



Accounting Test Paper Questions On ACCOUNTING CONCEPTS

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NOTE:

This Accounting test paper on Accounting Concepts is divided into four sections:

- **Section A: 11 questions on True Or False**
- **Section B: 30 questions on Fill The Blank**
- **Section C: 20 questions on Multiple Choice Question**
- **Section D: 5 questions on Explanation**

Section A: Questions On True or False

		True	False
1.	The business entity concept does not apply to a sole proprietorship concern		

		True	False
2.	If economic event cannot be measured in monetary terms, it is not considered part of the accounting data		

		True	False
3.	As the question of sale of the business, the realizable or saleable values of its assets will not be relevant		



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		True	False
4.	It is the desire for objectivity that explains why historical cost rather than current market value forms the basis of valuation of assets		

		True	False
5.	Consistency in accounting methods is observed to prevent misleading profits arising from differing accounting methods from being reported.		

		True	False
6.	Prudence concept explains why closing stock is always valued at the lower of cost or market value so that profits are not overrated during the current period		

		True	False
7.	The matching principle is base on the accrual concept of accounting		

		True	False
8.	Accrual concept is when revenue is recognized when it is earned and expenses when they are incurred		



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		True	False
9.	Cash accounting recognizes revenue only when cash is received and recognizes expenses only when cash is paid		

		True	False
10.	Source documents are examples of objective evidence of transactions that have taken place		

		True	False
11.	The money measurement function eliminates important information like motivational level, inefficient management or poor working conditions		



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Section B: Questions On Fill In The Blanks

1. Company A amortizes the cost of a trade mark over the trade mark's useful life. _____ concept

2. Company A included a disclosure note describing a lawsuit it is defending even though the suit has not yet been settled _____ concept

3. Mr X, the sole proprietor of Company XY does not list his personal house on the balance sheet of Company XY _____ concept

4. Company A records revenue when products are delivered and services being rendered, even though cash has not yet been received. _____ concept

5. The USD which is used to measure business transactions in United States Of America is assumed to maintain its purchasing power over time. _____ concept

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6.	A company borrowed \$60,000 on December 1, 2005 and will make its only payment for interest when the note is paid off on June 1, 2006. The total interest for the six months will be \$6,000. On the December 2005 income statement the accountant reported Interest Expense of \$1,000.	<hr/> concept
7.	The same accounting concepts are applied in the same way in each accounting period.	<hr/> concept
8.	Always relate revenue earned in a period with expenses incurred to generate this revenue	<hr/> concept
9.	A business's financial performance is recorded and reported separately from the owner's personal financial statement	<hr/> concept
10.	Business is expected to remain in operations indefinitely	<hr/> concept
11.	Similar items should receive similar accounting treatment	<hr/> concept
12.	Use a common unit of measurement for reporting financial activity	<hr/> concept

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13.

Profits should not be overstated and loss must not be understated

_____ concept

14.

Due to the high inflation rate, the replacement cost of the existing raw material has gone up by 30%. The company ignores this inflationary factor and records it at the value it has earlier bought.

_____ concept

15.

A company has bought this property for \$1million in year 2003 but now the property has appreciated to \$5 million. The company is recording the property at \$1 million.

_____ concept

16.

Which principle/guideline requires the company's financial statements to have footnotes containing information that is important to users of the financial statements?

_____ concept

17.

Which principle/guideline directs a company to show all the expenses related to its revenues of a specified period even if the expenses were not paid in that period?

_____ concept



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18.	A fixed asset with a cost of \$50,000 is depreciated over its useful life of 7 years rather than expensing the entire amount when it is purchased.	_____ concept
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19.	The actual amount paid or received is the amount recorded in the books of accounts.?	_____ concept
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20.	The success of the company is mainly attributed to the invaluable qualities of three employees, X,Y & Z. However, employees X,Y & Z are not recorded as an assets in the balance sheet of the company.	_____ concept
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21.	The company has received goods valued at \$200,000 and have already billed the customers for all these goods but so far has only received suppliers invoices for \$50,000. The balance of \$150,000 is taken up into the books of account. What concept is this??	_____ concept
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22.		_____ concept
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23.	For the December year-end close, the utilities bills have not been received for the month of November & December. However, based on previous average month trends, take up \$20,000 X 2 = \$40,000 as utilities expenses as estimates for November & December.?	_____ concept
24.	The management has decided on a twelve month financial reporting period. They have just started on the 1 st January so they will complete the twelve months reporting period by 31st December.?	_____ concept
25.	During the audit, auditors have discovered that certain portion of the company sales are not true sales as they have evidence that the sales are financed by the company itself.?	_____ concept
26.	In the Notes to the financial statements, Management disclosed that an earthquake has destroyed one of their factory in Thailand, hence stopping production and affecting the revenue of the company.?	_____ concept
27.	Once a particular financial period is adopted by a business, it is not changed from one period to the next period?	_____ concept



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28.

The cost of a dust bin in an office is treated as an expense rather depreciating its cost over its useful life?

_____ concept

29.

Expenses are recognize in the same accounting period as the revenues which result from the incurrence of these expenses?

_____ concept

30.

Each transaction is described by a business document that proves the transaction did occur.?

_____ concept

Section C: Questions On Multiples Choice Questions:

1.

Accounting assumptions are:

- (a) Separate business entity, going concern
- (b) Going concern
- (c) Monetary Unit
- (d) All the above



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2. Accounting principles are:

- (a) Historical cost
- (b) Objectivity, revenue recognition
- (c) Matching principle, full disclosure
- (d) All the above

3. Accounting constraints are:

- (a) Conservatism and materiality
- (b) Historical cost and objectivity
- (c) Matching principle and full disclosure
- (d) Going concern and monetary unit

4. A piece of land bought in Year 2001 for \$10,000 was recorded at that price even though it was valued at \$150,000. Which accounting principle is adhered to?

- (a) Historical cost
- (b) Prudence/conservatism
- (c) Monetary unit
- (d) Matching principle



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5.

Raymond is the owner of Company A Limited. He took goods of \$5,000 from the Company A Limited for his own personal use. His accountant wants to record this transaction in the books of the business. Which concept is the accountant applying:

- (a) Accounting Entity/Separate business entity**
- (b) Prudence**
- (c) Money measurement**
- (d) Matching concept**

6.

Which of the following best describe the Prudence Principle?

- (a) Assets to be reported at the highest possible values**
- (b) Profits to be reported at the highest possible values**
- (c) Liabilities and expenses to be reported at the lowest possible value**
- (d) All anticipated losses to be reported even before they occur**

7.

Which of the following assumptions facilitates the comparison of performance of the business from one period to another?

- (a) Consistency**
- (b) Historical cost**
- (c) Prudence**
- (d) Accounting period concept**

8.

Roy uses his business bank account to pay for his monthly personal utilities bills and recorded it as Utilities Account. State the accounting principle or concept that was not adhered to

- (a) Accounting entity/separate business entity**
- (b) Accounting period**
- (c) Going concern**
- (d) Matching concept**

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9. Which of the following is The BEST statement regarding the separate business entity assumption?

- (a) An assumption that the accounting record of the entity should be kept separate and distinct from the accounting records of its owner only
- (b) An assumption that the activities of the entity should be kept separate and distinct from the activities of its owner only
- (c) An assumption that the accounting record of the entity should be kept separate and distinct from the accounting records of its owner and all other economic entities
- (d) An assumption that the activities of the entity should be kept separate and distinct from the activities of its owner and all other economic entities.

10. What is the meaning of the money measurement concept?

- (a) Only items with a monetary value are included in the accounts
- (b) Assets are normally shown at cost price
- (c) Profits are calculated after allowing for accruals and prepayments
- (d) Profits are calculated on the basis of cash received less cash paid.

11. Company A includes \$150,000 as provision for doubtful debts in its annual account. Which accounting concept is it following?

- (a) Consistency
- (b) Matching
- (c) Prudence
- (d) Realization



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12. Company A bought a grinding machine for \$150.00 which can last for five years. The firm charged this cost to expense account. This is an example of:

- (a) Historical cost convention
- (b) Matching principle
- (c) Realization concept
- (d) Materiality concept

13. A machinery valued in the market at \$120,000 was recently bought by Company A at a very cheap price of \$60,000 and was recorded as Asset Account. This is an example of:

- (a) Historical cost convention
- (b) Prudence
- (c) Realization concept
- (d) Materiality concept

14. Going concern concept can only be applied to a firm when it:

- (a) will never be wound up
- (b) is not expected to be able to continue operating
- (c) is not expected to incur losses in the foreseeable future
- (d) is expected to continue in operational existence for the foreseeable future at a level of activity not significantly less than its current level of activity

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15. The concept of profit as being earned at the particular point is called:

- (a) Realization concept
- (b) Accrual concept
- (c) Cost concept
- (d) Dual aspect concept

16. Mr A, the accountant of Company XYZ changed the straight line method of depreciation to the reducing balance method. Which accounting concept does this contravene?

- (a) Consistency
- (b) Going Concern
- (c) Historical cost
- (d) Materiality

17. Stock is valued at the lower of net realizable value or cost. This is an example of:

- (a) Prudence concept
- (b) Consistency concept
- (c) Realization concept
- (d) Materiality concept

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18. Which of the following is referred to as the Matching Concept?

- (a) The Accrual concept
- (b) The Prudence concept
- (c) The Going concern concept
- (d) The Consistency concept

19. Fixed assets are always kept in books at their cost price because of:

- (a) Historical cost concept
- (b) Dual aspect concept
- (c) Prudence concept
- (d) Materiality concept

20.

Company XYZ has 12 months ending 31 December 2007 as its accounting period. It paid \$12,000 insurance premiums relating to the period 1/7/2007 to 30/6/2008. Only \$6,000 is entered in the books of account for the accounting period ending 31 December 2007 and the balance of \$6,000 is carried forward to 2008. This is an example of the concept of

- (a) Going concept
- (b) Matching
- (c) Prudence
- (d) Realization.



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Section D: Questions On Explanation:

1. Explain the convention or concept of full disclosure

2.

Store XYZ sold a television to its customer, Mr. A for \$1,000 on 10 May. Mr A pays Store XYZ on 9 June. Store XYZ records the sale on 10 May not on 9 June when the cash is received

- (a) Which accounting concept is being applied here?**
- (b) Explain the accounting concept.**

3.

In 2007, Mr A a soleproprietor receives \$100,000 for services rendered. His customers still owe him \$50,000 for services rendered in the same year. The operating expenses paid was \$20,000 while accrued expenses amounted to \$10,000

- (a) Compute his total revenue and total expenses for Year 2007**
- (b) What is his profit for that year?**
- (c) Which accounting concept is being applied here?**

4.

(a) Explain what means by Accounting period concept.

(b) Assuming the following length of accounting period, show the accounting period concerned:

- (i) 1 month : Starting from 1 Jan 2008 to _____**
- (ii) Quarter of a year : Starting from _____ to 31 March 2008**
- (iii) Half a year : Starting from _____ to 30 June 2008**
- (iv) One year : Starting from 1 January 2007 to _____**

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5.

- (a) Mr A is the sole-proprietor and he owns a business. From the bookkeeping context, explain the relationship**
- (b) Mr A needs to pay his personal monthly car installment and he pays it through his business account. Explain how this transaction is being recorded.**