# MGT401 (Financial Accounting – II)

## **Important mcqs**

## Lec 1 - Types of Business Entities

- 1. Which of the following is a type of business entity that offers limited liability protection to its owners? A) Sole proprietorship B) Partnership C) Limited liability company (LLC) D) Corporation Answer: C
- 2. Which type of business entity is owned and operated by a single individual? A) Partnership B) LLC C) Corporation D) Sole proprietorship Answer: D
- 3. Which type of business entity is taxed as a pass-through entity, meaning that the profits and losses are passed through to the owners' personal tax returns? A) Corporation B) Partnership C) LLC D) Sole proprietorship Answer: B
- 4. Which of the following is a type of business entity that is owned and operated by two or more individuals? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: B
- 5. Which type of business entity allows for an unlimited number of owners and has the ability to issue stock? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: D
- 6. Which of the following is a type of business entity that combines the liability protection of a corporation with the tax benefits of a partnership? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: C
- 7. Which type of business entity is often used by professional service providers, such as doctors and lawyers? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: C
- 8. Which of the following types of business entities is governed by a board of directors? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: D
- 9. Which type of business entity requires a formal written agreement, outlining the terms of ownership and management? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: B
- 10. Which of the following types of business entities allows for profit sharing between its owners? A) Sole proprietorship B) Partnership C) LLC D) Corporation Answer: B

## Lec 2 - Formation of Companies and Meetings

- 1. Which of the following is a required legal document for the formation of a company?
  - a) Memorandum of Association
  - b) Balance Sheet
  - c) Annual Report
  - d) Income Statement

## Answer: a) Memorandum of Association

- 2. What is the minimum number of directors required for the formation of a private company?
  - a) 1
  - b) 2
  - c) 3
  - d) 4

## Answer: a) 1

- 3. What is the maximum number of shareholders allowed in a private limited company?
  - a) 50
  - b) 100
  - c) 200
  - d) No maximum limit

## Answer: a) 50

- 4. Which of the following is a type of general meeting in a company?
  - a) Board meeting
  - b) Annual General Meeting
  - c) Committee meeting
  - d) Executive meeting

## **Answer: b) Annual General Meeting**

- 5. Which of the following documents is used to record the minutes of a meeting?
  - a) Memorandum of Association
  - b) Balance Sheet
  - c) Resolution
  - d) Minutes of Meeting

## Answer: d) Minutes of Meeting

- 6. Which of the following is a type of resolution passed in a company?
  - a) Ordinary Resolution
  - b) Special Resolution
  - c) Emergency Resolution
  - d) Annual Resolution

#### Answer: b) Special Resolution

- 7. Who is responsible for calling a board meeting in a company?
  - a) Chairman of the board
  - b) CEO of the company
  - c) Company secretary
  - d) All of the above

## Answer: a) Chairman of the board

- 8. Which of the following is a type of notice required for calling a general meeting in a company?
  - a) 24 hours notice
  - b) 48 hours notice
  - c) 14 days notice
  - d) 1 month notice

## Answer: c) 14 days notice

- 9. Which of the following is a type of share capital in a company?
  - a) Authorised Share Capital
  - b) Paid-up Share Capital
  - c) Called-up Share Capital
  - d) All of the above

## Answer: d) All of the above

- 10. Which of the following is a type of company that can be formed with unlimited liability?
  - a) Private Limited Company
  - b) Public Limited Company
  - c) Sole Proprietorship
  - d) Partnership Firm

Answer: d) Partnership Firm

## Lec 3 - Relationships between Companies

## 1. What is a joint venture?

- A) A company acquiring another company
- B) A partnership between two or more companies to pursue a specific project
- C) A company merging with another company

Answer: B

## 2. What is a merger?

- A) A partnership between two or more companies to pursue a specific project
- B) A company acquiring another company
- C) A company combining with another company to form a new entity

**Answer: C** 

## 3. What is an acquisition?

- A) A company acquiring another company
- B) A partnership between two or more companies to pursue a specific project
- C) A company merging with another company

Answer: A

## 4. What is a strategic alliance?

- A) A company acquiring another company
- B) A partnership between two or more companies to pursue a specific project
- C) A company merging with another company

Answer: B

## 5. Which of the following is a potential risk of a merger or acquisition?

- A) Increased market share
- B) Cultural differences
- C) Access to new technologies

Answer: B

## 6. Which of the following is a potential benefit of a strategic alliance?

- A) Access to new markets
- B) Complete control over the project
- C) Acquisition of new technologies

Answer: A

## 7. What is a horizontal merger?

- A) A merger between two companies in the same industry
- B) A merger between two companies in different industries
- C) A merger between a company and its supplier

Answer: A

## 8. What is a vertical merger?

- A) A merger between two companies in different industries
- B) A merger between a company and its supplier
- C) A merger between two companies in the same industry

Answer: B

## 9. What is a conglomerate merger?

A) A merger between two companies in the same industry

- B) A merger between two companies in different industries
- C) A merger between a company and its supplier

Answer: B

## 10. What is a hostile takeover?

- A) A takeover that is approved by the target company's management
- B) A takeover that is opposed by the target company's management
- C) A takeover that is done through a friendly negotiation process

Answer: B

## Lec 4 - Preparation and Presentation of Financial statements

- 1. Which of the following financial statements reports a company's financial position at a specific point in time?
  - A) Income statement
  - B) Statement of cash flows
  - C) Statement of changes in equity
  - D) Balance sheet

Answer: D

- 2. Which financial statement shows a company's revenues, expenses, and net income for a specific period?
  - A) Balance sheet
  - B) Statement of changes in equity
  - C) Statement of cash flows
  - D) Income statement

**Answer: D** 

- 3. Which of the following is not a component of the balance sheet?
  - A) Assets
  - B) Liabilities
  - C) Equity
  - D) Expenses

Answer: D

- 4. Which financial statement reports a company's sources and uses of cash for a specific period?
  - A) Income statement
  - B) Statement of changes in equity
  - C) Balance sheet
  - D) Statement of cash flows

**Answer: D** 

- 5. Which financial statement shows the changes in a company's equity over a specific period?
  - A) Balance sheet
  - B) Income statement
  - C) Statement of cash flows
  - D) Statement of changes in equity

**Answer: D** 

- 6. Which of the following financial statements is prepared first?
  - A) Balance sheet
  - B) Income statement
  - C) Statement of cash flows
  - D) Statement of changes in equity

Answer: B

- 7. Which accounting principle requires that expenses be recognized in the same period as the revenue they help generate?
  - A) Going concern principle
  - B) Matching principle

- C) Conservatism principle
- D) Materiality principle

#### Answer: B

- 8. Which of the following financial statements reports a company's retained earnings?
  - A) Income statement
  - B) Balance sheet
  - C) Statement of cash flows
  - D) Statement of changes in equity

Answer: D

- 9. Which of the following financial statements does not report a company's net income?
  - A) Income statement
  - B) Statement of changes in equity
  - C) Statement of cash flows
  - D) Balance sheet

Answer: D

- 10. Which financial statement reports the cash inflows and outflows from a company's operating, investing, and financing activities?
  - A) Balance sheet
  - B) Income statement
  - C) Statement of cash flows
  - D) Statement of changes in equity

Answer: C

## Lec 5 - Property, Plant and Equipment

## 1. What is Property, Plant, and Equipment (PP&E)?

- A) Short-term assets used in a company's operations.
- B) Tangible, long-term assets used in a company's operations.
- C) Intangible, long-term assets used in a company's operations.
- D) Short-term liabilities of a company.

## Answer: B

## 2. Which of the following assets is considered part of PP&E?

- A) Cash
- B) Inventory
- C) Land
- D) Accounts Receivable

#### Answer: C

## 3. What is the purpose of recording depreciation on PP&E?

- A) To reduce the asset's carrying value over time.
- B) To increase the asset's carrying value over time.
- C) To recognize the asset's market value.
- D) To recognize the asset's potential future value.

## Answer: A

# 4. Which depreciation method calculates depreciation expense based on the asset's usage?

- A) Straight-line method
- B) Double-declining balance method
- C) Units-of-production method
- D) Sum-of-the-years'-digits method

## Answer: C

## 5. When does a company recognize a gain or loss on the disposal of PP&E?

- A) When the asset is sold for more than its carrying value.
- B) When the asset is sold for less than its carrying value.
- C) When the asset is sold for its carrying value.
- D) A and B.

#### Answer: D

## 6. What is a useful life?

- A) The length of time an asset is expected to be used in a company's operations.
- B) The time period when a company can legally own an asset.
- C) The period of time when a company can generate revenue from an asset.
- D) The amount of time it takes for an asset to become obsolete.

## Answer: A

## 7. What is salvage value?

- A) The estimated amount a company will receive when it sells an asset.
- B) The cost of maintaining an asset.
- C) The residual value of an asset at the end of its useful life.
- D) The amount a company paid for an asset.

## **Answer: C**

## 8. How does the acquisition of PP&E affect a company's cash flow statement?

- A) It does not affect the cash flow statement.
- B) It increases the cash flow from operating activities.
- C) It decreases the cash flow from operating activities.
- D) It increases the cash flow from investing activities.

## Answer: D

## 9. Which of the following is not an example of PP&E?

- A) Trademarks
- B) Buildings
- C) Machinery
- D) Vehicles

## Answer: A

## 10. How does a company account for major improvements to PP&E?

- A) It adds the cost of the improvement to the asset's carrying value.
- B) It records the cost of the improvement as an expense.
- C) It records the cost of the improvement as revenue.
- D) It records the cost of the improvement as a liability.

#### Answer: A

#### Lec 6 - Revaluation of Assets

## 1. What is the purpose of revaluation of assets?

- A) To increase the carrying value of assets
- B) To update the value of assets to reflect their current market value
- C) To decrease the accumulated depreciation of assets
- D) None of the above

#### **Answer: B**

## 2. What types of assets can be revalued?

- A) Tangible assets only
- B) Intangible assets only
- C) Both tangible and intangible assets
- D) None of the above

#### Answer: C

## 3. How often is revaluation of assets typically performed?

- A) Annually
- B) Every five years
- C) Every ten years
- D) It varies by company

#### Answer: D

#### 4. What impact does revaluation have on a company's balance sheet?

- A) It does not impact the balance sheet
- B) It increases the value of assets and equity
- C) It decreases the value of assets and equity
- D) It depends on the specific assets being revalued

#### Answer: B

#### 5. How is the revaluation gain or loss recorded on a company's financial statements?

- A) As a revenue or expense on the income statement
- B) As an adjustment to the carrying value of the asset on the balance sheet
- C) Both A and B
- D) None of the above

#### **Answer: B**

## 6. What is the impact of revaluation on accumulated depreciation?

- A) It increases accumulated depreciation
- B) It decreases accumulated depreciation
- C) It has no impact on accumulated depreciation
- D) It depends on the specific assets being revalued

#### Answer: D

#### 7. What is the difference between fair value and revalued amount?

- A) There is no difference
- B) Fair value reflects the current market value, while revalued amount reflects the value determined by the company
- C) Revalued amount reflects the current market value, while fair value reflects the value determined by the company
- D) None of the above

#### Answer: B

#### 8. How is revaluation loss treated in the financial statements?

- A) It is recorded as a revenue on the income statement
- B) It is recorded as an expense on the income statement
- C) It is recorded as a reduction to equity on the balance sheet
- D) It is not recorded on the financial statements

## Answer: C

#### 9. What is the purpose of revaluation reserve?

- A) To track changes in the value of revalued assets
- B) To record any revaluation gains or losses
- C) To prevent companies from manipulating the value of their assets
- D) All of the above

#### Answer: D

## 10. When can a company revalue its assets?

- A) Anytime it wants
- B) Only when there is a significant change in the asset's value
- C) Only when required by accounting standards or regulations
- D) Only when the company is preparing to sell the asset

#### **Answer: C**

## Lec 7 - Property, Plant & Equipment and Borrowing Cost

- 1. Which of the following assets are typically considered as Property, Plant & Equipment (PP&E)?
  - A) Investments in stocks
  - B) Accounts receivables
  - C) Land
  - D) Cash and cash equivalents

## Answer: C) Land

## 2. How should a company account for the cost of improvements to its PP&E?

- A) As an expense in the period incurred
- B) As an addition to the cost of the PP&E asset
- C) As a separate line item in the income statement
- D) As a reduction in the carrying amount of the PP&E asset

## Answer: B) As an addition to the cost of the PP&E asset

## 3. Which of the following would NOT be considered as borrowing costs?

- A) Interest on loans used to finance the construction of a new factory
- B) Fees paid to arrange a loan for the acquisition of PP&E
- C) Interest on a bank overdraft used to purchase inventory
- D) Interest on a loan used to purchase a building that will be leased out to tenants

## Answer: C) Interest on a bank overdraft used to purchase inventory

## 4. How should a company account for borrowing costs related to qualifying assets?

- A) As an expense in the period incurred
- B) As a reduction in the carrying amount of the qualifying asset
- C) As a separate line item in the income statement
- D) As an addition to the cost of the qualifying asset

## Answer: D) As an addition to the cost of the qualifying asset

## 5. What is the purpose of depreciating PP&E assets?

- A) To report the market value of the assets
- B) To allocate the cost of the assets over their useful lives
- C) To reduce the carrying amount of the assets
- D) To increase the marketability of the assets

#### Answer: B) To allocate the cost of the assets over their useful lives

# 6. Which of the following depreciation methods results in a higher depreciation expense in the early years of an asset's life?

- A) Straight-line method
- B) Double-declining balance method
- C) Units-of-production method
- D) Sum-of-the-years'-digits method

## Answer: B) Double-declining balance method

## 7. How should a company account for the disposal of a PP&E asset?

- A) Record the sale price as revenue and reduce the carrying amount of the asset
- B) Record the sale price as revenue and leave the carrying amount of the asset unchanged
- C) Record a gain or loss on disposal in the income statement
- D) Ignore the disposal and continue to depreciate the asset

## Answer: C) Record a gain or loss on disposal in the income statement

## 8. How should a company account for borrowing costs that do not relate to qualifying assets?

- A) As an expense in the period incurred
- B) As a reduction in the carrying amount of the qualifying asset
- C) As a separate line item in the income statement
- D) As an addition to the cost of the qualifying asset

#### Answer: A) As an expense in the period incurred

## 9. How should a company account for repairs and maintenance costs to its PP&E?

- A) As an expense in the period incurred
- B) As an addition to the cost of the PP&E asset
- C) As a reduction in the carrying amount of the PP&E asset
- D) As a separate line item in the income statement

## Answer: A) As an expense in the period incurred

# 10. Which of the following is NOT a factor that determines the amount of borrowing costs that can be capitalized?

- A) The amount of interest incurred on the borrowing
- B) The

## Lec 8 - Intangible Assets – Companies Ordinance 1984

- 1. Which of the following is an example of an intangible asset?
  - a) Building
  - b) Machinery
  - c) Patent
  - d) Inventory

Answer: c) Patent

- 2. Which ordinance defines intangible assets in Pakistan?
  - a) Companies Ordinance 1984
  - b) Income Tax Ordinance 2001
  - c) Sales Tax Act 1990
  - d) Customs Act 1969

Answer: a) Companies Ordinance 1984

- 3. Which of the following is required for companies to disclose in their financial statements?
  - a) Tangible assets only
  - b) Intangible assets only
  - c) Both tangible and intangible assets
  - d) None of the above

Answer: c) Both tangible and intangible assets

- 4. What is the maximum period for which acquired goodwill can be amortized under the Companies Ordinance 1984?
  - a) 5 years
  - b) 10 years
  - c) 15 years
  - d) 20 years

Answer: b) 10 years

- 5. Which of the following is not an example of an intangible asset?
  - a) Trademark
  - b) Copyright
  - c) Land
  - d) Goodwill

Answer: c) Land

- 6. Which of the following is subject to impairment testing?
  - a) Tangible assets only
  - b) Intangible assets only
  - c) Both tangible and intangible assets
  - d) None of the above

Answer: c) Both tangible and intangible assets

- 7. Which of the following must be justified to amortize acquired goodwill over a period longer than 10 years?
  - a) Change in accounting policies
  - b) Change in management
  - c) Change in business strategy
  - d) Change in market conditions

## Answer: c) Change in business strategy

- 8. Which of the following is an example of an intangible asset that can be amortized?
  - a) Patent
  - b) Trademark
  - c) Goodwill
  - d) Copyright

Answer: c) Goodwill

- 9. Which of the following is not required for proper disclosure of intangible assets?
  - a) Identification of the asset
  - b) Measurement of the asset
  - c) Classification of the asset
  - d) None of the above

Answer: d) None of the above

- 10. Which of the following is not required for impairment testing of intangible assets?
  - a) Calculation of recoverable amount
  - b) Calculation of carrying amount
  - c) Calculation of depreciation expense
  - d) Comparison of recoverable amount and carrying amount

Answer: c) Calculation of depreciation expense

## Lec 9 - Intangible Assets – IAS 38 & Investment in Associates

- 1. Under IAS 38, what is the maximum amortization period for intangible assets?
  - a) 5 years
  - b) 10 years
  - c) 15 years
  - d) 20 years

Answer: b) 10 years

- 2. Which of the following is an example of an intangible asset?
  - a) Land
  - b) Machinery
  - c) Patents
  - d) Inventory

Answer: c) Patents

- 3. Under IAS 38, how should research costs be treated?
  - a) Expensed as incurred
  - b) Capitalized as an intangible asset
  - c) Recorded as a liability
  - d) None of the above

Answer: a) Expensed as incurred

- 4. What is the accounting treatment for goodwill under IAS 38?
  - a) Amortized over a period of 10 years
  - b) Revalued annually
  - c) Tested for impairment annually
  - d) Written off immediately

Answer: a) Amortized over a period of 10 years

- 5. What is the maximum period for which goodwill can be amortized under IAS 38?
  - a) 5 years
  - b) 10 years
  - c) 15 years
  - d) 20 years

Answer: b) 10 years

- 6. Which of the following is not an example of an intangible asset?
  - a) Trademark
  - b) Copyright
  - c) Investment in an associate
  - d) Goodwill

Answer: c) Investment in an associate

- 7. What is an investment in associates?
  - a) An equity investment in a company in which the investor has control
  - b) An equity investment in a company in which the investor has significant influence
  - c) A debt investment in a company
  - d) None of the above

Answer: b) An equity investment in a company in which the investor has significant influence

#### 8. How should an investment in an associate be accounted for under IAS 28?

- a) At cost less impairment
- b) At fair value
- c) Using the equity method
- d) None of the above

Answer: c) Using the equity method

## 9. What is the equity method of accounting?

- a) An accounting method that records an investment in an associate at cost
- b) An accounting method that records an investment in an associate at fair value
- c) An accounting method that records an investment in an associate at the investor's share of the associate's net assets
- d) None of the above

Answer: c) An accounting method that records an investment in an associate at the investor's share of the associate's net assets

## 10. Which of the following is not an example of an intangible asset that can be recognized under IAS 38?

- a) Brands
- b) Customer lists
- c) Goodwill
- d) Land

Answer: d) Land

## Lec 10 - Other Non Current Assets

#### 1. Which of the following is an example of other non-current assets?

- A) Land held for investment purposes
- B) Machinery and equipment
- C) Goodwill
- D) Short-term investments

## Answer: A) Land held for investment purposes

#### 2. How are other non-current assets reported on the balance sheet?

- A) Under the current assets section
- B) Under the liabilities section
- C) Under the non-current assets section
- D) Under the equity section

## Answer: C) Under the non-current assets section

#### 3. Which of the following is an example of long-term prepaid expenses?

- A) Insurance premiums paid for the next six months
- B) Rent paid for the next month
- C) Advertising expenses paid for the next year
- D) Salaries paid for the current month

#### Answer: C) Advertising expenses paid for the next year

## 4. What are deferred tax assets?

- A) Assets that are recorded at a higher value than their fair market value
- B) Assets that arise due to temporary differences between accounting and tax rules
- C) Assets that are used in the production of goods and services
- D) Assets that are purchased for investment purposes

## Answer: B) Assets that arise due to temporary differences between accounting and tax rules

## 5. Which of the following is an example of long-term receivables?

- A) Amounts owed by customers for goods or services sold on credit
- B) Amounts owed by suppliers for goods or services purchased on credit
- C) Amounts owed by employees for advances or loans
- D) Amounts owed by the government for taxes paid in excess

## Answer: A) Amounts owed by customers for goods or services sold on credit

#### 6. How are other non-current assets typically amortized?

- A) Straight-line method
- B) Double-declining balance method
- C) Sum-of-the-years'-digits method
- D) They are not typically amortized

## Answer: D) They are not typically amortized

## 7. How often are other non-current assets tested for impairment?

- A) Monthly
- B) Quarterly
- C) Annually
- D) It depends on the nature of the asset

## Answer: D) It depends on the nature of the asset

#### 8. Which of the following is an example of an intangible other non-current asset?

- A) Long-term investments in marketable securities
- B) Prepaid expenses for a period exceeding one year
- C) Trademarks and patents
- D) Inventories held for more than one year

## Answer: C) Trademarks and patents

## 9. What is the purpose of accounting for other non-current assets?

- A) To increase net income
- B) To decrease taxes owed
- C) To provide accurate financial reporting
- D) To reduce liabilities

#### Answer: C) To provide accurate financial reporting

#### 10. How are other non-current assets typically valued?

- A) At cost less accumulated depreciation
- B) At fair value less accumulated depreciation
- C) At market value less accumulated depreciation
- D) At replacement cost less accumulated depreciation

Answer: B) At fair value less accumulated depreciation

#### Lec 11 - Inventories

- 1. Which inventory costing method assumes that the first items purchased are the first ones sold?
  - a) First-In-First-Out (FIFO)
  - b) Last-In-First-Out (LIFO)
  - c) Weighted Average
  - d) Specific Identification

## Answer: a) First-In-First-Out (FIFO)

- 2. What is the cost of goods sold formula?
  - a) Beginning Inventory + Purchases Ending Inventory
  - b) Beginning Inventory Purchases + Ending Inventory
  - c) Beginning Inventory Cost of Goods Sold + Ending Inventory
  - d) Beginning Inventory + Cost of Goods Sold Ending Inventory

## Answer: d) Beginning Inventory + Cost of Goods Sold - Ending Inventory

- 3. Which inventory valuation method results in the highest inventory valuation during inflationary periods?
  - a) FIFO
  - b) LIFO
  - c) Weighted Average
  - d) Specific Identification

## Answer: a) FIFO

- 4. Which of the following statements about the Economic Order Quantity (EOQ) model is true?
  - a) It assumes that inventory ordering and holding costs are constant.
  - b) It is a push-based inventory control system.
  - c) It does not consider the impact of stockouts.
  - d) It is only applicable to large organizations.

#### Answer: a) It assumes that inventory ordering and holding costs are constant.

- 5. What is the reorder point formula?
  - a) Safety Stock + Lead Time
  - b) Safety Stock Lead Time
  - c) Safety Stock x Lead Time
  - d) Safety Stock / Lead Time

## Answer: a) Safety Stock + Lead Time

- 6. Which inventory control system is based on the premise that inventory should arrive just when it is needed for production?
  - a) Economic Order Quantity (EOQ)
  - b) Just-In-Time (JIT)
  - c) Material Requirements Planning (MRP)

d) Capacity Requirements Planning (CRP)

## Answer: b) Just-In-Time (JIT)

- 7. Which inventory classification method uses the 80/20 rule to identify the most important inventory items?
  - a) ABC analysis
  - b) XYZ analysis
  - c) VED analysis
  - d) FSN analysis

## Answer: a) ABC analysis

- 8. Which of the following is a disadvantage of holding too much inventory?
  - a) Increased storage costs
  - b) Increased stockouts
  - c) Decreased customer satisfaction
  - d) Increased production downtime

## Answer: a) Increased storage costs

- 9. What is the primary objective of inventory management?
  - a) Maximize inventory turnover
  - b) Minimize inventory costs
  - c) Maximize customer satisfaction
  - d) Maximize inventory accuracy

## Answer: b) Minimize inventory costs

- 10. Which of the following is an example of a demand-based inventory control system?
  - a) Economic Order Quantity (EOQ)
  - b) Material Requirements Planning (MRP)
  - c) Just-In-Time (JIT)
  - d) Kanban

Answer: d) Kanban

#### Lec 12 - Valuation of Inventories

- 1. Which of the following is not a commonly used inventory valuation method?
  - a) FIFO
  - b) LIFO
  - c) Specific identification
  - d) Random selection

Answer: d) Random selection

- 2. Under which inventory valuation method is the cost of the most recently purchased items used to value inventory?
  - a) FIFO
  - b) LIFO
  - c) Weighted average cost
  - d) Specific identification

Answer: b) LIFO

- 3. Which of the following is true of the FIFO inventory valuation method?
  - a) It results in the highest cost of goods sold during times of rising prices.
  - b) It results in the lowest net income during times of rising prices.
  - c) It results in the highest gross profit during times of rising prices.
  - d) It is not affected by changes in inventory levels.

Answer: c) It results in the highest gross profit during times of rising prices.

- 4. Which inventory valuation method assumes that the first items purchased are the first ones sold?
  - a) FIFO
  - b) LIFO
  - c) Specific identification
  - d) Weighted average cost

Answer: a) FIFO

- 5. Which inventory valuation method results in a higher ending inventory value during times of rising prices?
  - a) FIFO
  - b) LIFO
  - c) Weighted average cost
  - d) Specific identification

Answer: a) FIFO

- 6. Under the weighted average cost inventory valuation method, how is the weighted average cost calculated?
  - a) By dividing the total cost of inventory by the total number of units.
  - b) By adding the cost of the most recently purchased units to the existing inventory cost.
  - c) By multiplying the cost per unit by the number of units sold.
  - d) By subtracting the cost of goods sold from the total cost of inventory.

Answer: a) By dividing the total cost of inventory by the total number of units.

- 7. Which inventory valuation method allows for the use of specific costs for specific units of inventory?
  - a) FIFO
  - b) LIFO

- c) Weighted average cost
- d) Specific identification

## Answer: d) Specific identification

- 8. Which inventory valuation method is most commonly used for tax purposes in the United States?
  - a) FIFO
  - b) LIFO
  - c) Weighted average cost
  - d) Specific identification

Answer: b) LIFO

- 9. Which inventory valuation method is most commonly used for financial reporting purposes?
  - a) FIFO
  - b) LIFO
  - c) Weighted average cost
  - d) Specific identification

Answer: a) FIFO

- 10. How does the choice of inventory valuation method impact a company's financial statements?
  - a) It does not impact the financial statements.
  - b) It can impact the cost of goods sold and net income.
  - c) It can impact inventory levels reported on the balance sheet.
  - d) It can impact the company's cash flow statement.

Answer: b) It can impact the cost of goods sold and net income.

## Lec 13 - Current Assets, Fourth Schedule - Companies Ordinance 1984

- 1. What are the components of current assets as per the Fourth Schedule of the Companies Ordinance 1984?
  - A) Cash and cash equivalents
  - B) Accounts receivable
  - C) Inventory
  - D) All of the above

Answer: D) All of the above

- 2. According to the Fourth Schedule of the Companies Ordinance 1984, which of the following assets are considered non-current assets?
  - A) Land and buildings
  - B) Long-term investments
  - C) Patents and trademarks
  - D) All of the above

Answer: D) All of the above

- 3. Under the Fourth Schedule of the Companies Ordinance 1984, how are current assets classified on the balance sheet?
  - A) In order of liquidity
  - B) In order of maturity
  - C) In alphabetical order
  - D) None of the above

Answer: A) In order of liquidity

- 4. Which of the following is an example of a cash equivalent as per the Fourth Schedule of the Companies Ordinance 1984?
  - A) Accounts receivable
  - B) Marketable securities
  - C) Inventory
  - D) Machinery and equipment

Answer: B) Marketable securities

- 5. What is the purpose of disclosing significant estimates or judgments made in determining the value of current assets?
  - A) To ensure accurate financial reporting
  - B) To comply with legal requirements
  - C) To attract investors
  - D) None of the above

Answer: A) To ensure accurate financial reporting

- 6. Which of the following is an example of an inventory as per the Fourth Schedule of the Companies Ordinance 1984?
  - A) Land
  - B) Buildings
  - C) Raw materials
  - D) None of the above

Answer: C) Raw materials

7. How often are companies required to present their financial statements as per the Fourth Schedule of the Companies Ordinance 1984?

- A) Annually
- B) Biannually
- C) Quarterly
- D) Monthly

Answer: A) Annually

- 8. What is the purpose of presenting current assets separately on the balance sheet?
  - A) To facilitate analysis and decision-making
  - B) To comply with legal requirements
  - C) To avoid confusion
  - D) None of the above

Answer: A) To facilitate analysis and decision-making

- 9. Which of the following is an example of an account receivable as per the Fourth Schedule of the Companies Ordinance 1984?
  - A) Cash
  - B) Inventory
  - C) Advances to suppliers
  - D) None of the above

Answer: C) Advances to suppliers

- 10. According to the Fourth Schedule of the Companies Ordinance 1984, what is the maximum time frame for an asset to be classified as a current asset?
  - A) 6 months
  - B) 1 year
  - C) 2 years
  - D) 5 years

Answer: B) 1 year

#### Lec 14 - Presentation and Disclosure of Assets in Balance Sheet

- 1. Which category of assets are expected to be converted into cash within one year or the normal operating cycle of the business?
  - a) Non-current assets
  - b) Current assets
  - c) Tangible assets
  - d) Intangible assets

## Answer: b) Current assets

- 2. How should assets be presented in the balance sheet?
  - a) In random order
  - b) In order of magnitude
  - c) In order of liquidity
  - d) In alphabetical order

## Answer: c) In order of liquidity

- 3. What should the balance sheet disclose about assets?
  - a) The exact amount of each asset
  - b) Any restrictions on the use of assets
  - c) The purchase price of each asset
  - d) The future expected value of each asset

## Answer: b) Any restrictions on the use of assets

- 4. What is the purpose of proper presentation and disclosure of assets?
  - a) To make the balance sheet look more attractive
  - b) To provide transparency and help users make informed decisions
  - c) To hide information from stakeholders
  - d) To confuse investors

## Answer: b) To provide transparency and help users make informed decisions

- 5. Which type of assets are not expected to be converted into cash within one year?
  - a) Current assets
  - b) Non-current assets
  - c) Tangible assets
  - d) Intangible assets

## Answer: b) Non-current assets

- 6. What should be disclosed in the balance sheet about the value of assets?
  - a) The exact amount of each asset
  - b) The method used to determine the value of each asset
  - c) The expected future value of each asset
  - d) The current market value of each asset

## Answer: b) The method used to determine the value of each asset

- 7. Which type of assets are physical items such as buildings and equipment?
  - a) Current assets
  - b) Non-current assets
  - c) Tangible assets
  - d) Intangible assets

## Answer: c) Tangible assets

- 8. What does the disclosure of significant estimates or judgments made in determining the value of assets help with?
  - a) It helps stakeholders understand the process used to value assets
  - b) It makes the balance sheet look more attractive
  - c) It hides information from stakeholders
  - d) It confuses investors

## Answer: a) It helps stakeholders understand the process used to value assets

- 9. Which category of assets can include items such as patents and copyrights?
  - a) Current assets
  - b) Non-current assets
  - c) Tangible assets
  - d) Intangible assets

## Answer: d) Intangible assets

- 10. What is the purpose of presenting assets in the balance sheet?
  - a) To hide information from stakeholders
  - b) To make the company look more profitable
  - c) To provide transparency and help users make informed decisions
  - d) To confuse investors

Answer: c) To provide transparency and help users make informed decisions

## Lec 15 - Long Term Investments, Presentation and Disclosure

## 1. Long-term investments are assets held by a company for a period exceeding:

- a) 6 months
- b) 1 year
- c) 2 years
- d) 5 years

Answer: b) 1 year

## 2. Marketable securities are categorized as:

- a) Short-term investments
- b) Long-term investments
- c) Non-marketable securities
- d) Both a and c

Answer: b) Long-term investments

## 3. Non-marketable securities include:

- a) Stocks
- b) Bonds
- c) Loans to other companies
- d) Both a and b

Answer: c) Loans to other companies

## 4. Long-term investments should be presented in the balance sheet after:

- a) Current assets
- b) Non-current assets
- c) Equity
- d) Liabilities

Answer: b) Non-current assets

## 5. The value of long-term investments should be disclosed in the:

- a) Income statement
- b) Cash flow statement
- c) Balance sheet
- d) Statement of retained earnings

Answer: c) Balance sheet

## 6. Any restrictions on the use of long-term investments should be disclosed in the:

- a) Income statement
- b) Cash flow statement
- c) Balance sheet
- d) Notes to financial statements

Answer: d) Notes to financial statements

#### 7. The purpose and risks associated with long-term investments should be included in the:

- a) Income statement
- b) Cash flow statement
- c) Balance sheet
- d) Notes to financial statements

Answer: d) Notes to financial statements

- 8. Long-term investments should be categorized as either:
  - a) Marketable or non-marketable
  - b) Current or non-current
  - c) Cash or non-cash
  - d) Both a and b

Answer: a) Marketable or non-marketable

- 9. The disclosure of significant estimates or judgments made in determining the value of long-term investments is important to:
  - a) Provide transparency to stakeholders
  - b) Meet regulatory requirements
  - c) Enhance the company's image
  - d) All of the above

Answer: a) Provide transparency to stakeholders

- 10. Proper presentation and disclosure of long-term investments is important to:
  - a) Improve investor confidence
  - b) Attract financing
  - c) Both a and b
  - d) None of the above

Answer: c) Both a and b

## **Lec 16 - Long Term Investments**

- 1. What is the typical time frame for long-term investments?
- A) 1-2 years
- B) 3-5 years
- C) 10 years or more
- D) None of the above

## Answer: C) 10 years or more

- 2. Which of the following investments is typically considered a long-term investment?
- A) Savings account
- B) Certificate of deposit (CD)
- C) Stocks
- D) All of the above

## Answer: C) Stocks

- 3. What is the primary goal of long-term investments?
- A) To generate short-term gains
- B) To maximize current income
- C) To build wealth over time
- D) To minimize risk

## Answer: C) To build wealth over time

- 4. Which of the following investment strategies is typically associated with long-term investments?
- A) Buy and hold
- B) Day trading
- C) Swing trading
- D) Option trading

## Answer: A) Buy and hold

- 5. Which of the following investment vehicles is typically associated with long-term investments?
- A) Mutual funds
- B) Options
- C) Futures
- D) Forex

## Answer: A) Mutual funds

6. Which of the following statements is true about long-term investments?

- A) They are generally more volatile than short-term investments.
- B) They offer higher returns than short-term investments.
- C) They require frequent monitoring and trading.
- D) They are focused on short-term gains.

## Answer: B) They offer higher returns than short-term investments.

- 7. What is the primary risk associated with long-term investments?
- A) Liquidity risk
- B) Market risk
- C) Inflation risk
- D) Interest rate risk

## Answer: B) Market risk

- 8. Which of the following asset classes is typically associated with long-term investments?
- A) Real estate
- B) Gold
- C) Bonds
- D) All of the above

## Answer: D) All of the above

- 9. Which of the following is a common strategy for managing risk in long-term investments?
- A) Diversification
- B) Concentration
- C) Market timing
- D) Speculation

## Answer: A) Diversification

- 10. Which of the following is an example of a long-term investment goal?
  - A) Saving for a vacation next year
  - B) Building a retirement fund
  - C) Paying off credit card debt
  - D) Buying a new car in six months

Answer: B) Building a retirement fund

## Lec 17 - Risks & Disclosure under IAS 32 and 39 & Long Term Loans and

## 1. Which of the following risks are required to be disclosed under IAS 32 and 39?

- A) Credit risk
- B) Operational risk
- C) Market risk
- D) All of the above

Answer: D) All of the above

## 2. What is the primary goal of disclosures under IAS 32 and 39?

- A) To protect the company from legal liability
- B) To provide transparency and accountability to investors
- C) To generate profits for the company
- D) To reduce the impact of risks on the company's financial performance

Answer: B) To provide transparency and accountability to investors

## 3. What is the importance of disclosures related to long-term loans?

- A) To protect the company from default risk
- B) To inform investors about the risks associated with the loans
- C) To generate profits for the company
- D) To reduce the cost of borrowing for the company

Answer: B) To inform investors about the risks associated with the loans

## 4. Which of the following risks are associated with long-term loans?

- A) Credit risk
- B) Interest rate risk
- C) Liquidity risk
- D) All of the above

Answer: D) All of the above

#### 5. What is credit risk?

- A) The risk that interest rates will increase
- B) The risk that a borrower will default on a loan
- C) The risk that the market value of an investment will decrease
- D) The risk that a company will run out of cash

Answer: B) The risk that a borrower will default on a loan

#### 6. What is interest rate risk?

- A) The risk that a borrower will default on a loan
- B) The risk that interest rates will increase
- C) The risk that the market value of an investment will decrease
- D) The risk that a company will run out of cash

Answer: B) The risk that interest rates will increase

## 7. What is liquidity risk?

- A) The risk that a borrower will default on a loan
- B) The risk that interest rates will increase
- C) The risk that a company will run out of cash
- D) The risk that an investment cannot be sold quickly enough to meet cash needs

Answer: D) The risk that an investment cannot be sold quickly enough to meet cash needs

#### 8. What is market risk?

- A) The risk that a borrower will default on a loan
- B) The risk that interest rates will increase
- C) The risk that the market value of an investment will decrease
- D) The risk that a company will run out of cash

Answer: C) The risk that the market value of an investment will decrease

#### 9. What is the fair value of a financial instrument?

- A) The amount of cash that can be obtained by selling the instrument in the market
- B) The face value of the instrument
- C) The book value of the instrument
- D) The market value of the issuer's stock

Answer: A) The amount of cash that can be obtained by selling the instrument in the market

## 10. Why is it important for companies to provide clear and concise information in their disclosures?

- A) To avoid legal liability
- B) To reduce the impact of risks on the company's financial performance
- C) To ensure transparency and accountability to investors
- D) To maximize profits for the company

Answer: C) To ensure transparency and accountability to investors

## Lec 18 - Long Term Deposits and Prepayments & Current Assets

## 1. Which of the following is an example of a long-term deposit?

- a. Accounts receivable
- b. Inventory
- c. Property, plant, and equipment
- d. Cash in the bank

#### Answer: c

## 2. Long-term deposits are typically held for how long?

- a. Less than one year
- b. One to three years
- c. More than three years
- d. It depends on the nature of the deposit

#### Answer: c

## 3. Prepaid expenses are an example of which type of asset?

- a. Long-term asset
- b. Current asset
- c. Non-current asset
- d. Intangible asset

#### Answer: a

## 4. Which of the following is an example of a current asset?

- a. Land held for investment purposes
- b. A building owned by the company
- c. Accounts payable
- d. Patents and trademarks

#### Answer: c

## 5. Cash and cash equivalents are an example of which type of asset?

- a. Long-term asset
- b. Current asset
- c. Fixed asset
- d. Intangible asset

## Answer: b

## 6. Which of the following is an example of a prepayment?

- a. Rent paid in advance
- b. Salary paid to an employee
- c. Interest received from a bank
- d. Sales revenue earned from customers

#### Answer: a

## 7. Current assets are important for a company because they help to:

- a. Increase the value of the company
- b. Support ongoing operations
- c. Generate long-term revenue
- d. Pay off long-term debts

#### Answer: b

## 8. Which of the following is an example of a non-current asset?

- a. Inventory
- b. Cash in the bank
- c. Land held for investment purposes
- d. Accounts payable

## Answer: c

## 9. Which of the following is an example of a long-term deposit?

- a. Payment made for inventory
- b. Payment made for a loan
- c. Payment made for property taxes
- d. Payment made for advertising expenses

#### Answer: b

## 10. Which of the following is an example of a current asset?

- a. Machinery owned by the company
- b. Patent owned by the company
- c. Inventory held for sale
- d. Land held for investment purposes

#### Answer: c

#### Lec 19 - IASB's Framework

#### 1. What is the purpose of the IASB's Framework?

- a. To provide guidance on the preparation and presentation of financial statements.
- b. To provide guidance on the management of a company's assets.
- c. To provide guidance on the collection of financial data.

#### Answer: a

## 2. What are the key concepts and principles in the IASB's Framework?

- a. Reliability, relevance, comparability, and understandability.
- b. Efficiency, profitability, liquidity, and solvency.
- c. Sustainability, social responsibility, and ethics.

#### Answer: a

## 3. What does the IASB's Framework provide guidance on?

- a. The recognition, measurement, and disclosure of assets, liabilities, income, and expenses.
- b. The hiring and management of employees.
- c. The development of marketing strategies.

#### Answer: a

## 4. What is the importance of the IASB's Framework?

- a. It ensures that financial statements are reliable, relevant, comparable, and understandable to users.
- b. It promotes the efficient use of company resources.
- c. It minimizes the risk of fraud and mismanagement.

#### Answer: a

## 5. Who develops the IASB's Framework?

- a. The International Accounting Standards Board (IASB).
- b. The Financial Accounting Standards Board (FASB).
- c. The Securities and Exchange Commission (SEC).

#### Answer: a

## 6. What is the relationship between the IASB's Framework and accounting standards?

- a. The Framework provides a basis for the development of accounting standards.
- b. The Framework is unrelated to accounting standards.
- c. The Framework is used to audit accounting standards.

#### Answer: a

## 7. What is the purpose of the recognition and measurement criteria in the IASB's Framework?

- a. To ensure that financial statement elements are recognized when they meet the definition of an asset, liability, income, or expense.
- b. To ensure that financial statement elements are recognized when they are expected to

provide future economic benefits.

c. To ensure that financial statement elements are recognized when they are easily measurable.

#### Answer: a

#### 8. What is the importance of comparability in the IASB's Framework?

- a. It allows users to compare financial statements across different periods and entities.
- b. It ensures that financial statements are reliable.
- c. It promotes the efficient use of company resources.

#### Answer: a

## 9. What is the purpose of the disclosure requirements in the IASB's Framework?

- a. To provide additional information that is relevant to the users of financial statements.
- b. To provide information that is not required by accounting standards.
- c. To promote transparency and accountability.

#### Answer: a

## 10. What is the primary objective of the IASB's Framework?

- a. To provide information that is useful in making economic decisions.
- b. To promote the efficient use of company resources.
- c. To ensure that financial statements are prepared in accordance with accounting standards.

#### Answer: a

## Lec 20 - IASB's Framework (Contd.)

- 1. What is the key concept of the IASB's Framework?
  - A) Reliability
  - B) Comparability
  - C) Understandability
  - D) All of the above

**Answer: D** 

- 2. Which of the following elements are recognized in financial statements according to the IASB's Framework?
  - A) Assets
  - B) Liabilities
  - C) Income
  - D) All of the above

Answer: D

- 3. The IASB's Framework promotes transparency and accountability by requiring companies to provide what?
  - A) Relevant and reliable information
  - B) Excessive information
  - C) Irrelevant and unreliable information
  - D) None of the above

Answer: A

- 4. What is the importance of substance over form in the IASB's Framework?
  - A) Economic substance of a transaction should be reflected in the financial statements
  - B) Legal form of a transaction should be reflected in the financial statements
  - C) Both A and B
  - D) None of the above

Answer: A

- 5. The IASB's Framework provides guidance on which of the following?
  - A) When to recognize gains and losses
  - B) How to measure assets and liabilities
  - C) When to recognize an item as an asset or liability
  - D) All of the above

Answer: D

- 6. The IASB's Framework is regularly updated to reflect changes in which of the following?
  - A) Business practices
  - B) Financial reporting requirements
  - C) Both A and B
  - D) None of the above

Answer: C

- 7. Which of the following is NOT a key principle of the IASB's Framework?
  - A) Relevance
  - B) Reliability
  - C) Comparability
  - D) Sustainability

Answer: D

## 8. What is the role of the IASB in the development and update of the Framework?

- A) Develop and update the Framework
- B) Enforce compliance with the Framework
- C) Both A and B
- D) None of the above

Answer: A

## 9. What is the purpose of the recognition and measurement criteria in the IASB's Framework?

- A) Ensure that financial statement elements are recognized when they meet the definition of an asset, liability, income, or expense
- B) Ensure that financial statements are free from material errors and omissions
- C) Ensure that financial statements are presented in a clear and concise manner
- D) None of the above

Answer: A

## 10. The IASB's Framework is used by which of the following groups?

- A) Companies and accounting professionals
- B) Auditors and regulators
- C) Both A and B
- D) None of the above

Answer: C

#### Lec 21 - Presentation of Liabilities in Balance Sheet

- 1. Liabilities are typically presented in the balance sheet in:
  - a) Ascending order of maturity dates
  - b) Alphabetical order
  - c) Descending order of maturity dates
  - d) Random order

## Answer: c) Descending order of maturity dates

- 2. The presentation of liabilities in the balance sheet provides insights into the company's:
  - a) Inventory turnover
  - b) Solvency and liquidity
  - c) Revenue recognition policies
  - d) Capital structure

## Answer: b) Solvency and liquidity

- 3. Which of the following is an example of a current liability?
  - a) Long-term loan
  - b) Accounts payable
  - c) Mortgage payable
  - d) Bonds payable

## Answer: b) Accounts payable

- 4. Accrued expenses are an example of:
  - a) Long-term liabilities
  - b) Current liabilities
  - c) Equity
  - d) Assets

#### Answer: b) Current liabilities

- 5. The order of presentation of liabilities in the balance sheet is determined by:
  - a) The size of the liability
  - b) The order in which the liability was incurred
  - c) The maturity date of the liability
  - d) The industry in which the company operates

## Answer: c) The maturity date of the liability

- 6. A contingent liability should be disclosed in the balance sheet:
  - a) Only if it is probable
  - b) Only if it is reasonably possible
  - c) Only if it is remote
  - d) Regardless of the probability of occurrence

## Answer: b) Only if it is reasonably possible

- 7. Which of the following is not an example of a long-term liability?
  - a) Bank loan
  - b) Mortgage payable
  - c) Accounts payable
  - d) Bonds payable

## Answer: c) Accounts payable

- 8. A company's debt-to-equity ratio can be calculated using information from the:
  - a) Income statement
  - b) Statement of cash flows
  - c) Balance sheet
  - d) Notes to the financial statements

## Answer: c) Balance sheet

- 9. A company's current ratio can be calculated using information from the:
  - a) Income statement
  - b) Statement of cash flows
  - c) Balance sheet
  - d) Notes to the financial statements

## Answer: c) Balance sheet

- 10. The disclosure requirements for long-term debt in the balance sheet are governed by:
  - a) IAS 1
  - b) IAS 2
  - c) IAS 16
  - d) IAS 39

Answer: d) IAS 39

## Lec 22 - Liabilities side area of Balance Sheet (Share Capital and Reserves)

# 1. Which of the following represents long-term financing provided by the owners of the company?

- A) Share capital and reserves
- B) Accounts payable
- C) Bank loans
- D) Accrued expenses

Answer: A

#### 2. What is share capital?

- A) Profits that are retained by the company for future use
- B) Funds raised by the company through the sale of its shares to investors
- C) Money owed by the company to suppliers
- D) A liability that arises from an expense that has been incurred but not yet paid

Answer: B

# 3. Which of the following is included in the reserves category on the liabilities side of the balance sheet?

- A) Retained earnings
- B) Share premium
- C) General reserve
- D) All of the above

Answer: D

## 4. What does the liabilities side of the balance sheet show?

- A) The company's assets
- B) The company's liabilities and equity
- C) The company's revenue and expenses
- D) The company's cash flows

Answer: B

## 5. Which of the following is not included in the liabilities side of the balance sheet?

- A) Share capital
- B) Reserves
- C) Accounts receivable
- D) Long-term debt

**Answer: C** 

# 6. What is the purpose of presenting share capital and reserves separately in the balance sheet?

- A) To provide information about the company's sources of financing
- B) To distinguish between short-term and long-term liabilities
- C) To show the company's cash flows
- D) To report the company's revenue and expenses

Answer: A

# 7. Which of the following represents the total amount of money that has been invested in a company by its shareholders?

- A) Share capital
- B) Reserves
- C) Retained earnings

## D) Share premium

## Answer: A

## 8. What is the difference between share capital and reserves?

- A) Share capital represents short-term financing, while reserves represent long-term financing.
- B) Share capital represents equity, while reserves represent liabilities.
- C) Share capital represents funds raised through the sale of shares, while reserves represent profits that have been retained by the company.
- D) Share capital represents the money that the company owes to its shareholders, while reserves represent the money that the company owes to its creditors.

Answer: C

## 9. Which of the following is an example of a reserve on the liabilities side of the balance sheet?

- A) Accounts payable
- B) Bank loan
- C) Retained earnings
- D) Common stock

**Answer: C** 

## 10. Why is it important for investors to review the liabilities side of the balance sheet?

- A) To evaluate the company's profitability
- B) To assess the company's liquidity and solvency
- C) To calculate the company's earnings per share
- D) To determine the company's tax liability

Answer: B