

Section 1 - Section One

1) Which of the following can be identified as the output of the accounting system?

- A) Accounting rules
 - B) All of the above
 - C) Balance Sheet
 - D) Transactions
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2) The personal income of the owner should not be recorded in the books of the business.

Which accounting concept governs the above concept?

- A) Entity concept
 - B) Going concern concept
 - C) Cost concept
 - D) Matching concept
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3) Investors use financial information to

- A) Make decisions to buy stocks
 - B) All of the above
 - C) Make decisions to sell stocks
 - D) Make decisions to hold stocks
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4) Which of the following statement is correct

- A) $\text{Assets} = \text{Liabilities} + 2\text{Equity}$
- B) $\text{Assets} = \text{Equity} - \text{Liabilities}$
- C) $\text{Assets} = \text{Liabilities} + \text{Equity}$
- D) $\text{Assets} = \text{Liabilities} - \text{Equity}$

5) Which of the following items would appear on the balance sheet?

- I. Plant and equipment
- II. Salary expense
- III. Inventory
- IV. Interest income
- V. Share capital (Equity)

- A) I, II and III
 - B) I, III and V
 - C) II, IV and V
 - D) III, IV and V
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6) Which of the following items can be identified as liabilities?

- I. Furniture
- II. Trade payables
- III. Cash
- IV. Long-term borrowings
- V. Land

- A) I and II
- B) II and IV
- C) III and V
- D) IV and V

7) If a company's assets increase by \$10,000 and its liabilities increase by \$5,000, its equity will

- A) Decrease by \$10,000
 - B) Increase by \$10,000
 - C) Increase by \$5,000
 - D) Decrease by \$5,000
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8) A company purchased a vehicle for \$10,000, paying \$5,000 in cash and balance payable after 2 months.

What would be the effect of this transaction on the accounting equation?

- A) Assets will increase by \$10,000; liabilities will increase by \$5,000; equity will increase by \$5,000
 - B) Assets will increase by \$5,000; liabilities will increase by \$5,000
 - C) Assets will decrease by \$5,000; equity will decrease by \$10,000
 - D) Assets will increase by \$10,000; liabilities will increase by \$10,000
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9) Who among the following have the residual stake in the business?

- A) Preference shareholders
- B) Suppliers
- C) Equity share holders
- D) Bondholders

Section 2 - Section Two

Find the missing values (A to G) of the Table given below:

Selected Balance Sheet values of a company for the two recent years appear below:

Assets	Year 3	Year 4
Current Assets	7,000	? (D) ^a
Fixed Assets (net book value)	? (A)	? (E)
Total Assets	? (B)	28,000
Current Liabilities	5,000	4,000
Long-term borrowings	6,000	? (F)
Equity Share Capital	? (C)	7400
Retained earnings	6,700	7900
Total Liabilities & equity	25,000	? (G)

^a Current Assets – Current Liabilities = \$1700 lakhs

Based on the data above, answer the following questions

10) The value of long-term borrowings - missing figure F is

- A) 7800
- B) 5000
- C) 8700
- D) 3000

11) The value of current assets – missing figure D is

- A) 8400
 - B) 5700
 - C) 1500
 - D) 10000
-

12) The value of fixed assets (net book value) – missing figure A is

- A) 13000
 - B) 18000
 - C) 20000
 - D) 15000
-

13) The value of fixed assets (net book value) – missing figure E is

- A) 23000
 - B) 15000
 - C) 20500
 - D) 22300
-

14) The value of equity share capital – missing figure C is

- A) 7300
- B) 1500
- C) 10000
- D) 8500

15) The value of total assets – missing figure B is

- A) 20000
 - B) 18000
 - C) 15000
 - D) 25000
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16) The value of total liabilities and equity – missing figure G is

- A) 30000
- B) 28000
- C) 20000
- D) 35000

Section 3 - Section Three

17) Which of the following statement is not correct

- A) Common size analysis helps compare companies in the same industry.
- B) Common size analysis is helpful in comparing companies across industries.
- C) Common size analysis compares states every item in the financial statements as a percentage of a common number.
- D) Common size analysis helps compare the performance of the company irrespective of its size and capital structure.

18)

ABC company has the following purchases, sales and inventory for the month of August 2019		
Inventory Purchases on	Units	Cost per unit (Rs)
Aug-01	100	5
Aug-06	400	6
Aug-12	300	7
Sale of Inventory		
Aug-18	350	10

Calculate the value of closing stock as per first in first out (FIFO) method

- A) \$3,000
- B) \$4,000
- C) \$6,000
- D) \$2,000

19) In the case of declining prices, valuing inventory on FIFO basis would result in

- A) Lower profit
 - B) Higher profit
 - C) No impact on profit
 - D) Sufficient information is not available
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20) The following information has been extracted from the balance sheet of a company as at 31st Dec 2019 and 31st Dec 2018

As at	31 st Dec 2018	31 st Dec 2019
Total Assets	\$ 300,000	\$ 525,000
Total liabilities	\$ 125,000	\$250,000

Based on the above information, determine the profit of the company earned during the year ended 31st Dec 2019 assuming there was no additional capital or dividend issued during the year ended 31st Dec 2019. (Hint: Use the Accounting Equation)

- A) Rs100,000
 - B) \$ 175,000
 - C) \$ 125,000
 - D) \$ 200,000
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21) The accountant of a company recorded advance received from customer \$ 8000 as revenue for the year. Further, revenue earned \$ 10,000 from services rendered by the firm has not been billed yet.

As a result of the above error, the revenue of the company is

- A) Overstated by \$ 10,000
- B) Understated by \$ 8,000
- C) Understated by \$ 2000
- D) Understated by \$ 8000

22) The revenue of the company increased by 20% as compared to last year. This is an example of

- A) Common size analysis
 - B) Ratio analysis
 - C) Vertical analysis
 - D) Horizontal analysis
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23) Which of the following activities will be reported as cash flow from operating activities?

- I. Cash received from sale of equipment
- II. Cash received from services rendered
- III. Received dividend income
- IV. Paid salary to employees
- V. Repaid borrowings
- VI. Cash paid to suppliers

- A) I, II and III
 - B) III, IV and V
 - C) II, IV and VI
 - D) IV, V and VI
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24) Which of the following would affect the cash flows of the company?

- A) Depreciation charged for the year
- B) Interest expense due for the year
- C) Issue of bonus shares
- D) Issue of dividends

25) Which of the following statement is correct.

- A) Self-generated goodwill is the sum of the last 10 years' profits earned by the business
 - B) Self-generated goodwill can be recorded in the books
 - C) Self-generated goodwill is an identifiable asset
 - D) Self-generated goodwill cannot be objectively measured
-

26) Which of the following statement is correct?

- A) Higher profits mean company is having high cash reserve
 - B) A company's performance can be assessed in terms of its profitability
 - C) A company's performance can be judged in terms of its revenue
 - D) Earning high revenue means earning high profits
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27) A company bought an equipment from France and incurred the following expenses:

- | | |
|---|------------|
| a) Purchase price of the equipment | \$ 100,000 |
| b) Import duty | 10,000 |
| c) Installation charges | 2,000 |
| d) Professional services paid for testing the equipment | 500 |
| e) Repair of damage during installation | 1,000 |

Determine the cost of the equipment.

- A) \$113,000
- B) \$113,500
- C) \$112,000
- D) \$112,500

28) A company incurred \$4,000 to replace the tires of the vehicle. How should the expenditure be recognized in the books?

- A) The amount should be added to the cost of the vehicle
 - B) The amount should be charged as depreciation
 - C) The amount should be written off in 10 years
 - D) The amount should be charged as expense
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29) Which of the following statement is not correct...

- A) Balance Sheet reports the financial position of the company
 - B) Cash flow statement reports the cash inflows and cash outflows for a period
 - C) Income statement reports the cash receipts and payments over a period
 - D) Balance Sheet reports the assets and liabilities of a business on a particular date
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30) The following are the year end balances on 1st Jan 2019, the gross book value of property, plant and equipment is \$100,000 and accumulated depreciation balance is \$20,000. Depreciation charged during the year is \$5,000.

Calculate the net book value of property, plant and equipment as on 31st Dec 2019.

- A) \$75,000
 - B) \$85,000
 - C) \$80,000
 - D) \$70,000
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31) A company paid annual insurance premium of \$12,000 on equipment on July 1 2019 for twelve-month period from July 1, 2019 to June 30, 2020. The accountant of the company failed to make the relevant adjustments related to insurance expense for the year ended 31st Dec 2019.

This would result

- A) Understatement of expenses, understatement of profit and understatement of liability
 - B) Overstatement of expenses, understatement of profit and overstatement of liability
 - C) Overstatement of expenses, overstatement of profit and understatement of liability
 - D) Overstatement of expenses, understatement of profit and understatement of liability
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32) Which of the following is an example of current asset?

- A) Computer used by a retail firm
 - B) Furniture used by a software company
 - C) Equipment used by a manufacturing company
 - D) Furniture held by a furniture dealer
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33) A company bought an equipment on Jan 1, 2019 at \$100,000. The equipment is having a useful life of 10 years with a salvage value of \$5,000.

Calculate the yearly depreciation to be charged for the equipment if the company follows straight line method of depreciation.

- A) \$9500
- B) \$9,000
- C) \$10,500
- D) \$10,000

34) The following are the selected accounting records of ABC Co. for the year ended 31st Dec 2019.

Accrued salary to employees for	
the month of Dec 2019	\$ 3000
Borrowings due to be paid	
after two years	5000
Amount due to the suppliers	1000
Amount due to be paid in	
the next 6 months	2000
Advance received from customer	
for contract due to be executed	
in March 2020	2000
Advance paid to a supplier	2000

Based on the above information, determine the amount to be reported as current liabilities as at 31st Dec 2019.

- A) \$11,000
- B) \$10,000
- C) \$8,000
- D) \$9,000

Section 4 - Section Four

The following are the year end balances of few accounts of ABC Co. for the year 2019:

Revenue	\$ 100,000
Beginning inventory	5,000
Purchases during the year	60,000
Ending inventory	10,000
Operating expenses	8,000

Based on the above information, determine the following amounts for ABC Co.

35) Operating profit for the year is

- A) \$45,000
 - B) \$37,000
 - C) \$40,000
 - D) \$47,000
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36) Gross Profit for the year is

- A) \$45,000
 - B) \$40,000
 - C) \$50,000
 - D) \$35,000
-

37) Cost of goods sold of the company for the year

- A) \$60,000
 - B) \$55,000
 - C) \$65,000
 - D) \$70,000
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Section 5 - Section Five

The following is the Income Statement and Balance Sheet of a company for the year 2019 and 2018.

Income Statement for the year ended Dec 31	2019	2018
Figures in dollars		
Revenue	5,00,000	3,20,000
Cost of goods sold	140,000	108,000
Gross profit	360,000	212,000
Operating expenses	55,000	23,000
Profit before tax	305,000	189,000
Income tax expense	60,000	54,000
Net profit	245,000	135,000

Balance Sheet as at Dec 31,	2019	2018
Assets		
Property, plant and equipment (net)	250,000	210,000
Trade Receivables	40,000	30,000
Inventories	75,000	50,000
Cash	30,000	18,000
Total assets	395,000	308,000
Liabilities and equity		
Long term borrowings	1,10,000	80,000
Current liabilities	70,000	60,000
Total liabilities	180,000	140,000
Shareholders' equity	2,15,000	1,68,000
Total liabilities and equity	395,000	308,000

Based on the above information, determine the following ratios for the year 2019

38) The inventory holding period for the year 2019 is

- A) 173 days
 - B) 180 days
 - C) 200 days
 - D) 163 days
-

39) Net profit margin ratio is

- A) 49%
 - B) 45%
 - C) 51%
 - D) 47%
-

40) Fixed asset turnover ratio is (use average)

- A) 3.35
 - B) 2.17
 - C) 4.35
 - D) 1.17
-

41) Current ratio is

- A) 1.15
- B) 2.50
- C) 2.07
- D) 3.10

42) The Return on assets ratio is (use average)

- A) 65.5%
 - B) 76.5%
 - C) 69.7%
 - D) 76.7%
-

43) Gross profit margin ratio is

- A) 65%
 - B) 70%
 - C) 72%
 - D) 60%
-

44) Receivables turnover ratio (use average)

- A) 14.35
 - B) 14.29
 - C) 13.38
 - D) 15.29
-

45) The Debt-equity ratio is

- A) 0.51
- B) 0.35
- C) 0.65
- D) 0.78

46) Operating profit margin ratio is

- A) 65%
 - B) 44%
 - C) 42%
 - D) 61%
-

47) Inventory turnover ratio is (use average)

- A) 8
- B) 7
- C) 2.24
- D) 3.25

Section 6 - Section Six

48) A high return on assets ratio indicates

- I. The company is managing its assets well
- II. The company is not able to efficiently use its assets
- III. The company assets are well utilized to generate high income
- IV. The company has over invested in its assets

- A) I and II
 - B) I and IV
 - C) II and III
 - D) I and III
-

49) A higher current ratio but a lower quick ratio indicates

- A) The company is carrying high level of inventory
 - B) Inventories constitute a less proportion of current assets
 - C) The company is carrying low level of inventory
 - D) Inventories constitute a major portion of current assets
-

50) A company on an average is able to collect its receivables in 45 days but recently the company's average collection period has increased to 60 days.

This may indicate

- I. The company's sales are on declining trend
- II. The customers are paying their dues before time
- III. The company may have made its credit policy more liberal
- IV. The company's sales are on increasing trend

- A) II and IV
 - B) I and II
 - C) III and IV
 - D) I and III
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51) A supplier will be most likely inclined to assess the

- A) Return on assets ratio of the firm
 - B) Solvency ratio of the firm
 - C) Fixed asset turnover ratio of the firm
 - D) Current ratio of the firm
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52) Identify the liquidity ratios from the following

- I. Current asset turnover ratio
- II. Current ratio
- III. Quick ratio
- IV. Return on assets ratio

- A) I and II
 - B) I and IV
 - C) II and III
 - D) III and IV
-

53) The firm has a higher asset turnover ratio than the industry average. This may imply

- A) The firm is more profitable as compared to its competitors
- B) The firm is having huge investment in assets
- C) The firm is over utilizing its assets
- D) The firm is utilizing its assets more efficiently than its competitors

54) Solvency ratios measure the

- A) Long term liquidity position of the company
 - B) Short term liquidity position of the company
 - C) Asset managing capacity of the firm
 - D) Interest liabilities of the company
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55) Given the quick ratio of 2.50, current assets of \$55,000, and inventory of \$12,000, the value of current liabilities is

- A) \$22,500
 - B) \$12,500
 - C) \$16,000
 - D) \$17,200
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56) A low inventory holding period indicates

- I. The company is able to sell its inventory quickly
- II. The company's inventory is not moving
- III. The company's sales are increasing
- IV. The company is having a longer operating cycle period

Select the best possible options from below

- A) I and IV
- B) II and IV
- C) I and III
- D) I and II

57) A company's interest coverage ratio is 5. This indicates

- A) The retained earnings of the company are 5 times the interest expense of the company
- B) The operating profit of the company is 5 times the interest expense of the company
- C) The net profit of the company is 5 times the interest expense of the company
- D) The gross profit of the company is 5 times the interest expense of the company

Answer Key**Question Paper No: 60871_8**

1	C	31	D
2	A	32	D
3	B	33	A
4	C	34	C
5	B	35	B
6	B	36	A
7	C	37	B
8	B	38	D
9	C	39	A
10	C	40	B
11	B	41	C
12	B	42	C
13	D	43	C
14	A	44	B
15	D	45	A
16	B	46	D
17	B	47	C
18	A	48	D
19	A	49	D
20	A	50	D
21	C	51	D
22	D	52	C
23	C	53	D
24	D	54	A
25	D	55	D
26	B	56	C
27	D	57	B
28	D		
29	C		
30	A		