

Fundamental of Accounting & Auditing (FAA)

File-1 (Basics of Accounting)

Objective Questions for Practice ('Part – A' Financial Accounts)



Choose the most appropriate answer from the given options in respect of the following-

1. Which of the following is not a sub-field of accounting?
- Management accounting
 - Cost accounting
 - Financial accounting
 - Book-keeping.

Ans. (d) Book-keeping

2. Book-keeping is mainly concerned with
- Recording of financial data.
 - Designing the systems in recording, classifying and summarising the recorded data.
 - Interpreting the data for internal and external users.
 - None of the above.

Ans. (a) Recording of financial data

3. Purposes of an accounting system include all the following except
- Interpret and record the effects of business transaction
 - Classify the effects of transactions to facilitate the preparation of reports
 - Summarize and communicate information to decision makers
 - Dictate the specify types of business enterprise transactions that the enterprises may engage in.

Ans. (d) Dictate the specify types of business enterprise transactions that the enterprises may engage in

4. Financial accounting information is characterized by all of the following except
- It is historical in nature.
 - It is factual, so it does not require judgement to prepare.
 - It results from inexact and appropriate measures.
 - It is enhanced by management's explanation.

Ans. (b) It is factual, so it does not require judgement to prepare

5. Rajendra Enterprises follows the written down value method of depreciating machinery year after year due to
- Comparability
 - Convenience

- c) Consistency
- d) All of the above.

Ans. (c) Consistency

6. All of the following are functions of Accounting except

- a) Decision making.
- b) Measurement.
- c) Forecasting.
- d) Ledger posting.

Ans. (d) Ledger posting

7. Financial statements are part of

- a) Accounting.
- b) Book-Keeping.
- c) All of the above.
- d) None of the above.

Ans. (a) Accounting



8. Financial position of the business is ascertained on the basis of

- a) Records prepared under book-keeping process.
- b) Trial balance.
- c) Accounting reports.
- d) None of the above.

Ans. (c) Accounting reports

9. Users of accounting information include

- a) Creditors.
- b) Lenders.
- c) Customers.
- d) All of the above.

Ans. (d) All of the above

10. Financial statements do not consider

- a) Assets expressed in monetary terms.
- b) Liabilities expressed in monetary terms.
- c) Assets expressed in non-monetary terms.
- d) Assets and liabilities expressed in non-monetary terms

Ans. (d) Assets and liabilities expressed in non-monetary terms

11. On July 31, Sohan paid rent of Rs. 25,000. This can be classified as

- a) An event.
- b) A transaction.
- c) A transaction as well as an event.
- d) Neither a transaction nor an event.

Ans. (b) A transaction

12. If an individual asset is increased, there will be a corresponding

- a) Increase of another asset or increase of capital.
- b) Decrease of another asset or increase of liability.
- c) Decrease of specific liability or decrease of capital.
- d) Increase of drawings and liability.

Ans. (b) Decrease of another asset or increase of liability

13. All the following items are classified as fundamental accounting assumptions except

- a) Consistency.
- b) Business entity.
- c) Going concern.
- d) accrual.

Ans. (b) Business entity

14. Assets are held in the business for the purpose of

- a) Resale
- b) Conversion into cash.
- c) Earning revenue
- d) None of the above.

Ans. (c) Earning revenue



15. Two primary qualitative characteristics of financial statements are

- a) Understandability and materiality.
- b) Relevance and reliability.
- c) Relevance and understandability.
- d) Materiality and reliability

Ans. (b) Relevance and reliability

16. Rajesh purchased a car for Rs.5,00,000, making a down payment of Rs.1,00,000 and signing a Rs.4,00,000 bill payable due in 60 days. As a result of this transaction

- a) Total assets increased by Rs.5,00,000
- b) Total liabilities increased by Rs.4,00,000
- c) Total assets increased by Rs.4,00,000
- d) Total assets increased by Rs.4,00,000 with corresponding increase in liabilities by Rs.4,00,000

Ans. (d) Total assets increased by Rs.4,00,000 with corresponding increase in liabilities by Rs.4,00,000

17. Reeta purchased goods for Rs.15,00,000 and sold 4/5th of the goods amounting Rs.18,00,000 and met expenses amounting Rs.2,50,000 during the year, 2013. He counted net profit as Rs.3,50,000. Which of the accounting concept was followed by him?

- a) Entity
- b) Periodicity
- c) Matching
- d) Conservatism.

Ans. (c) Matching

18. Capital brought in by the proprietor is an example of-

- a) Increase in asset and increase in liability.
- b) Increase in liability and decrease in asset.
- c) Increase in asset and decrease in liability.
- d) Increase in one asset and decrease in another asset.

Ans. (a) Increase in asset and increase in liability

19. On March 31, 2013 after sale of goods worth Rs. 12,000, he is left with the closing stock of Rs.30,000. This is

- a) An event.
- b) A transaction.

- c) A transaction as well as an event.
- d) Neither a transaction nor an event.

Ans. (a) An event

20. The determination of expenses for an accounting period is based on the principle of

- a) Objectivity
- b) Materiality
- c) Matching
- d) Periodicity.

Ans. (c) Matching

21. Revenue from sale of products, is generally, realized in the period in which

- a) Cash is collected
- b) Sale is made.
- c) Products are manufactured
- d) None of the above.



Ans. (b) Sale is made

22. The concept of conservatism when applied to the balance sheet results in

- a) Understatement of assets
- b) Overstatement of assets.
- c) Overstatement of capital
- d) Understatement of capital.

Ans. (a) Understatement of assets

23. Decrease in the amount of creditors results in

- a) Increase in cash
- b) Decrease in cash.
- c) Increase in assets
- d) No change in assets.

Ans. (b) Decrease in cash

24. The 'going concern concept' is the underlying basis for

- a) Stating fixed assets at their realizable values.
- b) Disclosing the market value of securities.
- c) Disclosing the sales and other operating information in the income statement.
- d) None of the above.

Ans. (a) Stating fixed assets at their realizable values

25. Purchase of machinery for cash

- a) Decreases total assets
- b) Increases total assets.
- c) Retains total assets unchanged
- d) Decreases total liabilities.

Ans. (c) Retains total assets unchanged

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