

ADVANCED

AUDIT & ACCOUNTS

Resource Book

Solved MCQs



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Advanced **AP** Publishers

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Deputy Treasury Officer,
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related jobs.

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Accounting Principles & Procedures

1. Generally accepted accounting principles are developed by
 - a) The Securities and Exchange Commission
 - b) The Financial Accounting Standards Board
 - c) United nation organization
 - d) The New York Stock Exchange.
2. According to which principle, Financial statements should contain all information necessary for a reader to understand the financial condition.
 - a) Revenue recognition principle
 - b) Principal of Full Disclosure
 - c) Matching principle
 - d) Materiality principle
3. Which principle explains that "Each expense item related to revenue earned must be recorded in the same accounting period as the revenue it helped to earn"
 - a) Revenue recognition principle
 - b) Cost principle
 - c) Matching principle
 - d) Materiality principle
4. Principle of conservatism states that
 - a) Each transaction has a corresponding business document that proves the transaction did occur.
 - b) Accountants can judge if an item requires its own account or if it can be combined with other less material accounts
 - c) Financial information must be fair and reasonable - neither overstated nor understated
 - d) Must be consistent throughout the time periods of a business
5. Which of the following is true as per the principle of full disclosure
 - a) Financial statements should contain all information necessary for a reader to understand the financial condition.
 - b) The actual amount paid or received is the amount recorded.
 - c) Revenue from business transactions are recorded at the time goods and services are sold.
 - d) Changes in financial information are reported for a specific period of time in the form of financial statements.
6. Business entity principle is
 - a) Financial statements are prepared with the expectation that a business will remain in operation indefinitely.
 - b) The financial information of a business is recorded and reported separately from the owner's personal affairs.
 - c) Each transaction has a corresponding business document that proves the transaction did occur.
 - d) None of the above
7. Materiality is best described by which of the following
 - a) Accountants can judge if an item requires its own account or if it can be combined with other less material accounts.
 - b) Financial information must be fair and reasonable - neither overstated nor understated.
 - c) The actual amount paid or received is the amount recorded.
 - d) Must be consistent throughout the time periods of a business.
8. What is true with respect to the Objective evidence principle of accounting
 - a) Financial information must be fair and reasonable - neither overstated nor understated.
 - b) The actual amount paid or received is the amount recorded.
 - c) Financial statements are prepared with the expectation that a business will remain in operation indefinitely.
 - d) Each transaction has a corresponding business document that proves the transaction did occur.
9. According to GAAP, what is true about Time period concept
 - a) Changes in financial information are reported for a specific period of time in the form of financial statements.
 - b) Accountants can judge if an item requires its own account or if it can be combined with other less material accounts.
 - c) Financial information must be fair and reasonable - neither overstated nor understated.

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- d) None of the above
10. With respect to the GAAP, going concern of an organization means
- Revenue from business transactions are recorded at the time goods and services are sold.
 - Must be consistent throughout the time periods of a business.
 - Financial statements are prepared with the expectation that a business will remain in operation indefinitely.
 - The actual amount paid or received is the amount recorded.
11. Fixed Assets and Current Assets are categorized as per concept of
- Separate Entity
 - Going Concern
 - Consistency
 - Time
12. Provision for bad debt is made as per the
- Entity Concept
 - Conservatism Concept
 - Cost Concept
 - Going Concern Concept
13. Accounting does not record non- financial transactions because of
- Entity Concept
 - Accrual Concept
 - Cost Concept
 - Money Measurement Concept
14. The basic concepts related to Balance Sheet are
- Cost Concept
 - Business Entity Concept
 - Accounting Period Concept
 - Both (a) and (b) above
15. The basic concepts related to P & L Account are
- Realization Concept
 - Matching Concept
 - Cost Concept
 - Both (a) and (b) above
16. The concept of conservatism will have the effect of
- Overstatement of Assets
 - Understatement of Assets
 - Overstatement of Liabilities
 - Understatement of Liabilities
17. Only the significant events which affect the business must be recorded as per the principle of
- Separate Entity
 - Accrual
 - Materiality
 - Going Concern
18. If stock valuation method is changed every year by the firm, which concept of the accounting is violated
- The materiality concept
 - The consistency concept
 - The prudence concept
 - The going concern concept
19. Which of the following represents the financial information presented in the financial statements related to the assets or income should not be overstated
- Consistency
 - Profit
 - Materiality
 - Prudence
20. Which of the following asset may be shown in financial statement more than its historical cost in violation of historical cost principle
- Goodwill
 - Land
 - Research Expenditure
 - Work in Progress
21. The valuation of stock at lower of its cost or net realizable value is an application of
- The consistency concept
 - The going concern concept
 - The prudence concept
 - The accrual concept
22. The underlying accounting principle(s) necessitating amortization of intangible asset(s) is/are
- Cost Concept
 - Realization Concept
 - Both (a) and (c) above
 - Matching Concept
23. Which of the following principle is used for recording revenue?
- Matching Principle
 - Realization Principle
 - Cost Principle
 - Objectivity Principle
24. Which of the following principle is used for recording revenue?
- Matching Principle
 - Cost Principle
 - Realization Principle
 - Objectivity Principle
25. Which of the following is a threshold quality below which items do not have to be accounted for in accordance with generally accepted accounting principles
- Materiality
 - Prudence
 - Consistency
 - Accruals
26. Which of the following statements is /are true?

- a) Entering wrong amount in the subsidiary book affects the agreement of the Trial Balance
 - b) Under-casting or over-casting of a subsidiary book is an example or error of commission
 - c) Errors of principle do not affect the agreement of Trial Balance
 - d) Both (b) and (c) above
27. Each of the following is a type of known misstatement, except
- a) An inaccuracy in processing data.
 - b) The misapplication of accounting principles.
 - c) Differences between management and the auditor's judgment regarding estimates.
 - d) According to generally accept accounting principles.
28. Recording of Capital contributed by the owner as liability ensures the adherence of principle of
- a) Double Entry
 - b) Going Concern
 - c) Separate Entry
 - d) Materiality
29. $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$ is on the principle of
- a) Double Entry Principle
 - b) Cost principle
 - c) Consistency principle
 - d) Matching principle
30. Two companies X & Y, buys computer, X being larger writes it off immediately, however, Y reported it as fixed asset because of
- a) Accounting entity principle
 - b) Materiality principle
 - c) Going concern principle
 - d) Money measurement principle
31. Which of the following is true about accrual concept
- a) It applies to revenues, expenses, assets and liabilities
 - b) It applies to revenues and expenses only
 - c) It applies to assets and liabilities only
 - d) It is not a fundamental accounting principle
32. Costing principle recommended for stocks is based on accounting principle of
- a) Historical cost
 - b) Conservatism
 - c) Consistency
 - d) Full disclosure
33. Omission of paise and showing the round figures in financial statements is based on

Accounting Principles & Procedures

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- a) Conservatism Concept
 - b) Consistency Concept
 - c) Materiality Concept
 - d) Realization Concept
34. Recording of Fixed Assets at cost ensures adherence of
- a) Conservatism Concept
 - b) Going Concern Concept
 - c) Both (a) and (b) above
 - d) Cost Concept
35. The accounting measurement that is not consistent with the Going Concern concept is
- a) Historical Cost
 - b) Realization
 - c) The Transaction Approach
 - d) Liquidation Value
36. Which of the following practices is not in consonance with the convention of conservatism?
- a) Creating Provision for Bad debts
 - b) Creating Provision for Discount on Creditors
 - c) Creating Provision for Discount on Debtors
 - d) Creating Provision for tax
37. Under which of the following concepts are shareholders treated as creditors for the amount they paid on the shares they subscribed to?
- a) Cost Concept
 - b) Duality Concept
 - c) Business Entity Concept
 - d) Since the shareholders own the business, they are not treated as creditors.
38. If the Going Concern concept is no longer valid, which of the following is true?
- a) All prepaid assets would be completely written-off immediately
 - b) Total contributed Capital and Retained Earnings would remain unchanged
 - c) Intangible Assets would continue to be carried at net Amortized historical cost
 - d) Land held as an Investment would be valued at its realizable value
39. P & L Account is prepared for a period of one year by following
- a) Consistency Concept
 - b) Conservatism Concept
 - c) Accounting Period Concept
 - d) Cost Concept
40. Which one of the following is not one of the three General Standards?
- a) Proper planning and supervision
 - b) Independence of mental attitude

- c) Adequate training and proficiency
- d) Due professional care

41. Revenues shall be recognized when

- a) The actual amount paid or received is the amount recorded
- b) Revenue from business transactions are recorded at the time goods and services are sold.
- c) Must be consistent throughout the time periods of a business.
- d) None of the above

42. According to the consistency principle

- a) The actual amount paid or received is the amount recorded.
- b) Must be consistent throughout the time periods of a business.
- c) Financial information must be fair and reasonable - neither overstated nor understated.
- d) None of the above

43. The concept of conservatism will have the effect of

- a) Overstatement of Assets
- b) Understatement of Assets
- c) Overstatement of Liabilities
- d) Understatement of Liabilities

44. According to which concept, proprietor of a business is treated as a creditors to the extent of his capital

- a) Money measurement
- b) Cost
- c) Dual aspect
- d) Business Entity

45. Accounting does not record non-financial transactions because of

- a) Accrual concept
- b) Entity concept
- c) Measurement concept
- d) Double entry concept

46. According to which of the following concepts even the owner of the business who provides capital treated as a creditor of the business?

- a) Entity concept
- b) Cost concept
- c) Money measurement concept.
- d) Convention of disclosure

47. Which is the accounting concept that requires the practice of crediting closing stock to the trading account?

- a) Going concern.
- b) Cost
- c) Realization
- d) Matching

48. Assets in the balance sheet are shown at cost less depreciation rather than their replacement cost because of the accounting convention

- a) Going concern
- b) Matching
- c) Realization
- d) Money measurement

49. According to money measurement concept, which one the following will be recorded in the books of accounts

- a) Excellent morale of workers.
- b) Quality control in the business.
- c) Managing ability of the manager.
- d) Cost of machinery

50. Contingent liability appears as a footnote in the balance sheet. This is in accordance with the accounting principle of

- a) Disclosure.
- b) Materiality.
- c) Conservatism.
- d) Consistency

51. The policy of anticipate no profit and provide for all possible losses arises due to convention of

- a) Consistency.
- b) Disclosure.
- c) Matching.
- d) Conservatism

52. What does GAAP represents?

- a) Generally Accepted Audit Procedure.
- b) Generally Accepted Accounting Procedures.
- c) Generally Accepted Accounting Principles.
- d) General Agreement on Accounting Principles

53. Accounting principles are generally based on

- a) Practicability
- b) Subjectivity
- c) Convenience in recording.
- d) Applicability

54. Basis for mercantile system of accounting is

- a) Matching Concept
- b) Accrual Concept
- c) Cost Concept
- d) Revenue realization concept

55. Under which concept 52 weeks or one year has been accepted as the accounting period?

- a) Business entity Principle
- b) Matching concept
- c) Accounting period concept
- d) Cost Concept

56. Recording both the aspects in a transaction is based on

- a) Money measurement concept
- b) Dual aspect concept
- c) Matching concept
- d) Accrual concept

57. Which of the following statements best describes the concept of adequate disclosure?
- The accounting department of a business must inform management of the accounting practices used to prepare the financial statements.
 - The company must inform users of any significant facts necessary for proper interpretation of the financial statements, including events occurring after the financial statement date.
 - The independent auditors must disclose in the financial statements any and all errors detected in the company's accounting records.
 - The financial statements must include a comprehensive list of each transaction that occurred during the year.
58. What accounting principle governs the timing of revenue recognition?
- Realization principle
 - Materiality principle
 - Matching principle
 - Depreciation principle
59. Going concern concept can only be applied to a firm when it:
- Is not expected to incur losses in the foreseeable future.
 - Will never be wound up.
 - Is expected to continue in operational existence for the foreseeable future at a level of activity not significantly less than its current level of activity.
 - Is not expected to be able to continue operating.
60. When preparing accounts and applying the going concern concept, which of the following should be considered?
- Profit should not be anticipated and losses should be provided as they are foreseen.
 - Items should normally be accounted in a consistent manner.
 - Unless there is specific information to the contrary, the firm for which the accounts are being prepared should be assumed to continue in operational existence for the foreseeable future at a level of activity not significantly less than the current level of activity.
 - Revenues and costs are recognized as they are earned or incurred, not as money is received or paid.
61. Business entity concept explains that:
- Firm is separate and distinct from its owners, those owners cannot have access to its assets, unless the firm ceases to trade.
 - Accounts must be prepared for every firm.
 - The financial affairs of a firm and its owner are always kept separate for the purpose of preparing accounts.
 - None of the above.
62. Accrual concepts can be explained as one of the following:
- Similar items should be accounted for in a similar way from one accounting period to the next.
 - Revenue and profit should not be anticipated.
 - Net profit is the difference between revenues earned and expenses incurred.
 - None of the above.
63. Revenue from sale of goods ordinarily is reported as part of the earning in the period
- The sale is made.
 - The cash is collected.
 - The products are manufactured.
 - The planning takes place.
64. Prudence concept means that
- Net profit is the difference between revenues and expenses rather than the difference between receipts and payments.
 - Losses should be provided for as soon as they are foreseen and profit should not be recorded prematurely.
 - Similar items should be treated in a consistent way from one accounting period to the next.
 - None of the above.
65. Which of the following is a consistency concept?
- While preparing accounts of a firm, one should normally account for similar items in the same way from one accounting period to the next.
 - Firms in the same industry must account for similar items in the same way.
 - Firms may never change the way in which they prepare their accounts

- d) None of the above
66. Items with money value should be recorded as
- The materially concept
 - The business entity concept
 - The going concern concept
 - The money measurement concept
67. Which of the following is referred to as the Matching Concept?
- The accrual concept
 - The prudence concept
 - The going concern concept
 - The consistency concept
68. A company decided to change from the straight line method of depreciation to the reducing balance method. Which accounting concept does this proposal contravene?
- Consistency
 - Going concern
 - Historic cost
 - Materiality
69. The money measurement concept means that:
- Only transactions involving cash movement are recorded.
 - The importance of transaction is measured by their money value.
 - Only transactions on which money value can be placed are recorded.
 - Accountants are only interested in the money aspects on transactions.
70. Fixed assets are always kept in books at their cost price because of:
- Historical cost concept
 - Dual aspect concept
 - Prudence concept
 - None of the above
71. On 1 January 1995, Pettit paid an insurance premium of \$1250 for 15 months to 31 March 1996. When he prepares his Profit and Loss Account for the year to 31 December 1995, Pettit debited only \$1000 of the insurance premium to the account and carried the balances of \$250 forward to 1996. This was an example of the concept of:
- Going concern
 - Matching & Accrual Concept
 - Prudence
 - Realization
72. The concept of profit as being earned at the particular point is called:
- Realization concept
 - Accrual concept
 - Cost concept
 - Dual aspect concept
73. Recording something in a special way only if the amount is not a small one, is called:
- Prudence
 - Objectivity
 - Substance over form
 - Materiality
74. Using the net realizable value when it is lower than cost. This is an example of:
- Prudence concept
 - Consistency concept
 - Realization concept
 - Materiality
75. Quick Company recently bought a waste paper basket guaranteed to last for five years. Nevertheless, the firm charged its full price to an Expense Account.
- The historical cost convention.
 - The matching principle
 - The realization concept
 - The materiality principle
76. A grinding machine has been bought for an exceptionally low price and has been entered in the Asset Account at that price even though it is worth more. This is an example of:
- Cost
 - Prudence
 - Realization
 - Subjectivity
77. The writing off of a bad debt is an example of:
- Going concern concept
 - Matching concept
 - Prudence concept
 - Substance over form concept
78. Which item may be included in a Balance Sheet at more than historical cost?
- Goodwill
 - Land and Buildings
 - Research Expenditure
 - Work in progress
79. A machine acquired on hire-purchase legally belongs to the seller until the final hire purchase installment has been paid. However, it is treated for accounting purposes as a fixed asset in the books of the hire purchaser. This is an example of:
- Matching
 - Materiality
 - Prudence
 - Substance over form
80. What is the meaning of the money measurement concept?
- Accounts are kept on the double entry basis.
 - Assets are normally shown at cost price.
 - Only items with monetary value are included in the accounts.

- d) Profit is calculated on the basis of cash received less cash paid.
81. A business decides to record stocks of stationery as an asset only if they are over \$100. What accounting concept is being applied?
- Conservation
 - Dual aspect
 - Materiality
 - Money measurement
82. Two companies buy identical computer equipment. The larger company writes it off immediately, but the smaller company treats it as a fixed asset. Which accounting concept are the companies applying?
- Accounting entity
 - Going concern
 - Materiality
 - Money measurement
83. What is the meaning of the prudence concept?
- Accounts should provide for all probable losses and should not anticipate profits.
 - Accounts should only include items with a monetary value.
 - Accounts should provide for all accruals and prepayments.
 - Accounts should use the same methods from year to year.
84. Which accounting concept is a business following when it includes a provision for doubtful debts in its annual account?
- Consistency
 - Matching
 - Prudence
 - Realization
85. What is the meaning of the money measurement concept?
- Assets are normally shown at cost price.
 - Only items with a monetary value are included in the accounts.
 - Profits are calculated after allowing for accruals and prepayments.
 - Profits are calculated on the basis of cash received less cash paid.



Answer Key

- | | | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. b | 12. b | 23. b | 34. d | 45. c | 56. b | 67. a | 78. b |
| 2. b | 13. d | 24. c | 35. d | 46. a | 57. b | 68. a | 79. d |
| 3. c | 14. d | 25. a | 36. b | 47. d | 58. a | 69. c | 80. c |
| 4. c | 15. d | 26. d | 37. c | 48. a | 59. c | 70. a | 81. c |
| 5. a | 16. b | 27. c | 38. d | 49. d | 60. c | 71. b | 82. c |
| 6. b | 17. c | 28. c | 39. c | 50. b | 61. c | 72. a | 83. a |
| 7. a | 18. b | 29. a | 40. a | 51. d | 62. c | 73. d | 84. c |
| 8. d | 19. d | 30. b | 41. b | 52. c | 63. a | 74. a | 85. b |
| 9. a | 20. b | 31. a | 42. b | 53. a | 64. b | 75. d | |
| 10. c | 21. c | 32. a | 43. b | 54. b | 65. a | 76. a | |
| 11. b | 22. d | 33. c | 44. d | 55. c | 66. d | 77. c | |