

Financial Accounting (20 MCQs)

- 41.** In accounting, the convention of materiality refers to:
- A. Recording all transactions irrespective of their significance
 - B. Ignoring insignificant details
 - C. Following the same accounting method every year
 - D. Ensuring consistency in financial statements
- 42.** Prepaid expenses are classified as:
- A. Current liability
 - B. Current asset
 - C. Long-term liability
 - D. Fictitious asset
- 43.** If a company fails to record an accrued expense, what is the effect on its financial statements?
- A. Overstated liabilities
 - B. Understated expenses
 - C. Overstated assets
 - D. Understated revenue
- 44.** Interest earned but not yet received is shown as:
- A. Current liability
 - B. Current asset
 - C. Long-term liability
 - D. Non-current asset
- 45.** In a consignment transaction, the person who sends goods is called the:
- A. Consignee
 - B. Principal
 - C. Consignor
 - D. Seller
- 46.** What is the accounting treatment for goods taken by the owner for personal use?
- A. Credited to Purchase Account
 - B. Debited to Drawings Account
 - C. Debited to Capital Account
 - D. Credited to Sales Account

47. Which of the following is a contingent liability?

- A. A loan
- B. A pending lawsuit
- C. A bad debt
- D. A tax refund

48. The double-entry system was introduced by:

- A. Adam Smith
- B. Luca Pacioli
- C. Benjamin Franklin
- D. Henry Fayol

49. Which of the following accounts is a nominal account?

- A. Machinery Account
- B. Capital Account
- C. Rent Account
- D. Bank Account

50. The written record of a financial transaction is called a:

- A. Ledger
- B. Journal
- C. Trial balance
- D. Balance sheet

51. What is the effect of recording depreciation on an asset?

- A. Increases profit
- B. Decreases the asset's value
- C. Increases the asset's value
- D. Has no effect on the asset's value

52. A trial balance is prepared to check the:

- A. Profit and loss of a business
- B. Financial position of a business
- C. Accuracy of ledger accounts
- D. Cash flow of a business

53. A credit sale of goods is recorded in:

- A. Purchase Book
- B. Sales Book
- C. Cash Book
- D. Ledger

54. Goods sent on consignment should be recorded in:

- A. Consignor's books
- B. Consignee's books
- C. Both A and B
- D. None of the above

55. Provision for doubtful debts is created to:

- A. Cover all outstanding debts
- B. Anticipate possible bad debts
- C. Record sales returns
- D. None of the above

56. Which method of depreciation is based on the original cost of the asset?

- A. Written down value method
- B. Straight line method
- C. Sum of the years' digits method
- D. Double declining balance method

57. Cash received from customers is recorded in the:

- A. Sales Book
- B. Purchase Book
- C. Cash Book
- D. Journal

58. Bank reconciliation statements are prepared to:

- A. Know the bank balance
- B. Rectify errors in the cash book
- C. Identify the difference between cash book and passbook
- D. None of the above

59. The matching concept in accounting refers to:

- A. Recording of transactions in chronological order
- B. Matching revenues with expenses in the same period
- C. Matching capital with liabilities
- D. None of the above

60. Accounting for depreciation falls under which accounting principle?

- A. Prudence
- B. Matching
- C. Materiality
- D. Consistency

Answer Sheet: <https://forms.gle/qk5v2rVMYG3GzgYm8>