

QUESTION BANK ON BALANCE SHEET

1. Another name for the balance sheet is

- Statement of Operations
- Statement of Financial Position
- Statement of Capital Balance

Ans. Statement of Financial Position

2. The balance sheet heading will specify a
Period of Time
Point in Time

Ans. Period of time

3. Which of the following is a category or element of the balance sheet?

- Expenses
- Gains
- Liabilities
- Losses

Ans. Liabilities

4. Which of the following is an asset account?

- Accounts Payable
- Prepaid Insurance
- Unearned Revenue

Ans. Prepaid Insurance

5. What is the normal balance for an asset account?

- Debit
- Credit

Ans. Debit

6. What is the normal balance for liability accounts?

- Debit
- Credit

Ans. Credit

7. What is the normal balance for stockholders' equity and owner's equity accounts?

Debit
Credit

Ans. Credit

8. Client Jay pays ABC Co. \$1,000 in December for ABC to perform services for Jay in 45 days. ABC uses the accrual basis of accounting. In December ABC will debit Cash for \$1,000. What will be the other account involved in the December accounting entry prepared by ABC (and what type of account is it)?

Accounts Receivable (asset)
Prepaid Services (asset)
Service Revenues (revenue)
Unearned Revenues (liability)

Ans. Prepaid Services (asset)

9. Which of the following would not be a current asset?

Accounts Receivable

Land
Prepaid Insurance
Supplies

Ans. Land

10. ABC Co. incurs cleanup expense of \$500 on December 30. The supplier's invoice states that the \$500 is due by January 10 and ABC will pay the invoice on January 9. ABC follows the accrual basis of accounting and its accounting year ends on December 31. What is the effect of the cleanup service on the December balance sheet of ABC?

Assets Decreased
Liabilities Increased
No Effect on Owner's Equity

Ans. Liabilities Increased

11. On December 1, ABC Co. hired Juanita Perez to begin working on January 2 at a monthly salary of \$4,000. ABC's balance sheet of December 31 will show a liability of

\$4,000
\$48,000
No Liability

Ans. No Liability

12. ABC Co. has current assets of \$50,000 and total assets of \$150,000. ABC has current liabilities of \$30,000 and total liabilities of \$80,000. What is the amount of ABC's owner's equity?

\$20,000
\$30,000
\$70,000
\$120,000

Ans. \$70,000

13. The amount reported on the balance sheet for Property, Plant and Equipment is the company's estimate of the fair market value as of the balance sheet date.

True
False

Ans. False (Since assets are generally recorded at book value and are recorded at fair market value when assets are kept for sale)

14. The financial statement that reports the revenues and expenses for a period of time such as a year or a month is the

Balance Sheet
Income Statement
Statement of Cash Flows

Ans. Income Statement

15. The financial statement that reports the assets, liabilities, and stockholders' (owner's) equity at a specific date is the

Balance Sheet
Income Statement
Statement of Cash Flows

Ans. Balance Sheet

16. Under the accrual basis of accounting, revenues are reported in the accounting period when the

Cash is Received
Service or Goods Have Been Delivered

Ans. Service Or Goods Have Been Delivered

17. Assets are usually reported on the balance sheet at which amount?

Cost
Current Market Value
Expected Selling Price

Ans. Cost

18. Unearned Revenues is what type of account?

- Asset
- Liability
- Stockholders' (Owner's) Equity

Ans. Asset

19. Accounting entries under double entry book keeping system involve a minimum of how many accounts for a transaction?

- One
- Two
- Three

Ans. Two

20. Which term is associated with "left" or "left-side" of Balance Sheet?

- Debit
- Credit

Ans. Credit

21. Which term is associated with "right" or "right-side" of Balance Sheet?

- Debit
- Credit

Ans. Debit

22. When cash is received, the Cash account will be

- Debited
- Credited

Ans. Debited

23. When a company pays a bill, the Cash account will be

- Debited
- Credited

Ans. Credited

24. What will usually cause an asset account to increase?

Debit
Credit

Ans. Debit

25. What will usually cause the liability in Accounts Payable to increase?

Debit
Credit

Ans. Credit

26. Entries to expenses such as Rent Expense are usually

Debits
Credits

Ans. Debits

27. Entries to revenues accounts such as Service Revenues are usually

Debits
Credits

Ans. Credits

28. Discount allowed is

- A) Expense of business
- B) Income of business
- C) Loss of business
- D) Abnormal loss of business

Ans. A

29. The statement of income and expenses reports the company's income and expenses for the time period: it is also called a-and-loss statement.

- (a) earnings
- (b) gain
- (c) profit
- (d) win

Ans. profit

30. Use these financial statements to answer the questions.

Balance Sheet

	<u>2013</u>	<u>2014</u>		<u>2013</u>	<u>2014</u>
Cash	\$ 1,400	2,300	Accounts payable	5,300	4,700
Accounts receivable	4,100	4,300	Long-term debt	12,800	9,400
Inventory	8,400	7,600	Common stock	7,500	10,000
Net fixed assets	<u>17,600</u>	<u>19,100</u>	Retained earnings	<u>5,900</u>	<u>9,200</u>
Total assets	<u>\$31,500</u>	<u>\$33,300</u>	Total liabilities	<u>\$31,500</u>	<u>\$33,300</u>

Income Statement

Net Sales	\$32,700
Costs	20,705
Depreciation	<u>2,510</u>
EBIT	9,485
Interest	<u>1,000</u>
Taxable income	8,485
Taxes	<u>2,885</u>
net Income	<u>\$ 5,600</u>

1. What is the change in net working capital?

- a. \$300 b. \$900 c. \$8,600 d. \$9,500

Ans. \$900{(\$2,300 + \$4,300 + \$7,600 – \$4,700) – (\$1,400 + \$4,100 + \$8,400 – \$5,300)}

2. What is net capital spending for 2014

- a. 4000 b. 4010 c. 5010 d. 4500

Ans. 4010 (\$19,100 – \$17,600 + \$2,510)

3. What is the total amount of stockholders' equity for 2014?

- a. \$9,200 b. \$10,000 c. \$19,200 d. \$28,600

Ans. \$19200 (\$10,000 + \$9,200)

4. What is the amount of the non-cash expenses?

- a. \$1,000 b. \$2,510 c. \$2,885 d. \$3,510

Ans. \$2,510

5. How much was paid out to shareholders in the form of dividends during 2014?

- a. \$0 b. \$2,300 c. \$3,300 d. \$5,600

Ans. \$2,300 { $\$5,600 - (\$9,200 - \$5,900) = \$2,300$ }

6. What is the amount of the operating cash flow?

- a. \$3,090 b. \$5,600 c. \$8,110 d. \$9,110

Ans. \$9,110 ($\$9,485 + \$2,510 - \$2,885$)

7. What is the cash flow from assets?

- a. \$1,800 b. \$3,600 c. \$3,800 d. \$4,200

Ans. \$ 4,200 ($\$9,110 - \$900 - \$4,010$)

8. What is the amount of the current assets for 2014?

- a. \$5,500 b. \$6,600 c. \$13,900 d. \$14,200

Ans. \$14,200 ($\$2,300 + \$4,300 + \$7,600$)

9. Cash flow to lenders during 2014?

- a. 9400 b. 12800 c. 4400 d. 1000

Ans. 4400

31. Use these financial statements to answer the questions on this quiz.

	Balance Sheet				
	2013	2014		2013	2014
Cash	\$ 2,400	\$ 3,200	Accounts payable	\$ 9,400	\$ 13,500
Accounts receivable	8,100	10,500	Long-term debt	31,800	27,400
Inventory	19,300	22,900	Common stock	45,000	50,000
Net fixed assets	<u>64,800</u>	<u>66,100</u>	Retained earnings	<u>8,400</u>	<u>11,800</u>

Total assets	<u>\$94,600</u> <u>\$102,700</u>	Total liabilities and equity	<u>\$94,600</u> <u>\$102,700</u>
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Income Statement

Net Sales	\$128,400
Costs	101,600
Depreciation	<u>7,400</u>
EBIT	19,400
Interest	<u>2,100</u>
Taxable income	17,300
Taxes	<u>5,900</u>
Net Income	<u>\$ 11,400</u>

1. What is the amount of the current assets for 2014?
 a. \$10,500 b. \$13,700 c. \$29,800 d. \$36,600
 Ans. \$36,600

2. What is the change in net working capital?
 a. \$2,700 b. \$3,900 c. \$20,400 d. \$23,100
 Ans. \$2,700

3. What is the value of the net new equity raised during 2014?
 a. \$0 b. \$3,400 c. \$5,000 d. \$8,400
 Ans. \$5,000

4. What is the book value of owner's equity as of 2014?
 a. \$45,000 b. \$50,000 c. \$53,400 d. \$61,800
 Ans. \$61,800

5. What is the amount of the total dividends paid?
 a. \$0 b. \$3,400 c. \$6,400 d. \$8,000

Ans. \$8,000

6. What is the operating cash flow?

- a. \$17,900 b. \$18,800 c. \$19,400 d. \$20,900

Ans. \$20,900

7. What is the net capital spending?

- a. \$1,300 b. \$4,900 c. \$6,100 d. \$8,700

Ans. \$8,700

8. What is the cash flow from assets?

- a. \$4,000 b. \$8,100 c. \$9,500 d. \$10,400

Ans. \$9,500

9. What is the amount of the cash flow to creditors?

- a. \$2,700 b. \$6,500 c. \$7,835 d. \$8,400

Ans. \$6,500

10. What is the amount of the cash flow to stockholders?

- a. \$3,000 b. \$3,400 c. \$5,000 d. \$11,400

Ans. a. \$3,000

32. Which of the following journal entry will be recorded, if the goods are sold on credit to Mr. 'B'?

- A) Mr. "B" / Accounts Receivable account (Dr) and Sales account (Cr)
- B) Cash account (Dr) and sales account (Cr)
- C) Sales account (Dr) and Mr. B / Accounts Receivable account (Cr)
- D) Goods Sold account (Dr) and Mr. B / Accounts Receivable account (Cr)

Ans. A

33. Which of the following is NOT an item of a Balance Sheet?

- A) Accounts Receivable
- B) Accounts Payable
- C) Sales Revenue
- D) Marketable Securities

Ans. C

34. Accounts Receivable & Inventory are the examples of:

- A) Liquid assets
- B) Current assets
- C) Fixed assets
- D) Capital assets

Ans. B

35. Which of the following shows summary of a company's financial position at a specific date?

- A) Profit & Loss Account
- B) Cash Flow Statement
- C) Balance Sheet
- D) Income & Expenditure Account

Ans. C

36. Which of the following summarizes the cash movements during a specified period?

- A) Trading account
- B) Profit & Loss account
- C) Receipts & Payments account
- D) Balance Sheet

Ans. C

37. Which of the following financial statements summarizes the profitability of an organization for a particular period?

- A) Balance Sheet
- B) Trading and Profit & Loss account
- C) Cash Flow Statement
- D) Statement of Retained Earnings

Ans. B

38. In an account, if credit side < debit side then the balance is known as:

- A) Negative Balance
- B) Debit Balance
- C) Positive Balance
- D) Credit Balance

Ans. B

39. Which of the following is used to record financial transactions in chronological (day-to-day) order?

- A) Voucher
- B) General Journal
- C) General Ledger
- D) Trial balance

Ans. C

40. What is the nature of an expense account?

- A) Capital
- B) Credit
- C) Revenue

Ans. C

41. Journal is a book of _____ entries

- A) Final
- B) Original

C) Secondary

D) Generic

Ans. B

42. Expenditure incurred annually on renewal of patent are known as:

A) Capital Expenditure

B) Financial Expenditure

C) Operating Expenditure

D) None of the Above

Ans. C

43. Which of the following account will be credited, when the goods are purchased on cash?

A) Stock account

B) Cash account

C) Supplier account

D) Work in process account

Ans. B

44. If the cost of sales is \$60,000, sales are \$95,000 and operating expenses are \$20,000 during the year, what would be the value of Gross Profit?

A) \$15,000

B) \$35,000

C) \$ 55,000

D) \$60,000

Ans. B

45. Which of the following accounts, balance will be shown on debit side of Trial Balance? (It is assumed that all account balances are shown on normal balance).

A) Capital account

- B) Sundry creditors account
- C) Accounts payable account
- D) Cash account

Ans. D

46. The amount of salary paid to Mr. Sohail should be debited to:

- A) Mr. Sohail account
- B) Salaries account
- C) Cash account
- D) Drawings account

Ans. B

47. Which of the following accounts will be credited, if business bought goods on credit from Mr. Ali?

- A) Purchases account
- B) Mr. Ali account
- C) Cash account
- D) Sales account

Ans. B

48. The unfavorable balance of Profit and Loss account should be:

- A) Added in liabilities
- B) Subtracted from current assets
- C) Subtracted from liabilities
- D) Subtracted from capital

Ans. D

49. Which of the following is NOT an example of Current Asset?

- A) Bank Overdraft
- B) Accounts Receivable
- C) Notes Receivable

D) Prepaid Expenses

Ans. A

50. The value of inventories or stock is figured out at the lower of cost and

- A) purchase price
- B) opportunity cost
- C) realizable value
- D) net realizable value

Ans. D

51. An overstatement in the value of closing stock of a Company overstates all of the following except

- A) Net income
- B) Current assets
- C) Capital of the business
- D) Cost of goods sold

Ans. C

52. Which of the following are generally the inventories of a service business

- A) Finished goods inventories
- B) Purchased goods
- C) Raw material inventories
- D) Work in process inventories

Ans. B

53. All of the following are the methods of inventory costing except

- A) FIFO
- B) LIFO
- C) AVCO or average cost
- D) Stock take

Ans. D

54. Which one of the following methods of inventory costing produces ending stock cost close to the market value of the inventories?

- A) FIFO
- B) LIFO
- C) AVCO or average method

Ans. B

55. Which of the following inventory costing systems is regarded as the most complex one?

- A) Periodic inventory system
- B) Perpetual inventory system
- C) None of the above

Ans. B

56. Which one of the following inventory systems ascertains the balance of stock or amount of stock at the end of an accounting period or at the time of physical inventory count?

- A) Periodic inventory system
- B) Perpetual inventory system
- C) Either of the Two

Ans. A

57. What is depreciation?

- A) Cost of a fixed asset
- B) Cost of a fixed asset's repair
- C) The residual value of a fixed asset
- D) Portion of a fixed asset's cost consumed during the current accounting period

Ans. D

58. Under which depreciation method the amount of depreciation expenses remains same throughout the useful life of a fixed asset

- A) Straight line method
- B) Reducing balance method
- C) Number of units produced method
- D) Machine hours method

Ans. A

59. A company purchased a vehicle for \$6000. It will be used for 5 years and its residual value is expected to be \$1000. What is the annual amount of depreciation using straight line method of depreciation?

- A) \$1000
- B) \$2000
- C) \$3000
- D) \$3300

Ans. A

60. What is the accumulated depreciation?

- A) Sum of all depreciation expenses of a fixed asset
- B) Depreciation expenses
- C) Cost of depletion of assets
- D) Future value of fixed asset

Ans. A

61. Which of the following is the normal balance of an accumulated depreciation account?

- A) Debit balance
- B) Credit balance
- C) Nil balance

Ans. B

62. How trial balance shows the accumulated depreciation?

- A) as a debit item

B) as a credit item

C) It doesn't show

Ans. B

63. Which of the following is a double entry for depreciation expenses?

A) Accumulated depreciation debit and depreciation expenses Credit

B) Depreciation expenses Debit and accumulated depreciation Credit

C) Cash Debit and depreciation expenses Credit

D) Depreciation expenses Debit and cash Credit

Ans. B

64. An alternative term used for accumulated depreciation expenses?

A) Provision for depreciation

B) Cumulative depreciation

C) Targeted depreciation

D) Depletion

Ans. B

65. Which of the following is/are a kind of depreciation expenses?

A) Amortization

B) Depletion

C) Both of them

Ans. C

66. A fixed asset was bought for \$5000. Its accumulated depreciation is \$3000 and rate of depreciation is 20%. Calculate its depreciation expenses for the current accounting period using reducing balance method?

A) \$600

B) \$2000

C) \$300

D) \$400

Ans. D

67. Financial statements are prepared mainly for

- A) Internal users of financial information
- B) External users of financial information
- C) Creditors of the business
- D) Managers of the business

Ans. B

68. Net profit is computed in which of the following?

- A) Balance Sheet
- B) Profit & Loss Account
- C) Cash flow statement
- D) Statement of changes in equity

Ans. B

69. Which of the following should be the most appropriate order of current asset in a balance sheet?

- A) cash, debtor, bank, stock
- B) Bank, cash, stock, debtor
- C) Stock, bank, cash, debtor
- D) Cash, bank, debtor, stock

Ans. D

70. In income statement, gross profit is always equal to

- A) Sales-expenses
- B) Incomes-expenses
- C) Sales-cost of goods sold

D) Sales-selling costs

Ans. C

71. Office equipment is a _____ asset for a computer manufacturer and the same office equipment is a _____ asset for a company that deals in these equipments

A) Current, Fixed

B) Fixed, intangible

C) Tangible, intangible

D) Fixed, current

Ans. D

72. Identify the external user of financial information or financial statements

A) Management of the business

B) CFO of the business

C) Employees of the business

D) Investors of the business

Ans. D

73 Every business transaction affects at least _____ accounts

A) One

B) Two

C) Three

D) Infinite

Ans. B

74. Purchases + opening stock-closing stock=?

A) Amount of sales

B) Gross profit

C) Cost of goods sold

D) Net income

Ans. C

75. Discount allowed is a kind of deduction from

- A) Account payable
- B) Account receivable
- C) Cash account
- D) Discount account

Ans. B

76. Which of the following is the effect on net income if a business decreases provision for doubtful debts?

- A) It will increase net income
- B) It will decrease net income
- C) No effect
- D) It will increase gross profit and net income

Ans. A

77. A firm has not recorded the bad debts by mistake. Which of the following is the effect of bad debts omission?

- A) Net profit would decrease
- B) Net profit would increase
- C) Gross profit would overstate
- D) Gross profit would understate

Ans. B

78. When it is certain that a debt won't be recovered, which of the following is correct?

- A) Provision for bad debt is created
- B) Account receivable is credited
- C) Bad debts is credited
- D) Sales is debited

Ans. B

79. A recovery of bad debt

- A) increases net income
- B) decreases net income
- C) increases gross profit
- D) increases gross profit and net income

Ans. A

80. The opening balance of "provision for doubtful debts account" is \$1000 whereas the closing balance of debtors account is 100,000. What amount of provision for doubtful debts should be charged to income statement using a 5% provision for doubtful debts for the current accounting period?

- A) \$5000
- B) \$4000
- C) \$2000
- D) \$1000

Ans. B

81. The other name of journal is

- A) Ledger
- B) T account
- C) Day book
- D) Cash book

Ans. C

82. Which of the following double entries is used to transfer "bad debts recovered" to income statement?

- A) Bad debts recovered Debit and income statement Credit
- B) Income statement Debit and bad debts recovered Credit
- C) Cash Debit and bad debts recovered Credit

D) Bad debts recovered debit and cash Credit

Ans. C

83. What does analysis of age of debtors signify?

A) Shows how long debts have been outstanding

B) How old the customers are

C) How long does a business take to repay the bank loans

D) Minimum number of old debtors

Ans. A

84. Goods returned by customer should be debited to which of the following accounts?

A) Sales income account

B) Sales account

C) Return inward account

D) Expenses account

Ans. C

85. According to a general rule of accounting, the older a debt is outstanding, the more likelihood that it would turn out to be a:

A) provision for bad debt

B) profitable debt for the business

C) bad debt

D) asset for the business

Ans. C

86. Favourable balance of cash book implies that

A) Credit balance of cash book

B) Debit balance of cash book

- C) Bank overdraft
- D) Adjusted balance of cash book

Ans. B

87. A cash deposit made by business appears on the bank statement as _____ balance

- A) Debit
- B) Credit
- C) Expenses
- D) Liability

Ans. B

88.

89. A cheque returned by bank marked "NSF" means that

- A) Bank can't verify your identity
- B) There are not sufficient funds in your account
- C) Check has been forged
- D) Check can't be cashed being illegal

Ans. B

90. Bank reconciliation statement is prepared by

- A) Accountant of the business
- B) Manager of the Bank
- C) Controller of the bank
- D) Accountant of the bank

Ans. A

91. Which of the following errors results in unadjusted cash book balance?

- A) Outstanding cheques
- B) Unpresented cheques
- C) Deposit in transit
- D) Omission of Bank charges

Ans. D

92. Bank charges amounting to \$5000 was not entered in the cash book. Identify the correct adjustment in cash book

- A) Bank charges will be debited in cash book
- B) Bank charges will be added to cash book balance
- C) Bank charges will be credited in cash book
- D) Bank charges need no adjustment in cash book

Ans. C

93. Unpresented cheques are also referred to as

- A) Stale cheques
- B) Uncredited cheques
- C) Outstanding cheques
- D) Bounced cheques

Ans. B

94. Trial balance is prepared to check accuracy of

- A) Ledger accounts balances
- B) Balance sheet balances
- C) Income statement balances
- D) Cash flow statement balances

Ans. A

95. If a transaction is completely omitted from the books of accounts, will it affect the agreement of a trial balance?

- A) Yes
- B) No
- C) Transactions can't be omitted

Ans. B

96. _____ is the common base for preparing a trial balance

- A) Ledger accounts
- B) General Journal
- C) Specialized journals
- D) Balance sheet

Ans. A

97. Which of the following is true about a trial balance?

- A) It lists down the balances of accounts
- B) It lists down the balances of a balance sheet
- C) It is a kind of financial statement
- D) It is not a part of accounting cycle

Ans. A

98. If Debit balance = Credit balance in a trial balance, it indicates that

- A) No error in recording transactions
- B) No error in posting entries to ledger accounts
- C) Account balances are correct

D) Mathematically $\text{Capital} + \text{Liabilities} = \text{Assets}$

Ans. C

99. Trial balance is commonly prepared

- A) Frequently during the year
- B) At the end of an accounting period
- C) At the end of a month
- D) At the end of a year

Ans. B

100. Which of the following will affect the agreement of a trial balance?

- A) Complete omission of a transaction
- B) Partial omission of a transaction
- C) Error of principle
- D) Compensating errors

Ans. B

101. If debit balances = credit balances, trial balance only shows or check the _____ and it does not indicate that no errors were made during recording and posting

- A) Arithmetic accuracy
- B) Errors of commission
- C) Omissions of economic events
- D) Understatements of balances

Ans. A

102. Which of the following account with normal balance is shown at the debit side of a trial balance?

- A) Rent income account

- B) Creditors account
- C) Unearned income account
- D) Cash account

Ans. D

103. Which of the following account with normal balance is shown at the credit side of a trial balance?

- A) Cash account
- B) Bank account
- C) Equipment account
- D) Accrued expenses account

Ans. D

104. What is the minimum number of partners required to commence a partnership business?

- A) 20
- B) 10
- C) 2
- D) 4

Ans. C

105. Partnership type of business is formed by the mutual agreement of partners. What kind of agreement is it?

- A) Oral agreement
- B) Written agreement
- C) Oral or written agreement
- D) None of them

Ans. C

106. In the general form of partnership, liabilities of partners are:

- A) limited
- B) unlimited
- C) limited to the business capital

Ans. B

107. Is partnership type of business considered as a separate legal entity?

- A) No
- B) Yes

Ans. B

108. Where there is no partnership agreement exists between partners, what will be the profit sharing ratio between the partners?

- A) Equal
- B) Unequal
- C) It will depend on a partner's capital
- D) It will depend on the experience of a partner

Ans. A

109. The written agreement of partnership is most commonly referred to as:

- A) Agreement
- B) Partnership deed
- C) Partnership contract
- D) Partnership Act

Ans. B

110. Interest on drawings is:

- A) Debited to partner's current a/c
- B) Credited to partner's current a/c

C) Not shown in current account

Ans. B

111. Is it compulsory for all partners to contribute equal amount of capital in the business?

A) No

B) Yes

Ans. A

112. Can a partner transfer his/her share of business to a third party without other partners consent?

A) No

B) Yes

Ans. A