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a) Assets = Liabilities + Owner's Equity b) Assets = Liabilities - Owner's Equity c) Assets + Liabilities = Owner's Equity d) Assets - Liabilities = Owner's Equity Click to View Answer and Explanation a) Assets = Liabilities + Owner's Equity The accounting equation is fundamental to the double-entry bookkeeping system. It represents that all assets are either financed by borrowing money (liability) or by the owner's own investment (owner's equity). a) A resource controlled by the entity as a result of past events b) A future economic benefit Click to View Answer and Explanation An asset is a resource that the entity controls due to past events and from which future economic benefits are expected. a) Decrease in the value of an asset over time b) Decrease in the profit of the business c) Increase in liabilities d) Increase in owner's equity Click to View Answer and Explanation a) Decrease in the value of an asset over time Depreciation represents the allocation of the cost of an asset over its useful life, reflecting the decrease in value due to wear and tear, obsolescence, or other factors. Click to View Answer and Explanation Accounts payable is a liability as it represents the amount the company owes to its suppliers or creditors. a) To manage the company's tax liabilities b) To provide financial information to external users c) To assist in day-to-day management of the business d) To ensure compliance with employment law Click to View Answer and Explanation b) To provide financial information to external users The main purpose of financial accounting is to provide financial information about the business to external parties such as investors, creditors, and regulatory bodies. Click to View Answer and Explanation Salary payments are considered an expense as they represent the cost of employing staff, which is consumed during the accounting period. a) A system where each transaction affects at least two accounts b) A system where each transaction is recorded twice c) A system used only in managerial accounting d) A system where transactions are recorded at the end of each year Click to View Answer and Explanation a) A system where each transaction affects at least two accounts The double-entry bookkeeping system is a method of recording transactions where each transaction affects at least two accounts, with a debit in one account and a corresponding credit in another. a) Recognizing revenues when they are earned and expenses when they are incurred b) Recording transactions only when cash is exchanged c) Focusing on future transactions d) Simplifying accounts for small businesses Click to View Answer and Explanation a) Recognizing revenues when they are earned and expenses when they are incurred Accrual accounting is an accounting method where revenues and expenses are recorded when they are earned or incurred, regardless of when the cash is actually received or paid. a) The ability of a company to meet its long-term financial obligations b) The ease with which an asset can be converted into cash c) The profitability of a company d) The amount of long-term investments a company holds Click to View Answer and Explanation b) The ease with which an asset can be converted into cash Liquidity refers to how quickly and easily an asset can be converted into cash without significantly affecting its market price. d) Statement of Owner's Equity Click to View Answer and Explanation The Income Statement (or Profit and Loss Statement) reports a company's revenues, expenses, and profit or loss over a specific accounting period. a) To show the financial position of a business at a specific point in time b) To record the day-to-day transactions of a business c) To show the profitability of a business over a period of time d) To manage the payroll of employees Click to View Answer and Explanation a) To show the financial position of a business at a specific point in time A balance sheet is a financial statement that shows the assets, liabilities, and owner's equity of a business at a particular date, providing a snapshot of its financial position. a) Recognizing expenses and liabilities as soon as possible b) Maximizing reported profits c) Overstating the value of assets d) Ignoring potential losses Click to View Answer and Explanation a) Recognizing expenses and liabilities as soon as possible The conservatism principle in accounting dictates that potential expenses and liabilities should be recognized immediately, while revenue should only be recognized when it is assured. Click to View Answer and Explanation Inventory is considered a current asset because it is expected to be sold or used within one year or the operating cycle, whichever is longer. a) General Accepted Accounting Practices b) Global Accounting Accreditation Procedures c) Generally Accepted Accounting Principles d) General Accounting and Auditing Policies Click to View Answer and Explanation c) Generally Accepted Accounting Principles GAAP refers to Generally Accepted Accounting Principles, standards, and procedures that companies must follow when they compile their financial statements. a) Matching the balance of assets and liabilities b) Recording revenues and the expenses that brought them in the same period c) Aligning the business goals with accounting methods d) Matching credits and debits in the double-entry system Click to View Answer and Explanation b) Recording revenues and the expenses that brought them in the same period The matching principle states that companies should report an expense on their income statement in the period in which the related revenues are earned. a) A list of transactions recorded in journals b) The principal book for recording and totaling economic transactions c) A summary of all accounts payable d) A record of all cash transactions Click to View Answer and Explanation b) The principal book for recording and totaling economic transactions A ledger is the principal book or computer file for recording and totaling economic transactions measured in terms of a monetary unit of account by account type, with debits and credits in separate columns and a beginning and ending balance. a) It is used to prepare the income statement and balance sheet b) It is a legal document for tax purposes c) It records only the cash transactions of a business d) It is the same as a balance sheet Click to View Answer and Explanation a) It is used to prepare the income statement and balance sheet A trial balance is a bookkeeping worksheet in which the balances of all ledgers are compiled into debit and credit account column totals that are equal, used as the primary basis for preparing financial statements. a) Cash basis recognizes transactions when cash changes hands, while accrual basis recognizes transactions when they occur b) Cash basis is used for financial reporting, while accrual basis is used for tax purposes c) Accrual basis is simpler than cash basis d) Cash basis is more accurate than accrual basis Click to View Answer and Explanation a) Cash basis recognizes transactions when cash changes hands, while accrual basis recognizes transactions when they occur Cash basis accounting recognizes revenue and expenses only when money changes hands, while accrual basis accounting recognizes revenue when it's earned and expenses when they're billed (but not paid). a) To prepare financial statements b) To evaluate a company's financial statements to ensure accuracy and compliance with accounting standards c) To calculate taxes owed d) To create a budget for the upcoming year Click to View Answer and Explanation b) To evaluate a company's financial statements to ensure accuracy and compliance with accounting standards An audit is an objective examination and evaluation of the financial statements of an organization to make sure that the records are a fair and accurate representation of the transactions they claim to represent. a) It is intended for sale in the ordinary course of business b) It is used in the operations of a business c) It is not easily converted into cash d) It is expected to be used for more than one year Click to View Answer and Explanation a) It is intended for sale in the ordinary course of business Fixed assets, such as buildings, machinery, and equipment, are used in the operations of a business, are not easily converted into cash, and are expected to be used for more than one year. They are not intended for sale in the ordinary course of business. a) To provide information to external users like investors and creditors b) To aid internal management in making informed business decisions c) To comply with tax regulations d) To record day-to-day financial transactions Click to View Answer and Explanation b) To aid internal management in making informed business decisions Managerial accounting is primarily used to provide information and insights to internal management for the purpose of planning, controlling, and decision-making within the organization. a) The process of spreading the cost of an intangible asset over its useful life b) The process of paying off a debt over time in regular installments c) The decrease in value of physical assets d) The increase in value of an investment over time Click to View Answer and Explanation a) The process of spreading the cost of an intangible asset over its useful life In accounting, amortization refers to the allocation of the cost of an intangible asset, like a patent or trademark, over its useful life. a) Minimal documentation of transactions b) Concentration of duties in a few hands c) Regular independent audits d) Lack of clear lines of authority and responsibility Click to View Answer and Explanation c) Regular independent audits A good internal control system includes regular independent audits to ensure compliance and accuracy, along with other features like adequate documentation, segregation of duties, and clear lines of authority and responsibility. a) A journal is used for recording transactions in chronological order, while a ledger groups transactions by account b) A journal is a legal document, while a ledger is not c) A ledger is used for initial recording of transactions, while a journal is for summarizing them d) A journal records cash transactions only, while a ledger records all types of transactions Click to View Answer and Explanation a) A journal is used for recording transactions in chronological order, while a ledger groups transactions by account In accounting, a journal is a detailed record of all the financial transactions in chronological order, whereas a ledger is an accounting book that summarizes these transactions into accounts. a) The total assets minus total liabilities of an entity b) The initial investment made by the owners of a company c) The amount of money borrowed from creditors d) The total amount of inventory held by a company Click to View Answer and Explanation a) The total assets minus total liabilities of an entity Equity, in accounting, represents the owner's claim on the company's assets, which is calculated as the total assets minus total liabilities. a) To show the company's profitability b) To display the changes in equity c) To present the liquidity and solvency of the company d) To provide detailed information on all cash inflows and outflows Click to View Answer and Explanation d) To provide detailed information on all cash inflows and outflows The statement of cash flows provides detailed information on a company's cash inflows and outflows, categorized into operating, investing, and financing activities, thus showing how the company raises and spends cash. a) Amounts the company owes to its creditors b) Amounts owed to the company by its customers c) The company's investments in other businesses d) The company's cash reserves Click to View Answer and Explanation a) Amounts the company owes to its creditors Accounts payable represent the amounts that a company owes to its suppliers or creditors for goods or services received that have not yet been paid for. Click to View Answer and Explanation Non-current liabilities are obligations that are due after a year or more. Mortgage payable is a good example as it typically extends beyond one year. a) The method of evenly distributing revenue over a fiscal year b) The process of recording revenues when they are realized and earned c) The act of adjusting revenue based on market changes d) The process of converting assets into revenue Click to View Answer and Explanation b) The process of recording revenues when they are realized and earned Revenue recognition is a principle in accounting that determines the specific conditions under which revenue is recognized or accounted for. Generally, revenue is recognized when it is realized and earned. c) Carry-Over Goods Stock d) Calculation of Gross Sales Click to View Answer and Explanation COGS stands for Cost of Goods Sold. It refers to the direct costs attributable to the production of the goods sold by a company, including the cost of the materials and labor used in their production. error: Content is protected !! Free Download PDF of Accounting Questions with Answers as per exam pattern, to help you in day to day learning. We provide all important questions and answers for all Exam. 100%(12)100% found this document useful (12 votes)36K viewsThe document contains 33 multiple choice questions testing fundamentals of accounting concepts. The questions cover topics such as the definition of assets and liabilities, the accounting cycle, enhanced title and descriptionSave Accounting Mcqs For Later100%100% found this document useful, undefined Home » Quizzes » Accounting principles and concepts » Multiple choice questions (MCQs) quiz Help us grow by sharing our content ☺ 4 Comments on Multiple choice questions (MCQs) quiz Comment navigation Here is a list of full accounting questions and answers that can be found on this site, along with a brief description of each one. Please note that these are generally intermediate to advanced exercises. I would definitely recommend to time yourself when you practice each of these exercises. This will help ensure you're not taking too long to complete each question and will help you get used to doing exercises under exam settings. For your convenience, difficulty levels and time limits are stated for each of these exercises at the top of each page. 2) Accounting Equation Exercises For practice on the basic accounting equation and its 3 elements - assets, liabilities and owner's equity. Basic understanding of income and profit is preferable. 10 minutes 3) Basic Accounting Journal Entries Exercise Simple journal entries - starting a business (capital investment), asset purchases, paying creditors, cash income and expenses, drawings. Service business - no inventory but supplies on hand and used. 12 minutes 4) Journal Entries and Ledger Question and Answer Basic journal entries: capital investment, sales, debtors, simple cash expenses, drawings; Inventory business - simple purchases and sales journal entries; Practice with drawing up T-Accounts. 20 minutes 6) Basic Journal Entries Question General, basic journal entries: starting a business, debtors, creditors, regular expenses, drawings; Inventory business - purchases and sales; Some complex topics: discount received and allowed, carriage on goods. 25 minutes 7) Journal Entry Question and Answer Basic journals - expenses owing, cash and credit sales, paying creditors; Inventory business - purchases and sales; Some complex issues: depreciation, prepayments, inventory loss (fire), discount received. 15 minutes 8) Debtors and Creditors Control Accounts Exercise Full debtors and creditors control accounts. Some complex issues - bad debts, settlement or cash discounts received and allowed, returns inward and outward, account corrections, calculating closing balances. 30 minutes 9) Debtors and Creditors Ledger Question Full debtors and creditors control accounts (similar to exercise above) Bad debts, settlement or cash discounts received and allowed, returns inward and outward as well as account corrections and closing balances. 30 minutes 10) A Simple Trial Balance Exercise Beginner level - capital investment by owner, basic income and expenses, purchases of assets, drawings, basic liabilities; Service business - no inventory, sales or cost of goods sold in this exercise. 15 minutes 11) T-Accounts, Journal Entry and Trial Balance Question This is a really good question to practice Capital investment by owner, basic income and expenses, purchases of assets, drawings, basic liabilities; Service business - no inventory, sales or cost of goods sold in this question. 40 minutes 12) Company Trial Balance and Financial Statements Question Trial balance, income statement, statement of changes in equity and balance sheet; Inventory business - FIFO basis. Some complex issues - prepayments (prepaid expenses and prepaid income), Corporation-specific issues - stock, retained earnings (accumulated profits), dividends paid to shareholders. 75 minutes 13) Cash Flow Statement Exercise Typical cash flow statement question where they supply the balance sheet, income statement and details about changes in owner's equity. Company-specific items such as share capital, reserves and debentures. Some complex issues in the form of preliminary and prepaid expenses. 35 minutes Accounting Questions and Answers on Advanced Topics Here are a bunch of questions on specialized topics submitted by fellow accounting students from around the world, with detailed explanations: For More Practice - Get the Workbook! If you want more practice with full accounting questions and answers you should get the official exercise book for this site, Volume 2 in the Accounting Basics series: the Workbook. Accounting Basics: Workbook has 88 questions and exercises, starting from the accounting equation and basic concepts to journal entries, T-accounts, the trial balance, financial statements, the cash flow statement, inventory, depreciation, provisions, doubtful debts, year-end entries, bank reconciliations and more. Please note: The detailed, fully explained exercises in the Workbook are not available on this site - only in the book! Some testimonials from individuals who bought the Workbook: "Really helps!" "Very helpful." "Learned very much from it, it was awesome." "The workbook is a great review for me of the classes I took in College." "The book is very interesting and easy to follow. I have to take a course in accounting for an online degree program that I am involved with and this book is a life saver. It explains clearly the information you need and has quizzes that are a tremendous help in grasping the material." Rated 4.8 out of 5 by Amazon customers. Click here to get the Workbook on Amazon now Stay up to date with ABS! Follow us on Facebook; Advertise on Accounting-Basics-for-Students.com © Copyright 2009-2023 Michael Celender. All Rights Reserved. Click here for Privacy Policy. Answer & Solution Answer: Option D Solution: Accounting plays a crucial role in providing various types of financial information to different stakeholders. 1. Cost and Income for Managers: Accounting helps managers in decision-making by providing detailed records of costs and revenues, enabling effective budgeting and financial planning. 2. Company's Tax Liability: It assists in determining the organization's tax obligations by maintaining accurate financial records, ensuring compliance with tax laws. 3. Financial Condition of Institutions: Accounting provides a clear picture of an entity's financial health through financial statements such as the balance sheet and income statement, which are useful for investors, creditors, and other stakeholders. Since accounting covers all these aspects, the correct answer is Option D: All of the above. Answer & Solution Answer: Option C Solution: The long term assets that have no physical existence but are rights that have value is known as Intangible assets. An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets. Answer & Solution Answer: Option A Solution: The assets that can be converted into cash within a short period (i.e. 1 year or less) are known as Current assets. Current assets include cash, cash equivalents, accounts receivable, stock inventory, marketable securities, pre-paid liabilities, and other liquid assets. Answer & Solution Answer: Option C Solution: Patents, Copyrights and Trademarks are Intangible assets. An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets. Answer & Solution Answer: Option A Solution: The debts which are to be repaid within a short period (year or less) are known as Current liabilities. Current liabilities are a company's debts or obligations that are due within one year or within a normal operating cycle. Answer & Solution Answer: Option C Solution: Turnover refers to the total sales revenue generated by a business from selling goods or services during a specific period, including both credit and cash sales. Transactions is incorrect because it refers to any business activity involving the exchange of goods, services, or funds, not specifically sales income. Sales Returns is incorrect because it refers to goods that customers return to the business after purchase, reducing the total sales income. Purchase Returns is incorrect because it refers to goods that the business returns to suppliers, not related to sales income. Therefore, the correct answer is Turnover. Answer & Solution Answer: Option D Solution: Any written evidence in support of a business transaction is called Voucher. Vouchers are the primary evidence of business transactions having taken place. Answer & Solution Answer: Option C Solution: The account that records expenses, gains and losses is Nominal account. A nominal account is an account in which accounting transactions are stored for one fiscal year. Answer & Solution Answer: Option B Solution: Real account records Dealings in commodities. Answer & Solution Answer: Option A Solution: In Journal, the business transaction is recorded Same day. A journal, which is also known as a book of original entry, is the first place that a transaction is written in accounting records.