Certificate in Business and Accounting

Accounting: MCQ Self - Assessment Questions 1

1. The primary purpose of Accounting is to provide information about:

   a) The financial performance and standing of an organisation
   b) The tax affairs of a company
   c) The financial future of a company
   d) Whether or not a company stayed within its budget.

2. The two main branches of accounting are:

   a) Farm and Service Accounting
   b) Financial and Management Accounting
   c) Financial and Tax Accounting
   d) Investment and Financial Accounting.

3. Bookkeeping is:

   a) The part of Accounting that refers to cash transactions only
   b) A subset of Accounting, leading up to a Trial Balance
   c) Essentially about ratio analysis
   d) Redundant, now that computers are used.

4. The 'Expectation Gap' refers to the difference between:

   a) The dividend that shareholders expect and what they actually receive
   b) The time lag between when accounts should be published and when they actually are
   c) The difference between budgeted and actual income
   d) The precision that users expect of accounts and what is realistically possible.

5. The main aim of the International Accounting Standards Board (IASB) is to:

   a) Make financial statements more comparable internationally
   b) Mediate on disputes between international accounting bodies
   c) Advise governments on Public Accounting matters
   d) Monitor compliance with ethical standards in accounting.

6. In bookkeeping, a ‘compensating error’ is one that:

   a) Cancels out another error arithmetically
   b) Simply inserts a figure in order to make both sides of a trial balance equal
   c) Requires that compensation be paid to the injured parties
   d) Allows too much cash discount for the early payment of debts.

7. The ‘Business Entity’ concept requires that:

   a) Financial accounts can report on only one entity at a time
   b) Each transaction should be treated as a separate entity in its own right
   c) The identity of shareholders must be concealed from outsiders
   d) The affairs of a business be kept strictly separate from those of its owner(s).

8. Financial Statements prepared on a ‘Going Concern’ basis means that the accounts have been prepared on the assumption that:

   a) An entity will continue in business for the foreseeable future
   b) There are concerns about the survival of the entity
   c) There are ongoing disputes about how certain items have been treated
   d) The entity is sufficiently conscious of its corporate social responsibilities.

9. The ‘Accruals’ basis for preparing financial statements comes from the:

   a) Prudence concept
   b) Matching concept.
   c) Duality concept.
   d) Money Measurement concept.

10. The Accounting Equation means that:

   a) Assets = Capital + Liabilities
   b) Assets = Capital – Liabilities
   c) Capital = Assets + Liabilities
   d) None of the above.

11. The technique that gives effect to the Accounting Equation is called:

   a) Ratio analysis
   b) Cash accounting
   c) Double-entry bookkeeping
   d) Capital accounting.

12. A basic rule of double-entry bookkeeping is:

   a) Every debit entry must be matched by another debit entry
   b) Debit the giver and credit the receiver
   c) The keeping of two sets of books is permitted under certain circumstances
   d) None of the above.

13. In a garage, a motor car purchased by cash and intended for resale should be treated as:

    a) A Fixed asset
    b) A liability
    c) A Current Asset
    d) An expenses.

14. Cash received from P. Brown (a debtor) was posted in error to the account of R. Brown. The correcting entries for this would be:

    a) Debit P. Brown's account and credit the account of R. Brown
    b) Debit R. Brown's account and credit the account of P. Brown
    c) Debit R. Brown's account and credit the Sales account
    d) Debit R. Brown's account and credit the Cash account.

15. Which of the following errors would cause the trial balance not to balance?

    a) Errors of Principle
    b) Compensating Errors
    c) Errors of Omission
    d) Transposing a figure when posting.

16. Writing off a debt due by a customer for goods purchased last month would require which of the following entries?

    a) Debit the debtor's account and credit bad debts account
    b) Debit the debtor's account and credit the provision for doubtful debts account
    c) Credit the debtor's account and debit bad debts account
    d) Debit the sales account and credit bad debts account.

17. Entering the balance of €20 on an expense account on the wrong side of a Trial Balance would throw the Trial Balance out by:

    a) €20
    b) €40
    c) Nil amount
    d) €10.

18. The credit column in a trial balance contains only balances on:

    a) Expense and Asset accounts
    b) Income and Asset accounts
    c) Income and Liability accounts
    d) Liability and Asset accounts.

19. Charging the purchase of a Fixed Asset to the Purchases Account will result in:

    a) A reduction in the Gross Profit for the year
    b) An increase in the Gross Profit for the year
    c) An increase in the Current Assets at the year end
    d) An increase in depreciation for the year.

20. Cash received this year from a debtor whose account was totally written off last year should be treated as:

    a) Credit sales
    b) Cash sales
    c) Miscellaneous Income
    d) A liability.

21. A trial Balance is:

    a) A list of all the debtors on the books as at a given time
    b) The first draft of the Balance Sheet
    c) A list of all the accounts in arrears as at a given date
    d) A list of all the balances in the accounts in the ledger as at a given date.

22. The ‘Cost of Goods Sold’ is:

    a) The difference between Sales and Net Profit.
    b) The difference between Sales and Gross Profit
    c) Purchases + Opening Stock + Closing Stock
    d) Purchases - Opening Stock + Closing Stock.

23. Overlooking stock costing €300 in the year-end stocktake will:

    a) Inflate the gross profit for the year
    b) Inflate the net profit for the year
    c) Inflate current assets as at the year-end
    d) Understate current assets as at the year-end.

24. Overstating an Accrual as at the year-end would:

    a) Understate expenses for the year
    b) Understate profits for the year
    c) Overstate current assets as at the year-end
    d) Understate the net book value of fixed assets as at the year-end.

25. In the year-end financial statements for a sole trader, net profit for the year is:

    a) Deducted from Capital in the balance sheet
    b) Deducted from Current Assets in the balance sheet
    c) Added to Capital in the balance sheet
    d) Included in Liabilities for tax purposes.

26. In the accounts of sole traders, goods taken from stock during the year for personal use by the owner are treated as follows:

    a) Debited to Drawings (at the selling price when taken) and credited to Purchases
    b) Credited to Drawings (at cost) and debited to Purchases
    c) Regarded as Sales
    d) None of the above.

27. Which one of the following would never be shown in the Balance Sheet?

    a) Depreciation to date
    b) Accrued expenses
    c) Long term loans
    d) Bad debts written off.

28. Where the Cost of goods sold was €50,000, Purchases were €40,000 and Closing Stock was valued at €7,000, Opening Stock amounted to:

    a) €17,000
    b) €1,700
    c) €3,000
    d) €10,000.

29. If Gross Profit for the year was €42,000, Miscellaneous Income came to €5,000, and Expenses amounted to €35,000, the Net Profit was:

    a) €1,200
    b) €2,000
    c) €12,000
    d) €37,000.

30. If the Owner's Capital amounted to €100,000 Long Term Loans to €50,000 and Drawings to €7,000 and the Balance Sheet Total was €200,000, the Net Profit for the year was:

    a) €43,000
    b) €107,000
    c) €57,000
    d) €50,000.

31. The Current Ratio differs from the Acid Test Ratio because:

    a) Debts due for more than one year are omitted from Current Assets in the Acid Test Ratio
    b) Accruals are omitted from Current Assets in the Acid Test Ratio
    c) The Acid Test Ratio relates to Fixed Assets versus Current Assets
    d) Closing stocks are omitted from Current Assets in the Acid Test Ratio.

32. The Stock Turnover Ratio indicates:

    a) The average time shareholders held on to their shares
    b) The average number of weeks' stock held during the year
    c) The impact of Gross Profit on average stocks held throughout the year
    d) The level of sales returns during the year.

33. The Return on Capital Employed (ROCE) ratio can be calculated as follows:

    a) Debtors Days Ratio x Creditors Days Ratio
    b) Gearing Ratio x Net Profit Ratio
    c) Net Profit Ratio x Capital Turnover Ratio
    d) None of the above.

34. The Current Ratio indicates:

a) How well placed an entity is to discharge its short term liabilities at short notice
b) What proportion of funding is provided by long term loans
c) The current value of the fixed assets
d) The average length of credit currently being allowed to customers.

35. One of the limitations of accounting ratios is that:

a) The figures can be difficult to obtain
b) Many of them are based on figures that are valid only at one point in time
c) They do not come from audited accounts
d) None of the above.

36. A ‘Master Budget’ is:

a) Produced by a master budgeter
b) A budget the results in no variances
c) Effectively just a cash flow forecast
d) Made up of all the sub-budgets in an organisation.

37. A ‘Master Budget’ presents:

a) A budgeted P&L Account, Cash Flow Statement and Balance Sheet for the coming year
b) All the options to be considered by the Board to save money
c) The reasons why the current year’s budget was exceeded
d) Only day-to-day income and expenditure figures.

38. In Budgetary Control, when budgeted income exceeds actual income, this is called:

a) A favourable variance
b) An adverse variance
c) Breach of ethics
d) None of the above.

39. A Cash Flow Forecast is:

a) Effectively a budgeted P&L Account
b) A legal requirement under the Companies Acts
c) Always produced from historical data
d) A projection of the cash flow implications of implementing a budget.

40. Indirect costs are those that:

a) Incurred outside the budget
b) Cannot be directly be attributed to a unit of production or service
c) Always increase strictly in proportion to the level of activity
d) Can never be in the price of a product or service.

41. Which of the following is an indirect production cost?

a) Overtime paid to factory workers
b) Raw materials used in production
c) Lubricating oil for the machines in a factory
d) A patent fee payable for every unit produced.

42. Which of the following is not an Overhead Absorption Rate (OAR)?

a) Units
b) Direct Labour Hours
c) Machine Hours
d) Electric power consumption.

43. In Marginal Costing, if Fixed Costs amount to €50,000 and Profit amounts to €20,000 and the Profit/Volume (P/V) ratio is 50%, sales amount to:

a) €60,000
b) €70,000
c) €140,000
d) €50,000.

44. If Fixed Costs amount to €80,000, the selling price per unit is €20 and variable cost per unit is €15, what is the Break-Even Point in units?

a) 16,000
b) 35,000
c) 8,000
d) 15,000.

45. Standard Absorption Costing requires overheads to be absorbed on the basis of:

a) Actual hours per unit
b) Standard hours per unit
c) Selling price per unit
d) Contribution per unit.

46. The main focus of Marginal Costing is on the difference between:

a) Direct and indirect costs
b) Fixed and variable costs
c) Production and non-production costs
d) Budgeted and actual costs.

47. In marginal costing, the 'Margin of Safety' refers to the gap between:

a) Sales and break-even point
b) Sales and cost of sales
c) Current assets and current liabilities
d) Cost of Goods Sold and Sales.

48. The main focus of Absorption Costing is how to treat:

a) Sales
b) Adverse variances
c) Production overheads
d) Taxation.

49. Which of the following is not included in a Cash Flow Forecast?

a) Receipts
b) Payments
c) Depreciation
d) Bank charges.

50. Marginal Costing is most useful for:

a) Long term investment decisions
b) Depreciating fixed assets
c) Managing administrative overheads
d) Deciding on what discounts to offer for bulk orders by customers.