the worksheet
(c) Appear in the Trial Balance Columns of the worksheet
(d) None of these

(12) When a partnership is liquidated:
(a) Any cash distribution to partners is allocated according to the profit and loss sharing ratio.
(b) Cash is distributed to each partner according to his or her capital account balance before the sale of partnership assets.
(c) Any gain or loss on disposal of partnership assets is divided among the partners according to their relative account balances.
(d) None of these

(13) In projecting the future profitability of a trading company, investors will be least concerned with changes in:
(a) The gross profit rate
(b) The quick ratio
(c) Sales volume
(d) None of these

(14) Revenue is most commonly recognized at the time when:
(a) Cash is collected
(b) The order is received from customers
(c) The sale is made
(d) None of these

(15) Which of the following list of accounts is used to compute the cost of goods sold?
(a) Purchases, inventory, and sales returns.
(b) Gross profit, purchase returns and carriage inward.
(c) Inventory, net sales and purchases
(d) none of these

(16) which of the following is ascertained by drawing up an income and expenditure account?
(a) Cash in hand
(b) Surplus or Deficiency
(b) Capital Fund
(d) none of these

(17) On April 1, Hassan & Company received and paid a Rs.700 bill for the advertising done in March. In addition to this bill the company paid Rs. 6,100 during April for

expenses incurred in that month. Hassan & Company paid Rs.3,600 as salary to employees for work done in April. Based on these facts, total expenses for the month of April were:
(a) Rs.6,100
(b) Rs.6,800
(c) Rs.10,700
<u>(d) None of these</u>
(Bill of march Rs 6100 + Salary exp Rs 3600= Rs 9700)

(18) Which of the following categories of accounts are closed at the end of an accounting period?
<u>(a) Temporary accounts</u>
(b) Permanent accounts
(c) Personal accounts
(d) None of these

(19) A retail store had current assets of Rs.72,000 and a current ratio of 2 to 1. The amount of working capital must have been:
(a) Rs.144,000
<u>(b) Rs.108,000</u>
(c) Rs.72,000
(d) None of these

(20) Bond holders would be most interested in which of the following?
(a) Quick ratio
(b) Inventory turnover
<u>(c) Times interest earned</u>
(d) None of these

<u>Accounting & Auditing (2008)</u>

1. Identify the item that is likely to serve as source document:
a. Trial balance
b. Income statement
c. Balance sheet
<u>d. Invoice from supplier</u>

2. Identify which of the normal balances (in parentheses) assigned to the following accounts is incorrect:
a. Office supplies (Debit)
b. Cash (Debit)
c. Wages payable (Credit)
<u>d. Fee earned (Debit)</u>

3. The formula (Cost less salvage value/Total capacity in units x units extracted) refers to which depreciation method:
a. Straight line
<u>b. Units of production</u>
c. Declining balance

d. Depletion

4. While passing adjusting entries for what type of transactions expenses are debited and assets are credited:

a. Accrued revenue

b. Accrued expenses

c. Unearned Revenue

d. Prepaid Revenue

5. Of the following statements, which one is untrue for the corporate form of organization:

a. It is a separate legal entity

b. It has a limited life

c. Income that is distributed to owners is usually taxed twice

d. Ownership rights can be easily transferred

6. For each transaction, double-entry accounting requires which of the following:

a. Debits to asset accounts must create credits to liability or equity accounts

b. A debit to a liability account must create a credit to an asset accounts

c. Total debits must equal total credits

d. None of these

7. When costs are rising, which method reports higher net income:

a. LIFO

b. FIFO

c. Average

d. The most recent purchase price

8. A transaction caused Rs. 20,000 decrease in both total assets and total liabilities. This transaction could have been:

a. Purchase of an asset for Rs. 20.000 cash

b. Asset costing Rs. 20,000 destroyed by fire

c. Repayment of Rs. 20,000 bank loan

d. Collection of Rs. 20,000account receivable

9. What percentage of profit a bank has to transfer to statutory reserve until it inflates to paid-up capital of the bank:

a. 5%

b. 10%

c. 20%

d. 25%

10. Identify the correct answer with regards to depreciation expense:

a. Is an application of the matching principle?

b. Is a closing entry?

c. Usually includes an offsetting credit either to cash or accounts payable.

d. Is not an adjusting entry?

11. Comparison of a company's financial condition and performance across time is a:

a. Ratio analysis
b. Horizontal analysis
c. **Vertical analysis**
d. None of these

12. Income and expenditure account in a non trading institution records transaction of:
a. Revenue nature only
b. Capital nature only
c. Both (a) & (b)
d. Income of revenue nature and expenditure of revenue and capital nature

13. At the time of admission of a new partner, goodwill raised should be written off in:
a. New profit sharing ratio
b. Old profit sharing ratio
c. Sacrificing ratio
d. Gaining ratio

14. A and B are partners in the ratio of 2:1. They admit C for $\frac{1}{4}$ shares who contribute Rs. 3000 for his share of goodwill. Total value of the goodwill of the firm is:
a. Rs. 3000
b. Rs. 9000
c. Rs. 12000
d. 15000

15. Second hand machinery worth Rs. 10, 000 was purchased, repairing of the machinery cost Rs. 1,000. The machinery was installed by own workers. Wage for this being Rs. 200, the machinery account should be debited for:
a. Rs. 10,000
b. Rs. 11,000
c. Rs. 11,200
d. None of these

16. If net sales Rs. 100,000 cost of goods sold Rs. 55,000, administrative expenses Rs. 5300, selling expenses Rs. 4375, Interest expense Rs. 500, the operating profit is:
a. Rs.35325 (operating profit does not inclue interest income/expense and Taxes))
b. Rs.45000
c. Rs.39700
d. Rs.34825

17. Which of the ratio best reflects a company's ability to meet immediate interest payment?
a. Debit ratio
b. Equity ratio
c. Times interest earned
d. None of these

18. Identify which items are subtracted from the list amount and not recorded when computing purchase price:
a. Freight in
b. Trade discount
c. Purchase discount
d. Purchase return

19. Bonus payable only on the maturity of the policy is termed as:
a. Cash bonus
b. Reversionary bonus
c. Interim bonus
d. Bonus is reduction of premium

20. Rebate on bill discounted (unearned discount) is:
a. An expense
b. An income
c. A liability
d. An asset

Accounting & Auditing (2009)

(i) Which of the following transactions represent an expense?
(a) The owner withdrew Rs. 1,600 from the business for personal use
(b) Purchased a photocopying machine for Rs. 2,750 cash
(c) Purchased medical supplies for cash from Healthcare Labs. Rs. 1,630
(d) Received a telephone bill amounting to Rs. 550 to be paid within ten days.

(ii) Which of the following statements about accounting procedures is not correct?
(a) The journal shows in one place all the information about specific transactions arranged in chronological order.
(b) A ledger account shows in one place all the information about changes in a specific asset or liability or owner's equity.
(c) Posting is the process of transferring information from ledger accounts to the journal.
(d) The product of the accounting cycle is the formal financial statements such as balance sheet and income statement.

(iii) Which of the following financial statements reflects the overall financial position of the business?
(a) Statement of cash flows (b) Income Statement
(c) Balance Sheet (d) Statement of owner's equity

(iv) Trial Balance is prepared:
(a) To ensure arithmetical accuracy of accounting records.
(b) To establish complete accuracy of accounting records.
(c) To determine the amounts payable to suppliers for purchase of goods on credit.
(d) To ensure efficient use of resources of the business.

(v) The net sales of Fresh Foods were Rs. 200,000 for the current month. If the cost of goods available for sale was Rs. 180,000 and the gross profit rate was 35%, the ending inventory must have been:
(a) Rs. 70,000 (b) Rs. 1,30,000 ***(c) Rs. 50,000*** (d) Rs. 63,000
(200,000 – 180, 000 – X = 70, 000(0.35* 200,000 = 70,000)) = X= 50, 000

(vi) In the accounting cycle:
(a) Closing entries are made before adjusting entries.
(b) Closing entries are made after the adjusting entries.
(c) Adjusting entries are made after financial statements are prepared.
(d) Financial statements are prepared after closing trial balance.

(vii) Which of the following is an intangible asset?
(a) An investment in marketable securities. (b) Leasehold land.
(c) Loose tools. (d) Copy rights.

(viii) Expense is recorded in the accounting records when:
(a) Cash is paid (b) The purchase order is placed with the supplier
(c) Purchases are made (d) None of these

(ix) The cash basis of accounting:
(a) Is widely used by manufacturing firms.
(b) Is often used by merchandising firms.
(c) Usually results in a larger amount of tax than under accrual basis accounting.
(d) Can not be used in filing income tax returns.

(x) The straight–line method of depreciation:
(a) Generally gives best results because it is easy to apply
(b) Should be use din a period of inflation, because it accumulates the fund for the replacement of asset at a uniform rate.
(c) Is the best method used for wasting assets.
(d) Ignores fluctuations in the rate of asset usage.

(xi) Which of the following accounts are not closed at the end of an accounting period?
(a) Revenue accounts (b) Expense accounts (c) Drawing accounts ***(d) Asset accounts***

(xii) Under periodic inventory system cost of good sold is determined and recognized in the books of accounts:
(a) At the time of purchase of goods (b) At the time of sale of goods
(c) At the end of the year (d) None of these

(xiii) Which of the following is not a use of working capital?
(a) Repayment of long term debt **(b) Cash dividend declared but not paid**
(c) Payment of an account payable (d) Acquisition of treasury stock.

(xiv) A transaction caused a Rs. 10,000 decrease in both assets and total liabilities. This transaction could have been:
(a) Purchase of furniture for Rs. 10,000
(b) An asset costing Rs.10,000 was destroyed by fire
(c) Repayment of bank loan Rs. 10,000
(d) Collection of a Rs.10,000 account receivable

(xv) Which ratio indicates a firm's ability to pay current liabilities in the shortest possible time?
(a) Current Ratio (b) Equity Ratio (c) Debt Ratio (d) Quick Ratio

(xvi) If we add the average number of days to turn the inventory over and the average age of receivables (in number of days), we arrive at:
(a) The company's fiscal period
(b) The sales volume of the business
(c) **The company's operating cycle**
(d) Nothing meaningful

(xvii) Which of the following is least important in determining the fair market value of a share?
(a) Earnings and dividends per share
(b) Book value per share
(c) The available supply of shares and the demand to purchase the shares.
(d) The par value of share.

(xviii) Financial statements prepared by a business firm are most likely to be:
(a) Fully reliable (b) Tentative in nature
(c) **Relevant for all types of decisions** (d) Always misleading

(xix) One of the following is not an officer of a company:
(a) Share registrar (b) Controller (c) Secretary (d) Treasurer

(xx) A deficit appears on the balance sheet:
(a) Among the assets
(b) As a deduction from total paid-up capital
(c) Among the liabilities
(d) None of these