

**TEST PAPER**  
**FUNDAMENTALS OF ACCOUNTING AND AUDITING**

1. If sales revenues are Rs. 4,00,000; cost of goods sold is Rs. 3,10,000 and operating expenses are Rs. 60,000 the gross profit is –
  - (A). Rs. 30,000
  - (B). Rs. 90,000
  - (C). Rs. 3,40,000
  - (D). Rs. 60,000
2. A new firm commenced business on 1-1-2007 and purchased goods costing Rs. 90,000 during the year. A sum of Rs. 6,000 was spent on freight inwards. At the end of the year the cost of goods still unsold was Rs. 12,000. Sales during the year Rs. 1,20,000. What is the gross profit earned by the firm?
  - (A). Rs. 36,000
  - (B). Rs. 30,000
  - (C). Rs. 42,000
  - (D). Rs. 38,000
3. Balance Sheet is also known as –
  - (A). Position statement.
  - (B). Analysis Statement.
  - (C). Cash Flow Statement.
  - (D). Fund Flow Statement.
4. A businessman purchased goods for Rs 25,00,000 and sold 70% of such goods during the accounting year ended on 31<sup>st</sup> March, 2013. The market value of the remaining goods was Rs 5,00,000. He valued the closing stock at Rs 5,00,000 and not at Rs 7,50,000 due to –
  - (A) Money measurement concept
  - (B) Conservatism concept
  - (C) Cost concept
  - (D) Periodicity concept.
5. The correct sequence of the following in the preparation of periodical final statements would be –
  1. Preparation of Balance Sheet
  2. Preparation of Cash Flow Statement
  3. Preparation of Trial Balance
  4. Preparation of Profit / Loss StatementThe correct option is –
  - (A) 4, 2, 1, 3
  - (B) 3, 4, 1, 2
  - (C) 2, 4, 3, 1
  - (D) 1, 3, 2, 4

6. Total capital employed in the firm is Rs 8,00,000, reasonable rate of return is 15% and Profit for the year is Rs 12,00,000. The value of goodwill of the firm as per capitalization method would be –
- (A) Rs 82,00,000
  - (B) Rs 12,00,000
  - (C) Rs 72,00,000
  - (D) Rs 42,00,000.
7. A chronological record of transaction may be found in –
- (A) Balance Sheet
  - (B) Trial Balance
  - (C) Ledger
  - (D) Journal
8. Bank balance as per cash book of ABC Enterprises as on 31st March, 2013 is Rs 1,500. Cheques deposited with bank but not cleared amount to Rs. 100 and cheques issued but not presented for payment amount Rs 150. The bank allowed interest amounting to Rs 50 and collected dividend Rs 50 on behalf of ABC Enterprises. Balance as per pass book should be –
- (A) Rs 1,600
  - (B) Rs 1,450
  - (C) Rs 1,850
  - (D) Rs 1,650
9. If outstanding salary appear in the trial balance, while preparing the final accounts, it will be shown in –
- (A) Asset side of the balance sheet
  - (B) Liability side of the balance sheet
  - (C) Profit and Loss A/c and asset side of the balance sheet
  - (D) Profit and Loss A/c and Liability side of balance sheet.
10. Income earned which is yet to be collected results in –
- (A) Increase in capital and increase in liability
  - (B) Decrease in liability and increase in capital
  - (C) Increase in asset and increase in liability
  - (D) Increase in capital and increase in asset.
11. A purchased an old computer costing Rs 10,000 and incurred Rs 1,000 on its repairs and Rs 500 on its packing. He sold the computer at 20% margin on selling price. The sales value will be –
- (A) Rs 12,500
  - (B) 11,000
  - (C) 14,375
  - (D) 13,800
12. Omega Limited, a listed company acquires assets worth Rs 7,50,000 from Alpha Limited and issue shares of Rs 10 each at a premium of 25%. The number of shares to be issued by Omega Ltd., to settle the purchase consideration will be –
- (A) 60,000
  - (B) 75,000
  - (C) 1,00,000

- (D) 1,25,000
13. Prepaid insurance, outstanding salaries are example of.....
- (A) Tangible real accounts
  - (B) Intangible real accounts
  - (C) Representative personal accounts
  - (D) Artificial or legal persons account
14. The total of the sales day book is posted periodically to the credit of .....
- (A) Purchases account
  - (B) Cash book
  - (C) Journal proper
  - (D) None of these
15. Which of the column of the cash book is never balanced.....
- (A) Cash column
  - (B) Bank column
  - (C) Discount column
  - (D) None of the above
16. Total of debit side discount column of cash book is posted to.....
- (A) Cr. of Discount Received A/c
  - (B) Dr. of Discount Received A/c
  - (C) Cr. of Discount Allowed A/c
  - (D) Dr. of Discount Allowed A/c
17. Mr. Anand buys goods of 250000 paying cash 200000. What is the amount of expense as per the accrual concept?
- (A) 250000
  - (B) 200000
  - (C) 50000
  - (D) Nil
18. A and B are partners sharing profits and losses in the ratio of 5:3. They admit C into partnership and the profit sharing ratio of the three partners is agreed at 7:5:4. The gaining or sacrificing ratio among A and B will be:
- (A) Gaining ratio of 3:1
  - (B) Gaining ratio of 1:3
  - (C) Sacrificing ratio of 1:3
  - (D) Sacrificing ratio of 3:1
19. Aditya Ltd. issued equity shares of 50000 shares of 10 each for subscription. 40000 share were subscribed by the public by paying 3 as application money. Number of shares allotted to public by Aditya Ltd. will be
- (A) 50000 shares
  - (B) 40000 shares
  - (C) 30000 shares
  - (D) 10000 shares

20. Discount allowed to Sohan 73 has been credited to his account by 37 the error will be rectified by
- (A) Crediting Sohan by A36
  - (B) Debiting Sohan by A36
  - (C) Crediting discount by A36
  - (D) None
21. Which of the following errors will affect the trial balance?
- (A) Repairs to building wrongly debited to Building a/c
  - (B) Total of purchase journal by a1000 short
  - (C) Freight paid on new machinery debited to freight A/c
  - (D) None of the three
22. Under straight line method, depreciation is calculated on
- (A) Written down value
  - (B) Scrap value
  - (C) Original cost
  - (D) None of the three
23. Which of the following is not a transaction?
- (A) Goods are purchased on cash basis for Rs.1000
  - (B) Salaries paid for the month of May, 2006
  - (C) Land is purchased for Rs.10 lacs
  - (D) An employee dismissed from the job
24. ....is a statement of debit & credit balances, while.....is a statement of assets and liabilities.
- (A) Profit & loss, Balance sheet
  - (B) Trial balance, Balance sheet
  - (C) Balance sheet, Trading account
  - (D) Trial balance, Profit & loss
25. ....are the errors committed by persons responsible for recording and maintaining accounts of a business firm in the course of accounting process.
- (A) Marketing error
  - (B) Accounting errors
  - (C) Planning error
  - (D) All of the above
26. Unintentional omission or commission of amounts and accounts in the process of recording transactions are known as.....
- (A) Misinterpretation
  - (B) Frauds
  - (C) Errors
  - (D) None of the above
27. Errors other than.....are called clerical errors.
- (A) Errors of principle
  - (B) Errors of omission

- (C) Complete omission  
(D) Partial omission
28. The maximum amount beyond which a company is not allowed to raise funds by issue of its shares, is called –  
(A) Subscribed capital  
(B) Called-up capital  
(C) Paid-up capital  
(D) Authorized capital.
29. If the insurance premium paid is Rs. 1,000 and prepaid insurance is Rs. 300, the amount of insurance premium shown in profit and loss account will be –  
(A) Rs. 1,300  
(B) Rs. 700  
(C) Rs. 1,000  
(D) Rs. 300
30. Pious Limited purchases a machine worth Rs. 1,15,000 from Indigo Traders. Payment was made as Rs. 10,000 by cheque and the remaining by issue of equity shares of the face value of Rs. 10 each fully paid-up at an issue price of Rs. 10.50 each. Amount of share premium would be –  
(A) Rs. 6,000  
(B) Rs. 5,000  
(C) Rs. 7,000  
(D) Rs. 4,000
31. Which of the following errors will result into non-agreement of the trial balance?  
(A) Totaling the returns inwards journal as Rs. 11,400 instead of Rs. 12,600  
(B) Recording a sales invoice for Rs. 5,600 as Rs. 6,500 in the Sales Journal  
(C) Failing to record a purchase invoice for Rs. 54,000 in the Purchases Journal  
(D) Recording in the Purchases Journal, an invoice for acquiring a non-current asset for Rs. 60,000.
32. If prepaid rent appears in the trial balance while preparing the final accounts it will be shown in –  
(A) Assets side of the balance sheet  
(B) Liabilities side of the balance sheet  
(C) Profit and Loss A/c and asset side of the balance sheet  
(D) Profit and Loss A/c and liabilities side of balance sheet.
33. Atul purchased a car for Rs. 5,00,000, by making a down payment of Rs. 1,00,000 and signing a Rs. 4,00,000 bill payable due in 60 days. As a result of this transaction –  
(A) Total assets increased by Rs. 5,00,000  
(B) Total liabilities increased by Rs. 4,00,000  
(C) Total assets increased by Rs. 4,00,000  
(D) Total assets in increased by Rs. 4,00,000 with a corresponding increase in liabilities by Rs. 4,00,000.

34. Dinesh garments purchased a machine for Rs. 50,000 and spent Rs. 6,000 on its erection. On the date of purchase it was estimated that the effective life of the machine will be ten years and after ten years its scrap value will be Rs. 6,000. The amount of depreciation for each year on straight line basis is –
- (A) Rs. 5,000
  - (B) Rs. 5,600
  - (C) Rs. 6,000
  - (D) None of the above.
35. An equipment was purchased on 1<sup>st</sup> January, 2012 for Rs. 25,000 and is to be depreciated at 30% based on reducing balance method. If the company closes its books of account on 31<sup>st</sup> March every year, what would be the net book value of the equipment as at 31<sup>st</sup> December, 2013 –
- (A) Rs. 12,250
  - (B) Rs. 10,000
  - (C) Rs. 17,750
  - (D) Rs. 12,545
36. A, B and C share profits and losses of a firm on 1:1:1 basis. B retired from business and his share is purchased by A and C in 40:60 ratio. New profit and loss sharing ratio between A and C would be –
- (A) 1:1
  - (B) 2:3
  - (C) 7:8
  - (D) 3:5
37. The nature, time and extent of audit procedure are covered under –
- (A) Audit Programme
  - (B) Audit Execution
  - (C) Audit Plan
  - (D) None of the above.
38. Detection and prevention of fraud is the ..... objection of auditing activity.
- (A) Primary
  - (B) Secondary
  - (C) Single
  - (D) Specific.
39. 'Disclaimer of Opinion' means –
- (A) The auditor gives clean report
  - (B) The auditor gives qualified report
  - (C) The auditor gives adverse report
  - (D) The auditor is unable to express his opinion.
40. Statutory audit report of a company is addressed to –
- (A) Board of Directors
  - (B) Ministry of Corporate Affairs
  - (C) Employees of the company
  - (D) Members of the company.

41. In general, what is the period covered in a statutory audit?
- (A) 1 Year
  - (B) 2 Years
  - (C) 3 Years
  - (D) Depending upon the auditor's wish
42. Who is the custodian authority for audit working papers?
- (A) Shareholders
  - (B) Managing Director
  - (C) Company Secretary
  - (D) Auditor.
43. Which of the following are the rights of a Statutory Auditor?
- X. To receive remuneration
  - Y. To attend Board of Directors' meeting
  - Z. To attend the general meeting
  - W. To visit the branch office
- Correct option is –
- (A) X and Y
  - (B) X, Y and Z
  - (C) X, Z and W
  - (D) X, Y, Z and W.
44. Bank account is a.....
- (A) Real account
  - (B) Personal account
  - (C) Nominal account
  - (D) Valuation account
45. Which of the following type of account can be opened with bank?
- (A) Current Account
  - (B) Savings Account
  - (C) Fixed Deposit Account
  - (D) Any of the above
46. On 31st December overdraft as per cash book - Rs. 16,200. A comparison of pass book and cash book revealed the following:
- Cheque deposited for Rs. 700 was not credited in pass book.
- Out of cheques of Rs. 900 issued only cheques amounting to Rs. 825 were presented for payments.
- Overdraft as per pass book will be.....
- (A) Rs. 15,425
  - (B) Rs. 16,975
  - (C) Rs. 16,825
  - (D) Rs. 15,575
47. If the rate of gross profit is 25% on cost of goods sold and the sales are A5,00,000, the amount of gross profit will be \_\_\_\_\_.
- (A) 1,00,000
  - (B) 1,50,000
  - (C) 1,25,000

- (D) 1,20,000
48. Internally generated goodwill is-
- (A) shown in Trading account.
  - (B) shown in Profit and loss account.
  - (C) shown in Balance sheet.
  - (D) not recorded in the books.
49. Preference shares amounting to 1,00,000 are redeemed at a premium of 5% from the profits of the company. The amount to be transferred to capital redemption reserve account will be
- (A) 1,05,000.
  - (B) 1,00,000.
  - (C) 95,000.
  - (D) 90,000.
50. In the absence of any provision in the partnership agreement, the partners have right to receive interest on loan at
- (A) 12% p.a
  - (B) 6 % p.a
  - (C) 20% p.a
  - (D) Nil
51. Bajaj Ltd. issued 5,000 equity shares of 10 each payable as 2 on application, 3 on allotment, 2 on first call and the balance in the final call. The amount to be debited to bank account at the time of receipt of first call money will be
- (A) 30,000
  - (B) 10,000
  - (C) 40,000
  - (D) 50,000.
52. Making provision for bad debts in respect of doubtful debts is based on the convention of
- (A) Consistency
  - (B) Disclosure
  - (C) Conservatism
  - (D) Materiality
53. Preference shares can be redeemed only if they are
- (A) Partly paid up
  - (B) Fully paid up
  - (C) Both of the above
  - (D) None of the above
54. The term 'Audit' originated from the Latin word "audire" which means to.....
- (A) Hear
  - (B) Wright
  - (C) Learn
  - (D) Teach
55. The objective of an audit of financial statement is to enable an auditor to.....on financial statements.
- (A) Completion of audit

- (B) Express an opinion
  - (C) Check the transactions
  - (D) Check fraud
56. Though auditors are appointed by equity shareholders in certain cases auditor can be appointed by
- (A) Directors
  - (B) Central Government
  - (C) (a) or (b)
  - (D) Debenture holders
57. Auditors are generally appointed by equity shareholders in.....
- (A) Annual general meeting
  - (B) Board meeting
  - (C) Special meeting
  - (D) Extraordinary general meeting
58. In India, the....., provides for the compulsory tax audit of the accounts of certain income tax assessee whose turnover or receipts exceed the specified limits. \_\_\_\_\_
- (A) The Companies Act, 2013
  - (B) The Income-tax Act, 1961
  - (C) The Central Sales Tax Act, 1956
  - (D) All of above
59. In relation to bank audit NPA means.....
- (A) Non Performing Assets
  - (B) No Performed Assets
  - (C) Non Programmed Assets
  - (D) Non Personal Assets
60. Auditor of government companies are appointed by.....
- (A) C & AG
  - (B) CA
  - (C) CWA
  - (D) CS
61. The audit can be.....only when the accounting
- (A) Ends, started
  - (B) Started, ends
  - (C) Started, started
  - (D) None of the above
62. Auditing is.....for companies.
- (A) Compulsory
  - (B) Voluntary
  - (C) Necessary
  - (D) None of above
63. ....is information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.
- (A) Audit programme
  - (B) Audit plan
  - (C) Audit evidence

- (D) None of above
64. The auditor has to obtain.....evidence to substantiate his opinion on the financial statements.
- (A) Sufficient
  - (B) Appropriate
  - (C) Inappropriate
  - (D) (a) & (b)
65. Section 139 of the Companies Act, 2013 generally auditors are appointed by.....
- (A) Preference shareholders
  - (B) Equity shareholders
  - (C) Debenture holders
  - (D) Creditors
66. The first auditor shall hold office till the conclusion of.....
- (A) Next five annual general meeting
  - (B) First annual general meeting
  - (C) First extra ordinary general meeting
  - (D) None of above
67. Every company shall, at each annual general meeting, appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the .....subject to the ratification by members at every annual general meeting.
- (A) Next annual general meeting
  - (B) third annual general meeting
  - (C) sixth annual general meeting
  - (D) sixth extraordinary general meeting
68. Who appoints internal auditor:
- (A) Management
  - (B) Shareholders
  - (C) Government
  - (D) Stock Exchange
69. Due to lack of audit evidence, auditor issues a:
- (A) Qualified opinion
  - (B) Unqualified opinion
  - (C) Adverse opinion
  - (D) Disclaimer of opinion
70. Which types of audit is conducted by the internal audit staff:
- (A) Cost Audit
  - (B) Secretarial Audit
  - (C) Internal Audit
  - (D) Tax Audit
71. Who will be responsible for errors in report if external audit relies on the work of internal auditor:
- (A) External auditor
  - (B) Internal auditor
  - (C) Management
  - (D) Shareholders

72. Weakness in internal control system \_\_\_\_\_ the risk of fraud and errors:
- (A) Increases
  - (B) Decreases
  - (C) Does not effect
  - (D) Eliminates
73. In case the directors fail to appoint first auditor(s), the shareholders shall appoint them at.....by passing a resolution:
- (A) A general meeting
  - (B) First annual general meeting
  - (C) Statutory meeting
  - (D) Annual general meeting
74. Cost Audit is related to:
- (A) Cost accounting records;
  - (B) Compliance
  - (C) Financial statements
  - (D) Balance and Profit & Loss Account
75. Secretarial audit is also termed as:
- (A) Financial audit
  - (B) Compliance audit
  - (C) Operational audit
  - (D) Tax audit
76. \_\_\_\_\_ of the Companies Act, 2013 contains provisions regarding the appointment of the auditor.
- (A) Section 140
  - (B) Section 141
  - (C) Section 139
  - (D) Section 142
77. Auditor has to obtain \_\_\_\_\_ audit evidence:
- (A) Adequate
  - (B) Correct
  - (C) Relevant
  - (D) Sufficient and appropriate.
78. If a casual vacancy in the office of auditor arises by his resignation it should only be filled by the company in a \_\_\_\_\_
- (A) Board's meeting
  - (B) Extraordinary general meeting
  - (C) General meeting
  - (D) Annual general meeting.
79. \_\_\_\_\_ refers to the method and means adopted by the auditor for collection and evaluation of audit evidence in different audit situation:
- (A) Audit evidence
  - (B) Audit tools
  - (C) Audit planning
  - (D) Audit technique.

80. The objective of an audit of financial statement is to enable an auditor to \_\_\_\_\_ on financial statements.
- (A) Completion of Audit  
(B) Express on opinion  
(C) Check the transactions  
(D) Check fraud.
81. A Company Secretary in Practice has been authorized under Section 2(2)(c)(v) of the Company Secretaries Act, 1980 to conduct :
- (A) VAT Audit  
(B) Secretarial Audit  
(C) Cost Audit  
(D) Bank Audit
82. The auditor of a Government Company is appointed by the \_\_\_\_\_.
- (A) Comptroller and Auditor General of India.  
(B) The shareholder in a general meeting.  
(C) The shareholder at an annual general meeting.  
(D) The board of directors.
83. Which of the following are the rights of a Statutory Auditor?
- X. To receive remuneration  
Y. To attend Board of Directors' meeting  
Z. To attend the general meeting  
W. To visit the branch office
- Correct option is –
- (A) X and Y  
(B) X, Y and Z  
(C) X, Z and W  
(D) X, Y, Z and W.

### ANSWERS

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