# MCQ's on

# Financial Accounting-1


**Mrs. L.Manjula**

**FINANCIAL ACCOUNTING – I**

**UNIT-1: Fundamentals of Financial Accounting**

Financial Accounting – Meaning, Definition, Objectives, Basic Accounting Concepts and Conventions - Journal, Ledger Accounts– Subsidiary Books — Trial Balance - Classification of Errors – Rectification of Errors – Preparation of Suspense Account – Bank Reconciliation Statement - Need and Preparation.

**UNIT-2: Final Accounts**

Final Accounts of Sole Trading Concern- Capital and Revenue Expenditure and Receipts – Preparation of Trading, Profit and Loss Account and Balance Sheet with Adjustments.

**UNIT-3: Depreciation and Bills of Exchange**

Depreciation - Meaning – Objectives – Accounting Treatments - Types - Straight Line Method – Diminishing Balance method – Conversion method.

Units of Production Method – Cost Model vs Revaluation

**Bills of Exchange** – Definition – Specimens – Discounting ofBills – Endorsement of Bill – Collection – Noting – Renewal – Retirement of Bill under rebate

**UNIT-4: Accounting from Incomplete Records – Single Entry System** Incomplete Records -Meaning and Features - Limitations -Difference between Incomplete Records and Double Entry System - Methods of Calculation of Profit - Statement of Affairs Methods – Preparation of final statements by Conversion method.

**Unit-5: Royalty and Insurance Claims**

Meaning – Minimum Rent – Short Working – Recoupment of Short Working – Lessor and Lessee – Sublease – AccountingTreatment.

**Insurance Claims** –Calculation of Claim Amount-Average clause(Loss of Stock only)

## ONE MARK QUESTIONS

## UNIT 1

1. In accounting, what is the purpose of a journal?
   a. **To summarize financial transactions**
   b. To post transactions to the ledger
   c. To prepare financial statements
   d. To reconcile bank statements

2. Which of the following is a correct format for a journal entry?
   a. Debit: Accounts Payable, Credit: Cash
   b. Debit: Revenue, Credit: Expense
   c. **Debit: Asset, Credit: Liability**
   d. Debit: Owner's Equity, Credit: Withdrawals

3. What is the primary purpose of a ledger in accounting?
   a. To record daily transactions
   b. **To summarize financial transactions**
   c. To prepare financial statements
   d. To identify errors in the accounting records

4. Which of the following is a real (permanent) account?
   a. Rent Expense
   b. **Accounts Receivable**
   c. Service Revenue
   d. Salaries Payable

5. What is the process of transferring information from the journal to the ledger called?
   a. Journalizing
   **b. Posting**
   c. Balancing
   d. Adjusting

6. In a T-account, where are debits recorded?
   a. **On the left side**
   b. On the right side
   c. At the top
   d. At the bottom

7. Where is the information for preparing a trial balance obtained from?
   a. Journal
   b. **Ledger**
   c. Subsidiary Books
   d. Bank Reconciliation Statement

8. When is an account considered balanced?
   a. **When the debits equal the credits**
   b. When the debits exceed the credits
   c. When the credits exceed the debits
   d. When the ledger is closed

9. What is the purpose of the opening entry in a new accounting period?
   a. To close revenue accounts
   b. **To record the beginning balances of accounts**
   c. To reconcile bank statements
   d. To prepare financial statements

10. When would a compound journal entry be used?
   a. To record a single transaction
   b. **To summarize multiple transactions in one entry**
   c. To reconcile errors in the ledger
   d. To close expense accounts

11. The principle that assumes the business and its owners are separate entities is known as:
   a. Matching Concept
   b. **Business Entity Concept**
   c. Going Concern Concept
   d. Money Measurement Concept

12. Which accounting concept assumes that a business will continue to operate for the foreseeable future?
   a. Prudence Concept
   **b. Going Concern Concept**
   c. Cost Concept
   d. Matching Concept

13. What does the money measurement concept state?
   a. **All transactions must be recorded in monetary terms**
   b. Non-monetary transactions are not important
   c. Only large transactions should be recorded
   d. Monetary transactions are recorded at their face value

14. Under the cost concept, how are assets initially recorded in the books?
   a. At their market value
   b. **At their historical cost**
   c. At their replacement cost
   d. At their liquidation value

15. Which concept states that for every debit, there must be an equal and corresponding credit?
    a. **Dual Aspect Concept**
    b. Going Concern Concept
    c. Money Measurement Concept
    d. Prudence Concept

16. Under the prudence concept, how are uncertainties and potential losses treated?
    a. Ignored until realized
    b. Ignored altogether
    c. **Recognized immediately**
    d. Recognized only when realized

17. What does the matching concept require in accounting?
    a. Matching revenues with liabilities
    b. **Matching expenses with revenues**
    c. Matching assets with expenses
    d. Matching liabilities with equity

18. Which concept emphasizes the need for consistent application of accounting principles from one accounting period to another?
    a. **Consistency Concept**
    b. Prudence Concept
    c. Dual Aspect Concept
    d. Going Concern Concept

19. What does the materiality concept consider when reporting financial information?
    a. Only immaterial items
    b. Both material and immaterial items
    c. **Only material items**
    d. Neither material nor immaterial items

20. Under the realization concept, when is revenue considered to be recognized?
    a. When it is earned
    b. When it is received in cash
    c. **When it is earned and realizable**
    d. When it is collected from customers

21. Which subsidiary book is used to record credit sales of goods?
    a. Cash Book
    b. **Sales Book**
    c. Purchase Book
    d. Journal

22. In which subsidiary book are credit purchases of goods recorded?
    a. Sales Book
    **b. Purchase Book**
    c. Cash Book
    d. General Journal

23. Which subsidiary book records both cash and bank transactions?
    a. **Cash Book**
    b. Sales Book
    c. Purchase Book
    d. Journal

24. Where are returns of goods by customers recorded?
    a. Sales Book
    b. Purchase Book
    c. **Sales Return Book**
    d. Purchase Return Book

25. Which book is considered the primary book of entry and records transactions not covered by subsidiary books?
    a. Sales Book
    b. Cash Book
    c. Purchase Book
    **d. Journal**

26. What is the purpose of preparing a trial balance?
    a. **To identify errors in the accounting records**
    b. To record daily transactions
    c. To prepare financial statements
    d. To reconcile bank statements

27. When is an adjusted trial balance prepared?
    a. Before preparing financial statements
    b. **After preparing financial statements**
    c. Before the journal entries
    d. After posting to the ledger

28. If the trial balance does not balance, what does it indicate?
    a. There are no errors in the accounts
    b. **There are errors in the accounts**
    c. The financial statements are incorrect
    d. The ledger is complete

29. Where are balances from the ledger accounts transferred for the preparation of a trial balance?
    a. Journal
    b. Cash Book
    c. Subsidiary Books
    **d. Trial Balance**

30. What type of trial balance is prepared before making any adjusting entries?
    a. Adjusted Trial Balance
    **b. Unadjusted Trial Balance**
    c. Post-Closing Trial Balance
    d. Suspense Trial Balance

31. What type of error occurs when a transaction is completely omitted from the accounting records?
    a. Error of Principle
    b. **Error of Omission**
    c. Error of Commission
    d. Compensating Error

32. If a journal entry is made with an incorrect amount, what is the corrective action called?
    a. Posting
    b. **Rectification**
    c. Balancing
    d. Journalizing

33. When correcting an error of omission, what is the general entry to rectify it?
    a. **Debit: Suspense Account, Credit: Correct Account**
    b. Debit: Correct Account, Credit: Suspense Account
    c. Debit: Suspense Account, Credit: Cash
    d. Debit: Cash, Credit: Suspense Account

34. If an expense is mistakenly debited to an asset account, what type of error is it?
    a. Error of Omission
    b. **Error of Commission**
    c. Error of Principle
    d. Compensating Error

35. When an error compensates for another error, what is it called?
    a. Error of Principle
    b. Error of Omission
    c. **Compensating Error**
    d. Error of Commission

36. In which situations is a suspense account created?
    a. To intentionally misstate financial statements
    **b. To rectify errors systematically**
    c. To avoid detection of errors
    d. To classify errors of commission

37. How a suspense account balanced after all necessary rectifications is are made?
    a. **It is left unbalanced**
    b. It is closed to the owner's equity
    c. It is closed to the cash account
    d. It is balanced with an opposite entry

**38.** What is the purpose of correcting errors in accounting records?
    a. To manipulate financial statements
    b. To comply with legal regulations
    c. To mislead stakeholders
    **d. To present a true and fair view of financial position**

39. If an amount is recorded in the wrong accounting category, what type of error is it?
    a. Error of Commission
    b. Error of Omission
    c. **Error of Principle**
    d. Compensating Error

40. What is the first step in the rectification procedure for errors in accounting?
    **a. Identify errors**
    b. Investigate errors
    c. Correct errors
    d. Prepare a suspense account

41. What is the primary purpose of a bank reconciliation statement?
    a. To record daily transactions
    b. **To reconcile cash and bank balances**
    c. To prepare financial statements
    d. To identify errors in the accounting records

42. If a check issued but not yet presented for payment is recorded in the company's books, how would it be adjusted in the bank reconciliation statement?
    a. **Deducted from the bank balance**
    b. Added to the bank balance
    c. Ignored in the reconciliation
    d. Reflected in the cash balance

43. What are outstanding checks in a bank reconciliation statement?
    a. **Checks that have been issued but not yet presented to the bank for payment**
    b. Checks that have been paid by the bank
    c. Checks that have been cancelled
    d. Checks that are out-dated

44. If there is an error in recording a deposit in the company's books, how would it be adjusted in the bank reconciliation statement?
    a. Deducted from the bank balance
    b. **Added to the bank balance**
    c. Ignored in the reconciliation
    d. Reflected in the cash balance

45. How bank service charges are typically treated in a bank reconciliation statement?
    a. **Deducted from the bank balance**
    b. Added to the bank balance
    c. Ignored in the reconciliation
    d. Reflected in the cash balance

46. What is the primary reason for preparing a bank reconciliation statement?
    a. To identify errors in the company's books
    **b. To reconcile cash and bank balances**
    c. To calculate the company's profitability
    d. To comply with legal requirements

47. What are deposits in transit in a bank reconciliation statement?
    a. **Deposits that have been made but not yet recorded by the bank**
    b. Deposits that have been cancelled
    c. Deposits that is out-dated
    d. Deposits that have been paid by the bank

48. How are NSF (Non-Sufficient Funds) checks treated in a bank reconciliation statement?
    a. **Deducted from the bank balance**
    b. Added to the bank balance
    c. Ignored in the reconciliation
    d. Reflected in the cash balance

49. Which of the following is the correct sequence in the bank reconciliation process?
    a. Adjustments, Bank Statement, Company's Books
    b. Company's Books, Adjustments, Bank Statement
    c. **Bank Statement, Adjustments, Company's Books**

d. Company's Books, Bank Statement, Adjustments

50. When is it advisable to prepare a bank reconciliation statement?
 a. **At the end of each accounting period**
 b. Only when there are discrepancies
 c. Once a year for tax purposes
 d. Only when required by auditors

51. The primary focus of bookkeeping is
 a. preparing financial statements
 b. Analysing
 **c. Recording day to day financial transactions**
 d. Auditing the books of accounts

52. Revenue and expense accounts are called
 **a. Nominal account**
 b. Real account
 c. Personal account
 d. Bank account

53. Bookkeeping is founded on the idea of
 **a. Double entry concept**
 b. Single entry concept
 c. Money measurement concept
 d. Cost concept

54. The accounting equation is
 a. Capital = Assets + Liabilities
 b. Profit = Assets – Liabilities
 c. Assets = Liabilities + Capital
 **d. Capital = Assets- Liabilities**

55. Liabilities of a firm are Rs. 6,00,000 and capital of the proprietor is Rs. 4,00,000. Thetotal assets are: ____
 a. Rs. 6,00,000
 b. Rs. 10,00,000
 **c. Rs. 8,00,000**
 d. Rs. 2,00,000

56. Assets are Rs.10,00,000 and liabilities are Rs.2,00,000 his capital would be _______
    a. Rs.10,00,000
    b. Rs.12,00,000
    **c. Rs.8,00,000**
    d. Rs.2,00,000

57. Appending notes to the financial statements as per____convention
    a. Materiality
    **b. Disclosure**
    c. Consistency
    **d.** Convictism

58. Cash purchases are made at the list price of ₹40000 at a trade discount @5% and a cashdiscount @2% cash payable is ___
    a. ₹40000
    b. ₹38000
    c. **₹37240**
    d. ₹38800

59. Goods costing ₹1000 (sale price ₹1200) used in making furniture should be credited to __
    a. sales account with ₹1200
    b. sales account with ₹1000
    **c. purchase account with ₹1000**
    **d.** Furniture account with ₹1000

60. A transaction affects 3 accounts, one account is debited by ₹7500, and another account is creditedby ₹9000. Third account will be __
    a. credited by ₹7500
    b. debited by ₹9000
    c. credited by ₹1500
    **d. debited by ₹1500**

61. L.F stands for ___
    a. Left Forward
    **b. Ledger Folio**
    c. Ledger Final
    d. Ledger Forward

62. X sold goods worth ₹10000 at trade discount 10% & further a cash discount

5% wasprovided. What amount will be debited to cash account

a. ₹10000
b. ₹9000
c. **₹8550**
d. ₹9500

63. The person who prepares the bank reconciliation statement is
a. Creditors
b. Debtors
c. Bank
**d. Customers of a bank**

64. The cash book's debit balance indicates
a. Overdraft as per cash book
b. **Overdraft as per pass book**
c. Unfavourable balance in cash book
d. Favourable balance in cash book

65. Bank overdraft as indicated by the pass book
**a. Debit side balance in pass book**
b. Credit side balance in passbook
c. Equal balance
d. Excess balance

66. When a cash book is opened, checks that are issued but not paid for must be entered.
a. Cash book with unfavourable balance
b. Pass book with favourable balance
**c. Cash book with favourable balance**
d. Pass book with unfavourable balance

67. The pass book's debited bank costs lower the balance in _____
a. Cash book
b. Pass book
c. Invoice book
d. **Cash book & pass** book

68. A prepared bank reconciliation statement is used for validation _____
**a. Pass book**
b. Cash book
c. Arithmetical accuracy

d. Trial balance

69. A deposited check raises the amount in ______
    a. Pass book
    b. Cash book
    c. Bank Reconciliation book
    d. **Cash and pass book**

70. Following the adjustment of any discrepancies, the cash and pass book balances must be ____
    **a. Higher balance in cash book**
    b. Higher balance in pass book
    c. Equal balance
    d. Higher balance in cash book

71. Reconciliation is possible via _____
    a. Favourable balance / unfavourable balance in pass book
    **b. Favourable balance / unfavourable balance in cash and pass book**
    c. Favourable balance / unfavourable balance in cash book
    d. favourable balance with pass book only

72. A bank pass book is kept up to date by _______
    a. Creditor
    b. Customer
    c. Both banker and customer
    **d. Banker**

73. A ₹112 negative amount was moved forward as a ₹121 credit balance in the cash book. Using the cash book balance as a starting point, prepare a bank reconciliation statement ____
    **a. ₹233 to be added**
    b. ₹112 to be added
    c. ₹121 to be added
    d. ₹112 to be subtracted

74. In the event that a "un presented check" _____
    a. Bank balance in cash book is more than bank pass book

b. Either (a) and (b)
**c. Bank balance in cash book is less than bank pass book**
d. No effect in both the books

75. The cash book's debit balance indicates ________
    a. Overdraft as per pass book
    b. Overdraft as per cash book
    c. None of the above
    **d. Credit balance as per pass book**

76. If the starting point for the balance is the cash book, the bank allows for a maximum balance of________
    a. Subtracted
    b. Not adjusted
    c. Divided
    **d. Added**

77. In the pass book to determine the balance. The interest charged by the bank is _____
    a. Added
    **b. Subtracted**
    c. Divided
    d. Not adjusted

78. when determining the balance as per the pass book, commencing from the balance as per the cash book ________
    **a. Added**
    b. Subtracted
    c. Not adjusted
    d. None of the above

79. The bank statement shows an overdrawn balance of ₹2000. A cheque for ₹500 drawn in favour of a creditor has not yet been presented for payment. When the creditor presents thecheque for payment, the bank balance will be__
    a. ₹1500
    b. ₹2500 (overdrawn)
    c. ₹2500
    d. ₹1000

80. The rule of anticipate no profit and provide for all possible losses stand up due to ___
    a. Convention of consistency
    b. Convention of materiality
    **c. Convention of conservatism**
    d. Convention of full disclosure

81. Journal is a book of _____
    **a. prime entry / original entry**
    b. cash transactions only
    c. secondary entry
    d. Debit transactions

82. Commission received is ______
    a. Profit & Loss Account
    b. Real Account
    **c. Nominal Account**
    d. Capital Account

83. Nominal Account having credit balance signifies ________
    a. expenses or losses
    b. Assets
    c. Liabilities
    **d. Income and gain**

84. The process of transferring entries from books of original entry to the ledger is called ____________________________________________
    a. Journalising
    b. Matching
    **c. Posting**
    d. Evaluating

85. Trial balance will not reveal the ____
    **a. Errors of complete omission**
    b. Carry forwarding results
    c. Omission of Partial
    d. Wrong totalling of the purchase books

86. Loan borrowed will be shown on the_____of the trial balance.
    **a.Credit side**
    b.Credit side or Debit side
    c.Credit side and Debit side

87. The substitute to cash basis of accounting is called_____basis of accounting
    a. **Accrual**
    b. Receipt
    c. Due
    d. Credit

88. Total assets of a trader are Rs.4,25,000 and outside liabilities are Rs. 1,75,000 owner'sequity will be ______
    a. Rs.6,00,000
    b. Rs.4,25,000
    c. None of the above
    d. **Rs.2,50,000**

89. Liabilities of a firm are Rs. 6,00,000 and capital of the proprietor is Rs. 4,00,000. Thetotal assets are: ____
    a. Rs. 6,00,000
    b. Rs. 10,00,000
    c. **Rs. 8,00,000**
    d. Rs. 2,00,000

90. Assets are Rs.10,00,000 and liabilities are Rs.2,00,000 his capital would be _______
    a. Rs.10,00,000
    b. Rs.12,00,000
    c. **Rs.8,00,000**
    d. Rs.2,00,000

91. Goods costing ₹1000 (sale price ₹1200) used in making furniture should be credited to __
    a. sales account with ₹1200
    b. sales account with ₹1000
    c. **purchase account with ₹1000**
    d. Furniture account with ₹1000

92. In the cash book's bank column, a credit balance shows
    a. **Overdraft**
    b. Cash
    c. Bank
    d. Petty cash

93. The most basic and often utilized type of journal is
    - **a. cash book**
    - b. petty cash book
    - c. subsidiary book
    - d. day book

94. Records of cash books
    - a. cash receipts
    - **b. cash receipt and payments**
    - c. cash payment
    - d. neither receipt nor payments

95. Salary payment is noted on line
    - a. receipt side
    - b. Income
    - **c. payment side**
    - d. Expenditure

96. Less than is stored in a petty cash book.
    - a. Single entry system
    - b. double entry system
    - **c. impress system**
    - d. receipts and payments A/C

97. When revenue is deemed to have been earned ___
    - **a. Sale is affected**
    - b. Cash is received
    - c. Production is done
    - d. None of the above

98. The primary accounting record is
    - a. Journal
    - b. Subsidiary book
    - **c. Ledger**
    - d. Cash book

99. The list price of ₹40,000 is paid for in cash, with a trade discount of 5% and a cash discount of 2%. The cash payable is
    - a. ₹40,000
    - b. ₹38000

**c. ₹37240**
d. ₹38800

100. In what ways might accounts be categorized?

a. 4
**b. 3**
c. 2
d. 7

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# UNIT 2

1. What is the primary purpose of preparing the final accounts of a sole trading concern?
   a. To calculate income tax liabilities
   b. **To determine the financial position of the business**
   c. To facilitate day-to-day operations
   d. To fulfil legal requirements

2. In the final accounts of a sole trading concern, which statement represents the financial position of the business at a specific point in time?
    a. Income Statement
    **b. Balance Sheet**
    c. Trading Account
    d. Profit and Loss Account

3. Which of the following is included in the Trading Account of a sole trader?
    **a. Sales**
    b. Capital
    c. Drawings
    d. Salaries

4. What does the Profit and Loss Account of a sole trading concern show?
    a. To calculate income tax liabilities
    b. **To determine the financial position of the business**
    c. To facilitate day-to-day operations
    d. To fulfil legal requirements

5. In the final accounts of a sole trading concern, which statement represents the financial position of the business at a specific point in time?
    a. Income Statement
    b. **Balance Sheet**
    c. Trading Account
    d. Profit and Loss Account

6. Which of the following is included in the Trading Account of a sole trader?
    a. **Sales**
    b. Capital
    c. Drawings
    d. Salaries

7. What does the Profit and Loss Account of a sole trading concern show?
    a. Assets and liabilities
    b. **Revenue and expenses**
    c. Capital and drawings
    d. Cash flow

8. In the final accounts, where are indirect expenses such as rent and salaries usually recorded?

a. Trading Account
b. Balance Sheet
c. **Profit and Loss Account**
d. Capital Account

9. What does the term "Gross Profit" represent in the Trading Account?
    a. **Net sales minus cost of goods sold**
    b. Total revenue minus total expenses
    c. Operating profit before tax
    d. Net profit after tax

10. Which financial statement reflects the changes in the capital of a sole trader over a specific period?
    a. Trading Account
    b. Profit and Loss Account
    c. Balance Sheet
    d. **Capital Account**

11. What is the purpose of the Closing Entries in the final accounts?
    a. **To close revenue and expense accounts**
    b. To open new accounts for the next financial year
    c. To adjust errors in the accounts
    d. To calculate depreciation

12. In the Balance Sheet, where are current assets and current liabilities typically presented?
    a. Fixed Assets
    b. Long-term Liabilities
    c. Capital
    d. **Working Capital**

13. What is the formula to calculate Net Profit in the Profit and Loss Account?
    a. Net Profit = Gross Profit - Operating Expenses
    b. **Net Profit = Total Revenue - Total Expenses**
    c. Net Profit = Sales - Cost of Goods Sold
    d. Net Profit = Opening Capital + Drawings - Closing Capital

14. What is a trading account?
    a. An account that tracks personal expenses
    **b. An account that records buying and selling of goods**
    c. A savings account for long-term investments
    d. An account used for salary transactions

15. In a trading account, which of the following represents the opening stock?
    a. Goods purchased during the current accounting period

b. **Goods available for sale at the beginning of the accounting period**
c. Goods sold during the current accounting period
d. Goods purchased for future sales

16. What is the purpose of the trading account?
    a. **To calculate the net profit or loss**
    b. To record long-term investments
    c. To track personal expenses
    d. To manage employee salaries

17. In the trading account, what does the term "gross profit" represent?
    a. Total revenue minus total expenses
    b. **Sales revenue minus cost of goods sold**
    c. Net profit before tax
    d. Total assets minus total liabilities

18. Which of the following is subtracted from the total sales to calculate the gross profit in a trading account?
    a. Selling expenses
    b. Administrative expenses
    c. **Cost of goods sold**
    d. Depreciation

19. In a trading account, what does the term "closing stock" represent?
    a. **Goods available for sale at the end of the accounting period**
    b. Goods sold during the current accounting period
    c. Goods purchased during the current accounting period
    d. Goods purchased for future sales

20. Which financial statement does the trading account feed into?
    a. Balance sheet
    b. **Income statement**
    c. Cash flow statement
    d. Retained earnings statement

21. In a trading account, what is the formula for calculating the cost of goods sold (COGS)?
    a. Opening stock + Purchases - Closing stock
    b. Opening stock - Purchases + Closing stock
    c. **Opening stock - Closing stock + Purchases**
    d. Closing stock - Opening stock + Purchases

22. What is the primary purpose of a profit and loss account?

a. To calculate the net worth of a business
b. To track changes in cash flow
c. **To determine the financial position of a company**
d. To measure the profitability of a business over a specific period

23. In a profit and loss account, which section typically includes revenue from the sale of goods or services?
    a. **Operating income**
    b. Non-operating income
    c. Other comprehensive income
    d. Extraordinary items

24. What term is used to describe the excess of total revenues over total expenses in a profit and loss account?
    a. Gross profit
    b. Operating profit
    c. **Net profit**
    d. Gross margin

25. Which of the following items is usually deducted from gross profit to calculate operating profit in a profit and loss account?
    a. Cost of goods sold (COGS)
    b. **Selling and distribution expenses**
    c. Other income
    d. Non-operating expenses

26. What term is used to describe the profit earned from the core business operations before deducting interest and taxes?
    a. Net profit
    b. Gross profit
    c. **Operating profit**
    d. Earnings before interest and taxes (EBIT)

27. Which financial statement does the net profit from the profit and loss account flow into?
    a. Balance sheet
    b. Cash flow statement
    c. **Retained earnings statement**
    d. Statement of changes in equity

28. In a profit and loss account, what category does interest income typically fall under?
    a. Operating income
    b. **Non-operating income**
    c. Other comprehensive income
    d. Extraordinary items

29. What does the term "EBITDA" stand for in the context of a profit and loss account?
    a. Earnings Before Income, Taxes, and Depreciation Amortization
    b. Extraordinary Business Income, Taxes, and Depreciation Adjustment
    c. **Earnings Before Interest, Taxes, Depreciation, and Amortization**
    d. Excess Business Income, Taxation, Depreciation, and Amortization

30. What is the primary purpose of a balance sheet?
    a. To measure the profitability of a business
    b. To provide a summary of cash flows
    c. **To show the financial position of a company at a specific point in time**
    d. To track changes in shareholders' equity

31. On a balance sheet, which section represents the resources owned by a business?
    a. **Assets**
    b. Liabilities
    c. Equity
    d. Revenues

32. What is the accounting equation that forms the basis of the balance sheet?
    a. Assets = Liabilities – Equity
    b. Assets + Liabilities = Equity
    c. Assets - Liabilities = Equity
    d. **Assets = Liabilities + Equity**

33. In the liabilities section of a balance sheet, which of the following represents amounts owed to suppliers for goods or services purchased on credit?
    a. **Accounts payable**
    b. Long-term debt
    c. Accrued expenses
    d. Common stock

34. What does the term "equity" represent on a balance sheet?
    a. Total assets minus total liabilities
    b. **The residual interest in the assets of the entity after deducting liabilities**
    c. Total liabilities minus total assets
    d. The total revenues earned by the company

35. Which of the following is considered a long-term liability on a balance sheet?
    a. Accounts payable
    b. Short-term bank loan
    c. **Bonds payable**

d. Accrued expenses

36. On a balance sheet, where would you find information about a company's common stock and retained earnings?
    a. Assets section
    b. Liabilities section
    c. **Equity section**
    d. Revenues section

37. What does the term "current assets" refer to on a balance sheet?
    a. **Assets that are easily convertible to cash within one year**
    b. Long-term investments in stocks and bonds
    c. Property, plant, and equipment
    d. Intangible assets such as patents and trademarks

38. What is the purpose of adjusting entries on a balance sheet?
    a. To correct errors in the financial statements
    b. To record transactions that occurred after the balance sheet date
    c. **To allocate revenues and expenses to the appropriate accounting period**
    d. To reconcile bank statements

39. Which of the following is an example of an adjusting entry that would appear on the balance sheet?
    a. Recording the sale of goods on credit
    b. **Recognizing accrued interest expense**
    c. Paying utility bills in cash
    d. Receiving a prepayment from a customer

40. What type of adjusting entry is made to recognize unearned revenue on a balance sheet?
    a. Debit to a liability account
    b. Debit to an asset account
    c. **Credit to a liability account**
    d. Credit to an asset account

41. Depreciation is an example of which type of adjusting entry on the balance sheet?
    a. Accrual
    b. Deferral
    c. **Allocation**
    d. Reversing

42. If a company has not yet paid its employees for the last few days of the month, what type of adjusting entry is needed?
    a. **Debit to a liability account**
    b. Credit to a liability account
    c. Debit to an asset account
    d. Credit to an asset account

43. An adjusting entry to recognize bad debts on the balance sheet involves:
    a. **Decreasing assets and decreasing liabilities**
    b. Decreasing assets and increasing liabilities
    c. Increasing assets and increasing liabilities
    d. Increasing assets and decreasing liabilities

44. What is the purpose of a reversing entry in the context of balance sheet adjustments?
    a. To correct errors made in previous entries
    b. To update the financial statements for the current accounting period
    c. **To reverse the effect of certain adjusting entries made in the previous period**
    d. To reconcile discrepancies between cash and accrual accounting

45. How does the recognition of prepaid expenses impact the balance sheet?
    a. Increases assets and decreases liabilities
    b. **Decreases assets and increases liabilities**
    c. Increases both assets and liabilities
    d. Decreases both assets and liabilities

46. The income and spending statements are shown in the financial statement _______
    a. Balance sheet
    **b. Income statement**
    c. Fund flow statement
    d. Cash flow statement

47. Bad and dubious loans are accounted for by crediting ________
    a. Profit and loss A/C
    b. Debtors A/C
    c. Income and statement A/C
    d. **Provision for bad and doubtful debt A/C**

48. An illustration of an intangible asset is ____________
    a. Land and building
    b. Furniture
    **c. Goodwill**
    **d.** Cash

49. An insurance premium paid in advance by a business that carries over into the following accounting year is classified as ___________
    a. Accrued income
    **b. Prepaid expenses**
    c. Outstanding expense
    d. Income received in advance

51. An outsider's claim made against the company's assets is referred to as _________
    a. Expenses
    b. Income
    **c. Liability**
    **d.** Capital

52. The statement that is created at the conclusion of the accounting period to determine the company's financial situation ______
    a. Trial balance
    **b. Balance sheet**
    c. Profit and loss A/C
    d. Trading A/C

53. Salary benchmarks are displayed as ________
    a. An expenses
    **b. Liability**
    c. Asset
    d. Income

54. The balance sheet shows _________
    **a. Closing balance of assets and liabilities**
    b. Expenses alone
    c. Incomes alone
    d. Profit and loss

55. One way to express net profit is ________

a. Total profit
b. Total profit – trading expenses
c. **Gross profit + (income – expenditure)**
**d.** None of the above

56. The final stock will be displayed under ________
    a. Fixed asset
    b. Long term liabilities
    c. Current liabilities
    d. **Current assets**

57. Displays on the trading A/C debit side.
    a. Gross profit A/C
    b. Closing stock
    c. Sales
    d. **Opening stock**

58. ___________ is calculated by subtracting sales from the cost of the things sold.
    a. Net loss
    **b. Gross profit**
    c. Net profit
    d. Cost of production

59. When debit exceeds credit, it's referred to as _______
    **a. Profit and loss A/C, net loss**
    b. Profit and loss A/C, gross profit
    c. Trading A/C, gross profit
    d. Profit and loss A/C, net profit

60. The closing stock balance from the trial balance's debit side will be recorded in the financial statement as follows:
    a. Trading A/C debit side
    b. Trading A/C credit side
    c. Liabilities side
    d. **Asset side**

61. Generosity is a _________
    a. Current asset
    b. Fictitious asset
    c. Tangible asset
    d. **Intangible asset**

62. The properties that the company owns are referred to as ______

a. **Assets**
b. Liabilities
c. Capital
d. Accounting equation

63. A debt is _______
    a. **An increase in asset**
    b. Decrease in liability
    c. Increase in liability
    d. Decrease in liability

64. A debit balance that would suggest a likely inaccuracy in the following accounts _
    a. Accounts receivable
    b. Cash
    c. **Fees earned**
    d. Miscellaneous expenses

65. A/C for profit and loss is created by transferring _______
    a. **Nominal account**
    b. Real accounts
    c. Personal accounts
    d. Real and nominal accounts

66. Which of these liabilities is not certain?
    a. Long – term
    b. **Contingent**
    c. Current
    d. Fixed

67. The balance sheet reveals ___________
    a. Cash position of the business
    b. **Financial position of the business**
    c. Income position of the business
    d. Profit – earning capacity of business

68. A claim that is not recognized as a debt against the corporation is: __
    a. **Contingent liability**
    b. Current liability
    c. Secured loan
    d. Unsecured loan

69. What are the external liabilities?
    a. Excess of capital over fixed assets

b. Excess of capital over assets
**c. Excess of assets over capital**
d. Excess of assets over capital liabilities

70. A company's "brand value" is ____________
a. Capital
**b. Asset**
c. Profit
d. Liability

71. Rs. 3,00,000 in sales, Rs. 1,00,000 in acquisitions, Rs. 5,00,000 in cost of products available for sale, and Rs. 1/3 of profit on cost equal the closing inventory.

a. Rs.2,00,000
b. Rs.3,00,000
**c. Rs.2,75,000**
d. None of these

72. When products worth Rs. 10,000 were bought from Ram, who granted a 10% trade discount and adjusted the 10% value added tax (VAT), the following amounts were debited from the acquired A/C __________

a. Rs.10,000
b. Rs.9,000
**c. Rs.9,900**
d. None of these

73. The closing stock would be: If sales were Rs. 1,80,000, purchases were Rs. 1,60,000, opening stock was Rs. 34,000, and the gross profit margin was 20% on cost.

a) Rs.50,000
**b) Rs.44,000**
c) Rs.46,000
d) None of these

74. The trial balance shows the closing stock. The closing stock is displayed while creating the company concern's final A/C.
**a. Only on the assets side of balance sheet**
b. Only the credit side of trading A/C
c. On the credit side of trading A/C as well on the assets side of balance sheet
d. Nowhere

75. Income: A solo proprietor's tax payment on his income is displayed _____
a. On the debit side of trading A/c

b. On the debit side of profit and loss A/C
c. On the debit side of profit and loss appropriation A/C
d. **By way of deduction from capital in balance sheet**

76. Before subtracting said fee, a manager is entitled to a commission at a rate of 5% of profit. With the exception of commission 60 management, selling and office expenses totalled Rs. 12,000, leaving a gross profit of Rs. 9,600. The manager's annual commission will be _________

a. aRs.4000
**b. Rs.4200**
c. Rs.4800
d. Rs.4562

77. There were Rs. 1,00,000 worth of debtors at the end of the accounting year. There are 5% and 2% provisions for bad debts and debtor discounts, respectively. The following will be the amount of the debtor discount provision _____

a. Rs.2000
b. Rs.5000
**c. Rs.1900**
d. Rs.1950

78. The trial balance's prepaid expenses are displayed as ________
a. Miscellaneous expenses
b. Capital
c. Current liabilities
d. **Asset**

79. In the event that money written off as a bad debt is later found, it will be _
a. debited to the debtor's personal A/C
b. credited to the debtor's personal A/C
c. debited to bad debts recovered A/C
d. **credited to bad debts recovered A/C**

80. A non-trading company is established ________
a. By separate act
b. By Government order
c. By members compulsion
d. **Voluntarily**

81. The non-trading organization's goal is _______
a. Profit

**b. Service**
c. Profit and service
d. None of the above

82. The account for payments and receipts is a _______
    a. Real and nominal account
    b. Nominal account
    c. Personal account
    **d. Real account**

83. Revenue receipts are displayed in ________
    a. Receipts and payments account
    b. Income and expenditure account
    **c. Receipts & payment and income & expenditure account**
    **d.** Balance sheet

84. Income and expenses are planned in place of ___________
    **a. Profit and loss account**
    b. Cash account
    c. Balance sheet
    d. Receipts and payment account

85. The life subscription is a __________
    **a. Capital receipt**
    b. Revenue receipt
    c. Capital or revenue receipt
    d. Separate fund

86. Particular funds are displayed on the _______
    a. Assets side
    **b. Liabilities side**
    c. Credit side of income & expenditure account
    d. Debit side of income & expenditure account

87. It is possible to determine the opening capital fund by becoming ready _________
    a. Receipts and payment account
    **b. Opening statement of affairs**
    c. Income and expenditure account
    d. None of the above

88. The income and expense account displays __________
    a. Capital receipts
    b. Capital expenditure

c. **Both revenue receipts and revenue expenditure**
d. None of the above

89. You can determine surplus or deficit by getting ready ___________
    a. Receipts and payment account
    **b. Income and expenditure account**
    c. Balance sheet
    d. None of the above

90. A non-profit organization is ready _________
    a. Profit and loss account
    b. Manufacturing account
    **c. Income and expenditure account**
    **d.** All the above

91. The payment account and receipts are _______
    a. A nominal account
    **b. A real account**
    c. A personal account
    d. None of the above

92. Payment account and receipts are displayed _________
    a. Income and expenditure account
    **b. Cash receipts and payments**
    c. Assets and liabilities
    d. Both (a) and (b)

93. The income and expense account shows __________
    a. Cash in hand
    **b. Surplus or deficiency**
    c. Capital account
    d. All the above

94. Transaction records for the income and expense accounts of _______
    **a. Revenue nature only**
    b. Capital nature only
    c. Both (a) and (b)
    d. None of the above

95. A prepayment subscription is __________
    a. An income
    b. An asset
    **c. A liability**
    **d.** All the above

96. Arrears for subscriptions (provided in adjustment) are displayed on the _______
    - **a. Credit side of income and expenditure account and asset side of balance sheet**
    - b. Debit side of income and expenditure account and liability side of balance sheet
    - c. Only on the asset side of balance sheet
    - d. None of the above

97. Donation received with a specific intention ________
    - **a. Should be credited to a separate account and shown on the liability side of balancesheet**
    - b. Should be credited to income and expenditure account
    - c. Should not be recorded at all
    - d. None of the above

98. If there is a prize fund, the money received for the prize, expenses incurred, and income are moved to ________
    - a.Income and expenditure account
    - b. Assets side of balance sheet
    - **c.The liability side of the balance sheet**
    - **d.** Both income and expenditure account and to balance sheet

99. The revenue from admission fees should go to ________
    - a. Capitalised
    - b. Treated as a revenue
    - **c. Treated as revenue unless the amount is pretty large**
    - **d.** Treated as a liability

100.The account for income and expenses is ___________
    - a. Real account
    - b. Personal account
    - **c. Nominal account**
    - **d.** None of these

# UNIT 3

1. What is depreciation in accounting?
    a. Increase in the value of an asset
    **b. Decrease in the value of an asset over time**
    c. Cash inflow from an asset
    d. Current market value of an asset

2. Which of the following is NOT a method of calculating depreciation?
    a. Straight-line method
    b. Double-declining balance method
    c. Accelerated cost recovery system (ACRS)
    **d. Appreciation method**

3. In the straight-line method, how is depreciation calculated?
    **a. (Cost - Salvage Value) / Useful Life**
    b. Cost / Useful Life
    c. Cost * Useful Life
    d. (Cost + Salvage Value) / Useful Life

4. What does the term "Salvage Value" represent in the context of depreciation?
    a. The original cost of the asset
    **b. The estimated residual value of the asset at the end of its useful life**
    c. The market value of the asset
    d. The accumulated depreciation of the asset

5. Which method of depreciation results in a higher depreciation expense in the earlier years of an asset's life?

    a. Straight-line method
    **b. Double-declining balance method**
    c. Units-of-production method
    d. Sum-of-years-digits method

6. How does the choice of depreciation method affect the book value of an asset?

    a. It has no effect on the book value.
    **b. Accelerates the decrease in book value.**
    c. Slows down the decrease in book value.
    d. Increases the book value.

7. What is the journal entry to record annual depreciation expense using the straight-line method?

    **a. Debit Depreciation Expense, Credit Accumulated Depreciation**
    b. Debit Accumulated Depreciation, Credit Depreciation Expense
    c. Debit Depreciation Expense, Credit Asset Account
    d. Debit Accumulated Depreciation, Credit Asset Account

8. Which financial statement is directly impacted by the recording of depreciation?

    a. Income Statement
    **b. Balance Sheet**
    c. Cash Flow Statement
    d. Statement of Retained Earnings

9. What is the formula for the double-declining balance method of depreciation?

    a. (Cost - Accumulated Depreciation) / Useful Life
    **b. (2 / Useful Life) * Book Value at the Beginning of the Year**
    c. (Cost / (Useful Life * 2)
    d. (Cost - Salvage Value) * (2 / Useful Life)

10. Under which method does depreciation vary based on the level of activity of the asset?

    a. Straight-line method
    b. Double-declining balance method
    **c. Units-of-production method**
    d. Sum-of-years-digits method

11. What is depreciation in accounting?
    a. Increase in the value of an asset
    **b. Decrease in the value of an asset over time**
    c. Cash inflow from an asset
    d. Current market value of an asset

12. Why is depreciation recorded in accounting?
    a. To increase the value of assets
    b. To comply with tax regulations
    **c. To reflect the decrease in the value of assets over time**
    d. To boost net income

13. Which of the following is a non-cash expense?
    **a. Depreciation**
    b. Salary expense
    c. Utilities expense

d. Interest expense

14. What is the purpose of determining the useful life of an asset in calculating depreciation?

    a. To estimate the total cost of the asset
    **b. To allocate the cost of the asset over its expected life**
    c. To determine the salvage value of the asset
    d. To assess the market value of the asset

15. Which depreciation method allocates an equal amount of depreciation expense each year?

    **a. Straight-line method**
    b. Double-declining balance method
    c. Units-of-production method
    d. Sum-of-years-digits method

16. In which method is depreciation calculated as a percentage of the remaining book value of the asset each year?
    a. Straight-line method
    **b. Double-declining balance method**
    c. Units-of-production method
    d. Declining balance method

17. Under the units-of-production method, when is depreciation expense higher?

    a. In periods of low production
    **b. In periods of high production**
    c. It remains constant regardless of production levels
    d. It is not affected by production levels

18. What is the key characteristic of the double-declining balance method?

    a. Consistent annual depreciation expense
    **b. Front-loaded depreciation expense**
    c. Depreciation based on production levels
    d. No depreciation expense recorded

19. Which method of depreciation is commonly used for tax purposes?
    a. Straight-line method
    b. Double-declining balance method
    c. Units-of-production method
    **d. Modified Accelerated Cost Recovery System (MACRS)**

20. What does "obsolescence" refer to in the context of depreciation?
    a. Physical wear and tear of assets
    **b. Decrease in value due to technological advancements**
    c. Routine maintenance of assets
    d. Increase in asset value over time

21. What is the primary characteristic of the Straight-Line Method of depreciation?
    a. Front-loaded depreciation expense
    **b. Consistent annual depreciation expense**
    c. Depreciation based on production levels
    d. No depreciation expense recorded

22. How is the annual depreciation expense calculated under the Straight-Line Method?
    a. (Cost - Salvage Value) / Useful Life
    **b. Cost / Useful Life**
    c. Cost * Useful Life
    d. (Cost + Salvage Value) / Useful Life

23. What does "Salvage Value" represent in the context of the Straight-Line Method?
    a. The original cost of the asset
    **b. The estimated residual value of the asset at the end of its useful life**
    c. The market value of the asset
    d. The accumulated depreciation of the asset

24. Under the Straight-Line Method, how does the annual depreciation expense change over the asset's useful life?
    a. It increases each year.
    b. It decreases each year.
    **c. It remains constant each year.**
    d. It fluctuates based on market conditions.

25. What financial statement is directly affected by the Straight-Line Method of depreciation?
    **a.** Income Statement
    **b. Balance Sheet**
    c. Cash Flow Statement
    d. Statement of Retained Earnings

26. In the Straight-Line Method, what is the impact of a change in the asset's useful life on annual depreciation expense?
    a. It increases depreciation expense.
    b. It decreases depreciation expense.

c. **It has no effect on depreciation expense.**
d. It eliminates depreciation expense.

27. What is the journal entry to record annual depreciation expense using the Straight-Line Method?
    a. **Debit Depreciation Expense, Credit Accumulated Depreciation**
    b. Debit Accumulated Depreciation, Credit Depreciation Expense
    c. Debit Depreciation Expense, Credit Asset Account
    d. Debit Accumulated Depreciation, Credit Asset Account

28. What is the formula for calculating the book value of an asset under the Straight-Line Method?
    a. **Cost - Accumulated Depreciation**
    b. Cost / Useful Life
    c. Cost + Accumulated Depreciation
    d. Cost * Useful Life

30. What is a bill of exchange?
    a. A financial statement prepared by a company
    b. **A written order from one party (drawer) to another (drawee) to pay a specified amount to a third party (payee) at a fixed future date**
    c. A receipt issued for goods or services
    d. A document representing ownership of shares in a company

31. In a bill of exchange, who is the party that issues the order for payment?
    a. Payee
    b. **Drawer**
    c. Drawee
    d. Endorser

32. What is the primary purpose of a bill of exchange?
    a. Transferring ownership of goods
    b. **Facilitating credit transactions and financing**
    c. Issuing dividends to shareholders
    d. Recording financial transactions in a ledger

33. Which of the following is a specimen of a bill of exchange?
    a. Invoice
    b. Promissory note
    c. Cheque
    d. **Draft**

34. What is typically included in a specimen of a bill of exchange?
    a. Terms of a loan agreement
    b. Instructions for shipping goods
    **c. A written order for payment, the amount, and the due date**
    d. Shareholder names and addresses

35. In a bill of exchange, what does the term "acceptance" refer to?
    a. Acknowledgment by the payee of receiving payment
    **b. Approval by the drawee of the obligation to pay**
    c. Endorsement by the drawer to transfer ownership
    d. The due date for payment

36. Which party is primarily responsible for making the payment specified in the bill of exchange?
    a. Drawer
    b. Payee
    **c. Drawee**
    d. Endorser

37. In the context of a Bill of Exchange, what does "discounting" refer to?
    a. Reducing the amount of the bill
    **b. Selling the bill before its maturity to a financial institution at a lower value**
    c. Endorsing the bill to transfer ownership
    d. Extending the due date of the bill

38. What does "discounting of bills" refer to in financial terms?
    a. Offering sales discounts on merchandise
    **b. Reducing the face value of a bill before its maturity to obtain immediate cash**
    c. Applying interest to the face value of a bill
    d. Adjusting the due date of a bill

39. Who typically engages in the process of discounting bills?
    a. Drawer
    b. Payee
    c. Drawee
    **d. Financial institutions or banks**

40. When a bill is discounted, who receives the discounted amount?
    a. Drawer
    b. Payee

c. Drawee
**d. Endorser**

41. What is the primary benefit for the party discounting a bill?
    **a. Immediate cash inflow**
    b. Higher face value at maturity
    c. Extended payment terms
    d. Tax deductions

42. How is the discount calculated in bill discounting?
    a. Face value minus interest
    b. Face value divided by the interest rate
    c. Face value plus interest
    **d. Face value times the interest rate**

43. What happens if the drawee fails to pay the discounted bill on its maturity date?
    a. The payee absorbs the loss
    b. The drawer covers the discounted amount
    **c. The financial institution absorbs the loss**
    d. Legal action is taken against the drawee

44. In the context of bill discounting, what is the "maturity date" of a bill?
    a. The date on which the bill is drawn
    b. The date on which the bill is discounted
    **c. The date on which the bill becomes due for payment**
    d. The date on which the bill is endorsed

45. Which party is responsible for paying the face value of the bill at maturity in bill discounting?
    a. Drawer
    b. Payee
    **c. Drawee**
    d. Endorser

46. What does "endorsement of a bill" involve in financial transactions?
    a. Reducing the face value of a bill
    **b. Transferring ownership or rights to another party**
    c. Extending the maturity date of a bill
    d. Approving the payment of a bill

47. In the context of bill endorsement, what is the party called that transfers the rights to another party?
    a. Drawer
    b. Payee

c. **Endorser**
d. Drawee

48. Which type of endorsement makes the bill payable to a specific person or entity and is commonly used for negotiation?
 a. Blank Endorsement
 b. Restrictive Endorsement
 **c. Special Endorsement**
 d. Conditional Endorsement

49. What is a "Blank Endorsement" on a bill?
 a. An endorsement with specific instructions for payment
 b. An endorsement transferring the bill to a specific party
 **c. An endorsement without specifying the endorsee, making it payable to the bearer**
 d. An endorsement that cancels the bill

50. In a Special Endorsement, what does the endorser need to include?
 a. Only their signature
 b. The words "Pay to the bearer"
 **c. The name of the specific endorsee**
 d. A statement of conditions for payment

51. What is the purpose of a Restrictive Endorsement on a bill?
 a. To restrict the drawer from withdrawing funds
 **b. To limit the transferability of the bill**
 c. To expedite the payment process
 d. To increase the face value of the bill

52. Who has the authority to make a Conditional Endorsement on a bill?
 a. Drawer
 b. Payee
 c. Drawee
 **d. Endorser**

53. In bill endorsement, what happens if the endorsee fails to pay the bill?
 a. The endorser is responsible for payment
 b. The drawer absorbs the loss
 **c. Legal action is taken against the endorser**
 d. The bill is cancelled

54. What does the term "collection of bills" refer to in financial transactions?
    a. Reducing the face value of a bill
    **b. Transferring ownership or rights to another party**
    c. The process of obtaining payment for a bill on behalf of the drawer
    d. Extending the maturity date of a bill

55. Who is typically responsible for the collection of bills?
    a. Drawer
    b. Payee
    **c. Bank or financial institution**
    d. Endorser

56. In the collection of bills, what role does the bank play?
    a. It pays the bill on behalf of the drawer.
    **b. It facilitates the payment process but does not guarantee payment.**
    c. It endorses the bill to the drawee.
    d. It cancels the bill.

57. What is the purpose of "noting" a bill of exchange?
a. Acknowledging the payment of a bill
**b. Recording the dishonour of a bill**
c. Endorsing the bill to a third party
d. Extending the due date of a bill

58. Who is responsible for making a note when a bill is dishonored?
    a. Drawer
    b. Payee
    c. Notary public or notary officer
    d. Drawee

59. What information is typically included in the noting of a dishonored bill?
    **a. Reasons for dishonour and protest charges**
    b. A statement of approval for payment
    c. Endorsement instructions
    d. Bank account details

60. What does the "renewal of a bill" involve?
    **a. Extending the due date of a bill by issuing a new one**
    b. Transferring ownership of a bill to a new payee
    c. Cancelling a bill before its maturity
    d. Reducing the face value of a bill

61. When might a bill be renewed?
    a. When the drawer wants to withdraw funds
    b. **When the drawee requests an extension**
    c. When the payee is dissatisfied with the payment terms
    d. When the original bill is lost or stolen

62. What does the term "retirement of a bill under rebate" mean in financial transactions?
    a. Cancelling a bill before its maturity
    **b. Transferring ownership of a bill to a new payee**
    c. Settling a bill before its maturity date and earning interest rebate
    d. Extending the due date of a bill

63. Who initiates the retirement of a bill under rebate?
    a. Drawer
    b. Payee
    **c. Drawee**
    d. Endorser

64. What is the primary incentive for retiring a bill under rebate?
    a. Avoiding legal action
    b. Reducing the face value of the bill
    **c. Earning interest on the early payment**
    d. Increasing the due date of the bill

65. How is the rebate amount calculated when retiring a bill early?
    a. Face value minus interest
    **b. Face value divided by the interest rate**
    c. Face value plus interest
    d. Face value times the interest rate

66. In the retirement of a bill under rebate, who typically determines the rebate amount?
    a. Drawer
    **b. Payee**
    c. Bank or financial institution
    d. Endorser

67. When retiring a bill under rebate, what document is issued to acknowledge the settlement and rebate?
    a. Credit note
    **b. Debit note**
    c. Rebate certificate

d. Bank statement

68. What is the impact on the interest earned if a bill is retired under rebate compared to allowing it to mature?
    a. The interest earned is higher when the bill is retired under rebate.
    **b. The interest earned is lower when the bill is retired under rebate.**
    c. The interest earned is the same in both cases.
    d. The interest earned is not affected by early retirement.

69. What does "retirement of a bill" refer to in financial transactions?
    a. Extending the maturity date of a bill
    **b. Cancelling a bill before its maturity**
    c. Transferring ownership of a bill to a new payee
    d. Increasing the face value of a bill

70. Who typically initiates the retirement of a bill?
    **a. Drawer**
    b. Payee
    c. Drawee
    d. Endorser

71. What is the primary reason for retiring a bill before its maturity date?
    a. To avoid legal action
    **b. To earn interest on the early payment**
    c. To transfer ownership of the bill
    d. To increase the face value of the bill

72. In the retirement of a bill, what document is issued to acknowledge the settlement?
    **a. Credit note**
    b. Debit note
    c. Retirement certificate
    d. Bank statement

73. How is the retirement of a bill recorded in the accounting books?
    a. Debit Retirement of Bills, Credit Bank
    b. Debit Bank, Credit Retirement of Bills
    c. Debit Bills Payable, Credit Cash
    **d. Debit Cash, Credit Bills Payable**

74. What happens to the interest when a bill is retired before its maturity date?
    a. No interest is paid or received
    b. Interest is paid in full
    **c. Interest is forfeited**

d. Interest is adjusted based on market rates

75. Who determines the terms and conditions of retirement when a bill is settled early?
    a. Drawer
    **b. Payee**
    c. Drawee
    d. Endorser

76. What is the impact of retiring a bill on the financial statements?
    **a. Increase in liabilities**
    b. Increase in assets
    c. No impact on equity
    d. Decrease in equity

77. One of the factors that can cause a persistent reduction in the value of fixed assets over time is ________
    **a. Depreciation**
    b. Diminution
    c. Reduction
    d. Discount

78. Depreciation is the process of __________
    **a. The use of fixed assets**
    b. The use of various services
    c. The consumption of same consumable stores
    d. None of the above

79. Depreciation is a cost that accumulates from _________
    **a. Allocation of cost of the fixed asset during the period of its life**
    b. Valuation of stock
    c. Reduction its market value
    d. Valuation of fixed assets

80. The amount of depreciation is set for all years under ________
    a. Diminishing balance method
    **b. Straight line method**
    c. Annuity method
    d. Depreciation fund method

81. When using the declining balance approach, the depreciation amount is _____
    a. Increasing every year
    **b. Decreasing every year**

c. Fixed for all the years
d. All the above

82. The income tax act's recognized depreciation method ____________
a. Annuity method
b. Some of years digit method
c. Revaluation method
d. **Diminishing balance method**

83. Depreciation is applied to mines and queries.
**a. Depletion method**
b. Revaluation
c. Insurance policy
d. None of the above

84. The depreciation method appropriate for real estate under lease ___________
a. Insurance policy
b. Revaluation method
c. Sinking fund method
d. **Annuity method**

85. The hourly methodology for calculating depreciation is used in _________
a. Straight line method
b. Some of years digit method
**c. Machine hour rate method**
**d.** Diminishing balance method

86. Then come little things like animals or stray tools.
**a. Revaluation method**
b. Annuity method
c. Straight line method
d. Depletion method

87. The primary goal of offering depreciation is _________
**a. To calculate true profit**
b. To show the true financial position in the balance sheet
c. To reduce tax burden
d. To provide funds for replacement of fixed assets

88. The reason for depreciation is ________
a. Fall in the market value of an asset

b. **Physical wear and tear**
c. Fall in the value of money
d. All the above

89. When charging depreciation using the straight line technique, depreciation __________
    a. Increase every year
    b. Decrease every year
    c. **Is constant every year**
    d. None of the above

90. The declining balance technique computes depreciation based on __________
    a. Original cost
    b. **Written down value**
    c. The scrap value
    d. All the above

91. The depreciation on a machinery will be debited to the following _________
    a. **The amount of depreciation is reduced from year to year**
    b. The rate percent declines from year to year
    c. The rate percent as well as the amount reduce every year
    d. None of the above

92. A declining balance method of providing for depreciation is one in which _____
    Rs.1400
    b) **Rs.1458**
    c) Rs.542
    d) None of the above

93. Depreciation on the diminishing balance method of Rs. 2000 at the rate of 10% p.a. after three years will be _______
    a. Machinery A/C
    b. Depreciation A/C
    c. **Cash A/C**
    d. All the above

94. A loss on the machinery scale shall be deducted from ___________
    a. Securities premium reserve A/C
    b. Sales A/C
    c. **Depreciation fund A/C**

**d.** None of the above

95. The depreciation approach based on service hours is helpful when __________
    **a. Use of an asset can be measured in returns of time**
    b. Output can be measured
    c. Use of an asset is dependent on sale
    d. Name of the above

96. Depreciation is a cost that comes from ________
    a. From the consumption of current asset
    b. From the use of various securities
    **c. From the use of fixed assets**
    **d.** None of the above

97. The entire amount of depreciation under the annuity method is calculated by adding to the asset's cost.
    **a. Interest there on at an expected rate**
    b. Repair charges there on during the life of the asset
    c. Obsolescence cost
    d. None of the above

98. A business's fixed asset costs must be deducted over time.
    a. Natural life
    b. Accounting life
    c. Physical life
    d. **Estimated economic life**

99. Assets with continuous usage that lose value are classified as _
    a. Loss
    b. Profit
    c. Appreciation
    d. **Depreciation**

100. The reserves for revenue are derived from ___________
    **a. Recurring profit**
    b. Non recurring profit
    c. Capital reserve
    d. None of the above

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# UNIT IV

1. What is the primary characteristic of a single-entry system?
   e. Double entry of transactions
   f. **Single entry of transactions**
   g. Triple entry of transactions
   h. Quadruple entry of transactions

2. In a single-entry system, which account is often used to record all transactions?
   a. **Cash account**
   b. Capital account
   c. Bank account
   d. Expense account

3. Which of the following is a disadvantage of a single-entry system?
   a. Simplicity
   b. Accuracy
   c. Completeness
   d. **Lack of precision**

4. In a single-entry system, where is the information about liabilities usually recorded?
   a. Income statement
   b. Balance sheet
   c. Cash account
   **d. Capital account**

5. What is the main financial statement in a single-entry system?
   a. Income statement
   b**. Balance sheet**
   c. Cash flow statement
   d. Statement of changes in equity

6. Which of the following transactions would be recorded in a single-entry system?
   a. Purchase of inventory on credit
   b. Sale of goods for cash
   c. Payment of salaries
   d. **All of the above**

7. What is the purpose of maintaining a single-entry system?
   a. To satisfy regulatory requirements
   b. To facilitate financial analysis
   **c. To provide detailed transaction records**
   d. To track cash movements only

8. In a single-entry system, how are revenues usually recorded?
   **a. On the income statement**
   b. On the balance sheet
   c. In the capital account
   d. In a separate revenue account

9. What is the key limitation of a single-entry system in terms of financial reporting?
   **a. Lack of transparency**
   b. Complexity
   c. Excessive detail
   d. Inaccuracy

10. Which of the following is an example of a contra account in a single-entry system?
    a. Prepaid expenses
    b. **Accumulated depreciation**
    c. Accounts payable
    d. Common stock

11. What happens to unrecorded transactions in a single-entry system?
    **a. They are ignored**
    b. They are automatically recorded
    c. They are carried forward to the next accounting period
    d. They are treated as adjustments at the end of the period

12. In a single-entry system, how are withdrawals by the owner usually recorded?
    a. In the income statement
    **b. In the capital account**
    c. In a separate withdrawals account
    d. In the cash account

13. Which of the following is a disadvantage of a single-entry system when compared to a double-entry system?
    **a. Increased complexity**
    b. Greater accuracy
    c. Better financial reporting
    d. More detailed transaction records

14. How is the owner's equity calculated in a single-entry system?
    a. Beginning capital + Net income - Withdrawals
    b. Ending capital - Net income + Withdrawals
    **c. Beginning capital - Net income + Withdrawals**
    d. Ending capital + Net income – Withdrawals

15. What is the primary focus of a single-entry system?
    a. Assets and liabilities
    **b. Revenues and expenses**
    c. Cash transactions only
    d. All financial transactions

16. In a single-entry system, what does the "net income" represent?
    **a. Revenue minus expenses**
    b. Total assets minus total liabilities
    c. Beginning capital plus investments
    d. Ending capital minus withdrawals

17. Which of the following statements is true regarding the preparation of financial statements in a single-entry system?
    a. Financial statements are automatically generated
    b. **Financial statements are not prepared in a single-entry system**
    c. Financial statements are prepared with the help of external accountants
    d. Financial statements are prepared by the government

18. How liabilities are typically recorded in a single-entry system?
    **a. In a separate liability account**
    b. On the balance sheet only
    c. In the income statement
    d. In the capital account

19. What is the primary purpose of a single-entry system for small businesses?
    a. To comply with legal requirements
    b. To provide detailed financial information
    **c. To track cash flow and financial position**
    d. To facilitate complex financial transactions

20. In a single-entry system, how are prepaid expenses usually recorded?
    **a. As assets on the balance sheet**
    b. As liabilities on the balance sheet
    c. In the income statement
    d. In the owner's equity statement

**21.** What is the role of the owner's equity account in a single-entry system?
    a. To record investments by the owner
    b. To track the owner's withdrawals
    c. To calculate net income
    **d. All of the above**

22. In a single-entry system, what is the purpose of a cash book?
    **a. To record all cash transactions**
    b. To record only cash sales
    c. To record cash withdrawals only
    d. To record cash payments only

23. Which of the following is a limitation of a single-entry system when it comes to financial analysis?
    **a. Lack of detail**
    b. Excessive precision
    c. Complexity
    d. Transparency

24. How are non-cash transactions typically treated in a single-entry system?
    **a. They are ignored**
    b. They are recorded in a separate account
    c. They are treated as cash transactions
    d. They are recorded in the owner's equity account

25. What is the main advantage of a single-entry system for small businesses?
    a. Accuracy
    **b. Simplicity**
    c. Compliance with regulations
    d. Detailed financial reporting

26. In a single-entry system, which account represents the owner's claim on the assets of the business? a. Liabilities account
    **b. Capital account**
    c. Income statement account
    d. Cash account

27. How is depreciation typically recorded in a single-entry system?
    **a. As an expense in the income statement**
    b. As a liability on the balance sheet
    c. As a contra asset in the owner's equity account
    d. Depreciation is not recorded in a single-entry system

28. What is the main challenge of using a single-entry system for large and complex businesses?
    a. Lack of precision
    b. Inability to track multiple transactions
    **c. Complexity**
    d. Lack of regulatory compliance

29. In a single-entry system, which type of account is used to record expenses?
    a. Liability account
    b. Capital account
    **c. Income statement account**
    d. Asset account

30. How is the net income calculated in a single-entry system?
    a. Revenues - Withdrawals
    **b. Revenues - Expenses**
    c. Revenues + Expenses
    d. Expenses – Withdrawals

31. In a single-entry system, what is the purpose of a petty cash book?
    **a. To record all petty cash transactions**
    b. To record only cash sales
    c. To track cash withdrawals
    d. To record cash payments only

**32.** Which financial statement is affected when there is a withdrawal by the owner in a single-entry system?
    a. Income statement
    b. Balance sheet
    c. Cash flow statement
    **d. Statement of changes in equity**

33. What is the primary limitation of a single-entry system in terms of internal controls?
    **a. Lack of segregation of duties**
    b. Excessive detail
    c. Inability to record cash transactions
    d. Complexity

34. In a single-entry system, how are long-term liabilities typically recorded?
    **a. In a separate long-term liabilities account**
    b. In the income statement
    c. In the capital account
    d. In the cash account

35. How are capital contributions by the owner usually recorded in a single-entry system?
    a. As an expense
    b. As an asset
    **c. In the capital account**
    d. In the income statement

36. What is the main advantage of a single-entry system in terms of ease of understanding for non-accountants?
    a. Detailed transaction recording
    **b. Simplicity**
    c. Accuracy
    d. Compliance with regulations

37. In a single-entry system, what is the significance of the "opening balance" in the cash account?
    a**. It represents the beginning cash balance for the accounting period**
    b. It represents the ending cash balance for the previous accounting period
    c. It is not relevant in a single-entry system
    d. It represents the net income for the accounting period

38. How are bad debts typically recorded in a single-entry system?
    **a. As an expense in the income statement**
    b. As a contra asset in the owner's equity account
    c. As a liability on the balance sheet
    d. Bad debts are not recorded in a single-entry system

39. In a single-entry system, what is the purpose of the "drawing" account?
    a. To record investments by the owner
    **b. To track the owner's withdrawals**
    c. To calculate net income
    d. To record expenses

40. How the owner's equity is affected when there is a net loss in a single-entry system?
    a. Increases
    **b**. **Decreases**
    c. Remains unchanged
    d. Depends on other factors

41. What is the primary disadvantage of a single-entry system when it comes to detecting errors and fraud?
    **a. Lack of transparency**
    b. Inability to record transactions
    c. Complexity
    d. Dependence on external auditors

42. In a single-entry system, how are interest expenses typically recorded?
    **a. As an expense in the income statement**
    b. As a liability on the balance sheet
    c. In the capital account

d. In the cash account

43. What is the purpose of the "contra account" in a single-entry system?
a. To record investments by the owner
**b. To offset and reduce the value of another account**
c. To calculate net income
d. To record cash withdrawals

44. In a single-entry system, how are investments by the owner usually recorded?
a. As an expense
b. As an asset
**c. In the capital account**
d. In the income statement

45. What is the impact of a net income on the owner's equity in a single-entry system?
**a. Increases**
b. Decreases
c. Remains unchanged
d. Depends on other factors

46. How is the owner's equity affected when there is a net profit in a single-entry system?
**a. Increases**
b. Decreases
c. Remains unchanged
d. Depends on other factors

47. In a single-entry system, how are accounts receivable usually recorded?
**a. As assets on the balance sheet**
b. As liabilities on the balance sheet
c. In the income statement
d. In the owner's

48. What is the primary role of the "contra asset" account in a single-entry system?
a. To record investments by the owner
**b. To offset and reduce the value of another asset account**
c. To calculate net income
d. To record cash withdrawals

49. How the owner’s equity is affected when there is a net loss in a single-entry system?
a. Increases
**b. Decreases**
c. Remains unchanged

d. Depends on other factors

50. In a single-entry system, what is the purpose of the "suspense account"?
**a. To record errors temporarily**
b. To record investments by the owner
c. To calculate net income
d. To track the owner's withdrawals

51. What is the primary purpose of preparing a statement of affairs under a single entry system?
a. To calculate profit and loss
**b. To assess the financial position of a business**
c. To record transactions in a ledger
d. To comply with tax regulations

52. In a single entry system, which of the following is NOT typically included in the statement of affairs?
a. Assets
b. Liabilities
**c. Expenses**
d. Revenue

53. Which of the following is a key element of the statement of affairs?
a. Cash flow statement
b. Income statement
**c. Balance sheet**
d. Trial balance

54. Under a single entry system, if the total assets are greater than the total liabilities, what is the business's financial position?
**a. Solvent**
b. Insolvent
c. Liquid
d. Bankrupt

55. Which of the following represents the formula for calculating the owner's equity in a single entry system?
**a. Assets - Liabilities = Owner's Equity**
b. Assets + Liabilities = Owner's Equity
c. Assets / Liabilities = Owner's Equity
d. Assets x Liabilities = Owner's Equity

56. What is the purpose of including contingent liabilities in the statement of affairs?
a. To overstate assets
**b. To provide a complete picture of financial obligations**

c. To calculate net income
d. To determine cash flow

57. In a statement of affairs, which section typically includes items such as accounts receivable and inventory?
**a. Assets**
b. Liabilities
c. Expenses
d. Revenue

58. If a business has a negative owner's equity in the statement of affairs, what does it indicate?
a. Financial stability
**b. Financial distress**
c. Profitability
d. Efficiency

59. Which of the following is an example of a liability in a statement of affairs?
a. Cash
**b. Accounts payable**
c. Equipment
d. Sales revenue

60. Under a single entry system, how are drawings by the owner treated in the statement of affairs?
**a. Included as a liability**
b. Included as an asset
c. Excluded from the statement
d. Included in revenue

61. What does the "statement of affairs" primarily focus on in a single entry system?
a. Cash transactions
b. Income and expenses
**c. Financial position and net worth**
d. Credit transactions

62. In the statement of affairs, where would you find long-term debts and obligations?
a. Assets
**b. Liabilities**
c. Expenses
d. Revenue

63. If a business's total liabilities exceed its total assets in the statement of affairs, what term describes this situation?
a. Profitable

b. Solvent
**c. Insolvent**
d. Liquid

64. What is the purpose of preparing a statement of affairs on a specific date?
a. To analyse cash flow
b. To determine daily transactions
**c. To assess the financial position at a particular moment**
d. To calculate monthly profit

65. How unrealized gains or losses on assets are usually treated in the statement of affairs?
**a. Ignored**
b. Included in liabilities
c. Included in assets
d. Included in revenue

66. What is the primary drawback of the single entry system when compared to the double entry system?
a. Complexity
b. Lack of accuracy
c. Inefficiency
**d. Limited financial information**

67. What does the term "net worth" represent in the context of the statement of affairs?
a. Total assets
**b. Owner's equity**
c. Total liabilities
d. Revenue

68. Which of the following is an example of a current liability in the statement of affairs?
a. Bank loan with a term of 5 years
**b. Accounts payable**
c. Long-term investment
d. Land and buildings

69. How does the single entry system handle depreciation in the statement of affairs?
a. Deducts it from assets
b. Adds it to liabilities
c. Records it as revenue
**d. Ignores it**

70. What is the primary objective of presenting assets and liabilities separately in the statement of affairs?
a. To confuse the reader

b. To meet legal requirements
**c. To provide clarity and transparency**
d. To simplify calculations

71. Which financial statement is often used as a starting point for preparing the statement of affairs under a single entry system?
a. Income statement
b. Cash flow statement
c. Trial balance
**d. Balance sheet**

72. What term is used to describe the excess of assets over liabilities in the statement of affairs?
a. Net profit
b. Net loss
**c. Net assets**
d. Net income

73. How contingent assets are usually treated in the statement of affairs?
a. Included in liabilities
**b. Ignored**
c. Included in assets
d. Recorded as expenses

74. In a single entry system, what term is commonly used to describe the owner's investments in the business?
a. Drawings
b. Liabilities
**c. Capital**
d. Revenue

**75.** What role does the statement of affairs play in financial analysis for a business?
a. Evaluating daily transactions
b. Assessing the liquidity position
c. Calculating monthly profit
d. **Providing a snapshot of financial health**

**76.** What is the conversion method used for in a single entry system?
a. Calculating net income
b. **Converting cash transactions to accrual basis**
c. Determining owner's equity
d. Analyzing cash flow

77. Which financial statement is the primary focus of the conversion method?
    **a. Income statement**
    b. Balance sheet
    c. Cash flow statement
    d. Trial balance

78. In the conversion method, what adjustments are made to cash transactions to convert them to accrual basis?
    a. Deducting expenses only
    **b. Adding revenues and deducting expenses**
    c. Adding expenses and deducting revenues
    d. Adding assets only

79. What is the purpose of adjusting revenues in the conversion method?
    a. To overstate profits
    **b. To match revenues with related expenses**
    c. To increase cash flow
    d. To decrease owner's equity

80. In the conversion method, how are prepaid expenses typically treated?
    **a. Added to expenses**
    b. Deducted from expenses
    c. Ignored
    d. Treated as revenues

81. Which of the following is an example of an adjustment made to convert cash transactions to accrual basis?
    a. Deducting accounts payable
    **b. Adding depreciation expense**
    c. Deducting cash sales
    d. Adding cash purchases

82. What adjustment is made for unearned revenues in the conversion method?
    a. Adding to expenses
    b. Adding to liabilities
    c. **Deducting from assets**
    d. Ignoring

83. How accrued expenses are typically treated in the conversion method?
    a. **Added to expenses**
    b. Deducted from expenses

c. Ignored
d. Treated as revenues

84. What is the primary benefit of using the conversion method in a single entry system?
a. Simplifies financial reporting
b. Provides a cash-focused view
c. Aligns with tax regulations
d**. Matches revenues and expenses more accurately**

85. Which financial statement is affected by the adjustments in the conversion method?
a. Balance sheet
b. **Income statement**
c. Cash flow statement
d. Statement of affairs

86. How accounts are receivable adjusted in the conversion method?
a. Deducted from revenues
b. Added to expenses
c. Ignored
d. **Added to revenues**

87. What happens to the owner's equity during the conversion process in a single entry system?
a. **It remains unchanged**
b. It increases
c. It decreases
d. It is not relevant

88. In the conversion method, how are bad debts typically treated?
a. Deducted from revenues
b. **Added to expenses**
c. Ignored
d. Added to revenues

89. What is the primary challenge of the conversion method in a single entry system?
a. Complexity
b. Lack of accuracy
c. Inefficiency
d. **Limited financial information**

90. How is the conversion method different from the double entry system?
a. It does not require adjustments

b. **It focuses only on cash transactions**
c. It does not consider owner's equity
d. It is more complex

91. What adjustment is made for accrued revenues in the conversion method?
a. Adding to assets
b. Adding to expenses
c. **Deducting from liabilities**
d. Ignoring

92. How does the conversion method handle the adjustment for depreciation?
a. **Deducts it from assets**
b. Adds it to liabilities
c. Records it as revenue
d. Ignores it

93. What term is used to describe the process of adjusting cash transactions to accrual basis in the conversion method?
a. Cash accounting
b. Accrual conversion
c. **Modified cash basis**
d. Adjusted cash flow

94. In the conversion method, how are long-term liabilities typically treated?
a. **Ignored**
b. Added to liabilities
c. Deducted from assets
d. Treated as expenses

95. What is the role of the conversion method in financial reporting?
a. To create a cash flow statement
b. To prepare a balance sheet
c. **To adjust cash transactions to reflect economic reality**
d. To calculate owner's equity

96. Which financial statement is least affected by the conversion method adjustments?
a. **Balance sheet**
b. Income statement
c. Cash flow statement
d. Trial balance

97. What is the primary reason for adjusting expenses in the conversion method?
a. To overstate profits

**b. To match expenses with related revenues**
c. To decrease cash flow
d. To increase owner's equity

98. How does the conversion method handle the adjustment for prepaid revenues?
a. **Adding to assets**
b. Adding to liabilities
c. Deducting from revenues
d. Ignoring

99. What role does the conversion method play in improving financial analysis in a single entry system?
a. **Enhances accuracy**
b. Simplifies transactions
c. Reduces complexity
d. Focuses on cash transactions

100. In the conversion method, what adjustment is made for the decrease in the value of an asset over time?
a. Deducting from liabilities
b. **Deducting from expenses**
c. Ignoring
d. Adding to assets

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# UNIT 5

1. What is royalty in business?
   a. A type of tax
   b. **Payment for the use of intellectual property**
   c. Employee salary
   d. Dividends to shareholders

2. In the context of business, what is the primary purpose of paying royalty?
   a. Supporting charitable causes
   b. Rewarding employees
   c. **Gaining permission to use intellectual property**
   d. Funding research and development

3. Which of the following is an example of intellectual property that may involve royalty payments?
   a. Office furniture
   b. **Copyrighted music**

c. Cleaning supplies
d. Electricity bills

4. How royalty payments are typically calculated?
a. **Fixed percentage of revenue**
b. Fixed annual amount
c. Hourly rate
d. Based on profits

5. What term is used to describe a person or entity receiving royalty payments?
a. **Licensor**
b. Licensee
c. Lessee
d. Lender

6. In which industry is royalty commonly associated with the use of trademarks and brand names?
a. Healthcare
b. Technology
c. **Entertainmen**t
d. Agriculture

7. What is the significance of a royalty agreement in business transactions?
a. It ensures compliance with tax regulations
b. **It defines the terms for using intellectual property and sets royalty rates**
c. It determines employee salaries
d. It specifies office space requirements

8. What type of intellectual property is often associated with patent royalties?
a**. Inventions and innovations**
b. Literary works
c. Trademarks
d. Musical compositions

9. In a franchise business model, what is the franchisee required to pay to the franchisor?
a. Salary
b. **Royalty fees**
c. Insurance premiums
d. Bonuses

10. Which of the following is a benefit of paying royalty fees for the use of intellectual property?

a. Increased taxes
b. **Legal protection**
c. Reduced business expenses
d. Exemption from regulations

11. What is the typical frequency of royalty payments in business agreements?
a. Monthly
b. Quarterly
c. Annually
d. **Variable, depending on the agreement**

12. In the music industry, what type of royalty is paid to songwriters and composers for the use of their music?
a. **Mechanical royalties**
b. Patent royalties
c. Trademark royalties
d. Franchise royalties

13. Which factor is commonly considered in determining the royalty rate for intellectual property?
a. Employee salaries
b. **Industry standards**
c. Office location
d. Business profits

14. What is the purpose of a royalty audit in business?
a. To calculate employee salaries
b. To ensure compliance with tax regulations
c. **To verify and audit royalty payments**
d. To assess office space requirements

15. In a software licensing agreement, what type of royalty might be applicable?
a. Performance royalty
b. Patent royalty
c. **Copyright royalty**
d. Franchise royalty

16. What legal document typically outlines the terms and conditions of royalty payments?
a. Business plan
b. Employment contract
c. **Royalty agreement or contract**
d. Financial statement

17. In the context of book publishing, what type of royalty is paid to authors based on the book's sales?
    a. Licensing royalty
    b. Advance royalty
    c. **Book royalty**
    d. Trademark royalty

18. What is the purpose of an advance royalty payment in certain contracts?
    a. **To cover initial expenses**
    b. To reduce overall royalty payments
    c. To ensure prompt payment
    d. To provide a bonus to the licensor

19. What industry commonly uses licensing agreements that involve royalty payments?
    a. Agriculture
    b. Real estate
    c. **Technology**
    d. Construction

20. What term is used to describe the right to use a trademark or brand name in a specific geographic area?
    a. Patent
    b. Copyright
    **c. Franchise**
    d. License

21. In the film industry, what type of royalty might actors receive for reruns or syndication of their work?
    a. Mechanical royalty
    b. Performance royalty
    c. **Residual royalty**
    d. Trademark royalty

22. What is the primary difference between royalty payments and licensing fees?
    a. They are synonymous terms
    b. Licensing fees are paid annually, while royalty payments are one-time
    c. **Licensing fees are fixed, while royalty payments are variable**
    d. Royalty payments are only applicable to patents

23. In a licensing agreement, what does the licensor grant to the licensee?
    a. Royalty payments
    b. **Intellectual property rights**
    c. Employee benefits
    d. Insurance coverage

24. What is the purpose of a sublicense in the context of royalty agreements?
    a. To increase royalty rates
    b. **To grant additional rights to third parties**
    c. To reduce royalty payments
    d. To exempt the licensee from payments

25. In the context of mineral rights, what type of royalty might landowners receive for allowing mining on their property?
    a**. Oil royalty**
    b. Patent royalty
    c. Copyright royalty
    d. Franchise royalty

26. What term is used to describe the right to reproduce, distribute, and display a work?
    a. **Copyright**
    b. Trademark
    c. Patent
    d. Royalty

27. Which of the following is NOT a common form of intellectual property that may involve royalty payments?
    a. Trademark
    b. Patent
    c. **Employee salary**
    d. Copyright

28. What type of industry often relies on royalty payments for the use of proprietary technology or inventions?
    a. Retail
    b. Manufacturing
    c**. Technology**
    d. Agriculture

29. In the context of trademark licensing, what does the licensee gain the right to do?
    a. Receive royalties
    b. **Use the trademark in a specific manner**
    c. Sublicense the trademark
    d. Avoid royalty payments

30. What is the primary reason for including a confidentiality clause in a royalty agreement?
    a. To disclose financial information
    b. To ensure compliance with tax regulations

c. **To protect sensitive business information**
d. To calculate employee salaries

31. In the context of the music industry, what type of royalty is paid to artists when their music is played on the radio?
a**. Performance royalty**
b. Mechanical royalty
c. Residual royalty
d. Trademark royalty

32. How are trademark royalties often structured in franchise agreements?
a. **As a fixed percentage of revenue**
b. As a fixed annual amount
c. As an hourly rate
d. Based on profits

33. What is the primary purpose of a trademark or brand name in business?
a. To confuse customers
b. To increase employee salaries
c. **To identify and distinguish products or services**
d. To avoid tax payments

34. In the context of intellectual property, what does the term "licensing" refer to?
a. The process of obtaining patents
b. **The right to use someone else's intellectual property**
c. The calculation of employee salaries
d. The production of copyrighted works

35. In the fashion industry, what type of royalty might designers receive for the use of their designs by other companies?
a. Patent royalty
b. **Copyright royalty**
c. Trademark royalty
d. Performance royalty

36. What type of industry is often associated with residual royalties?
a. Technology
b. **Entertainment**
c. Healthcare
d. Manufacturing

37. What is the primary factor influencing the amount of royalty payments in a licensing agreement?

a. Employee salaries
b. **Industry standards**
c. Office location
d. Business profits

38. In a patent licensing agreement, what is the licensor granting to the licensee?
a. Right to reproduce copyrighted works
b**. Right to use a patented invention**
c. Right to display trademarks
d. Right to perform copyrighted music

39. What term is used to describe the right to use a patented invention for a specified period? a. Patent royalty
b. Copyright royalty
c. Trademark royalty
d**. License**

40. In the context of franchise agreements, what type of royalty might be paid by the franchisee to the franchisor for ongoing support?
a. Trademark royalty
b. Copyright royalty
c. **Franchise royalty**
d. Performance royalty

41. What role does royalty play in fostering innovation and creativity?
a. Discourages innovation
b. **Encourages innovation by providing financial incentives**
c. Has no impact on innovation
d. Increases taxes on innovation

42. In a patent licensing agreement, what is the term for the person or entity obtaining the right to use the patented invention?
a. Licensor
b. **Licensee**
c. Lessee
d. Lender

43. How does a royalty fee differ from a sales commission?
a. They are synonymous terms
b. Royalty fees are paid by the seller, while commissions are paid by the buyer
c**. Commissions are fixed, while royalty fees are variable**
d. Commissions are only applicable to patents

44. In the context of music streaming, what type of royalty might be paid to artists for each stream of their songs?
    a. Mechanical royalty
    b. **Performance royalty**
    c. Residual royalty
    d. Trademark royalty

45. What is the primary consideration for a business when negotiating royalty rates in an agreement?
    a. Employee salaries
    b. **Industry standards**
    c. Office location
    d. Business profits

46. What term is used to describe a payment made to an author before a book is published?
    a. Licensing fee
    b. **Advance royalty**
    c. Book royalty
    d. Trademark royalty

47. What is the primary purpose of including a termination clause in a royalty agreement?
    a. To increase royalty rates
    b. To grant additional rights to third parties
    c. **To protect both parties in case of contract termination**
    d. To avoid royalty payments

48. In a trademark licensing agreement, what type of royalty might be paid for the right to use a famous brand name?
    a. Patent royalty
    b. Copyright royalty
    c. **Trademark royalty**
    d. Franchise royalty

49. What is the primary role of a patent in business?
    a. To confuse customers
    b. To increase employee salaries
    c**. To protect inventions and innovations**
    d. To avoid tax payments
50. In a copyright licensing agreement, what right does the licensee gain?
    a. **Right to reproduce copyrighted works**
    b. Right to use a patented invention
    c. Right to display trademarks
    d. Right to perform copyrighted music

51. What does the Average Clause in insurance policies refer to?
    a. The median claim amount
    b. A clause to calculate premium
    c. **A method for determining the insured's contribution in case of underinsurance**
    d. An exclusion for certain types of losses

52. In insurance, what is meant by "underinsurance" in the context of the Average Clause?
    a. Insuring more than the actual value
    b. Insuring exactly the actual value
    c**. Insuring less than the actual value**
    d. Not insuring at all

53. What property is typically covered under the Average Clause for Loss of Stock?
    a. Buildings
    b. Vehicles
    c. **Inventory**
    d. Cash

54. How is the claim amount calculated under the Average Clause when there is underinsurance?
    a. **Actual loss × (Insured amount / Actual value)**
    b. Actual loss × (Actual value / Insured amount)
    c. Insured amount × (Actual loss / Actual value)
    d. Actual value × (Actual loss / Insured amount)

55. Under the Average Clause, what is the purpose of determining the "percentage of underinsurance"?
    a. To calculate the premium
    b. To determine the deductible
    c. **To assess the insured's contribution to the loss**
    d. To exclude certain perils

56. What is the formula for calculating the percentage of underinsurance?
    a. [(Insured amount - Actual value) / Actual value] × 100
    b. [(Actual value - Insured amount) / Insured amount] × 100
    c. **[(Actual value - Insured amount) / Actual value] × 100**
    d. [(Insured amount - Actual value) / Insured amount] × 100

57. What happens to the claim amount when there is no underinsurance under the Average Clause?
    a. The claim amount is reduced
    b. The claim amount is increased

c**. The claim amount remains unchanged**
d. The claim is denied

58. Under the Average Clause, what does the "actual value" refer to?
a. **The market value of the insured property**
b. The depreciated value of the insured property
c. The replacement cost of the insured property
d. The salvage value of the insured property

59. In the context of insurance, what is the primary purpose of the Average Clause?
a. To calculate the premium
b. To discourage claims
c. **To ensure equitable contribution by the insured**
d. To exclude certain perils

60. Under the Average Clause, if the insured amount is equal to the actual value, what is the impact on the claim amount?
a. The claim amount is reduced
b. The claim amount is increased
**c. The claim amount remains unchanged**
d. The claim is denied

61. How does underinsurance affect the insured's contribution to the claim amount under the Average Clause?
a. **Increases the insured's contribution**
b. Decreases the insured's contribution
c. Has no impact on the insured's contribution
d. Eliminates the insured's contribution

62. What factor determines whether the Average Clause is applicable in an insurance claim?
a. The insurance company's policy
b. The insured's financial status
c. The cause of the loss
d. **The presence of underinsurance**

63. In the context of insurance, what does "pro-rata liability" mean under the Average Clause? a. The insurer's responsibility to pay the entire claim amount
b. The insured's responsibility to pay the entire claim amount
c. **The equitable sharing of the loss between the insurer and the insured**
d. The exclusion of certain perils from coverage

64. What is the purpose of the Average Clause in preventing overinsurance?
    a. To discourage claims
    b. To calculate the premium
    c. **To ensure fair and accurate indemnification**
    d. To exclude certain perils

65. Under the Average Clause, what term is used to describe the difference between the insured amount and the actual value?
    a. Deductible
    b. Excess
    c. **Underinsurance**
    d. Surplus
66. When the Average Clause is typically triggered in the context of insurance claims?
    a. In the presence of specific perils
    b. When there is over insurance
    c. **When there is underinsurance**
    d. In the absence of a deductible

67. What is the primary drawback for the insured in the presence of the Average Clause?
    a. Reduced premiums
    b. Increased claim payments
    c. **Potential financial contribution to the claim**
    d. Automatic full indemnification

68. How does the Average Clause impact the calculation of the claim amount when there is underinsurance?
    a. Increases the claim amount
    b. **Reduces the claim amount**
    c. Has no impact on the claim amount
    d. Leads to claim denial

69. What term is used to describe the practice of insuring property for less than its actual value?
    a. **Under insurance**
    b. Over insurance
    c. Excess insurance
    d. Full insurance

70. What role does the insurance company play in determining the impact of the Average Clause on a specific claim?
    a. Decides the insured's contribution
    b. Calculates the actual value
    c. **Applies the Average Clause formula**
    d. Determines the cause of the loss

71. In the context of insurance claims, what is the purpose of the Average Clause formula?
    a. To calculate the insured's contribution
    b. To determine the cause of the loss
    c. To assess the deductible
    d**. To calculate the claim amount when there is underinsurance**

72. Under the Average Clause, what is the insured's contribution proportional to?
    a. The cause of the loss
    b. The deductible
    c. **The percentage of under insurance**
    d. The salvage value

73. What is the key factor in determining whether the Average Clause will lead to a reduced claim payment?
    a. The market value of the property
    b. The cause of the loss
    c**. The presence of under insurance**
    d. The deductible amount

74. What term is used to describe a situation where the insured amount is greater than the actual value of the property?
    a. Under insurance
    b. **Over insurance**
    c. Deductible
    d. Surplus

75. How does the Average Clause impact the insured's responsibility in case of a covered loss? a. Reduces the insured's responsibility
    b. **Increases the insured's responsibility**
    c. Eliminates the insured's responsibility
    d. Has no impact on the insured's responsibility

76. Under the Average Clause, what term is used to describe the maximum amount that can be claimed by the insured?
    a. Excess
    b. Deductible
    c. Salvage value
    d. **Policy limit**

77. What factor is crucial in determining the impact of the Average Clause on a specific claim? a. The cause of the loss

b. The insured's financial status
c. The insurance company's policy
d. **The percentage of under insurance**

78. What does the term "averaging" refer to in the context of the Average Clause?
a. Determining the average premium
b. Calculating the average claim amount
c. **Equitably sharing the loss between the insurer and the insured**
d. Excluding certain perils

79. What term is used to describe the insured's contribution to a loss when underinsurance is present?
a. Deductible
b. Salvage value
c. Surplus
d. **Co-insurance**

80. Under the Average Clause, what factor determines the insured's contribution to the loss?
a. The deductible
b. The cause of the loss
c. **The percentage of under insurance**
d. The salvage value

81. What term is used to describe the portion of the claim that the insured is responsible for paying?
a. **Deductible**
b. Co-insurance
c. Salvage value
d. Excess

82. What is the primary objective of the Average Clause in insurance policies?
a. To discourage claims
b. To calculate the premium
c. **To ensure fair and accurate indemnification**
d. To exclude certain perils

83. In the context of insurance, what does the term "salvage value" refer to?
a. The market value of the property
b**. The value of property after a loss**
c. The insured amount
d. The deductible amount

84. Under the Average Clause, what is the impact on the insured's contribution when the insured amount is equal to the actual value?
    a**. The insured's contribution is eliminated**
    b. The insured's contribution is increased
    c. The insured's contribution remains unchanged
    d. The insured's contribution is reduced

85. What term is used to describe a situation where the insured amount is less than the actual value, but the loss is fully indemnified?
    a. Underinsurance
    b. Over insurance
    c. **Average value**
    d. Full indemnification

86. Under the Average Clause, what does the term "co-insurance" refer to?
    a. **The equitable sharing of the loss between the insurer and the insured**
    b. The market value of the property
    c. The insured's financial contribution to the loss
    d. The percentage of underinsurance

87. What term is used to describe a situation where the insured amount is greater than the actual value, and the loss is fully indemnified?
    a. Underinsurance
    b. **Over insurance**
    c. Deductible
    d. Co-insurance

88. Under the Average Clause, what is the insured's responsibility in case of over insurance?
    a. No responsibility, full indemnification
    b. **Full responsibility, no indemnification**
    c. Partial responsibility
    d. No impact on responsibility

89. In the context of the Average Clause, what does "co-insurance clause" typically refer to in insurance policies?
    a. A clause determining the deductible
    b. A clause excluding certain perils
    c. **A clause applying the Average Clause formula**
    d. A clause specifying policy limits

90. What is the primary purpose of the Average Clause formula in insurance claims?
    a. To calculate the insured's contribution

b. To determine the cause of the loss
c. To assess the deductible
d**. To calculate the claim amount when there is underinsurance**

91. Under the Average Clause, what is the insured's contribution based on when there is underinsurance?
a. The market value of the property
b. The deductible
c. **The percentage of underinsurance**
d. The salvage value

92. What is the primary impact of the Average Clause on the insured when there is no underinsurance?
a. The insured's contribution is eliminated
b. The insured's contribution is increased
c. **The insured's contribution remains unchanged**
d. The insured's contribution is reduced

93. In the context of insurance, what does the term "indemnification" mean?
a. The insured's financial contribution to the loss
b. The insurer's responsibility to pay the entire claim amount
c. The equitable sharing of the loss between the insurer and the insured
d. **The act of compensating for a loss**

94. What is the primary goal of the Average Clause in ensuring fairness in insurance claims?
a. Reducing premiums
b. Eliminating claims
c. Discouraging over insurance
d**. Ensuring equitable sharing of the loss**

95. Under the Average Clause, what term is used to describe a situation where the insured amount is less than the actual value, and the loss is not fully indemnified?
a. **Underinsurance**
b. Over insurance
c. Deductible
d. Co-insurance

96. What term is used to describe the value of property after a loss has occurred?
a. Actual value
b. **Salvage value**
c. Replacement cost
d. Market value

97. Account for loyalty is ______
    a. **Nominal account**
    b. Personal account
    c. Real account
    d. Both (a) and (b)

98. It is possible to recover short workings from ________
    a. Minimum rent
    b. **Excess of actual royalty over**
    c. Excess of minimum rent over actual royalty
    d. Profit and loss account

99. Lessee debits royalty owed to ___________
    a. **Royalty account**
    b. Landlord account
    c. Profit and loss account
    d. Short working's

100. The lessee's gained loyalty to _________
    a. Sub-lease account
    b. Profit and loss account
    c. **Royalty account**
    d. All the above

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**IMPORTANT TERMS USED IN FINANCIAL ACCOUNTING 1**

**Debit:**

The left side of a journal entry. Debits increase assets and expenses or decrease liabilities and income.

**Credit:**

The right side of a journal entry. Credits increase liabilities and income or decrease assets and expenses.

**Account:**

A record used to classify and summarize financial transactions. Examples include Cash, Accounts Receivable, and Accounts Payable.

**Transaction:**

Any financial event that affects the financial position of a business and can be recorded in the accounting records.

**Double-Entry Accounting:**

The accounting system where every transaction affects at least two accounts, with debits equaling credits. This ensures the accounting equation (Assets = Liabilities + Equity) stays balanced.

**Journal:**

The initial record where transactions are first entered before being transferred to ledgers. Common types include the general journal, sales journal, and cash receipts journal.

**Ledger:**

A collection of accounts and their balances, providing a detailed record of financial transactions.

**Trial Balance:**

A list of all accounts and their balances to ensure that debits equal credits and that the accounting equation is in balance.

**Chart of Accounts:**

A listing of all accounts used by a company, typically organized in a numerical or alphabetical order for easy reference.

**Posting:**

The process of transferring amounts from the journal to the ledger.

**Closing Entries:**

Journal entries made at the end of an accounting period to close temporary accounts (revenue, expense, and dividend accounts) and transfer their balances to the retained earnings account.

**Accruals:**

Recognition of revenues or expenses before the cash is received or paid.

Prepaid Expenses: Expenses paid in advance, recorded as assets until they are used or consumed.

**Depreciation:**

The systematic allocation of the cost of a long-term asset over its useful life.

**Adjusting Entries:**

Entries made at the end of an accounting period to ensure that revenues and expenses are properly matched and that the financial statements reflect the true financial position of the company.

**Financial Statements:**

Reports that summarize the financial performance and position of a business, including the income statement, balance sheet, and cash flow statement.

**Revenue:**

The total income generated by a business from its primary operations, often composed of sales or service income.

**Expenses:**

The costs incurred by a business in its normal operating activities, including items like rent, wages, utilities, and supplies.

**Net Income (Net Profit or Net Loss):**

The difference between total revenue and total expenses. If revenue exceeds expenses, it's a net profit; if expenses exceed revenue, it's a net loss.

**Gross Profit:**

Revenue minus the cost of goods sold (COGS). It represents the profit generated from a company's core operations.

**Operating Income:**

Gross profit minus operating expenses. It reflects the profit from a company's normal business operations.

**Operating Expenses:**

Costs incurred in the day-to-day running of the business, such as rent, wages, and utilities.

**Non-operating Income and Expenses:**

Revenues and expenses not directly related to the core business operations, such as interest income or interest expenses.

**Other Income and Expenses:**

Miscellaneous income and expenses not included in operating or non-operating categories.

**Earnings before Interest and Taxes (EBIT):**

A measure of a company's profitability that excludes interest and income tax expenses.

**Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA):**

An indicator of a company's operating performance, excluding certain non-cash expenses.

**Balance Sheet:**

A financial statement that provides a snapshot of a company's financial position at a specific point in time, detailing assets, liabilities, and equity.

**Assets:**

Resources owned by a business, including cash, accounts receivable, inventory, property, and equipment.

**Liabilities:**

Obligations or debts owed by a business, such as accounts payable, loans, and accrued expenses.

**Equity:**

The residual interest in the assets of the entity after deducting liabilities. It includes owner's equity for a sole proprietorship or partnership and shareholder's equity for a corporation.

**Current Assets:**

Assets expected to be converted into cash or used up within one year, such as cash, receivables, and inventory.

**Current Liabilities:**

Obligations expected to be settled within one year, including accounts payable, short-term debt, and accrued expenses.

**Working Capital:**

The difference between current assets and current liabilities, indicating a company's short-term liquidity.

**Retained Earnings**:

Accumulated profits that a company has retained rather than distributed as dividends.

**Dividends:**

Distributions of profits to the shareholders of a company.

**Cash Flow Statement:**

A financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents.

**Royalty**

Payment made by one party (often a licensee) to another party (usually a licensor or copyright holder) for the right to use a particular asset, such as intellectual property.

**Intellectual Property (IP):**

Creations of the mind, such as inventions, literary and artistic works, designs, symbols, names, and images used in commerce, for which exclusive rights are recognized.

**Licensor:**

The party that grants permission to another party to use its intellectual property under specific terms and conditions.

**Licensee:**

The party that receives permission (a license) to use intellectual property owned by another party, usually in exchange for payment of royalties.

**Copyright:**

A legal right that grants the creator of an original work exclusive rights for its use and distribution, usually for a limited time, with the intention of enabling the creator to receive compensation.

**Patent:**

A form of intellectual property that gives its owner the legal right to exclude others from making, using, selling, and importing an invention for a limited period.

**Trademark:**

A recognizable sign, design, or expression that identifies products or services of a particular source and distinguishes them from others.

**Mechanical Royalties:**

Payments made to the copyright holder for the use of recorded music, typically based on the number of copies sold or the number of times a song is mechanically reproduced.

**Performance Royalties:**

Payments made to the copyright holder for the public performance or broadcast of a work, such as music played on the radio or in live performances.

**Residuals:**

Payments made to performers, writers, and other contributors for the reuse or rebroadcast of their work, often in the context of film and television.

**Advance:**

An upfront payment made by the licensee to the licensor before any royalties are earned, often against future royalty earnings.

**Minimum Guarantee:**

A fixed amount agreed upon by the licensee to be paid to the licensor, regardless of actual sales or usage, often found in licensing agreements.

**Subsidiary Rights:**

The rights to use intellectual property in additional formats or markets beyond the original license, such as adapting a book into a film or translating a song into another language.

**Drawer:**

The person or entity that creates and issues the bill of exchange. The drawer orders the drawee to pay a specified amount to the payee.

**Drawee:**

The party upon whom the bill is drawn, and who is expected to make the payment. The drawee is typically the buyer or importer.

**Payee:**

The person or entity to which the payment is directed. The payee is usually the seller or exporter.

**Holder:**

The person who holds the bill of exchange and is entitled to receive the payment. The holder may be the payee or a subsequent endorsee.

**Endorsement:**

The act of signing the back of the bill by the payee (or subsequent holders), transferring the right to receive payment to another party. There can be blank or special endorsements.

**Bearer Instrument:**

A bill of exchange that is payable to the bearer and does not specify a particular payee. It can be transferred by delivery.

**Order Instrument:**

A bill of exchange that is payable to a specific person or their order. It requires endorsement for transfer.

**Acceptance:**

The drawee's formal agreement to pay the bill of exchange. This is usually indicated by the drawee signing the bill.

**Maturity Date:**

The date on which the bill of exchange becomes due for payment. It is the date on which the drawee is required to make the payment to the payee.

**Discounting:**

The process of selling a bill of exchange to a bank or a financial institution before its maturity date. The holder receives immediate funds, but at a discounted value.

**Usance:**

The period allowed for payment in a bill of exchange. It represents the credit period given to the drawee.

**Forfaiting:**

A financing arrangement where a forfeiter purchases a bill of exchange at a discount without recourse to the seller. The forfeiter assumes the risk of non-payment.

**Bill of exchange Act:**

Legal statutes that regulate the use and issuance of bills of exchange, providing a framework for their operation.

**Dishonor:**

The refusal or failure of the drawee to accept or pay the bill of exchange on the maturity date.

**Noting and Protest:**

Formal procedures carried out by a notary public in case of dishonour, providing evidence of the dishonour.

**Depreciation:**

The systematic allocation of the cost of a tangible asset over its estimated useful life. It reflects the wear and tear, obsolescence, or loss of value of the asset

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**Tangible Asset:**

An asset that has a physical existence, such as machinery, buildings, vehicles, or equipment. Depreciation is typically applied to tangible assets.

**Book Value:**

The carrying amount of an asset on the balance sheet, calculated as the original cost of the asset minus accumulated depreciation.

**Useful Life:**

The estimated period over which an asset is expected to provide economic benefits. It is a key factor in determining the annual depreciation expense.

**Salvage Value:**

The estimated residual value of an asset at the end of its useful life. It represents the amount the company expects to receive from selling or disposing of the asset.

**Straight-Line Depreciation:**

A method of allocating the cost of an asset evenly over its useful life. The formula for straight-line depreciation is (Cost - Salvage Value) / Useful Life.

**Declining Balance Depreciation:**

A method of depreciation that applies a constant rate to the remaining book value of an asset. It results in higher depreciation expenses in the earlier years of an asset's life.

**Double Declining Balance Method:**

A specific form of declining balance depreciation that applies twice the straight-line rate to the book value of the asset.

**Units of Production Depreciation:**

A method of depreciation that allocates the cost of an asset based on its actual usage or production. The formula is (Cost - Salvage Value) / Total Units of Production.

**Depreciation Expense:**

The amount charged as an expense on the income statement to reflect the allocation of the cost of an asset over its useful life.

**Accumulated Depreciation:**

The total depreciation expense recognized for an asset since its acquisition. It is a contra-asset account and is subtracted from the asset's cost to determine its book value.

**Impairment:**

A reduction in the carrying amount of an asset below its book value due to external factors like a decline in market value, changes in technology, or other economic conditions.

**Residual Value:**

Another term for salvage value, representing the estimated value of an asset at the end of its useful life.

**Obsolete:**

When an asset is no longer useful or effective in generating economic benefits due to changes in technology or other factors.

**Cost of Capital:**

The rate of return that could be earned on an investment of similar risk. It is sometimes considered when determining the depreciation method.

**Policyholder:**

The person or entity that owns an insurance policy and is eligible to make a claim in the event of a covered loss.

**Insured:**

The individual or property covered by an insurance policy.

**Beneficiary:**

A person or entity designated to receive the benefits of an insurance policy, typically in the case of life insurance.

**Claimant:**

The person or entity that submits a claim to the insurance company seeking compensation for a covered loss.

**Insurance Claim:**

A formal request submitted by the policyholder or claimant to the insurance company for payment or coverage of a loss or damage as per the terms of the insurance policy.

**Coverage:**

The scope of protection provided by an insurance policy against specific risks or perils.

**Deductible:**

The amount of money that the policyholder must pay out of pocket before the insurance company starts covering the costs of a claim.

**Policy Limit:**

The maximum amount an insurance policy will pay for a covered loss.

**Exclusion:**

Specific risks or situations not covered by an insurance policy. Exclusions are listed in the policy document.

**Adjuster:**

A representative of the insurance company responsible for investigating, evaluating, and settling insurance claims.

**Claim Settlement:**

The process of finalizing a claim by the insurance company, including the determination of the amount to be paid to the policyholder or claimant.

**Proof of Loss:**

Documentation or evidence provided by the policyholder to support a claim, including details of the incident, photographs, receipts, and other relevant information.

**Reservation of Rights:**

A statement by the insurance company indicating that while it is investigating the claim, it is not waiving its right to deny coverage based on policy terms and conditions.

**Subrogation:**

The right of the insurance company to pursue legal action against a third party responsible for causing the loss for which a claim was paid.

**Underwriting:**

The process by which an insurance company evaluates the risks associated with insuring a particular individual, property, or business and determines the appropriate premium.

**Indemnity:**

The principle that insurance is designed to restore the policyholder to the same financial position they were in before the covered loss occurred.

**Loss Ratio:**

The ratio of incurred losses and loss adjustment expenses to earned premiums, often used to assess the profitability of an insurance policy or portfolio.

**Coverage Period:**

The timeframe during which the insurance policy is in effect, specifying when coverage begins and ends.

## ACCOUNTING TERMINOLOGY

**Assets:**

Resources owned by a business that have economic value, such as cash, accounts receivable, inventory, and property.

**Liabilities:**

Obligations or debts that a business owes to external parties, such as loans, accounts payable and accrued expenses.

**Equity:**

The residual interest in the assets of a business after deducting liabilities. It represents the owner's claim on the company's assets.

**Revenue:**

The total income earned by a business from its primary operations, often referred to as sales or sales revenue.

**Expenses:**

The costs incurred by a business in the process of generating revenue. Examples include rent, wages, utilities, and supplies.

**Income Statement:**

A financial statement that summarizes the revenues, expenses, and profits or losses over a specific period, usually a fiscal quarter or year.

**Balance Sheet:**

A financial statement that provides a snapshot of a company's financial position at a specific point in time, showing its assets, liabilities, and equity.

**Cash Flow Statement:**

A financial statement that shows the inflow and outflow of cash and cash equivalents over a specific period, categorizing activities as operating, investing, and financing.

**Accounts Receivable:**

Amounts owed to a company by its customers for goods or services provided on credit.

**Accounts Payable:**

Amounts owed by a company to its suppliers and vendors for goods or services received on credit.

**Depreciation:**

The systematic allocation of the cost of a long-term asset over its useful life to match its cost with the revenue it generates.

**Accruals:**

Recognition of revenues and expenses in the financial statements before the cash is received or paid.

**Double-Entry Accounting:**

A system of recording financial transactions that requires every transaction to have equal debits and credits.

**Trial Balance:**

A list of all the accounts in the general ledger with their debit or credit balances to ensure that debits equal credits.

**Financial Ratios:**

Calculations used to analyse a company's financial performance, liquidity, solvency, and profitability.

**GAAP (Generally Accepted Accounting Principles):**

A set of accounting standards and guidelines used in the preparation of financial statements in the United States.

**IFRS (International Financial Reporting Standards):**

International accounting standards that provide a common global language for business affairs.

## TYPES OF A/C & RULES OF DOUBLE ENTRY

1. **Personal A/c** : Debit the receiver & Credit the giver

2. **Real A/c** : Debit what comes in & Credit what goes out

3. **Nominal A/c** : Debit the expenses and losses & Credit the incomes and gains

## Journal Entry

**1.** When a business commences and capital is introduced in form of cash.

| | |
|---|---|
| Cash A/C | Debit |
| To capital A/C | Credit |

2. The sale of goods by a business on credit.

| | |
|---|---|
| Debtors A/c | Debit |
| To Sales A/c | Credit |

3. When a business purchases goods from a supplier on credit

| | |
|---|---|
| Purchase A/C | Debit |
| To Creditors A/c | Credit |

4. Following journal entries are required to be passed for cash discount:

**i. On receiving cash discount:**

| | |
|---|---|
| Creditor's A/c … | Debit |
| To Cash or Bank A/c | Credit |

To Discount Received A/c Credit

i. **On allowing cash discount:**

| | |
|---|---|
| Cash or Bank A/c | Debit |
| Discount Allowed A/c | Debit |
| To Debtors' A/c | Credit |

5. **Outstanding Expenses:**

It is that expense which related to current year but has not been paid till the end of the year.

| | |
|---|---|
| Expense A/c | Debit |
| To Outstanding Expense A/c | Credit |

6. **Prepaid Expenses:**

It is that expense which is paid during the current year but relate to the following accounting year.

| | |
|---|---|
| Prepaid Expense A/c | Debit |
| To Expense A/c | Credit |

7. **Sundry Expenses:**

These are the petty expenses that involve small amounts and therefore, are not material in nature. All such petty amounts are together recorded as Sundry Expenses:

| | |
|---|---|
| Sundry or Miscellaneous Expenses A/c | Debit |
| To Cash A/c | Credit |

8. **Accrued Income:**

It is the income which has been earned but has not been received or has not become due.

| | |
|---|---|
| Accrued Income A/c | Debit |
| To Income A/c | Credit |

9. **Advance Income:**

It is the income received but not earned.

Income A/c Debit

To Income received in Advance A/c Credit

10. **Depreciation:**

It is the fall in the value of fixed assets which decreases the asset value in the books every year.

Depreciation A/c Debit

To Assets A/c Credit

11. **Cash Purchase:**

Purchase A/c Debit

To Cash A/c Credit

12. **Cash Sales:**

Cash A/c Debit

To Sales A/c Credit

## FORMAT FOR TRADING AND PROFIT AND LOSS ACCOUNT

| Particulars | Rs | Rs | Particulars | Rs | Rs |
|---|---|---|---|---|---|
| To Opening Stock | | XXX | By Sales<br>Less Sales Return | XXX<br>XXX | <br><br>XXX |
| To Purchase<br>Less: Purchase Return | XXX<br>XXX | <br><br>XXX | By Closing Stock | | XXX |
| To Direct Expenses:<br>Carriage inward | | <br>XXX | By gross loss c/d | | XXX |
| To Wages | | XXX | | | |
| To Freight | | XXX | | | |
| To Import duty | | XXX | | | |
| To Gas & Fuel | | XXX | | | |
| To Factory Expenses | | XXX | | | |
| To gross profit c/d transferred to profit and loss A/c. | | XXX | | | |
| To Gross Loss b/d | | XXX | By Gross Profit b/d | | XXX |
| To Salaries | | XXX | By interest received | | XXX |

| | | | | | |
|---|---|---|---|---|---|
| To Rent & Rates | | XXX | By commission received | | XXX |
| To General Expenses | | XXX | To discount received | | XXX |
| To Advertising Expenses | | XXX | To rent received | | XXX |
| To Legal Charges | | XXX | To Bad debts recovered | | XXX |
| To Insurance | | XXX | By Net Loss transferred to capital A/c | | XXX |
| To Audit fees | | XXX | | | |
| To Interest on capital | | XXX | | | |
| To Interest on drawings | | XXX | | | |
| To Depreciation on assets | | XXX | | | |
| To Carriage outwards | | XXX | | | |
| To Bad debts | | XXX | | | |
| To discount allowed | | XXX | | | |
| To Net Profit transferred to capital A/c | | XXX | | | |
| | | XXX | | | XXX |

## FORMAT FOR BALANCE SHEET

| Liabilities | Rs | Rs | Assets | Rs | Rs |
|---|---|---|---|---|---|
| Capital<br>Add: Net profit<br>Add: Interest on capital<br><br>Less : Drawings<br>Less : Interest on drawings | XXX<br>XXX<br><br><u>XXX</u><br>XXX<br>XXX<br><br><br>XXX | <br><br><br><br><br><br><br><br>XXX | Fixed assets:<br>Goodwill<br>Land &<br>building<br>Loose tools<br>Furniture<br>Patents<br>Trade mark | | <br>XXX<br>XXX<br>XXX<br>XXX<br>XXX<br>XXX<br>XXX |
| Bank loan | | XXX | Investments | | XXX |
| Sundry creditors | | XXX | Closing stock | | XXX |
| Bills payable | | XXX | Debtors | | XXX |
| Bank overdraft | | XXX | Bills receivable | | XXX |
| Outstanding expenses | | XXX | Cash at bank | | XXX |
| | | | Cash in hand | | XXX |

| | | | | | |
|---|---|---|---|---|---|
| | | | Prepaid expenses | | XXX |

## JOURNAL ENTRIES FOR BILLS OF EXCHANGE

# Journal Entry for Bills of Exchange

Drawer's Books

| Date | Particulars | | Amount (Dr) | Amount (Cr) |
|---|---|---|---|---|
| 1. The issue of bill | Bills Receivable A/c | Dr. | xx | |
| | To Drawee's A/c | | | xx |
| | (Being bill was drawn and accepted) | | | |
| 2. The Bill is retained until maturity | No entry | | | |
| a. In case of honour | Cash/Bank A/c | Dr. | xx | |
| | To Bills Receivable A/c | | | xx |
| | (Being bill retained till maturity and payment received) | | | |
| b. In case of dishonour | Drawee's A/c | Dr. | xx | |

| | | | | |
|---|---|---|---|---|
| | To Bills Receivable A/c | | | xx |
| | (Being bill retained till maturity and dishonoured) | | | |
| 3. The bill is discounted with the bank | Bank A/c (amount actually received) | Dr. | xx | |
| | Discount A/c (amount of discount) | Dr. | xx | |
| | To Bills Receivable A/c | | | xx |
| | (Being bill discounted with the bank) | | | |
| a. In the case of honour | No entry | | | |
| b. In case of dishonour | Drawee's A/c | Dr. | xx | |
| | To Bank A/c | | | xx |
| | (Being discounted bill dishonoured) | | | |
| 4. The bill is endorsed | Creditor's/ Endorsee's A/c | Dr. | xx | |
| | To Bills Receivable A/c | | | xx |
| | (Being bill endorsed in favour of creditor) | | | |

| | | | | |
|---|---|---|---|---|
| a. In case of honour | No entry | | | |
| b. In case of dishonour | Drawee's A/c | Dr. | xx | |
| | To Creditor's/ Endorsee's A/c | | | xx |
| | (Being bill endorsed dishonoured) | | | |

Drawee's or the Payer's Books

| **Date** | **Particulars** | | **Amount (Dr)** | **Amount (Cr)** |
|---|---|---|---|---|
| 1. The issue of bill | Drawer's A/c | Dr. | xx | |
| | To Bills Payable A/c | | | xx |
| | (Being bill was drawn and accepted) | | | |
| 2. The Bill is retained until maturity | No entry | | | |
| a. In case of honour | Bills Payable A/c | Dr. | xx | |
| | To Cash/ Bank A/c | | | xx |
| | (Being payment made against the bill) | | | |

| | | | | |
|---|---|---|---|---|
| b. In case of dishonour | Bills Payable A/c | Dr. | xx | |
| | To Drawer's A/c | | | xx |
| | (Being bill dishonoured) | | | |
| 3. The bill is discounted with the bank | No entry | | | |
| | Bills Payable A/c | Dr. | xx | |
| | To Cash/ Bank A/c | | | xx |
| | (Being payment made against the bill) | | | |
| a. In case of honour | Bills Payable A/c | Dr. | xx | |
| b. In case of dishonour | To Drawer's A/c | | | xx |
| | (Being bill dishonoured) | | | |
| | No entry | | | |
| 4. The bill is endorsed | Bills Payable A/c | Dr. | xx | |

| | | | | |
|---|---|---|---|---|
| | To Cash/ Bank A/c | | | xx |
| | (Being payment made against the bill) | | | |
| a. In case of honour | Bills Payable A/c | Dr. | xx | |
| b. In case of dishonour | To Drawer's A/c | | | xx |
| | (Being bill dishonoured) | | | |

# About The Author

**Mrs. L.Manjula was born in 1994 in Hosur. She is currently working as an Assistant Professor in the Department of Commerce, St. Joseph's College of Arts and Science for Women, Hosur. She has completed M.Phil, in Periyar University. She has versatile experience of 6 years. She has published papers in National Journals. Her area of interest includes Finance, Marketing and Human Resource Management. Received the young Faculty Award from Novel research Academy, Registered under the ministry of MSME, Government of India.**

ISBN 978-936123916-8