

Registration # _____

A. Multiple choice Questions

(Marks 20)

1. Which of the following provides information about the financial information's, obligations and activities on the economic entity that is intended for use primarily by external decision makers?
 - (a) Management accounting
 - (b) **Financial accounting**
 - (c) Tax accounting
 - (d) Environmental Accounting
2. Which of the following statement is true about purpose of accounting?
 - (a) The purpose of accounting provide information to manager
 - (b) Accounting purpose gives quantitative information to economic decision makers
 - (c) Provision of base for decision making is purpose of accounting
 - (d) **All of above statement are true regarding purpose of accounting**
3. The controller's responsibilities are primarily in nature, while the treasurer's responsibilities are primarily related to?
 - (a) Operational; Financial accounting
 - (b) **Accounting; Financial management**
 - (c) Financial management; Operations
 - (d) Financial management; Accounting
4. The outcome of financial accounting is to?
 - (a) Record all transactions in the books of accounts
 - (b) Provide management with detailed analyses of costs
 - (c) **Present the financial results to the organization by means of recognized statements**
 - (d) Calculate profit
5. Which of the following persons are most likely to use accounting information?
 - (a) Business owners
 - (b) Lending institutions
 - (c) **All of the above**
 - (d) None of the above
6. Which of the following financial statements reports financial results as of a single date?
 - (a) **Balance Sheet**
 - (b) Income Statement
 - (c) Statement of changes in equity
 - (d) Statement of cash flows
7. The question of what additional information should be provided to external users refers to?
 - (a) Reporting
 - (b) Recognition
 - (c) **Disclosure**
 - (d) Measurement
8. A necessary element of internal control is?
 - (a) Database
 - (b) **Information and communication**
 - (c) Systems analysis
 - (d) Systems design
9. All of the form of Business Organizations except?
 - (a) Partnership
 - (b) **Unlimited Liabilities Companies**
 - (c) LLP
 - (d) S type
10. Organizations which combine the limited liability advantage in sole ownership are called?
 - (a) S Type
 - (b) Hybrid
 - (c) PC
 - (d) LLP

11. What is the meaning of the word 'limited' in the name of a limited company?
- (a) The number of shareholders is limited to 50
(b) The liability of the company for its own debts is limited
(c) **The liability of shareholders for the company's debts is limited**
(d) There is a limit on the amount of debts that the company can contract
12. What is owned by a business and used in carrying out its operating activities is best described as?
- (a) Liabilities (b) Owner's Equity (c) Revenues (d) **Assets**
13. Which of the following is a liability?
- (a) Petty cash (b) Loose tools (c) **Unearned Revenue** (d) Leasehold premises
14. Which of the following account is affected from the Drawings of cash in sole-proprietorship business?
- (a) Shareholder account (b) **Capital account**
(c) Liability account (d) Expense account
15. Which of the following accounts will be used in equation, if the goods are sold on credit to Mr. Mahmood?
- (a) Cash account and Owner's equity (b) **Account Receivable and Owner's equity**
(c) Cash and Account Receivable (d) Account Payable and Owner's Equity
16. If the cost of sales is Rs. 60,000, sales are Rs. 95,000 and operating expenses are Rs. 20,000 during the year. What would be the Net Profit?
- (a) **Rs. 15,000** (b) Rs. 35,000 (c) Rs. 55,000 (d) Rs. 60,000
17. Which of the following statement true?
- (a) Expenses decrease shareholders' equity (b) Profit and gains increase shareholders' equity
(c) Revenue increase shareholders' equity (d) **All of given options are true**
18. A company paid cash of Rs. 350 for salary of employees. Which accounting equation's categories would be affected by this transaction?
- (a) **Assets and Owner's Equity** (b) Expense and liabilities (c) Assets and liabilities (d) Assets only
19. Which of these items would be accounted for as an expense?
- (a) Repayment of a bank loan (b) Dividends of stock holders
(c) The purchase of land (d) **Payment of the current period's rent**
20. The reporting earning of income previously collected has what effect on the basic accounting equation?
- (a) Increase in assets, decrease in liabilities
(b) Increase in assets, increase in stockholder's equity
(c) **Decrease in liabilities, increase in stockholder's equity**
(d) Decrease in assets, decrease in stockholders' equity

B. True False Statements*(Marks 10)*

1. The hiring of a new company president is an economic event recorded by financial information system?
(a) True (b) False
2. Transactions that can be measured in rupees are recorded in the financial information system?
(a) True (b) False
3. External users of accounting information are managers who plan, organize, and run a business?
(a) True (b) False
4. Explanatory notes and supporting schedules are an optional part of an annual report?
(a) True (b) False
5. Examples of notes are descriptions of the significant accounting policies and methods used in preparing the statements, explanations of contingencies, and various statistics?
(a) True (b) False
6. Creditors' rights to assets supersede owners' rights to the assets?
(a) True (b) False
7. A company reports the following amounts: loans payable Rs. 230, trade accounts payable Rs. 1,170, inventories Rs. 500, contributed capital Rs. 100, land Rs. 2,500. Total liabilities are Rs. 4,500?
(a) True (b) False
8. A limited liability company is sometimes referred to as a corporation, joint stock company or share-based entity?
(a) True (b) False
9. If the assets owned by a business total Rs. 100,000 and liabilities total Rs. 65,000, stockholders' equity totals Rs. 25,000?
(a) True (b) False
10. Claims of creditors and owners on the assets of a business are called liabilities?
(a) True (b) False

Q # 2: Prove that the Accounting Equation is satisfied in all following transactions of Mr. Ahmed Zia owner of business enterprises?

(20 Marks)

- I. Started business with cash value of Rs. 600,000
- II. Purchased inventory for cash Rs. 60,000 and on account Rs. 30,000 from Mr. Tahir
- III. Purchased Marketable securities (asset) for cash Rs. 100,000
- IV. Cash Sales Rs. 50,000 and credit sales Rs. 15,000
- V. Purchase furniture of the value of Rs. 5,000 by cash
- VI. Commission paid during the trading was Rs. 1,000
- VII. Received cash dividend revenue Rs. 4,000
- VIII. Paid to Rs. 25,000 to Mr. Tahir
- IX. Withdrew inventory for domestic purpose by owner of worth Rs. 4,000
- X. Paid wages Rs. 1,000 and Rent 2,000

Mr. Ahmed Zia

Accounting Equation

S. No	Assets					Equities	
	Cash	A/R	Furniture	Inventory	M. Securities	A/C Payables	O.E
I	600,000						600,000
Bal	600,000						600,000
II	(60,000)			90,000		30,000	
Bal	540,000			90,000		30,000	600,000
III	(100,000)				100,000		
Bal	440,000			90,000	100,000	30,000	600,000
IV	50,000	15,000					65,000
Bal	490,000	15,000		90,000	100,000	30,000	665,000
V	(5,000)		5,000				
Bal	485,000	15,000	5,000	90,000	100,000	30,000	665,000
VI	(1,000)						(1,000)
Bal	484,000	15,000	5,000	90,000	100,000	30,000	664,000
VII	4,000						4,000
Bal	488,000	15,000	5,000	90,000	100,000	30,000	668,000
VIII	(25,000)					(25,000)	
Bal	463,000	15,000	5,000	90,000	100,000	5,000	668,000
IX				(4,000)			(4,000)
Bal	463,000	15,000	5,000	86,000	100,000	5,000	664,000
X	(3,000)						(3,000)
Bal	460,000	15,000	5,000	86,000	100,000	5,000	661,000
Total	Rs. 666,000					Rs. 666,000	