Question 1: Which one of the following is a capital receipt for a business?
a) Sale of goods on credit
b) Proceeds from sale of a fixed asset
c) Interest received on bank deposit
d) Rent received

Question 2: Which theory of accounting emphasizes that accounting must provide information useful for making economic decisions?
a) Stewardship theory
b) Decision usefulness theory
c) Historical cost theory
d) Matching theory

Question 3: A company uses a conservative estimate for doubtful debts which reduces profit in the current year. This treatment illustrates which accounting concept?
a) Consistency
b) Prudence
c) Accrual
d) Business entity

Question 4: Which form of business organization allows transfer of ownership by selling shares?
a) Sole proprietorship
b) Partnership firm
c) Joint stock company
d) Cooperative society

Question 5: If demand is perfectly elastic, a small fall in market price will cause:
a) No change in quantity demanded
b) Infinite increase in quantity demanded
c) Proportionate change in quantity demanded
d) A small decrease in quantity demanded

Question 6: Government reduces excise duty on essential medicines. This policy is primarily an example of:
a) Redistribution objective
b) Reallocation of resources
c) Stabilization objective
d) Revenue generation

Question 7: Which document records the opening balances of ledger accounts in a newly started company?
a) Journal proper
b) Trial balance
c) Balance sheet
d) Cash book

Question 8: In microeconomics, cross-price elasticity of demand between two goods is negative. This implies the goods are:
a) Substitutes
b) Complements
c) Inferior goods
d) Luxury goods

Question 9: Which of the following is classified as revenue expenditure?
a) Purchase of building
b) Replacement of worn-out parts
c) Purchase of patent rights
d) Purchase of machinery

Question 10: A government running a budget with planned higher capital expenditure than previous year most likely aims at:
a) Short-term price control
b) Promoting long-term economic growth
c) Reducing imports immediately
d) Raising tax rates

Question 11: Which of the following is not recorded in the profit & loss account?
a) Sales revenue
b) Depreciation
c) Drawings by proprietor
d) Discount allowed

Question 12: A firm chooses a labour-intensive technique despite cheaper machinery being available because local unemployment is high and the firm receives subsidies for employment. Which economic concept explains this choice?
a) Opportunity cost
b) Production possibility frontier shift
c) Objective of business (social) / government policy influence
d) Law of diminishing returns

Question 13: Under double-entry bookkeeping, which entry records purchase of goods on credit?
a) Debit Purchases, Credit Cash
b) Debit Purchases, Credit Accounts Payable
c) Debit Cash, Credit Purchases
d) Debit Accounts Payable, Credit Purchases

Question 14: Which of the following best describes a public good?
a) Rival and excludable
b) Non-rival and non-excludable
c) Rival and non-excludable
d) Excludable and non-rival

Question 15: Which accounting principle requires that revenue is recognized when it is earned and realized?
a) Matching principle
b) Revenue recognition principle
c) Cost principle
d) Conservatism

Question 16: Which feature distinguishes LLP (Limited Liability Partnership) from a traditional partnership?
a) Mutual agency of partners
b) Separate legal entity and limited liability for partners
c) Perpetual succession automatically guaranteed for all partners
d) No requirement of partnership agreement

Question 17: If Average Cost (AC) is rising, marginal cost (MC) must be:
a) Less than AC
b) Equal to AC
c) Greater than AC
d) Zero

Question 18: A company consistently fails to replace obsolete stock and values closing stock at original cost much above net realizable value. Which accounting concept is being violated?
a) Going concern
b) Conservatism / Lower of Cost or Net Realizable Value
c) Accrual basis
d) Matching

Question 19: Which of the following is a primary function of business?
a) Consumption of resources
b) Production of goods and services
c) Increase in government revenue
d) Personal entertainment of owner

Question 20: What happens to total revenue when demand is inelastic and price decreases?
a) Total revenue increases
b) Total revenue decreases
c) Total revenue remains same
d) Cannot be determined

Question 21: Which of the following is a contingent liability?
a) Outstanding wages
b) Pending litigation where outcome is uncertain
c) Bank overdraft
d) Unpaid taxes assessed by authority

Question 22: Which item would you expect to find under 'financing activities' in a cash flow statement?
a) Cash paid to suppliers
b) Dividends paid to shareholders
c) Cash received from customers
d) Purchase of inventory

Question 23: A partnership agreement provides that interest on partner's capital is not to be charged but interest on drawings is to be charged and profit is distributed equally. Which accounting entries are affected?
a) Only capital accounts
b) Interest on drawings and distribution of profit
c) Revenue account only
d) No entries required

Question 24: Which index measures the weighted average change in prices of goods and services commonly used by consumers?
a) Wholesale Price Index (WPI)
b) Consumer Price Index (CPI)
c) Producer Price Index (PPI)
d) GDP deflator

Question 25: In managerial accounting, 'contribution' is defined as:
a) Sales minus fixed costs
b) Sales minus variable costs
c) Sales minus total costs
d) Sales minus administrative expenses

Question 26: A firm's budget shows a planned increase in subsidies to farmers while reducing indirect taxes. Which effect on aggregate demand and supply is most likely?
a) AD falls; AS falls
b) AD rises; AS may stay same or rise
c) AD falls; AS rises
d) No effect on AD or AS

Question 27: Which of the following is true about goodwill?
a) It is a current asset
b) It arises only when purchase consideration exceeds fair value of net assets acquired
c) It is amortized as a revenue expense in all accounting systems
d) It is always a liquid asset

Question 28: Which market structure is characterized by many buyers and sellers, homogeneous product and free entry?
a) Monopoly
b) Perfect competition
c) Oligopoly
d) Monopolistic competition

Question 29: Which of the following is a contra asset account?
a) Accumulated depreciation
b) Prepaid expenses
c) Accounts receivable
d) Cash in hand

Question 30: A company adopts accrual accounting and recognizes revenue on delivery though cash is received 30 days later. Which concept justifies this recognition?
a) Cash basis of accounting
b) Revenue recognition and matching principles
c) Prudence principle
d) Entity concept

Question 31: Which of the following would not be part of working capital?
a) Cash
b) Inventory
c) Long-term bond payable
d) Accounts receivable

Question 32: If the price elasticity of demand for a product is −0.5, demand is:
a) Elastic
b) Unit elastic
c) Inelastic
d) Perfectly elastic

Question 33: An entrepreneur wants to avoid double taxation and keep profit distribution flexible; which form of business might be best?
a) Public limited company
b) Partnership or LLP
c) Cooperative society
d) State-owned enterprise

Question 34: Which form of budgetary balance indicates that government revenue equals total expenditure?
a) Fiscal deficit
b) Budget surplus
c) Balanced budget
d) Primary deficit

Question 35: Which of the following is considered a qualitative characteristic of accounting information?
a) Historical cost valuation
b) Comparability
c) Depreciation method
d) Trial balance accuracy

Question 36: Two firms A and B have identical sales, but A uses accelerated depreciation while B uses straight-line. In initial years, A will show:
a) Higher profit than B
b) Lower profit than B
c) Same profit as B
d) Higher revenue than B

Question 37: Which is an example of implicit cost?

a) Rent paid to landlord

b) Owner's foregone salary working in the business

c) Interest on borrowed funds

d) Salary to an employee

Question 38: A company receives an advance from a customer before delivery of goods. On balance sheet this is:

a) Current asset

b) Liability

c) Capital

d) Contra liability

Question 39: A small manufacturer finds that a small price cut increased sales volume enough that total revenue fell. Which elasticity explanation fits?

a) Demand is elastic at that price range

b) Demand is inelastic at that price range

c) Demand is unitary elastic

d) Supply curve shifted

Question 40: Which of the following is an example of a statutory source of business finance?

a) Retained earnings

b) Share capital (through issue of securities under Companies Act)

c) Owner's savings

d) Friends' loan

Question 41: Which accounting document shows the balances of ledger accounts at a point in time to check arithmetical accuracy?

a) Cash book

b) Trial balance

c) Balance sheet

d) Profit & loss account

Question 42: The government decides to increase progressive taxation on high incomes to reduce inequality. Which budget objective is this?

a) Allocation of scarce resources

b) Redistribution of income and wealth

c) Stabilization of prices

d) Encouraging exports

Question 43: Which of the following best defines opportunity cost?

a) Explicit monetary cost of buying a resource

b) Value of next best alternative foregone

c) Sunk cost irrelevant for decisions

d) Total cost divided by output

Question 44: Which entry is required when a company purchases a building by paying part cash and issuing a long-term note for the balance?

a) Debit Building; Credit Cash and Credit Long-term Notes Payable

b) Debit Cash; Credit Building and Notes Payable

c) Debit Notes Payable; Credit Building and Cash

d) Debit Building and Notes Payable; Credit Cash

Question 45: A shift of the demand curve to the right indicates:

a) Increase in quantity demanded due to price fall

b) Increase in demand at each price level

c) Decrease in demand at each price level

d) Movement along demand curve

Question 46: A firm's cost function exhibits increasing returns initially and then diminishing returns as inputs increase. This pattern is best explained by:

a) Law of diminishing marginal utility

b) Law of diminishing marginal returns after a point

c) Law of supply

d) Invisible hand theorem

Question 47: Which of the following is not an objective of financial accounting?

a) Recording transactions

b) Assisting managerial decision-making through budgets

c) Communicating financial position to external users

d) Determining taxable income

Question 48: Which cost remains constant on a per unit basis as output increases (assuming linear behaviour)?

a) Total fixed cost

b) Average fixed cost

c) Marginal cost

d) Variable cost per unit

Question 49: A company buys inventory on Oct 30 on credit and pays supplier on Dec 15. Under accrual accounting, when is expense recognized?
a) When cash paid (Dec 15)
b) At time of purchase (Oct 30)
c) At year end only
d) When invoice created irrespective of purchase date

Question 50: Which of these business forms allows limited liability but is managed by a small group and not listed publicly?
a) Private limited company
b) Public limited company
c) Sole proprietorship
d) Partnership

Question 51: Which of the following is an effect of a high fiscal deficit financed by money creation?
a) Deflationary pressure
b) Inflationary pressure
c) Immediate improvement in exports
d) Reduction in money supply

Question 52: A partnership dissolves and realizes assets; some creditors are paid partially because one partner had given personal guarantee. Which principle explains personal liability here?
a) Separate legal entity
b) Unlimited liability of partners in general partnerships
c) Limited liability applies automatically
d) Corporate veil

Question 53: Which accounting concept assumes the business is separate from its owners?
a) Going concern
b) Business entity
c) Money measurement
d) Consistency

Question 54: Which is the major difference between revenue deficit and fiscal deficit?
a) Revenue deficit = total receipt − total disbursement; Fiscal deficit = capital receipts − capital expenditure
b) Revenue deficit pertains to revenue account imbalance; fiscal deficit measures total borrowing requirement (total expenditure − total receipts excluding borrowings)
c) They are same
d) Fiscal deficit is only about trade deficit

Question 55: A firm with stable sales but rising input prices experiences a squeeze on profits. Which measure would best protect profit margins?
a) Increase variable costs
b) Raise selling price or improve productivity/reduce costs
c) Lower product quality to reduce costs always
d) Stop production

Question 56: Wages paid to factory workers are classified as:
a) Administrative expenses
b) Cost of production / direct labour (if directly involved)
c) Selling expenses
d) Finance cost

Question 57: A company has accounts receivable turnover decreasing over several periods. This indicates:
a) Faster collection of receivables
b) Slower collection; possible liquidity issues or relaxed credit policy
c) No change in liquidity
d) Increase in cash on hand

Question 58: Which of these is a method of valuation of inventory?
a) FIFO, LIFO, Weighted Average
b) Straight-line, Diminishing balance
c) Net realizable value only
d) Historical revenue method

Question 59: Which market feature best explains price discrimination?

a) Perfect competition

b) Imperfect competition with market power and ability to segment markets

c) Many sellers and buyers with identical products

d) Government price controls

Question 60: Government announces a cut in subsidy for a commodity; households cut consumption slightly. This suggests what about price elasticity for that commodity?

a) Perfectly elastic demand

b) Elastic demand (sensitive)

c) Inelastic demand (insensitive)

d) Unit elastic demand

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(NOT TO BE EVALUATED)

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