Question 1: Which of the following is not a characteristic of accounting information?
a) Relevance
b) Understandability
c) Complete objectivity in every estimate
d) Reliability

Question 2: Which of the following is a function of business?
a) Social welfare only
b) Profit maximization and creation of utilities (form, time, place, possession)
c) Only paying taxes to the government
d) Ownership of all natural resources

Question 3: A firm considering adopting new software for inventory control expects reduction in carrying costs and ordering costs. What type of decision is this?
a) Short-run output decision only
b) This is a capital investment / long-term make-or-buy decision.
c) Financial accounting recognition decision only
d) Tax planning decision

Question 4: Which is a limitation of budget as a planning tool?
a) Encourages coordination among departments
b) Inflexible budgets may cause inaccuracies when conditions change
c) Provides standard for control
d) Helps allocation of resources

Question 5: Which of the following results in creation of goodwill?
a) Strong brand reputation and future earnings capacity when buying a business above net asset value
b) Buying a machine at cost
c) Recognizing trade receivables at realization value
d) Writing off bad debts

Question 6: In cost-volume-profit analysis, break-even point occurs where:
a) Total cost equals fixed cost
b) Total revenue equals total cost
c) Contribution = Sales – Variable cost.
d) Profit is maximum

Question 7: A company sets aside a provision for obsolete inventory though not yet realized. This treatment is consistent with:
a) Prudence (conservatism) principle
b) Revenue recognition
c) Historical cost principle only
d) Entity concept

Question 8: Which of the following is an internal user of accounting information?
a) Tax authorities
b) Managers of the firm
c) Investors not involved in management
d) Creditors

Question 9: In a perfectly competitive market, economic profit in the long run is:
a) Positive and increasing
b) Zero (normal profit) due to free entry and exit
c) Negative always
d) Equal to fixed cost

Question 10: Which of the following would be recorded as an appropriation of profit?
a) Interest on capital to partners (appropriation, not expense).
b) Salary paid to an employee (revenue expense)
c) Payment to supplier (liability settlement)
d) Purchase of fixed asset

Question 11: A government targets a primary surplus. Which of the following describes primary surplus?
a) Primary surplus = Fiscal deficit – Interest payments = Revenue – Non-interest expenditure.
b) Revenue surplus plus capital surplus
c) Total receipts minus total expenditure including interest
d) The surplus after paying pensions only

Question 12: Which account is credited when goods are sold for cash?
a) Sales account
b) Cash account (debited).
c) Purchases account
d) Sales return account

Question 13: If marginal utility of the last unit consumed is positive and decreasing, consumer behaviour is explained by:
a) Law of Diminishing Marginal Utility
b) Law of Increasing Returns
c) Income effect only
d) Substitution effect only

Question 14: A firm invests in employee training expecting higher productivity. Accounting treatment for training cost under typical GAAP is:
a) Capitalize as an intangible asset always
b) Expensed as revenue expenditure unless specific capitalization criteria (intangible asset) are met.
c) Ignore it entirely
d) Treat as deferred revenue

Question 15: Which of the following best describes 'managerial economics'?
a) Pure theoretical economics with no business application
b) Application of economic principles for decision-making in business
c) Only macroeconomic policy design
d) Accounting technique

Question 16: Which of the following is most likely to increase aggregate demand?
a) Increase in personal income tax rates
b) Increase in government spending on infrastructure
c) Rise in interest rates
d) Contractionary monetary policy

Question 17: A proprietor withdraws cash for personal use. Which ledger accounts are affected?
a) Cash (debit), Drawings (credit)
b) Drawings (debit), Cash (credit)
c) Capital (debit), Cash (credit)
d) No entry required

Question 18: When an asset is revalued upwards in books, which account is credited?
a) Revaluation surplus (a capital reserve)
b) Gain on revaluation posted to P&L directly always
c) Suspense account
d) Accumulated depreciation

Question 19: A government faces a shortage of revenues and decides to privatize some state-owned enterprises to raise funds. Which budgetary objective does this action reflect?
a) Redistribution objective only
b) Resource mobilization and improving efficiency via private participation
c) Price stabilization objective
d) Reducing tax rates

Question 20: Which of following is true about bank reconciliation?
a) It reconciles balance as per cash book with bank statement (passbook) by adjusting for timing/recording differences.
b) It reconciles profit and loss account with bank statement
c) It matches purchases with cash received
d) It is used for inventory valuation

Question 21: Which of the following statements about depreciation is true?
a) Depreciation is a method of valuation of land
b) Depreciation allocates cost of tangible fixed asset over its useful life
c) Depreciation increases the book value of an asset
d) Depreciation is a non-cash expense.

Question 22: Two similar firms A and B operate in the same market. A raises price, loses customers but still increases revenue; B lowers price and increases market share but revenue falls. What does this illustrate?
a) Both firms in perfectly competitive markets
b) Demand price elasticity differs across firm's customer segments or goods are different (elastic vs inelastic demand regions)
c) No relation to elasticity
d) Illegal pricing behaviour

Question 23: Which document authorizes the payment of cash from the company's bank account?
a) Invoice
b) Cheque or bank transfer authorization / payment voucher
c) Purchase order only
d) Sales receipt

Question 24: Which budget type is prepared for each department or function separately and then aggregated?
a) Zero-based budget only
b) Functional/departmental budgets form part of master budget.
c) Rolling budget only
d) Capital budget only

Question 25: A firm uses a high discount rate when evaluating a project, resulting in rejecting many long-term projects. Which economic concept may be affecting such decisions?
a) Low time preference
b) High opportunity cost of capital / high required rate of return
c) Zero cost of capital
d) Subsidized borrowing

Question 26: Which ratio measures the ability of a firm to meet short-term obligations (current assets / current liabilities)?
a) Debt-equity ratio
b) Current ratio
c) Return on capital employed
d) Gross profit ratio

Question 27: A firm reports rising sales but falling operating cash flows. Which issue should analysts examine?
a) Quality of earnings: increases in credit sales, inventory build-up, or non-cash revenues
b) Increase in manufacturing efficiency only
c) Only tax evasion
d) Marketing expense increase only

Question 28: Which of the following is an external cost associated with production?
a) Wages paid to workers
b) Pollution affecting nearby residents
c) Purchase of raw materials
d) Interest on loan

Question 29: If price floor is set above equilibrium price, the immediate market effect is:
a) Shortage of supply
b) Price floor above equilibrium → Surplus (excess supply).
c) Market clearing at equilibrium
d) No effect at all

Question 30: A small business uses marginal costing for decision-making and finds that fixed costs are sunk in the short-run. For a special order at reduced price above variable cost, the firm should:
a) Accept if special price > variable cost and contributes toward fixed costs.
b) Reject always because price below full cost
c) Accept only if price covers fixed cost
d) Never accept reduced price orders

Question 31: Which of the following is a non-current (long-term) liability?
a) Trade payables
b) Bank overdraft
c) Long-term loan repayable after 10 years
d) Accrued expenses

Question 32: Company X has monopoly power and practices price discrimination charging different prices to different consumer groups. For successful price discrimination, what is required?
a) Consumers must be identical
b) Firm must have market power and be able to segment markets and prevent resale
c) Perfect competition conditions
d) Government approval only

Question 33: Which of the following is a feature of public limited company?
a) Unlimited liability of members
b) Shares can be freely transferred and company can be listed
c) Ownership limited to family members only
d) No regulatory compliance needed

Question 34: A department store uses ABC (activity-based costing) and finds some products previously thought profitable are actually loss-making because of hidden service costs. ABC helps by:
a) Allocates overheads only on broad averages (less accurate).
b) Ignoring overheads entirely
c) Reducing revenue recognition
d) Only useful for financial reporting not managerial decisions

Question 35: Which action would a government typically take to reduce inflationary pressure?
a) Increase government spending significantly
b) Tighten monetary policy (raise interest rates) and reduce aggregate demand
c) Cut taxes for all households immediately
d) Increase money supply drastically

Question 36: Which accounting book is the primary source of original entry showing chronological record of transactions?
a) Ledger
b) Journal
c) Trial balance
d) Balance sheet

Question 37: Two firms have different capital structures; firm A uses more debt, firm B uses more equity. If interest rates rise, which firm is more at risk?
a) Firm A (high financial leverage) due to higher interest obligations and sensitivity to rate changes
b) Firm B automatically benefits always
c) No firm affected
d) Only small firms affected

Question 38: When should deferred revenue (advance from customers) be recognized as revenue?
a) Immediately on receipt of cash regardless of service delivery
b) When service is performed or goods delivered
c) Never recognized as revenue
d) Only recognized at year-end

Question 39: Which of the following would increase working capital requirement?
a) Faster collection of receivables
b) Decrease in inventory holding period
c) Increase in credit allowed to customers (delayed cash inflows → higher working capital).
d) Shorter credit terms from suppliers

Question 40: A firm shifts from product-based to process-based organization to reduce lead time and improve coordination. This change primarily affects which managerial function?
a) Staffing only
b) Operations and organization design
c) Only financial accounting
d) Marketing strategy only

Question 41: Which of the following is true about contingent assets?
a) Always recognized in balance sheet when probable
b) Not recognized but disclosed when probable
c) Never disclosed
d) Treated same as contingent liabilities always

Question 42: A government decides to cut import tariffs on critical inputs for industry. Immediate likely effect is:
a) Increase in domestic prices of finished goods always
b) Cheaper inputs, potential fall in domestic production costs and consumer prices; possible improvement in competitiveness
c) No effect on domestic industry costs
d) Increase in price of inputs

Question 43: What is the effect on accounting equation when owner brings additional cash into business?

a) Assets decrease and capital decreases

b) Assets increase and capital increases

c) Liabilities increase only

d) No effect

Question 44: Which cost classification is most relevant to short-term decision making such as special orders?

a) Sunk costs

b) Relevant costs

c) Fixed overhead applied at standard rate regardless

d) Historical cost of assets

Question 45: A firm uses marginal costing for internal decisions but must prepare financial statements under absorption costing for statutory reporting. This difference can cause:

a) No difference in reported profit ever

b) Timing differences in profit due to inventory valuation methods

c) Change in sales figures

d) Change in cash flows only

Question 46: Which of the following is considered a microeconomic variable?

a) National unemployment rate

b) Price of wheat in a local market

c) GDP growth rate of a country

d) Inflation rate

Question 47: A firm experiences moral hazard from its sales staff overstating sales to earn commission. Which internal control helps reduce this?

a) Weak financial controls only

b) Segregation of duties, independent verification of sales, and performance metrics aligned to long-term outcomes

c) No control can reduce moral hazard

d) Only external audit

Question 48: Which of the following is a progressive tax characteristic?

a) Average tax rate falls as income rises

b) Average tax rate rises as income rises

c) Everyone pays same absolute amount of tax

d) Tax rate independent of income

Question 49: Under which condition is LIFO inventory valuation likely to report lower profit than FIFO in a period of rising prices?

a) If prices are stable

b) If prices are falling

c) If prices are rising

d) If no purchases occurred

Question 50: A company with seasonal sales increases inventory before peak season financed by short-term borrowing. Which ratio would likely deteriorate in that period?

a) Inventory turnover (may decrease) and current ratio (may decrease if borrowings increase significantly)

b) Profit margin always increase

c) Debt-equity ratio falls automatically

d) Liquidity improves always

Question 51: Which of the following best describes dividend policy effect on firm value in perfect capital markets (Modigliani-Miller theorem without taxes)?

a) Dividend policy changes firm value significantly

b) Under MM (without taxes), dividend policy is irrelevant to firm value.

c) Higher dividends always increase firm value

d) Lower dividends always increase firm value

Question 52: A firm uses process costing for homogeneous continuous production. Which product costing is most appropriate?

a) Job costing

b) Process costing

c) Activity-based costing for one-off jobs only

d) Standard costing not applicable at all

Question 53: Which of these is true about statutory audit?

a) It is optional for small private firms always

b) It is mandatory for companies as per companies act / statutes beyond certain thresholds

c) Only internal auditors perform it

d) Statutory audit affects only management decisions not stakeholders

Question 54: Which supply curve slope indicates perfectly inelastic supply?

a) Horizontal line

b) Vertical line

c) Upward sloping convex line always

d) Downward sloping line

Question 55: A firm faces trade-off between high advertising (increasing demand) and short-term profit reduction. Which managerial decision principle applies?

a) Ignore long-term demand building

b) Cost-benefit analysis and ROI of advertising — consider long-term profit improvement vs short-run cost

c) Always minimize advertising cost

d) Only financial accounting governs such decisions

Question 56: In partnership accounts, when an incoming partner brings goodwill in cash and it is credited to existing partners' capital accounts (in their profit-sharing ratio), the accounting effect is:

a) Increase in total partners' capital without change in firm net assets

b) Decrease in firm assets

c) No change in partners' capitals at all

d) Goodwill recognized as revenue in P&L

Question 57: Which of the following is likely to be included in government's capital receipts?

a) Tax revenue from income tax

b) Proceeds from disinvestment / sale of government stake in public enterprises

c) Fees for licenses (revenue)

d) Interest receipts

Question 58: A company's management uses zero-based budgeting (ZBB). The essence of ZBB is:

a) Prior budgets are automatically adjusted upwards

b) Every new period budgets start from zero and each activity must be justified rather than just incremental change

c) Budgets are only historical trend extrapolations

d) Budgets cannot be changed once set

Question 59: Which is likely the best financing mix to minimize Weighted Average Cost of Capital (WACC) for a stable firm?

a) 100% equity always

b) An optimal combination of debt and equity that balances tax shields and financial distress costs

c) 100% short-term debt only

d) Only retained earnings as financing

Question 60: A firm follows conservatism strictly and delays recognition of revenue until cash is received, even where delivery occurs. Which risk arises for users of such financial statements?

a) Overstatement of profits

b) Understatement of assets and profits (less informative) and potential bias toward understatement

c) More timely recognition of profits

d) No risk at all

ROUGH WORK
(NOT TO BE EVALUATED)

DATE

ROUGH WORK
(NOT TO BE EVALUATED)

DATE