

Definition and Objects of Financial Accounting



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1. Who among the following is considered as the 'father of accounting'?

A Henry Dunant

B Robert Stephenson

C Luca Pacioli

D Elton Mayo

Solution

- Luca Pacioli is widely considered the 'father of accounting' due to his pivotal role in formalizing the system of double-entry bookkeeping.
- In 1494, he published a mathematics book, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*, which included a detailed section on bookkeeping methods used by merchants in Venice.
- Although he did not invent the system, his work was the first to be published, and it helped spread the use of double-entry bookkeeping, which is the foundation of modern accounting practices.

2. The principles of double entry system were propounded first time by _____.

A Huge Old Kessel

B Lucas Pacioli

C Batliboi

D William Pickles

Solution

- Luca Pacioli, an Italian mathematician and Franciscan friar, is credited with first publishing a detailed description of the double-entry system of bookkeeping.
- In his 1494 book, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*, he dedicated a section to explaining the methods used by Venetian merchants, including the concepts of debits and credits.
- His work, though not the invention of the system, was the first to formalize and popularize it, laying the groundwork for modern accounting principles and earning him the title of "father of accounting."

3. Accounting process does not include _____.

A Recording

B Classifying

C Simplifying

D Summarising

Solution

- The accounting process, also known as the accounting cycle, is a series of steps used to record and process financial transactions, starting with their identification and ending with the creation of financial statements.
- The key steps include recording transactions in a journal, classifying them by posting to a ledger, and summarizing them to create financial reports like the income statement and balance sheet.
- While the process aims to make complex financial data understandable, "simplifying" is not a formal step within the accounting cycle itself; it is the overall goal of the process, which is achieved through the other steps.

4. Which of the following is not the characteristic of accounting information?

A Understandability

B Relevance

C Proficiency

D Reliability

Solution

- Understandability, Relevance, and Reliability are all fundamental qualitative characteristics of useful accounting information.
- Proficiency is a skill of the individual accountant, not an inherent quality of the financial information itself.
- Therefore, it is not a characteristic used to evaluate the quality of accounting reports.

5. Which one of the following statements is not true?

A The job of book-keeping is analytical in nature.

B

Book-keeping is an art as well as a science of recording business transactions.

C

Transactions are recorded in a certain set of books.

D

Book-keeping is the method of recording in account books.

Solution

- Bookkeeping is the process of recording financial transactions in a systematic and chronological manner. Its nature is primarily clerical and routine.
- Accounting, on the other hand, is the broader field that uses the recorded information from bookkeeping to analyze, interpret, and summarize financial data. This is where the analytical work occurs.
- Therefore, the statement that bookkeeping is analytical is not true. Bookkeeping is the foundation upon which accounting's analytical work is built.

6. Which one is not the objective of bookkeeping?

A To know the number of workers.

B To ascertain profit and loss.

C To ascertain financial position.

D To ascertain cash position.

Solution

- Bookkeeping is the process of recording financial transactions. Its main objectives are to maintain a systematic record of all financial activities.
- The key objectives of bookkeeping are to ascertain profit and loss by keeping track of revenues and expenses, to determine the financial position (assets, liabilities, and capital) of a business, and to know the cash position at any point in time.
- Knowing the number of workers is a human resources or personnel management function, not a direct objective of financial bookkeeping.

7. **GAAP** is the acronym for **\(\textit{\underline{\hspace{1cm}}}\)**.

A Grossly Accepted Accounted Principles.

B General Annual Accounting Principles.

C Globally Accepted Accounted Principles.

D **Generally Accepted Accounting Principles.**

Solution

- GAAP stands for Generally Accepted Accounting Principles, which is a set of rules, standards, and procedures for companies to follow when preparing their financial statements.
- The purpose of GAAP is to ensure that financial reports are consistent, comparable, and transparent, making them more useful for investors, creditors, and other stakeholders.
- In the United States, the Financial Accounting Standards Board (FASB) is the primary organization responsible for establishing and maintaining GAAP.

8. **Management Accounting deals with \(\textit{\underline{\hspace{1cm}}}\).**

A Quantitative information

B Qualitative information

C Both a and b

D None of the above

Solution

- Management accounting is a process that provides information to managers to help them make short-term and long-term decisions.
- This field of accounting uses both quantitative information, such as costs, revenues, and budgets, and qualitative information, which cannot be measured in monetary terms, like employee morale and market trends.
- By using both types of information, management accounting gives managers a complete picture to assist in planning, controlling, and decision-making.

9. An asset shall be classified as Current when it satisfies any of the following $\text{\textit{______}}$.

A

It is expected to be realised in, or is intended for sale or consumption in the Company's normal Operating cycle

B

It is held primarily for the purpose of being traded

C

It is due to be realised within 12 months after the Reporting Date

D

All of the above

Solution

- According to accounting standards, an asset is classified as a current asset if it is expected to be realized, sold, or consumed in the company's normal operating cycle.
- Assets held primarily for trading purposes are also considered current.
- Additionally, an asset that is expected to be realized within 12 months of the reporting date is classified as current.

10. As regards the accounting treatment, Legacy should be \

(\textit{_____}\).

A treated as loss

B capitalized

C treated Revenue Expenses

D treated Deferred Revenue

Solution

- A legacy is an amount of money or property received by an organization, typically a non-profit, through the will of a deceased person.
- Because a legacy is a large, non-recurring, and non-routine source of funds, it is treated as a capital receipt.
- As a result, it should be capitalized and credited to the Capital Fund, which is then shown on the liabilities side of the Balance Sheet.

11. Endowment fund receipt is treated as $\text{\textit{_____}}$.

A Capital Receipt

B Revenue Receipt

C Loss

D Expenses

Solution

- An endowment fund is a pool of assets, typically from donations, where the principal amount is maintained in perpetuity to generate investment income. This income is then used to support the organization's mission, such as funding scholarships or programs.
- The initial receipt of an endowment is a capital receipt because it is a non-recurring donation that increases the organization's net assets. It is a form of restricted fund, meaning it must be used according to the donor's stipulations and is not available for day-to-day operational expenses.
- Capital receipts are directly recorded in the balance sheet, not as revenue or income. They are often segregated from other funds and shown as a separate fund or liability, such as a "permanently restricted revenue account," to reflect the restriction on their use.

12. The cash discount is allowed by $(\textit{_____})$ to the $(\textit{_____})$.

A Debtor, Creditor

B Creditor, Debtor

C Buyer, Seller

D Customer, Supplier

Solution

- A cash discount is given by the creditor (seller) to the debtor (buyer) as an incentive for early payment of dues.
- Its purpose is to encourage the debtor to settle the account promptly, thus improving the creditor's cash flow.
- Example: If goods worth ₹10,000 are sold on credit with "2% discount for payment within 10 days," the seller (creditor) allows the discount to the buyer (debtor) if payment is made early.

13. The $\text{\textit{_____}}$ discount is never entered in the books of accounts.

A Cash discount

B Trade discount

C Quantity discount

D Seasonal discount

Solution

- Trade discount is a reduction in the list price of goods given by the seller to the buyer, usually to encourage bulk buying or to reward loyal customers.
- It is not recorded in the books of accounts; transactions are entered at the net amount (after trade discount).
- In contrast, cash discount is recorded because it is allowed/received at the time of payment, affecting actual cash flows.

14. Vehicles represent $\text{\textit{_____}}$ expenditure while repairs to vehicle would mean $\text{\textit{_____}}$ expenditure.

A Capital, Revenue

B Revenue, Capital

C Deferred, Revenue

D Capital, Deferred

Solution

- Buying a vehicle creates a long-term asset that provides benefits for several years, so it is treated as capital expenditure.
- Repairs to vehicle are recurring in nature and maintain the asset in working condition, so they are treated as revenue expenditure.
- Capital expenditure increases earning capacity, while revenue expenditure is for day-to-day maintenance without creating new assets.

15. Net worth is excess of $(\textit{\hspace{1cm}})$ over $(\textit{\hspace{1cm}})$.

A Capital, Drawings

B Income, Expenses

C Total assets, total liabilities

D Total liabilities, Total assets

Solution

- Net worth (also called owner's equity) is calculated as Assets – Liabilities, showing what the owner actually owns after paying off obligations.
- It represents the residual interest of owners/shareholders in the business.
- A positive net worth indicates financial strength, while a negative net worth means liabilities exceed assets.

16. An amount spent for replacement of worn out part of machine is \(\textit{_____}\).

A Capital Expenditure

B Revenue Expenditure

C Deferred revenue

D Capital Loss

Solution

- Replacement of a worn-out part is done to keep the machine in working condition, not to increase its efficiency or life significantly.
- Such expenses are recurring in nature and are charged to the Profit and Loss Account as revenue expenditure.
- Capital expenditure would apply only if the machine itself is purchased or if major improvements extend its useful life.

17. The cost of a Fixed Assets of a business has to be written off over its $\textit{\text{_____}}$.

A Natural Life

B Accounting Life

C Physical Life

D Estimated Economic Life

Solution

- Fixed assets are depreciated over their useful or economic life, i.e., the period during which they are expected to generate revenue for the business.
- This may differ from the asset's physical life, because an asset might still exist physically but no longer be economically useful.
- Writing off the cost over its economic life ensures matching of expenses with revenues in the correct accounting periods.

18. Which of the following is an example of Personal Account?

A Machinery

B Rent

C Cash

D Creditor

Solution

- Personal accounts relate to persons, firms, or organizations. A creditor is a person/entity to whom money is payable, so it falls under this category.
- Machinery and Cash are Real accounts (assets), while Rent is a Nominal account (expense).
- Rule: Debit the receiver, Credit the giver applies to personal accounts.

19. Entrance fee of ₹20,000 received by a club is a $\text{\textit{_____}}$.

A capital receipts

B revenue receipt

C capital expenditure

D revenue expenditure

Solution

- Entrance fee is a one-time payment made by a new member to join the club, so it is treated as a capital receipt.
- It is not earned regularly like subscriptions, hence not considered a revenue receipt.
- Since it does not represent expenditure, it cannot be classified as capital or revenue expenditure.

20. ₹3,500 spent on painting new factory is $\text{\textit{______}}$.

A Capital Expenditure

B Revenue expenditure

C Deferred revenue expenditure

D None of these

Solution

- Painting done on a new factory is part of the cost of bringing the asset (factory building) into usable condition.
- Such expenses are added to the cost of the asset and treated as capital expenditure, not as a routine maintenance cost.
- Revenue expenditure would apply if the painting was for periodic maintenance of an existing building.

21. Extension to building occupied on lease for 5 years \(\textit{_____}\).

A Capital expenditure

B Revenue expenditure

C Deferred revenue expenditure

D None of these

Solution

- Extension to a leasehold building gives benefit for the lease term (5 years) but not permanently, so it is not a full capital expenditure.
- It cannot be treated as normal revenue expenditure, because the benefit extends beyond one accounting year.
- Hence, it is considered deferred revenue expenditure, written off over the lease period (5 years).

22. Subsidy of ₹40,000 received from the government per working capital :

A Revenue receipt

B Capital receipt

C Deferred revenue expenditure

D None of these

Solution

- A subsidy received for working capital supports day-to-day operations, so it is treated as a revenue receipt.
- Capital receipt applies when subsidy is given for acquiring fixed assets (e.g., machinery, building).
- It is not an expenditure (deferred or otherwise), since it represents income/assistance, not a cost.

23. Planning and control are done by $\text{\textit{_____}}$.

A top management

B lowest level of management

C all levels of management

D none of the above

Solution

- Top management formulates the overall plans and objectives of the organization, deciding what needs to be done.
- They set policies and frameworks to guide the operations and control mechanisms for the entire organization.
- Top management has the ultimate authority to approve plans, allocate resources, and ensure goals are achieved.

24. Decision-making concerns the $\textit{\hspace{1cm}}$.

A Past

B Future

C Past and future both

D None of the above

Solution

- Decision-making involves choosing the best course of action to achieve desired objectives, which is always oriented towards the future.
- It requires analyzing current information and predicting possible outcomes to make informed choices.
- Past events are used as reference or data, but decisions themselves are meant to influence future results.

25. **Management Accounting function works like a policeman to ensure the performance of the employees:**

A Controlling

B Planning

C Organizing

D None of these

Solution

- Controlling ensures that activities are carried out as per the plans and standards set by management.
- Management accounting provides financial and operational information to monitor performance and detect deviations.
- Like a policeman, it checks, measures, and guides employee performance to achieve organizational goals.

26. The use of management accounting is $\textit{\hspace{1cm}}$.

A Compulsory

B Optional

C Mandatory as per the law

D None of the above

Solution

- Management accounting is not legally required; it is used voluntarily by organizations to aid decision-making.
- It provides information for planning, controlling, and decision-making, but companies can operate without it.
- Unlike financial accounting, which is mandatory for statutory reporting, management accounting is optional and internal.

27. **Management Accounting relates to \(\textit{_____}\).**

A Collection of data from different sources

B Modification of data to meet the specific needs

C Presentation of data

D All of the above

Solution

- Management accounting involves collecting data from various sources such as financial statements, operations, and market information.
- It also modifies and analyzes data to suit the specific requirements of management for decision-making.
- Finally, it focuses on presenting the data in a useful format, such as reports, budgets, and performance summaries.

28. Accounting is divided into $\text{\textit{_____}}$.

A 2

B 3

C 4

D None of the above

Solution

- Financial Accounting: Recording and reporting past financial transactions for external users.
- Management Accounting: Providing information for internal planning, decision-making, and control.
- Cost Accounting: Determining the cost of products or services to assist in pricing, budgeting, and efficiency.

29. Management accounting can be viewed as $\text{\textit{_____}}$.

A Marketing-oriented Accounting

B Management-oriented Accounting

C Accounting-oriented Management

D Manager-oriented Accounting

Solution

- Management accounting focuses on providing relevant information to management for planning, controlling, and decision-making.
- It is primarily designed to assist managers rather than external parties.
- The emphasis is on internal reporting and analysis, not marketing or general accounting for external use.

30. **The purpose of management accounting is to help make decisions :**

A Managers

B Investors

C Marketers

D Banks

Solution

- Management accounting provides information and analysis to assist managers in planning, controlling, and decision-making.
- It focuses on internal decision-making, not external users like investors, banks, or marketers.
- The goal is to improve efficiency, profitability, and operational performance within the organization.



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