Accounting Principles and Procedures

1. Rules and guidelines that companies must follow when reporting financial data is called:
   a) Accounting principles.
   b) Accounting procedures.
   c) Accounting assumptions.
   d) None of the above.

2. Which of the following principles provides the definite and factual basis for assets valuation?
   a) Stable Currency principle
   b) Objectivity Principle
   c) Matching Principle
   d) Cost Principle

3. Which of the following principles states that the assets are purchased for the use and not for resale purpose?
   a) Stable Currency principle
   b) Objectivity Principle
   c) Going-concern principle
   d) Cost Principle

4. Which of the following principles assumes that a business will continue for a long time?
   a) Historical cost
   b) Periodicity
   c) Objectivity
   d) Going concern

5. The accounting principle that states companies and owners should be accounted for separately:
   a) Business entity concept
   b) Going concern concept
   c) Monetary unit assumption
   d) Periodicity assumption

6. According to _____ the personal expenses paid by Mr. A from his own pocket would not be recorded in business books of account:
   a) Realization principle
   b) Separate entity principle
   c) Matching principle
   d) Materiality principle

7. Which of the following principle deals with the valuation and recording of the assets at cost?
   a) Entity principle
   b) Matching principle
   c) Cost principle
   d) Stable currency principle

8. Which of the following principle is used for recording an expense?
   a) Matching principle
b) Cost principle
   c) Realization principle
   d) Objectivity principle

9. Companies not disclosing an imminent bankruptcy would violate the:
   a) Business entity concept
   b) Going concern concept
   c) Monetary unit assumption
   d) Periodicity assumption

10. The assumption that states that businesses can divide up their activities into artificial time periods:
    a) Business entity concept
    b) Going concern concept
    c) Monetary unit assumption
    d) Periodicity assumption

11. Assets are recorded at their original purchase price according to the:
    a) Materiality principle
    b) Historical cost principle
    c) Cost benefit principle
    d) Consistency principle

12. Management concealing important financial information violates the:
    a) Materiality principle
    b) Historical cost principle
    c) Full disclosure principle
    d) Consistency principle

13. When estimating unearned revenues, which principle applies?
    a) Conservatism principle
    b) Historical cost principle
    c) Full disclosure principle
    d) Consistency principle

14. Switching accounting principles every year would violate the:
    a) Conservatism principle
    b) Historical cost principle
    c) Full disclosure principle
    d) Consistency principle

15. Recording expenses and revenues in the same period in which they occur called:
    a) Objectivity principle
    b) Matching principle
    c) Historical cost principle
    d) Industry practices constraint
16. Which accounting concept requires that amounts of goods taken from inventory by the
prospector of a business are treated as drawings?
   a) Accruals
   b) Prudence
   c) Separate entity
   d) Substance over form

17. The accounting concept which dictates that non-current assets should be valued at cost
less accumulated depreciation, rather than at their enforced saleable value, is:
   a) Understandability
   b) Relevance
   c) Comparability
   d) Going concern

18. Inventories should be valued at the lower of cost and net realizable value. Which one of
the following accounting concepts governs this?
   a) Comparability
   b) Prudence
   c) Going concern
   d) None of the above

19. Which of the following statements about accounting procedures is not correct?
   a) The journal shows in one place all the information about specific transactions
      arranged in chronological order.
   b) A ledger account shows in one place all the information about changes in a specific
      asset or liability or owner’s equity.
   c) Posting is the process of transferring information from ledger accounts to the journal.
   d) The product of the accounting cycle is the formal financial statements such as
      balance sheet and income statement.

20. Accounting is called the “language of business” because:
   a) It communicates the financial information to the Management only
   b) In order to run a business one must have knowledge about accounting
   c) Different business accounts are involved in financial statements
   d) It helps to organize and communicate financial information to end users

21. Which of the following explains the debit and credit rules relating to recording revenues
   and expenses?
   a) Realization and matching principle
   b) The effect of revenues and expenses in the owner’s equity
   c) Expenses appear on the left side of the income statement
   d) Liabilities are recorded as debit on the balance sheet

22. For purpose of measuring business income, the life of a business is divided into which of
   the following?
   a) Divided into specific points in time
   b) Divided into irregular cycles
23. Which of the following statements is associated with the accrual basis of accounting?
   a) The timing of cash receipts and disbursements is emphasized.
   b) A minimum amount of record keeping is required.
   c) This method is used less frequently by businesses than the cash method of
      accounting.
   d) Revenues are recognized in the period they are earned, regardless of the time period
      the cash is received.

24. An accounting system is used by a business to:
   a) Analyze transactions
   b) Handle routine bookkeeping tasks
   c) Structure information
   d) All of the above

25. A business event which can be measured in terms of money and must be recorded in
    books of accounts is called:
   a) Condition
   b) Transaction
   c) Information
   d) Record

26. Liabilities are which of the following?
   a) Resources
   b) Obligations
   c) Future benefits
   d) Expenses

27. Gross inflow of economic benefits is called:
   a) Assets
   b) Liabilities
   c) Income
   d) Expenses

28. What are the decreases in gross economic benefits of the business?
   a) Expenses
   b) Obligations
   c) Creditors
   d) Income or gain

29. Double entry book-keeping was fathered by:
   a) F.W. Taylor
   b) Henry Fayol
   c) Luca Pacioli
   d) Murphy Smith

30. One of the detailed rules used to record business transaction is:
   a) Objectivity
   b) Accruals
   c) Double entry book keeping
   d) Going concern
31. How much duration does an accounting period usually have?
   a) Three months
   b) Two years
   c) One year
   d) Five years

32. Which of the following is not normally required for revenue to be recognized according to the revenue principle for accrual basis accounting?
   a) The price is fixed or determinable
   b) Services have been performed
   c) Cash that has already been collected
   d) Evidence of an arrangement for customer payment exists

33. Which of the following balances does the contra-asset account show typically?
   a) Credit
   b) Debit
   c) Negative
   d) Positive

34. Which of the following statements is (are) not consistent with generally accepted accounting principles relating to asset valuation:
   a) Many assets are originally recorded in accounting record at their cost to the business entity.
   b) Subtracting total liabilities from total assets indicates what the owner equity in the business is worth under current market condition.
   c) Accountant assumed that assets such as office supplies, land and buildings will be used in business operations rather than sold at current market prices.
   d) Accountants prefer to base the valuation of assets upon objective, verifiable evidence rather than upon appraisals or personal opinion.

35. The concept of materiality (indicate wrong answer):
   a) Requires that financial statements be accurate to the nearest dollar, but need not show cents.
   b) Is based upon what users of financial statements are thought to consider important.
   c) Permits accountants to ignore generally accepted accounting principles in certain situations.
   d) Permits accountants to use the easiest and most convenient means of accounting for events that are immaterial.

36. Which of the following best describes the application of generally accepted accounting principles to the valuation of accounts receivable?
   a) Realization principle-Accounts receivables are shown at their net realizable value in the balance sheet.
b) Matching principle-The loss due to an uncollectible account is recognized in the period in which the sale is made, not in the period in which the account receivable is determined to be worthless.

c) Cost principle-Accounts receivables are shown at the initial cost of the merchandise to customers, less the cost the seller must pay to cover uncollectible accounts.

d) Principle of conservatism-Accountants favors using the lowest reasonable estimate for the amounts of uncollectible accounts.

37. What is not a value of accounting relevance?
   a) Predictive value
   b) Feedback value
   c) Timeliness
   d) Reliability

38. What is not a value of accounting reliability?
   a) Verifiability
   b) Representational faithfulness
   c) Timeliness
   d) Neutrality

39. Which of the following true with respect to provision?
   a) It is a liability of uncertain timing or amount
   b) It is a liability of certain timing or amount
   c) It is an asset of uncertain timing or amount
   d) It is an income of uncertain timing or amount

40. Which of the following is true with respect to the measurement of revenue?
   a) Revenue shall be measured at the fair value of the consideration received or receivable
   b) Revenue shall be measured at the future value of the consideration received or receivable
   c) Revenue shall be measured at the discounted value of the consideration received or receivable
   d) Revenue shall not be measured at the fair value of the consideration received or receivable

41. If stock valuation method is changed every year by the firm, which concept the firm has violated?
   a) The materiality concept
   b) The consistency concept
   c) The prudence concept
   d) The going concern concept

42. Which of the following is related to the qualitative characteristics that make financial information useful?
a) Reliability only  
b) Relevancy only  
c) Both reliability and relevancy  
d) Comparability  

43. Which of the following statement is true regarding going concern concept?  
a) The business is profitable  
b) The assets of the business are valued at market value  
c) The business will continue until the directors decide to close it  
d) The business will continue for indefinite period  

44. Under which of the following assumptions, the financial statements are to be prepared?  
a) Future assumptions  
b) Past assumptions  
c) Accrual basis and going concern basis  
d) Accrual basis assumption only  

45. Revenue is most commonly recognized at the time when:  
a) Cash is collected  
b) The order is received from customers  
c) The sale is made  
d) None of the above  

46. For each transaction, double-entry accounting requires which of the following:  
a) Debits to asset accounts must create credits to liability or equity accounts  
b) A debit to a liability account must create a credit to an asset accounts  
c) Total debits must equal total credits  
d) None of these  

47. Accumulated loss of a company is shown in the balance sheet as:  
a) Liability  
b) Asset  
c) As footnote in balance sheet  
d) None of the above  

48. Deciding whether to record a sale when order for services is received or when the services are performed is an example of a:  
a) Classification issue  
b) Recognition issue  
c) Valuation issue  
d) None of the above  

49. Which of the following is an important reason for studying accounting?  
a) Accounting information is useful in making economic decisions  
b) Accounting plays an important role in society  
c) The study of accounting can lead to a challenging career  
d) None of the above  

50. The prime function of accounting is to:  
a) Record economic data  
b) Provide the informational basis for action
c) Classifying and recording business transactions

d) Attain non-economic goals

51. The basic function of financial accounting is to:
   a) Record all business transactions
   b) Interpret financial data
   c) Assist the management in performing functions effectively
   d) None of the above

52. Bookkeeping is mainly concerned with:
   a) Recording of financial data relating to business operations
   b) Designing the systems in recording, classifying, summarizing the recorded data
   c) Interpreting the data for internal and external end users
   d) None of the above

53. Accounting principles are generally based on:
   a) Practicability
   b) Subjectivity
   c) Convenience in recording
   d) All of the above

54. Revenue from sale of products ordinarily is reported as part of the earning in the period:
   a) The sale is made
   b) The cash is collected
   c) The products are manufactured
   d) The planning takes place

55. Which type of accounting change should always be accounted for in current and future periods?
   a) Change in accounting principle
   b) Change in reporting entity
   c) Change in accounting estimate
   d) Correction of an error

56. The going concern concept is the underlying basis for:
   a) Depreciating fixed asset over their useful lives
   b) Disclosing the market value of securities
   c) Consolidating the accounts of subsidiary companies with those of parent company
   d) Disclosing the sales and other operating information in the income statement

57. Revenue is said to be realized:
   a) When the sales are made
   b) When the goods are manufactured
   c) When cash is received
   d) All of the above

58. In case of gold, revenue is recognized in the accounting period in which the gold:
59. In case of long term contracts, revenue is generally recognized:
   a) Only on full completion of the contract
   b) Only when the full cash is received
   c) Even when a part of the contract has been completed
   d) All of the above

60. In case of traditional approach, the expense to be matched with revenue is based on:
   a) Original cost
   b) Replacement cost
   c) Cash cost
   d) None of the above

61. Which of the following pairs of accounting concepts are most likely to be in conflict with one another?
   a) Comparability and understandability
   b) Accruals basis and going concern
   c) Comparability and reliability
   d) Relevance and reliability

62. Which of the following statements is most accurate about the historical cost concepts?
   a) Records transactions from past years
   b) Fails to take account of changing price levels over time
   c) Values assets at their cost to the business, irrespective of any depreciation or other loss in value
   d) Is no longer used in modern accounting systems

63. In times of falling prices, the historical cost convention:
   a) Understates asset values and profits
   b) Understates asset values and overstates
   c) Overstates asset values and profits
   d) Overstates asset values and understates profits

64. Which of the following characteristics of financial information contribute to reliability according to the IAS framework for the preparation and presentation of financial statements?
   a) Completeness
   b) Prudence
   c) Neutrality
   d) Faithful
   e) All of above
65. International Accounting standards are acronym of?
   a) IAS  
   b) ISA  
   c) Both a & b  
   d) None of above

66. Accounting standards which applies in Pakistan are?
   a) IAS  
   b) ISA  
   c) GAAP  
   d) None of above

67. GAAP stand for:
   a) Generally Adopted Accounting Principles  
   b) Generally Accepted Auditing Principles  
   c) Generally Accepted Accounting Principles  
   d) Generally Adapted American Principles

68. GAAP are applicable in?
   a) USA  
   b) Pakistan  
   c) Both a & b  
   d) None of above

Answers:

|   | a | 2 | b | 3 | c | 4 | d | 5 | a | 6 | b | 7 | c | 8 | a | 9 | b | 10 | d |
| 11| b | 12 | c | 13 | a | 14 | d | 15 | b | 16 | c | 17 | d | 18 | b | 19 | c | 20 | d |
| 21| b | 22 | d | 23 | d | 24 | d | 25 | b | 26 | b | 27 | c | 28 | a | 29 | c | 30 | c |
| 31| c | 32 | d | 33 | a | 34 | b | 35 | a | 36 | b | 37 | d | 38 | c | 39 | a | 40 | a |
| 41| b | 42 | c | 43 | d | 44 | c | 45 | c | 46 | c | 47 | b | 48 | b | 49 | a | 50 | c |
| 51| a | 52 | a | 53 | c | 54 | a | 55 | a | 56 | a | 57 | a | 58 | b | 59 | c | 60 | a |
| 61| d | 62 | b | 63 | d | 64 | e | 65 | a | 66 | a | 67 | c | 68 | a |
1. A record of financial transactions in order by date is called:
   a) Ledger
   b) Journal
   c) Transaction
   d) Narration

2. The process of recording transactions in journal is called:
   a) Posting
   b) Entry making
   c) Adjusting
   d) Journalizing

3. General journal is a book of ______ entries:
   a) First
   b) Original
   c) Secondary
   d) Adjusting

4. Journals are also referred as:
   a) Book of entries
   b) Book of original entries
   c) T account
   d) Books of economic event

5. Books of original entry are called:
   a) Ledger
   b) Work sheets
   c) Journal
   d) None of these

6. The process of recording the economic effects of business transactions in a book of original entry is known as which of the following?
   a) Double entry system
   b) Debit
   c) Journalizing
   d) Posting

7. Which of the following represents the main step(s) of accounting cycle?
   a) Recording the transactions
   b) Classifying the transactions
   c) Ordering, summarizing, counting the transactions
   d) Recording, classifying, summarizing transactions

8. The other name of journal is:
   a) Ledger
   b) T account
9. The process of recording in journal is done:
   a) Two times a year
   b) Once a year
   c) Frequently during the accounting period
   d) At the end of a accounting period

10. The standard format of journal does not include which of the following?
    a) Assets column
    b) Date column
    c) Description column
    d) Amount column

11. In which of the following orders data is entered in journal?
    a) Alphabetical order
    b) Numeric order
    c) Bullets order
    d) Chronological order

12. The sale of a business asset on credit is recorded in:
    a) Sales journal
    b) General journal
    c) Cash receipt journal
    d) None of these

13. A brief explanation recorded below every entry in general journal is commonly known as:
    a) Narration
    b) Explanation
    c) Summary
    d) Other information

14. Specialized journals are more adequate for which type of businesses?
    a) Small businesses
    b) Large businesses
    c) Sole proprietorship
    d) Partnership

15. Every business transaction affects at least _______ accounts:
    a) One
    b) Two
    c) Three
    d) Infinite

16. A journal entry in which two or more account is debited or credited is referred as:
    a) Journal entry
b) Multi entry

c) Additional entry

d) Compound entry

17. The purpose of double entry bookkeeping is:
   a) To apply the dual aspect concept.
   b) To prepare books of prime entry accurately.
   c) To avoid errors.
   d) To record capital and revenue transactions correctly.

18. Discount for quick repayment of debt is normally referred as:
   a) Trade discount
   b) Prompt payment discount
   c) Cash discount
   d) Bulk discount

19. Discount allowed is a kind of deduction from:
   a) Account payable
   b) Account receivable
   c) Cash account
   d) Discount account

20. Discount allowed is:
   a) Expense of business
   b) Income of business
   c) Loss of business
   d) Abnormal loss of business

21. The cash discount allowed to a debtor should be credited to:
   a) Discount account
   b) Customer account
   c) Sales account
   d) Creditors account

22. In case of a debt becoming bad, the amount should be credited to:
   a) Debtor account
   b) Bad debts account
   c) Sales account
   d) None of the above

23. The term 2/10-n/30 implies that ______ % discount will be given if the payment is made within ______ days or full amount is receivable within 30 days:
   a) 2,10
   b) 10,2
   c) 10,30
   d) 3,15

24. The first step in accounting process is:
25. Which of the following highlights the correct order of the stages in the accounting cycle?
   a) Journalizing, final accounts, posting to the ledger and trial balance
   b) Journalizing, posting to the ledger, trial balance and final accounts
   c) Posting to the ledger, trial balance, final accounts and journalizing
   d) Posting to the ledger, journalizing, final accounts and trial balance

26. Accounting Cycle is a series of activities that begins with _____________ and ends with ____________
   a) Closing of books, transactions
   b) Transaction, After closing Trial Balance
   c) Journal, ledger account
   d) Transactions, financial statements

27. A transaction caused Rs.15000 decrease in both total assets and total liabilities. This transaction could have been:
   a) Purchase of a delivery truck for Rs.15,000 cash.
   b) An asset with a cost of Rs.15,000 destroyed by fire.
   c) Repayment of Rs.15,000 bank loan.
   d) Collection of Rs.15,000 account receivable.

28. The stage under which transactions are recorded chronologically in the books of accounts is called:
   a) Summarizing
   b) Classifying
   c) Recording
   d) None of these

29. Book-keeping is mainly concerned with:
   a) Recording of a financial data relating to business transactions
   b) Designing the systems in recording, classifying, summarizing the recorded data
   c) Interpreting the data for internal and external users
   d) None of these

30. The amount brought in by the proprietor in the business should be credited to:
   a) Cash account
   b) Capital account
   c) Drawings account
   d) Creditor account

31. The amount of salary paid to Ali should be debited to:
   a) Ali account
32. The return of goods by a customer should be debited to:
   a) Customer account
   b) Sales returns account
   c) Goods account
   d) Cash account

33. Sales made to Junaid for cash should be debited to
   a) Cash account
   b) Junaid account
   c) Sales account
   d) Debtor account

34. The rent paid to the landlord should be credited to
   a) Landlord account
   b) Rent account
   c) Cash account
   d) Capital account

35. Which of the following are books of prime entry?
   a) Sales day book and trial balance
   b) Petty cash book and accounts receivables ledger
   c) Petty cash book and journal
   d) All of the above

36. A credit entry of Rs. 450 on X’s account in the books of Y could have arisen by:
   a) X buying goods on credit from Y
   b) Y paying X Rs. 450
   c) Y returning goods to X
   d) X returning goods to Y

37. What journal entry is required to record goods taken from inventory by the owner of a business?
   a) Dr. Drawings Cr. Purchases
   b) Dr. Sales Cr. Drawings
   c) Dr. Drawings Cr. Capital
   d) Dr. Purchases Cr. Drawing

38. Imran started a taxi business by transferring her car, worth Rs. 5,000, into the business. What are the accounting entries required to record this?
   a) Dr. Capital Rs. 5,000, Cr. Car Rs. 5,000
   b) Dr. Car Rs. 5,000, Cr. Drawings Rs. 5,000
   c) Dr. Car Rs. 5,000, Cr. Capital Rs. 5,000
39. Dell sole trader business selling computers. On 12 January 20x7, he employed his daughter as an administrator for the business and took a computer from the store room for her to use in the office. What is the double entry for this transaction?

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40. Which of the following steps of accounting cycle keep on occurring throughout the period?
   a) Journalizing and posting the entries
   b) Making adjusting entries for the relevant accounts
   c) Preparing Trial Balance
   d) Preparing financial statements

41. Which of the following accounts will be debited, when increased?
   a) Liabilities and expenses
   b) Assets and equity
   c) Assets and expenses
   d) Equity and revenues

42. Loss of goods by fire should be credited to:
   a) Loss of goods by fire account.
   b) Sales account.
   c) Purchase account.
   d) Bad debts account.

43. In perpetual inventory system, a return of defective merchandise is recorded by crediting:
   a) Purchases
   b) Purchase Returns
   c) Purchase Allowance
   d) Merchandise Inventory

44. Which of the following specialized journals records "goods returned by customers"?
   a) Purchases journal
   b) Sales journal
   c) Purchases return journal
   d) Sales return journal

45. Sales on credit are recorded in which of the following journal?
   a) Purchases journal
   b) Sales journal
   c) Purchases return journal
   d) Sales return journal

46. Transactions that a business doesn't record in any specialized journal are recorded in which of the following journals or day books?
   a) Cash payments journal
47. Which of the following specialized journal will record "goods returned by the business"?
   a) Purchases journal  
   b) Sales journal  
   c) Purchases return journal  
   d) Sales return journal

48. Sales and purchase journal don't record:
   a) Credit sales  
   b) Credit purchases  
   c) Credit sales and purchases  
   d) Cash sales and purchases

49. Cash received from debtor is recorded in which of the following specialized journal?
   a) Purchase journal  
   b) Sales journal  
   c) Cash receipts journal  
   d) Cash payments journal

50. Which of the following is a type of cash receipt journal + cash payment journal?
   a) Bank statement  
   b) Statement of cash flow  
   c) Cash book  
   d) Cash documents

51. Cash purchases are recorded in which of the following specialized journal?
   a) Purchases journal  
   b) Sales journal  
   c) Purchases return journal  
   d) Cash payments journal

52. Credit purchase of plant and machinery is recorded in which of the following specialized journals?
   a) General journal  
   b) Cash journal  
   c) Purchase journal  
   d) Purchase return journal

53. Debit note is the basis for recording a transaction in which of the following journal?
   a) General journal  
   b) Cash journal  
   c) Purchases journal  
   d) Purchases return journal

54. "Sale of old furniture" will be recorded in which of the following specialized journal?
   a) Purchases journal  
   b) Sales journal  
   c) General journal  
   d) Cash receipt journal
55. Credit note is the basis for recording a transaction in which of the following specialized journals?
   a) Purchases journal
   b) Sales return journal
   c) General journal
   d) Cash receipt journal

56. Goods returned by customer should be debited to which of the following accounts?
   a) Sales income account
   b) Sales account
   c) Return inward account
   d) Expenses account

57. "Business paid rent amounting to $100" which of the following specialized journals records this transaction?
   a) Cash receipts journal
   b) Cash payments journal
   c) Sales journal
   d) Purchases journal

58. Credit memo or credit note is entered in which of the following journal:
   a) General journal
   b) Cash journal
   c) Purchases journal
   d) Sales return day book

59. The sales returns day book would include:
   a) Goods bought on credit
   b) Fixed Assets bought that are inappropriate for business
   c) Goods that customers have returned
   d) Goods bought on credit that are returned to the original supplier

60. Goods returned by Mr. B amount to Rs. 4,000. The entry in the books will be:
   a) Mr. B is Debit, Sales Returns is Credit
   b) Sales Returns is Debit, Mr. B is Credit
   c) Mr. B is Debit, Accounts Receivable Credit
   d) Purchases Return Debit, Mr. B is Credit

61. Carriage paid Rs. 50 for the newly purchased machinery if debited to carriage account will effect:
   a) Only carriage account
   b) Only machinery account
   c) Both carriage and machinery account
   d) None of the given options

62. Which of the following is known as evidence that a transaction took place?
   a) Cash receipts journal
   b) General journal
   c) Source document
   d) Cash book
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1. Entries recorded at the end of the accounting period to adjust income and expense accounts so that they comply with accrual concept of accounting is called:
   a) Adjusting entries
   b) Journal entries
   c) Cash entries
   d) Credit entries

2. Adjusting entries help allocating incomes and expenses to their:
   a) Cash balances
   b) Appropriate accounting periods
   c) Credit balances
   d) Received or paid cash balances

3. Adjusting entries are used to:
   a) Bring account balances up to date at year end
   b) Close temporary accounts at year end
   c) Close permanent accounts at year end
   d) Bring account balances at zero

4. How many basic types of adjusting entries are there?
   a) Two types
   b) Three types
   c) Four types
   d) Ten types

5. Which of the following is the most common item in adjusting entries of a merchandising business?
   a) Un-earned revenue
   b) Pre-paid expense
   c) Depreciation expense
   d) Accrued revenue

6. An adjusting entry would not be required for which of the following account?
   a) Salaries
   b) Past due expense
   c) Income tax expense
   d) Accounts receivable

7. Which of the following is the next step after the preparation of trial balance?
   a) Adjusted trial balance
   b) Financial statements
   c) Adjusting entries
   d) Closing entries

8. In the accounting cycle:
   a) Books are closed before making financial statements.
   b) Closing entries are made before the adjusting entries.
   c) Adjusting entries are made before financial statements are made.
   d) None of the above.

9. Which of the following adjusting double entries is correct for unearned income?
a) Debit = Income, Credit = Unearned income
b) Debit = Unearned income, Credit = Income
c) Debit = Cash, Credit = Unearned income
d) Debit = Income, Credit = Cash

10. Which of the following adjusting double entries is correct for accrued expenses?
   a) Debit = Expenses, Credit = Accrued expenses
   b) Debit = Accrued expenses, Credit = Expenses
   c) Debit = Cash, Credit = Accrued expenses
d) Debit = Expenses, Credit = Cash

11. Which of the following adjusting double entries is correct for prepaid expenses?
   a) Debit = Expenses, Credit = Prepaid expenses
   b) Debit = Prepaid expenses, Credit = Expenses
   c) Debit = Cash, Credit = Prepaid expenses
d) Debit = Expenses, Credit = Cash

12. Which of the following adjusting double entries is correct for earned income?
   a) Debit = Income, Credit = Earned income
   b) Debit = Unearned income, Credit = Income earned
c) Debit = Cash, Credit = Earned income
d) Debit = Income, Credit = Cash

13. Failure to make adjusting entries for accrued income results in:
   a) Overstatement of expenses
   b) Understatement of expenses
c) Understatement of capital
d) Overstatement of income

14. Identify the consequences of not making adjustment entry for accrued expense
   a) Overstatement of liabilities
   b) Understatement of liabilities
c) Overstatement of expenses
d) Understatement of capital

15. An adjusting entry for prepaid expenses affects:
   a) Assets and expenses
   b) Assets and income
   c) Liabilities and expenses
d) Liabilities and assets

16. Adjusting entries convert cash based account into ________ based accounting:
   a) Capital
   b) Asset
c) Accrual
d) Prepaid

17. An unearned income adjusting entry affects:
   a) Asset and liabilities
   b) Cash and income
c) Income and liabilities
d) Cash and liabilities
18. A business paid 3 month rent amounting to Rs. 3000 out of this amount one month rent pertains to the next accounting period. Identify the correct amount prepaid expense:
   a) Rs. 3000
   b) Rs. 1000
   c) Rs. 2000
   d) Rs. 4000

19. A business paid Rs. 5000 for technical services but used up the services for only Rs. 2000 until the end of its accounting period. The remaining Rs. 3000 would be referred as:
   a) Accrued expenses
   b) Accrued income
   c) Prepaid income
   d) Prepaid expenses

20. Another name of accrued revenue is:
   a) Outstanding asset
   b) Earned asset
   c) Unearned revenue
   d) Earned revenue

21. Which of the following is the proper journal entry to record Ransom Company's billing of clients for Rs. 500 of services rendered?
   a) Debit Cash 500; Credit Accounts Receivable 500
   b) Debit Accounts Receivable 500; Service Revenue 500
   c) Debit Accounts Receivable 500; Credit Capital Stock 500
   d) Cash 500; Credit Service Revenue 500

22. Which of the following is the most common adjusting entry?
   a) Un-earned revenue
   b) Pre-paid expense
   c) Depreciation expense
   d) Accrued revenue

23. In reviewing some adjusting entries, you observe an entry which contains a debit to Prepaid insurance and a credit to Insurance Expense. The purpose of this journal entry is to record a(n):
   a) Accrued expense
   b) Deferred expense
   c) Expired cost
   d) Prepaid revenue

24. An adjusting entry to record an accrued expense involves a debit to a (n):
   a) Expense account and a credit to a prepaid account
   b) Expense account and a credit to cash.
   c) Expense account and a credit to a liability account
   d) Liability account and a credit to an expense account.

25. The failure to properly record an adjusting entry to accrued expense will result in an:
   a) Understatement of expenses and an understatement of liabilities
   b) Understatement of expenses and an overstatement of liabilities
   c) Understatement of expenses and an overstatement of assets
   d) Overstatement of expenses and an understatement of assets.
26. Which of the following properly describes a deferred cost?
   a) Cash is received after revenue is earned.
   b) Cash is received before revenue is earned.
   c) Cash is paid after expense is incurred
   d) Cash is paid in the same period that an expense is incurred.

27. An adjusting entry to allocate a previously recorded asset to expense involves a debit to an:
   a) Asset account and a credit to cash.
   b) Expense account and a credit to cash.
   c) Expense account and a credit to an asset account.
   d) Asset account and a credit to an expense account.

28. Which of the following adjusting entries will cause an increase in revenues and a decrease in liabilities?
   a) Entry to record an accrued expense
   b) Entry to record an accrued revenue
   c) Entry to record the consumed portion of an expense paid in advance and initially recorded as an asset.
   d) Entry to record the earned portion of revenue received in advance and initially recorded as unearned revenue.

29. The failure to properly record an adjusting entry to accrue a revenue item will result in an:
   a) Understatement of revenues and an understatement of liabilities
   b) Overstatement of revenues and an overstatement of liabilities
   c) Overstatement of revenues and an overstatement of assets
   d) Understatement of liabilities and an understatement of assets

30. The failure to properly record an adjusting entry for the expiration of insurance coverage will result in an (assume the account Prepaid Insurance was charged when the premiums were paid.):
   a) Overstatement of assets and an overstatement of owners’ equity
   b) Understatement of assets and an understatement of owners’ equity
   c) Overstatement of assets and an overstatement of liabilities
   d) Overstatement of liabilities and an understatement of owners’ equity

31. The omission of the adjusting entry to record depreciation expense will result in an:
   a) Overstatement of assets and an overstatement of owners’ equity
   b) Understatement of assets and an understatement of owners’ equity
   c) Overstatement of assets and an overstatement of liabilities
   d) Overstatement of liabilities and an understatement of owners’ equity

32. An auditor is examining an adjusting entry that reduces liabilities and increases owners’ equity. Which of the following adjusting entries could that be?
   a) Entry to record accrued revenue.
   b) Entry to record the earned portion of revenue received in advance and previously recorded as unearned rent revenue.
   c) Entry to record an accrued expense.
   d) Entry to record the expired portion of expense paid in advance and previously recorded as Prepaid Expense.
33. The Office Supplies on Hand account had a balance at the beginning of year 3 of $1,600. Payments for acquisitions of office supplies during year 3 amounted to $10,000 and were recorded by a debit to the asset account. A physical count at the end of year 3 revealed supplies costing $1,900 were on hand. The required adjusting entry at the end of year 3 will include a debit to:
   a) Office supplies expense for $300
   b) Office supplies on hand for $300
   c) Office supplies expense for $9,700
   d) Office supplies on hand for $1,900

34. The book value of a piece of equipment is the:
   a) Original cost of the equipment.
   b) Current replacement cost of the used equipment.
   c) Current market value of the used equipment.
   d) Difference between the original cost of the equipment and its related accumulated depreciation.

35. If ending accounts receivable exceeds beginning accounts receivable:
   a) Cash collections during the period exceed the amount of revenue earned.
   b) Net income for the period is less than the amount of cash basis income.
   c) No cash was collected during the period.
   d) Cash collections during the year are less than the amount of revenue earned.

36. The Camphor Company made cash sales of services of Rs. 5,000 and credit sales of services of Rs. 4,200 during the month of July. The company incurred expenses of Rs. 6,000 during July of which Rs. 2,000 was paid in cash and the remainder was expected to be paid in August. Using the accrual method of accounting, net income for July amounts to:
   a) Rs. 7,200
   b) Rs. 5,200
   c) Rs. 3,200
   d) Rs. 200

37. The supplies account has a balance of Rs. 1,500 at year end. The actual amount of supplies in hand at the end of period is Rs. 400. The necessary adjusting entry is:
   a) Debit Supplies on Hand Rs. 1100; Credit Supplies Expense Rs. 1100
   b) Debit Supplies Expense Rs. 400; Credit Supplies on Hand Rs. 400
   c) Debit Supplies Expense Rs. 1100; Credit Supplies on Hand Rs. 1100
   d) Debit Supplies on Hand Rs. 400; Credit Supplies Expense Rs. 400

38. Blankenship Company pays its employees every Friday for work rendered that week. The payroll is typically Rs. 10,000 per week. Which of the following journal entries would Blankenship ordinarily record on the Friday payday?
   a) Salary expense Rs. 10,000 - Debit; Salary payable Rs. 10,000 – Credit
   b) Salary expense Rs. 10,000 - Debit; Cash Rs. 10,000 – Credit
   c) Salary payable Rs. 10,000 - Debit; Cash Rs. 10,000 – Credit
   d) Salary payable Rs. 10,000 - Debit; Salary expense Rs. 10,000 – Credit

39. The purpose of adjusting entries is to:
   a) Adjust the retained earnings account for the revenue, expense, and dividends recorded during the accounting period.
b) Adjust daily the balances in asset, liability, revenue, and expense accounts for the effects of business transactions.

c) Apply the realization principle and the matching principle to transactions affecting two or more accounting periods.

d) Prepare revenue and expense accounts for recording the transactions of the next accounting period.

40. The ABC firm auditing XYZ & CO. recording studios found that total stockholders’ equity was understated and liabilities were overstated. Which of the following errors could have been the cause?

a) Making the adjustment entry for depreciation expense twice.

b) Failure to record interest accrued on a note payable.

c) Failure to make the adjusting entry to record revenue that had been earned but not yet billed to clients.

d) Failure to record the earned portion of fees received in advance.

41. While passing adjusting entries for what type of transactions expenses are debited and assets are credited:

a) Accrued revenue

b) Accrued expenses

c) Unearned Revenue

d) Prepaid expenses

42. Which of the following statements is not true?

a) Accrued expenses decrease profit

b) Accrued income decreases profit

c) A prepayment is an asset

d) Unearned income is a liability

Answers:

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Answers:
Cash Book

1. Book in which receipts and payments of business are recorded is called:
   a) Cash book
   b) Day book
   c) Purchases book
   d) Sales book

2. A copy of customer account which is issued by a bank to its customer normally informing about his balance after regular interval is called:
   a) Bank statement
   b) Cash book
   c) Bank overdraft
   d) None of above

3. A copy of the customer account in the bank ledger is called:
   a) Cash book
   b) Pass book
   c) Bank statement
   d) All of above

4. Favorable balance of cash book implies that:
   a) Credit balance of cash book
   b) Debit balance of cash book
   c) Bank overdraft
   d) Adjusted balance of cash book

5. In cash book, if nature of balance is not mentioned, it represents:
   a) Favourable or debit balance
   b) Unfavourable or credit balance
   c) Favourable or credit balance
   d) None of the above

6. A cash deposit made by business appears on the bank statement as _______ balance:
   a) Debit
   b) Credit
   c) Expenses
   d) Liability

7. Bank reconciliation statement is the comparison of a bank statement (sent by bank) with the _______ (prepared by business):
   a) Cash receipt journal
   b) Cash payment journal
   c) Cash book
   d) Financial statements
8. A check returned by bank marked "NSF" means that:
   a) Bank can't verify your identity
   b) There are not sufficient funds in your account
   c) Check has been forged
   d) Check can't be cashed being illegal
9. In the Bank reconciliation statement "Deposit in transit" is usually:
   a) Subtracted from bank balance
   b) Added to bank balance
   c) Added to Cash book balance
   d) Subtracted from cash book balance
10. Bank reconciliation statement is prepared by:
    a) Accountant of the business
    b) Manager of the business
    c) Controller of the bank
    d) Accountant of the bank
11. Which of the following error results in unadjusted cash book balance?
    a) Outstanding cheque
    b) Unpresented cheque
    c) Deposit in transit
    d) Omission of Bank charges
12. Bank charges amounting to Rs. 5000 was not entered in the cash book. Identify the
    correct adjustment in cash book:
    a) Bank charges will be debited in cash book
    b) Bank charges will be added to cash book balance
    c) Bank charges will be credited in cash book
    d) Bank charges need no adjustment in cash book
13. Cheque that are issued by the business but not yet presented to bank:
    a) Uncollected cheque
    b) Uncredited cheque
    c) Outstanding cheque
    d) Bounced cheque
14. Cheque that are presented to bank but not yet credited by the bank:
    a) Unpresented cheque
    b) Uncredited cheque
    c) Outstanding cheque
    d) Bounced cheque
15. Uncollected cheque also referred as:
    a) Unpresented cheque
    b) Uncredited cheque
c) Outstanding cheque  
d) Bounced cheque  

16. Favourable balance of bank statement implies that:
   a) Credit balance  
   b) Debit balance  
   c) Bank overdraft  
   d) Adjusted balance  

17. Standing orders are:
   a) Credited in the cash book  
   b) Debited in the cash book  
   c) Entered in the bank statement  
   d) Entered in the petty cash balance  

18. A company was entered in hire purchase agreement and had to pay Rs. 1000 per month. Three payments were made via bank account but no entry was found in cash book. Identify the correct adjustment in cash book:
   a) Rs. 1000 will be added to cash book balance  
   b) Rs. 2000 will be deducted from cash book balance  
   c) Rs. 3000 will be added to cash book balance  
   d) Rs. 3000 will be subtracted from cash book balance  

19. Rs. 5000 deposited in bank account was entered twice in the cash book. Identify the correct adjustment in cash book:
   a) Rs. 5000 will be credited  
   b) Rs. 5000 will be debited  
   c) Rs. 10,000 will be credited  
   d) Rs. 10,000 will be debited  

20. Bank sent debit advice of Rs. 500 to company being interest on overdraft. It wasn't entered in cash book. Identify the correct adjustment in cash book:
   a) Rs. 500 will be debited  
   b) Rs. 500 will be credited  
   c) Rs. 1000 will be subtracted  
   d) Non-adjustable  

21. Balance as per cash book (adjusted) = Rs. 1000, Unpresented cheque = Rs. 2000, Uncredited cheque = Rs. 500, Deposit in transit = Rs. 500. Compute the balance as per bank statement:
   a) Rs. 2000  
   b) Rs. 4000  
   c) Rs. 3000  
   d) Rs. 2500
22. A discount of Rs. 2000 was given to a supplier on his prompt repayment of debt but the cashier entered the gross amount in cash book. What should be the adjustment in cash to work out the correct balance of cash book?
   a) Rs. 2000 will be debited in cash book
   b) Rs. 2000 will be credited in cash book
   c) Rs. 4000 will be debited in cash book
   d) Rs. 4000 will be credited in the cash book

23. The closing balance of petty cash book is considered as:
   a) Liability
   b) Asset
   c) Expenses
   d) Income

24. Payment of rent expenses is recorded on which side of cash book?
   a) Receipts
   b) Payments
   c) Income
   d) Expense

25. An entry which is made on both sides of a cash book is called:
   a) Cash entry
   b) Contra entry
   c) Payment entry
   d) Compound entry

26. Cash book records:
   a) Cash payments
   b) Cash receipts
   c) Cash payments and cash receipts
   d) Neither cash payments nor cash receipts

27. Cash discount is allowed on ______ repayment of debt:
   a) Lump sum
   b) Prompt
   c) Actual
   d) None of them

28. Cash book is prepared by:
   a) Bank
   b) Accountant of business
   c) Manager of a company
   d) Bank's cashier

29. The most common imprest system is the ______ system:
   a) Petty cash
30. Discount received is recorded on which of the following side of a cash book?
   a) Receipts
   b) Payments
   c) Incomes
   d) Expenditures

31. Drawings by owner of business are generally recorded on which of the following side of a cash book?
   a) Receipts
   b) Payments
   c) Incomes
   d) Expenditures

32. Which of the following item needs to be entered in the Cash Book in order to bring it in line with the entries on the Bank Statement?
   a) A bank charges
   b) An error on the Bank Statement
   c) An uncredited deposit
   d) An unpresented cheque

33. Cash book is a part of:
   a) Voucher
   b) General Journal
   c) General Ledger
   d) Trial Balance

34. Which of the following are recorded in cash book?
   a) Receipts and payments
   b) Profits and losses
   c) Assets and liabilities
   d) Capital and Expenditures

35. A petty cash book record:
   a) All petty cash receipts
   b) Cash receipts from customers.
   c) All petty cash expenses.
   d) None of these

36. The cash book of a company is showing a credit balance of Rs. 1500. Unpresented cheques are amounted to Rs. 2000. An uncredited cheques are Rs. 450. The balance as per bank statement will be:
   a) Rs. 50 debit
   b) Rs. 100 credit
37. Introduction capital by owner of business is recorded on which side of a cash book?
   a) Receipts
   b) Payments
   c) Incomes
   d) Expenditures

38. Cash book with only cash column is called:
   a) Single column cash book
   b) Two column cash book
   c) Three column cash book
   d) Petty cash book

39. Cash book with cash and discount column is mostly referred as:
   a) Simple cash book
   b) Two column cash book
   c) Three column cash book
   d) Petty cash book

40. A cash book with cash, bank and discount column is commonly referred as:
   a) Cash book
   b) Two columns cash book
   c) Three columns cash book
   d) Petty cash book

41. A cash book that is used to record the small payments of cash is generally referred as:
   a) Simple cash book
   b) Two column cash book
   c) Three column cash book
   d) Petty cash book

42. A simple or one column cash book usually has which of the following main columns?
   a) Bank
   b) Payments
   c) Discount
   d) Cash

43. Purchase of office equipment for cash will be recorded on which of the following sides of
    a cash book?
   a) Receipts
   b) Payments
   c) Incomes
   d) Expenditures

44. Postdated cheque are considered as:
   a) Cash
   b) Bank balance
   c) Accounts receivable
   d) Cash reserve

45. Postage stamps on hand are considered as:
46. Petty cash fund is supposed to be replenished:
   a) Every day
   b) Every half year
   c) Every year
   d) At the end of every accounting period

47. Which of the following is generally not the party to a cheque?
   a) Payee
   b) Payer
   c) Bank
   d) Seller

48. A credit balance in cash book indicates:
   a) Bank balance
   b) Cash at bank
   c) Bank overdraft
   d) Bank underdraft

49. The payment side of the cash book is under cost by Rs. 200 when overdraft as per bank
    statement is the starting point:
   a) Rs 200 will be deducted
   b) Rs 200 will be added
   c) Rs 400 will be added
   d) Rs 400 will be deducted

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Depreciation

1. Portion of a fixed asset cost consumed during the current accounting period is called:
   a) Depreciation
   b) Accumulated depreciation
   c) Appreciation
   d) None of above

2. Depreciation is best described as:
   a) A means of spreading the payment for non-current assets over a period of years
   b) A decline in the market value of the assets.
   c) A means of spreading the net cost of non-current assets over their estimated useful life.
   d) A means of estimating the amount of money needed to replace the assets

3. The reducing balance method of depreciating non-current assets is more appropriate than the straight-line method when:
   a) There is no expected residual value for the asset
   b) The expected life of the asset is not capable of being estimated
   c) The asset is expected to be replaced in a short period of time.
   d) The asset decreases in value less in later years than in the early years of use

4. Accumulated depreciation means:
   a) Sum of all depreciation expenses of a fixed asset
   b) Depreciation expenses
   c) Cost of depletion of assets
   d) Future value of fixed asset

5. In the calculation of depreciation, the useful life of a fixed asset is:
   a) A certain figure
   b) An estimate
   c) A predetermined figure for all fixed assets
   d) None of the above

6. Depreciable amount + Residual value of a fixed asset =?
   a) Depreciation expenses
   b) Accumulated depreciation
   c) Cost of the fixed asset
   d) Future economic benefits of a fixed asset

7. Cost of a fixed asset – Accumulated depreciation expenses of the fixed asset =?
   a) Book value of a fixed asset
   b) Market value of a fixed asset
   c) Historical cost of a fixed asset
   d) Recoverable amount of a fixed asset
8. The estimate about useful life of a fixed asset:
   a. Can never be changed
   b. Can be changed
   c. Always changed
   d. None of the above

9. Which of the following is the correct formula for calculating depreciation using service hour’s method?
   a) Depreciation=(Cost - Scrap value) / Total hours X Actual hours
   b) Depreciation=(Cost - Accumulated depreciation) / Total hours X Actual hours
   c) Depreciation=(Cost - Accumulated depreciation) / Total hours X Total hours
   d) Depreciation=(Cost - Scrap value) / Actual hours X Total hours

10. A company purchased a new machine for Rs. 500,000 and machine’s test run was started to make sure that machine works properly. There was expense of Rs. 5000 incurred on test run, however the sale proceeds of test production were Rs. 2000. You are required to find out the total cost of machine?
   a) Rs. 500,000
   b) Rs. 505,000
   c) Rs. 503,000
   d) Rs. 495,000

11. In the calculation of depreciation, all of the following items are actually estimates except:
    a) Useful life
    b) Residual value
    c) Historical cost
    d) Salvage value

12. Which of the following is not true about depreciation?
    a) Depreciation causes perpetual and gradual fall in the value of asset
    b) Depreciation does not depend upon on fluctuations in the market value of asset
    c) Depreciation is a charged in case of fixed assets only
    d) Depreciation is a charge against revenue of two or more accounting periods

13. The purpose of recording depreciation on productive assets is to:
    a) Reflect the decline in the market value of the assets each period
    b) Reduce income when the company has an exceptionally profitable year
    c) Be in conformity with the revenue recognition principle
    d) Allocate the original cost of a productive asset to expense over its useful life

14. The appropriate journal entry to record equipment depreciation expense would consist of a debit to Depreciation Expense and a credit to which of the following accounts?
    a) Revaluation asset
    b) Accumulated Depreciation: Equipment
15. Which of the following company would like to use the accelerated depreciation method?
   a) A company with large tax burdens
   b) A company with low tax burdens
   c) A company that want to report high net income
   d) A company that want to report huge assets

16. Which of the following is the normal balance of an accumulated depreciation account?
   a) Debit balance
   b) Credit balance
   c) Nil balance
   d) None of the above

17. How trial balance shows the accumulated depreciation?
   a) As a debit item
   b) As a credit item
   c) It doesn’t show
   d) None of the above

18. An alternative term used for accumulated depreciation expenses?
   a) Provision for depreciation
   b) Cumulative depreciation
   c) Targeted depreciation
   d) Depletion

19. Which of the following is/are a kind of depreciation expenses?
   a) Amortization
   b) Depletion
   c) Both of them
   d) None of the above

20. A fixed asset was bought for Rs. 5000. Its accumulated depreciation is Rs. 3000 and rate of depreciation is 20%. Calculate its depreciation expenses for the current accounting period using reducing balance method?
   a) Rs. 600
   b) Rs. 2000
   c) Rs. 300
   d) Rs. 400

21. Which of the following accounting concepts or principles require the calculation of depreciation of the fixed assets?
   a) Prudence concept
   b) Accrual concept
   c) Consistency concept
22. A car was purchased for Rs. 5500. Its residual value was estimated to be Rs. 500 while the monthly depreciation expenses are Rs. 100 using straight line method. Which of the following is the annual rate of depreciation?
   a) 20%
   b) 24%
   c) 2%
   d) 25%

23. Under which method of depreciation the amount of depreciation expenses remains constant throughout the useful life of a fixed asset:
   a) Unit of activity method
   b) Straight line method
   c) None of these

24. Book value of a fixed asset equals to market value or sale proceeds of a fixed asset if:
   a) Gain on sale=0
   b) Loss on sale=0
   c) Gain or loss on sale=0
   d) Gain > loss on sale

25. The term _____ is generally used for the depreciation of natural resources:
   a) Amortization
   b) Depletion
   c) Appreciation
   d) Disposal value

26. Which of the following is a biological asset?
   a) Land
   b) Building
   c) Environment
   d) Living plants and animals

27. Under the revaluation model of fixed assets provided by the international accounting standards, the revaluation of the fixed assets should be carried out:
   a) After 10 years
   b) On a regular basis
   c) Once in 5 years
   d) None of them

28. Depreciation arises because of:
   a) Fall in the market value of an asset
   b) Fall in the value of money
   c) Physical wear and tear
   d) All of the given options
29. The amount charged to depreciation goes on declining in:
   a) Depreciation fixed method
   b) Annuity method
   c) Written-down value method
   d) Straight line depreciation method

30. Depreciation in spirit is similar to:
   a) Depletion
   b) Amortization
   c) Depression.
   d) All of the above

31. In straight line method of depreciation, the written down value of a fixed asset will be at the end of the life of the asset as under:
   a) Rupee one
   b) Rupee zero
   c) Rupee ten
   d) None of the above.

32. ABC Company owns a building. Which of the following statements regarding depreciation is false from an accounting perspective?
   a) As the market value of the building increases, depreciation should increase
   b) Depreciation is an estimated expense to be recorded each period during the building’s life
   c) As depreciation is recorded, stockholders’ equity is reduced
   d) As depreciation is recorded, total assets are decreased

33. The purpose of recording depreciation on productive assets is to:
   a) Reflect the decline in the market value of the assets each period
   b) Reduce income when the company has an exceptionally profitable year
   c) Be in conformity with the revenue recognition principle
   d) Allocate the original cost of a productive asset to expense over its useful life

34. In which of the following situations should the named company not record any depreciation expense on the asset described?
   a) Computer Airline is required by law to maintain its aircraft in “as good as new” condition.
   b) Metro Advertising owns an office building that has been increasing in value each year since it was purchased.
   c) Computer Sales Company has in inventory a new type of computer, designed “never to become obsolete.”
   d) None of the above answers is correct-in each case, the named company should record depreciation on the asset described.

35. Which of the following statements is correct regarding depreciation methods?
a) Accumulated depreciation represents a cash fund being accumulated for the replacement of assets
b) The cost of a machine includes the cost of repairing damage to the machine during the installation process
c) A company may use different depreciation methods in its financial statements and in income tax return
d) The use of an accelerated depreciation method causes an asset to wear out more quickly than does use of the straight-line method

36. The sale of a depreciable asset resulting in a loss indicates that the proceeds from the sale were:
   a) Less than book value
   b) Greater than cost
   c) Greater than book value
   d) Greater than current market value

37. Which of the following is not an example of accelerated depreciation method?
   a) Straight-line method
   b) Sum-of-the-years digit method
   c) Double-declining balance method
   d) Modified Accelerated Cost Recovery System

38. ABC Company sold a plant asset that originally cost Rs. 50,000 for Rs. 22,000 cash. If ABC correctly reports a Rs. 5,000 gain on this sale, the accumulated depreciation on the asset at the date of sale must have been:
   a) Rs. 33,000.
   b) Rs. 28,000.
   c) Rs. 23,000.
   d) Some other amount.

39. Depreciation is to be charged because:
   a) The machinery gets old with time.
   b) Of physical wear and tear.
   c) Of fall in the market value of the asset.
   d) The plant is not as good as new one.

40. In straight line method, the depreciation charge is:
   a) A fixed percentage of the cost of the asset each year.
   b) Always 5% of the cost of the asset each year.
   c) A fixed percentage of the book value of the asset each year.
   d) None of the above.

41. What is the treatment of Accumulated Depreciation in accounting?
   a) Treated as a reserve
   b) Treated as a contra asset
42. Depreciation calculation which is at a lesser amount for every following period:
   a) Reducing balance method
   b) Straight line method
   c) Output method
   d) None of above

43. Written down value of an asset:
   a) Original cost – Accumulated depreciation
   b) Original cost – Appreciation
   c) Book value – Accumulated depreciation
   d) Original cost – Salvage value

44. What is the treatment of depreciation in accounting?
   a) Treated as a reserve
   b) Treated as an expense
   c) Treated as a surplus
   d) Treated as a Liability

45. Which of the following is not an accounting concept?
   a) Prudence
   b) Going concern
   c) Depreciation
   d) Matching

46. Depreciation is based on:
   a) Economic life of asset
   b) Declared life of asset by supplier
   c) Normal life of asset
   d) None of the above

47. Depreciation on fixed assets is an example of:
   a) Revenue expenditure
   b) Capital expenditure
   c) Deferred revenue expenditure
   d) None of these

48. Depreciation is a process of:
   a) Valuation
   b) Allocation
   c) Both a & b
   d) None of these

49. The book value of the depreciable asset is best defined as:
   a) The un-depreciated cost of the asset
b) The price that the asset would fetch if offered for sale

c) Accumulated depreciation of the asset since acquisition

d) None of these

50. The formula (Cost less salvage value/Total capacity in units x units extracted) refers to which depreciation method:
   a) Straight line
   b) Units of production
   c) Declining balance
   d) Depletion

51. Which of the following is true regarding the entry to recognize the depreciation expense?
   a) It is an application of matching principle
   b) It is a closing entry
   c) Usually includes an offsetting credit to cash
   d) It is done only at the end of each month

52. Depreciation must be accounted for:
   a) Revenues
   b) Fixed Assets
   c) Share Capital
   d) None of these

53. Accelerated depreciation is allowed under:
   a) Income Tax Ordinance 2001
   b) Voluntary principles
   c) Prudential Regulations
   d) None of these

54. Machine hour rate method of charging depreciation is useful when the:
   a) Output can be effectively measured
   b) Use of the asset can be measured in terms of time
   c) Utility of the asset can be directly related to its productive use
   d) None of the above

55. Profit and Loss on depreciation fund investment is transferred to the:
   a) Profit and Loss account
   b) Asset account
   c) Depreciation Fund account
   d) Accumulated depreciation account

56. The profit on depreciation policy is transferred to the:
   a) Depreciation reserve account
   b) Profit and loss account
   c) Asset account
   d) Accumulated depreciation account
57. In the case of Annuity Method the amount of depreciation:
   a) Increase every year
   b) Fixed for all the years
   c) Decreases every year
   d) None of the above

58. For providing depreciation on leasehold property, the appropriate method of depreciation is the:
   a) Replacement method
   b) Revaluation method
   c) Fixed installment method
   d) Units of output method

59. Depletion method of depreciation is used for:
   a) Cattle, loose, tools, etc
   b) Mines, quarries, etc
   c) Machinery, building, furniture, etc
   d) Good will, patents, copyright, etc

60. The interest lost on the acquisition of an asset is taken into account in calculating depreciation in the:
   a) Depletion method
   b) Annuity method
   c) Diminishing balance method
   d) Units of output method

61. In this method, depreciation is charged by allocating depreciable cost in proportion of the annual output to the probable lifetime outputs:
   a) Working hours method
   b) Production units method
   c) Revaluation method
   d) Devaluation method

62. IAS 16 Property, plant and equipment requires non-current assets to start being depreciated when:
   a) They are available for normal use
   b) They are being used normally
   c) They are purchased
   d) None of the above

63. A non-current asset was purchased at the beginning of year 1 for Rs. 2,400 and depreciated by 20% per annum using the reducing balance method. At the beginning of year 4 it was sold for Rs. 1,200. The result of this was:
   a) A loss on disposal of Rs. 240.00
   b) A loss on disposal of Rs. 28.80
64. A business’ non-current assets had a book value of Rs. 125,000. An asset which had cost Rs. 12,000 was sold for Rs. 9,000, at a profit of Rs. 2,000: What is the revised book value of non-current assets?
   a) Rs. 113,000  
   b) Rs. 118,000  
   c) Rs. 125,000  
   d) Rs. 127,000

65. The purchase price of a software that will be used for more than 12 months should be regarded as:
   a) A revenue expenditure  
   b) A capital expenditure  
   c) A long term expense  
   d) An accounting period expense

66. XYZ firm has imported a machine from abroad. Which of the following is not the element of machine’s cost?
   a) Purchase price of machine  
   b) Import duty  
   c) Demurrage charges  
   d) Refundable tax

Answers:

|   | a | 2 |   |  3 | d | 4 | a |  5 | b |  6 | c |  7 | a |  8 | b |  9 | b | 10 | c |
| 11| c | 12| d | 13| d | 14| b | 15| a | 16| b | 17| b | 18| a | 19| c | 20| d |
| 21| d | 22| b | 23| b | 24| c | 25| b | 26| d | 27| b | 28| c | 29| c | 30| b |
| 31| b | 32| a | 33| d | 34| c | 35| c | 36| a | 37| a | 38| a | 39| b | 40| a |
| 51| a | 52| b | 53| a | 54| b | 55| c | 56| a | 57| b | 58| c | 59| b | 60| b |
| 61| b | 62| a | 63| b | 64| b | 65| b | 66| d |
Cost Accounting

Followings are the topics of cost accounting cover in this book:

- Introduction to cost accounting
- Cost classification and cost behavior
- Accounting for materials
- Accounting for labour
- Accounting for overheads
- Income statement
- Job, Batch and service costing
- Process costing
- Cost-volume and profit analysis
- Stock or Inventory valuation
- Standard costing and variance analysis
- Marginal and Absorption costing
- Joint and byproduct
- Decision making techniques
- Relevant costing for decision making
- Budgeting
Introduction to Cost Accounting

1. Price paid to acquire, produce, accomplish or maintain anything is called:
   a) Cost
   b) Expense
   c) Loss
   d) None of the above

2. Monetary value that a company has spent in order to produce something called:
   a) Cost
   b) Loss
   c) Expense
   d) All of above
   e) None of the above

3. A portion of cost which has been consumed during the current accounting period is called:
   a) Expense
   b) Loss
   c) Expenditures
   d) Capital cost

4. A portion of cost which has been consumed during the current accounting period is not contributed to the revenue is called:
   a) Expense
   b) Loss
   c) Expenditures
   d) Capital cost

Note: Expenditure is the amount of cost; it may be expense or asset.

5. Expense and expenditure both are:
   a) Same in meaning
   b) Different in meaning
   c) Singular or plural
   d) None of the above

6. A field of accounting that records, classifies and measures cost is called:
   a) Cost Accounting
   b) Advance Accounting
   c) Managerial Accounting
   d) None of the above

7. Basic objective of cost accounting is:
   a) Tax compliance
   b) Financial audit
   c) Cost ascertainment
   d) Profit analysis

8. The main purpose of cost accounting is to:
   a) Maximize profits
   b) Help in inventory valuation
   c) Provide information to management for decision making

9. The main primary objective of cost accounting is:
   a) To calculate production annual
   b) Calculate per unit cost
   c) To report data to users
   d) Provide data for financial statement

10. Which of the following is not the objective of cost accounting?
    a) Setting the standard for measuring efficiency
    b) Correct valuation of inventories
    c) Comparison of actual performance with standard
    d) Preparation of performance reports for shareholders

11. Users of cost accounting are:
    a) Management
    b) Government
    c) Members
    d) Tax authorities

12. Cost accounting means charging:
    a) Higher price for products
    b) Lower price for product
    c) Varying prices for products
    d) None of these

13. Cost accounting was developed because of:
    a) Limitations of the financial accounting
    b) Limitations of the management accounting
    c) Limitations of the human resource accounting
    d) Limitations of the double entry accounting

14. The process of comparing actual costs to budgeted costs and taking corrective action is called:
    a) Planning
    b) Controlling
    c) Implementing
    d) Monitoring

15. The process of relying on feedback to ensure a plan is being implemented is:
    a) Planning
    b) Deciding
    c) Controlling
    d) Measuring

16. Planning and control are:
    a) the same thing, just two different terms
    b) two of the basic functions of management
    c) similar to budgeting and performance evaluation
    d) both b and c

17. A cost Centre is:
a) A unit of product or service in relation to which costs are incurred.
b) An amount of expenditure attributable to an activity.
c) A production or service location, function, activity or item of equipment for which costs are accumulated.
d) A centre for which an individual budget is drawn.

18. Valuation of finished goods in cost accounting differs from as in financial accounting.
a) Cost accounting does consider NRV adjustments.
b) Financial accounting does consider material variances.
c) Financial accounting does not consider administrative overhead.
d) Cost accounting adjusts normal losses in a different way.

19. Accounting for depreciation is different in cost accounting as compared to financial accounting.
a) Financial accounting does not consider depreciation while valuing stock.
b) Cost accounting depreciates assets at machine-hour rate but financial accounting depreciates at straight-line or reducing balance method.
c) Cost accounting does consider depreciation.
d) There is not a difference in its accounting.

20. Accounting of factory overhead is different in cost accounting and financial accounting.
a) In financial accounting, factory overheads are recorded, but in cost accounting, they are not accounted for.
b) In financial accounting, all overheads are recorded, but in cost accounting, only variable overheads are recorded.
c) In financial accounting, actual factory overheads are recorded, but in cost accounting, factory overheads are recorded at pre-determined rates.
d) In financial accounting, under and overabsorbed overheads are adjusted with cost accounting.

21. Accounting for labour has different objectives in financial accounting and cost accounting, which of the following is objectives of cost accounting?
a) Keeping a record of the earning of each employee.
b) Keeping record of total hours worked in a year.
c) Keeping record of time worked on each job.
d) None of the above.

22. Which of the following statement is incorrect?
a) Financial accounting ignores non-monetary aspects but cost accounting considers these aspects.
b) Financial accounting is based on historical data whereas cost accounting also considers future data.
c) Financial accounting calculates department-wise profit, but cost accounting calculates total profit.

d) Objectives of financial accounting is to determine financial performance of business but objectives of cost is:
a) Tender.
b) Cost sheet.
c) Invoices.
d) Profit statement.

23. A document which provides detail about cost center and cost unit is:
a) Tender.
b) Cost sheet.
c) Invoices.
d) Profit statement.

24. A good cost accounting system is:
 a) If it computes estimated cost only.
b) If it cannot be reconciled with financial accounts.
c) If it enables management to increase productivity and rationalize cost structure.
d) None of the above.

Answers:

|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
|---|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
|   | a | a | a | a | b | b | b | a | 8 | c  | a  | b  | 10 | d  | a  | 11 | b  | 15 | a  | 14 | b  | 15 | c  | 16 | d  | 17 |
|   | 21 | c | 22 | c | 23 | b | 24 | c |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
Cost Classification and Cost Behavior

1. Cost classification can be done in:
   a) Two ways
   b) Three ways
   c) Four ways
   d) Several ways

2. Classification of cost is useful:
   a) To find gross profit
   b) To find net profit
   c) To identify costs
   d) To identify efficiency

3. Overhead cost is the total of:
   a) All indirect costs
   b) All direct costs
   c) Indirect and direct costs
   d) All specific costs

4. Imputed costs are:
   a) Notional cost
   b) Real cost
   c) Normal cost
   d) Variable cost

5. The cost which is to be incurred even when a business unit is closed is:
   a) Imputed cost
   b) Historical cost
   c) Sunk cost
   d) ShUTDOWN cost

6. Operating costs are suitable for:
   a) Job order business
   b) Contractors
   c) Sugar industries
   d) Service industries

7. Future costs that affect the current management decision:
   a) Sunk Cost
   b) Standard Cost
   c) Relevant Cost
   d) Irrelevant Cost

8. Costs are constant for a relevant range of activity and rise to new cost level once that range exceeded is called:
   a) A fixed cost
   b) A variable cost
   c) A mixed cost
   d) A step cost

9. Costing refers to the techniques and processes of:

10. Direct cost incurred can be identified with:
    a) Each department
    b) Each unit of output
    c) Each month
    d) Each executive

11. Multiple costing is a technique of using two or more costing methods for ascertaining cost by:
    a) The same firms
    b) The several firms
    c) The same industry
    d) The several industries

12. Wages paid to a labourer who was engaged in production activities can be termed as:
    a) Direct cost
    b) Indirect cost
    c) Sunk cost
    d) Imputed cost

13. Elements of costs are:
    a) Three types
    b) Four types
    c) Five types
    d) Seven types

14. Direct expenses are also called:
    a) Major expenses
    b) Chargable expenses
    c) Overhead expenses
    d) Sundry expenses

15. Indirect material used in production is classified as:
    a) Office overhead
    b) Selling overhead
    c) Distribution overhead
    d) Production overhead

16. Warehouse rent is a part of:
    a) Prime cost
    b) Factory cost
    c) Distribution cost
    d) Production cost

17. Indirect material used is adjusted along with:
    a) Prime cost
    b) Factory cost
    c) Labour cost
    d) Cost of goods sold
18. Prime cost includes:
   a) Direct materials, direct wages and indirect expenses
   b) Indirect materials and indirect labour and indirect expenses
   c) Direct materials, direct wages and direct expenses
   d) Direct materials, indirect wages and indirect expenses

19. Audit fee is a part of:
   a) Works on cost
   b) Selling overhead
   c) Distribution overhead
   d) Administration overhead

20. Counting house salary is a part of:
   a) Factory overhead
   b) Selling overhead
   c) Distribution overhead
   d) Administration overhead

21. An example of variable cost is:
   a) Property tax
   b) Interest on capital
   c) Direct material cost
   d) Depreciation of machinery

22. Cost accounting concepts include all of the following except:
   a) Planning
   b) Controlling
   c) Profit sharing
   d) Product costing

23. When premises are owned, a charge for rent is:
   a) Production cost
   b) Imputed cost
   c) Marginal cost
   d) Cost of sales

24. The ascertainment of costs after they have been incurred is known as:
   a) Marginal costing
   b) Historical costing
   c) Sink cost
   d) National cost

25. Direct material is:
   a) Manufacturing cost
   b) Administrative cost
   c) Selling cost
   d) Distribution cost

26. The most important element of cost in manufacturing industries is:
   a) Material
   b) Labour
   c) Direct costs
   d) Indirect costs

27. The tracking or measuring of costs to one or more cost objectives is referred to as:
   a) Cost allocation
   b) Historical costing
   c) Step-up costing
   d) Cost apportionment

28. The three main categories of manufacturing costs are:
   a) Direct materials, direct labor and factory overheads
   b) Direct labor, indirect labor and overtime premiums
   c) Raw materials, work in progress and finished goods
   d) Raw materials, direct labor and finished goods

29. Raw material is an example of:
   a) Fixed cost
   b) Variable cost
   c) Semi-variable cost
   d) Direct cost

30. Depreciation is an example of:
   a) Fixed cost
   b) Variable cost
   c) Semi-variable cost
   d) Direct cost

31. The costs which increase or decrease in proportion to the output and sales are known as:
   a) Fixed cost
   b) Variable cost
   c) Semi-variable cost
   d) Total cost

32. As volume increases, the total of mixed cost:
   a) Increases by the same percentage as volume increases
   b) Increases
   c) Decreases
   d) Decreases by the same percentage as the volume increases

33. Discretionary costs are:
   a) Almost always committed
   b) Never fixed
   c) Are usually the first costs reduced in a cost reduction program
   d) Are unavoidable

34. The most significant variable cost in a manufacturing company is most often:
   a) Straight-line depreciation on equipment
   b) Direct materials that go into the product
   c) Utilities
   d) Cost of operating the warehouse to store materials

35. Management can do very little to reduce these types of costs over the period of the next six months:
   a) Flexible costs
   b) Discretionary costs
   c) Committed costs
36. Which of the following is classified as a committed, sunk, fixed expense?
   a) Investment in manufacturing equipment
   b) Advertising
   c) Additional maintenance on equipment
   d) Employee benefit programs

37. The term relevant range means the range that:
   a) Will cause costs to fluctuate
   b) Cost relationships identified are valid
   c) Relevant costs are incurred
   d) Production volumes may not vary and will remain constant

38. In a manufacturing company, the costs debited to the work in process inventory account represent:
   a) Direct materials used, direct labor, and manufacturing overhead
   b) Cost of finished goods manufactured
   c) Period costs and product costs
   d) None of the above

39. Manufacturing overhead costs would include:
   a) Marketing costs related to selling the product
   b) The salary of the production line supervisor
   c) The chief executive officer’s salary
   d) Research and development costs for a new product

40. Which of the following items of expense are to be adding in FOH cost?
   a) Rent of factory + Head office rent + salaries to factory watchman
   b) Rent of factory + factory lighting bill + Directors salaries
   c) Rent of factory + factory lighting bill + Factory employees salaries
   d) Head office rent + Factory property tax + Factory small tools

41. In which of the following center FOH cost not incurred
   a) Production center
   b) Service center
   c) Head office
   d) None of above

42. The cost of electricity bill of the factory is treated as:
   a) Fixed cost
   b) Variable cost
   c) Step cost
   d) Semi variable cost

43. Which of the following costs is part of the prime cost for manufacturing company?
   a) Cost of transporting raw materials from the suppliers premises
   b) Wages of factory workers engaged in machine maintenance
   c) Depreciation of truck used for deliveries to customers
   d) Cost of indirect production materials

44. The term conversion cost refers to:
   a) Manufacturing costs incurred to produce units of output

45. Depreciation based on the number of units produced would be classified as what type of cost?
   a) Out of pocket
   b) Marginal
   c) Variable
   d) Fixed

46. The cost of fire insurance for a manufacturing plant is generally a part of:
   a) Non-manufacturing cost
   b) Direct cost
   c) Semi-variable cost
   d) Conversion cost

47. Primary packing is in form of:
   a) Prime cost
   b) Factory overhead
   c) Selling overhead
   d) Distribution overhead

48. Direct costs are:
   a) Cost which can be identified with the cost centre but not a single cost
   b) Cost which can be identified with a single unit
   c) Cost which can be attributed to one accounting period
   d) None of the above

49. Which of the following is indirect cost to manufacture a leather coat?
   a) Leather sheet
   b) Polish
   c) Fabric inside
   d) Wages to tailor

50. Which is the following in the example of indirect labour?
   a) Drivers in transportation business
   b) Surgeon in hospital
   c) Chef in restaurant
   d) Textile engineer in textile mill

51. What is the accounting treatment of normal idle time?
   a) It is charged to factory overhead
   b) It is charged to profit and loss account
   c) It is charged to job by inflating the wage rate
52. Which is the following is not true:
   a) Direct material + direct labour cost + FOH cost = Total factory cost
   b) Direct material + direct labour = Prime cost
   c) Indirect material + indirect labour = Other indirect costs = FOH
   d) FOH + commercial cost = Total operating Cost

53. Which is the following is a true about variable costs:
   a) It does not show variability of total amount in direct proportion to volume
   b) Decrease per unit with increase in production
   c) Increase per unit with increase in production
   d) Easy assignment to operating department

54. Which of the following shall be included in the cost of goods manufactured?
   a) Product cost
   b) Period cost
   c) Both product and period cost
   d) Capital expenditure

55. Which of the following is not a proper method to calculate per unit cost?
   a) Standard costing
   b) Process costing
   c) Job order costing
   d) None of above

56. Which of the following can be classified as directly changeable expense?
   a) Royalty
   b) Depreciation
   c) Interest
   d) Electricity

57. If a cost is semi-variable what will affect on per unit cost, if production reduces by 10%?
   a) It will reduce by 10%
   b) It will remain unchanged
   c) It will increase
   d) It will reduce by 5%

58. Variable costs are conventionally deemed as:
   a) Be constant per unit of output
   b) Vary per unit of output as production volume changes
   c) Be constant in total when production volume changes
   d) Vary, in total, from period to period when production is constant

59. Which of the following does not make any sense of classification of cost?
   a) Classification by traceability: direct and indirect cost.
   b) Classification by nature: material, labour, FOH.

60. Which of the following is not the classification of cost?
   a) Fixed cost, variable cost, semi-variable cost
   b) Controllable, non-controllable cost
   c) Pure cost, fictitious cost
   d) Standard cost, budgetary cost

61. Conversion cost means:
   a) Total material cost and total labour cost
   b) Labour cost and variable factory overheads
   c) Labour cost and total factory overheads
   d) Direct material and direct labour cost

62. Identify semi-variable cost from the following examples:
   a) Depreciation
   b) Factory insurance
   c) Electricity and gas bills
   d) Direct material

63. Which of the following is not true for cost behavior?
   a) Per unit variable costs are constant as output rises
   b) Total fixed costs rise as output rises
   c) Per unit fixed cost fall as output rises
   d) Total variable costs rise as output rises

64. Cost behavior analysis is a study of how a firm costs:
   a) Relate of competitors cost
   b) Respond to inflation
   c) Relate to general price level changes
   d) Respond to changes in activity levels

65. A point at which marginal revenue = marginal cost represents:
   a) Break-even point
   b) Maximum profit
   c) Fixed cost not fully covered
   d) Total revenue is equal to total cost

66. On a graph fixed cost line will appear as:
   a) A vertical line
   b) A diagonal line having slope upward to right
   c) A horizontal line
   d) A diagonal line having slope downward to right

67. Which of the following statements is incorrect?
   a) There is direct relation between per unit variable cost and per unit total cost
b) There is direct relation between per unit fixed cost and per unit total cost.
c) There is indirect relation between per unit fixed cost and profit per unit.
d) There is indirect relation between per unit variable cost and contribution per unit.

68. High low method and least square method are used to:
   a) Allocate fixed cost
   b) Split fixed portion in cost
   c) Absorb fixed cost
   d) Determine fixed cost per unit

69. In regression line  \( Y = a x + b \), "b" is:
   a) Fixed cost per unit
   b) Variable cost per unit
   c) Semi-variable cost per unit
   d) None of these

70. Cost which remains same within one range but jumps upward outside the range is called:
   a) Fixed cost
   b) Semi fixed cost
   c) Semi variable cost
   d) Step fixed cost

71. Period cost are:
   a) Expensed when the product is sold
   b) Included in the cost of goods sold
   c) Related to specific Period
   d) Not expensed

Answers:

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Accounting for Material Costing

1. Material control involves:
   a) Consumption of material
   b) Issue of material
   c) Purchase of material
   d) Purchase, storage and issue of material

2. Material requisitions is meant for:
   a) Purchase of material
   b) Supply of material from stores
   c) Sale of material
   d) Storage of material

3. Stock control through stock levels and EOQ is called:
   a) Demand and supply method
   b) Perpetual inventory system
   c) Periodic inventory system
   d) Automatic order method

4. Which of the following methods of stock control aims at concentrating efforts on selected items of materials?
   a) Vertical inventory system
   b) Material turnover ratio
   c) Level setting
   d) ABC analysis

5. In base stock method of pricing the material issues, the term base stock represents the quantity of stock being:
   a) Stock in balance
   b) Minimum stock
   c) Maximum stock
   d) Re-order level

6. Scrap is:
   a) Residual of material
   b) Waste of material
   c) Surplus material
   d) Abnormal loss of material

7. Material is issued by store keeper against:
   a) Material requisition
   b) Material order
   c) Goods received note
   d) Purchase requisition

8. The document which is prepared after receiving and inspecting material is:
   a) Material record note
   b) Goods received note
   c) Bill of material
   d) Inventory record

9. Loss by fire is an example of:
10. Taking steps for the fresh purchase of those stocks which have been exhausted and for which requisitions are to be honored in future is an easy explanation of:
   a) Overstocking
   b) Understocking
   c) Replenishment of stock
   d) Acquisition of stock

11. A store ledger card is similar to the:
   a) Stock ledger
   b) Bin card
   c) Material card
   d) Purchase requisition card

12. While transporting petrol, a little quantity will be evaporated; such kind of loss is termed as:
   a) Normal Loss
   b) Abnormal Loss
   c) Incremental Loss
   d) Cannot be determined

13. Lead time is:
   a) Time gap between receiving of goods and issuance
   b) Time gap between ordering and receiving of inventories
   c) Time gap between ordering and use of material
   d) None of the above

14. Which of the following is not the assumption of EOQ?
   a) Per unit holding cost is fixed
   b) Per order cost is fixed
   c) Annual demand is fixed
   d) None of the above

15. EOQ is a point where:
   a) Ordering cost is equal to carrying cost
   b) Ordering cost is higher than carrying cost
   c) Ordering cost is lesser than the carrying cost
   d) Total cost is maximum

16. Annual requirement is 8000 units; consumption per week is 110 units. Unit price Rs 45.
    EOQ:
    a) 300 units

17. If opening inventory of material is Rs 20,000 and closing inventory is Rs 40,000. The
    average inventory amount will be:
    a) Rs 40,000
    b) Rs 30,000
    c) Rs 20,000
    d) Rs 10,000

Hint: Average Inventory = \( \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \)

18. Formula to calculate material inventory turnover ratio is:
   a) Average inventory / material consumed
   b) Material consumed / cost of goods sold / average inventory
   c) Material purchased / average inventory
   d) Cost of goods manufactured / average inventory

19. ABC Company has ordering quantity 10,000 units. They have storage capacity 20,000
    units, the average inventory (First gauge) would be:
    a) 20,000
    b) 5,000
    c) 10,000
    d) 26,000

Hint: Average inventory = \( \frac{\text{Order size} \times 2}{1 + \frac{1}{2}} \); it is general assumption that we store
half quantity of order size.

20. The danger level can be calculated:
   a) Average consumption \times Lead time to get urgent supplies
   b) Normal consumption \times Average lead time
   c) Maximum consumption \times Lead time to get urgent supplies
   d) Minimum consumption \times Lead time to get urgent supplies

21. Calculation of minimum stock level does not consider:
   a) Order level
   b) EOQ
   c) Average usage
   d) Average lead time

22. Which of the following is the main objective of inventory management?
   a) To fulfill needs of production
   b) To receive goods from suppliers
   c) To fulfill needs of purchase
   d) To ensure minimum investment in inventories

23. Which of the following shall be disadvantages of overstocking?
   a) Spoilage
24. Formula to calculate average inventory:
   a) EOQ + Safety stock
   b) EOQ + re-order level
   c) EOQ/2 + Safety stock
   d) All of the above

25. Which of the following is not included in effective inventory control?
   a) Store material with minimum handling and carrying cost
   b) Anticipate price changes
   c) To schedule production plans
   d) Assure adequate inventory for prompt delivery to customer

26. Yours & company is facing problems in inventory control i.e. maximum inventory in
    inventory, production delay due to inventory shortage and inventory keeping cost is
    increasing gradually. What technique shall be suitable for company to follow?
   a) Linear programming
   b) Probability analysis
   c) Ratio analysis
   d) Economic order quantity

27. What is the formula to calculate re-order level?
   a) Maximum usage × Maximum lead time
   b) Maximum usage × Maximum lead time + safety stock
   c) Minimum usage × Minimum lead time + safety stock
   d) Average usage × Average lead time = EOQ

28. What is the purpose of safety stock?
   a) To avoid the risk of being out of stock on demand by customer
   b) To avoid the risk of non-availability of stock in future
   c) To avoid the risk of rising prices of stock in future
   d) To avoid the risk of being out of cash when stock is actually needed

29. What is the formula to calculate safety stock?
   a) (Maximum usage – minimum lead time) × lead time
   b) (Minimum usage – minimum lead time) × EOQ
   c) (Maximum usage – average usage) × lead time
   d) (Average usage – minimum usage) × lead time

30. ABC plan is used for:
   a) Segregation of material to determine the basis for valuation
   b) Segregation of material to determine the chances of stock out
   c) Segregation of material to determine slow moving items

31. Formula to calculate absolute maximum level of stock is:
   a) (Maximum usage × maximum lead time) × order level
   b) Order level – (minimum usage × minimum lead time) + EOQ
   c) Order level × (Average usage × average lead time)
   d) (Average usage – minimum usage) × normal lead time

32. Formula to calculate normal maximum level of stock is:
   a) (Maximum usage × maximum lead time) × order level
   b) Order level – (average usage × average lead time) + EOQ
   c) Order level × (Average usage × average lead time)
   d) (Average usage – minimum usage) × normal lead time

33. Formula to calculate minimum level of stock is:
   a) (Maximum usage × maximum lead time) + order level
   b) Order level – (average usage × average lead time)
   c) Order level × (Average usage × average lead time)
   d) (Average usage – minimum usage) × normal lead time

Answers:

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Accounting for Overheads Costing

1. Sum of all costs incurred during manufacturing process other than direct material and direct labour cost is called:
   a) Factory overhead cost
   b) Prime cost
   c) Conversion cost
   d) None of above

2. The components of Factory overhead are as follows:
   a) Direct material + Indirect material + Direct expenses
   b) Indirect material + Indirect labor + Others indirect cost
   c) Direct material + Indirect expenses + Indirect labor
   d) Direct labor + Indirect labor + Indirect expenses

3. FOH absorption rate is calculated by the way of:
   a) Estimated FOH Cost/Discount labor hours
   b) Estimated FOH Cost/No of units produced
   c) Estimated FOH Cost/Prime Cost
   d) All of the given options

4. A Blanket Rate is:
   a) A single rate which used throughout the organization departments
   b) A double rates which used throughout the organization departments
   c) A single rates which used in different departments of the organization
   d) None of the given options

5. If the applied FOH cost is less than the actual FOH cost, it is:
   a) Unfavorable variance
   b) Favorable variance
   c) Normal variance
   d) Budget variance

6. A typical factory overhead cost is:
   a) Distribution
   b) Internal audit
   c) Compensation of plant manager
   d) Design

7. Factory worker fringe benefits costs are usually charged to:
   a) Work-in-process inventory
   b) Direct labor
   c) Administrative expenses
   d) Factory overhead

8. It is given that direct material cost is Rs. 20,000 and direct labor cost is Rs. 30,000. Factory overhead is Rs. 100,000. What is the overhead absorption rate based on prime cost?

9. Floor area may be used as a basis for the apportionment of:
   a) Rent and rates
   b) Building insurance
   c) Lighting
   d) All of the above

10. Allocation of whole items of overhead cost to cost centers or cost units is known as:
    a) Apportionment
    b) Absorption
    c) Allocation
    d) Classification

11. Under-over absorption of overhead will be minimum when overhead rate is based on:
    a) Maximum capacity
    b) Practical capacity
    c) Normal capacity
    d) Surplus capacity

12. When factory overhead control account has a closing credit balance, it means that the
    a) Over-absorption
    b) Under-absorption
    c) Over-estimation
    d) Under-estimation

13. Bad debts are an example of:
    a) Factory overhead
    b) Administration overhead
    c) Selling overhead
    d) Distribution overhead

14. Overheads are charged at a pre-determined rate of Rs. 4 per hour. Total overhead in and hours actually worked were Rs. 1,40,000 and 40,000 hours respectively. What amount of under or over-absorption?
    a) Rs. 20,000 (under-absorption)
    b) Rs. 20,000 (over-absorption)
    c) Rs. 8,000 (under-absorption)
    d) Rs. 8,000 (over-absorption)

Hint: Overhead absorption rate = Estimated FOH cost/Prime cost x 100

= (20,000 + 30,000 + 100,000) / (20,000 + 30,000 + 100,000) x 100
= 200%
12. Factory overhead should be allocated on the basis of:
   a) Direct labor hours
   b) Direct labor cost
   c) An activity basis which relates to cost incurrence
   d) Machine hours

16. The cost of electric power should be apportioned over different departments according to:
   a) Horse power of motors
   b) No. of Light points
   c) Horse power of machine
   d) Number of machines

17. Repair to machinery is apportioned over different departments according to:
   a) Number of machines in each department
   b) Value of machinery
   c) Floor area occupied by each machine
   d) Horse power of machine

18. Which of the following is a semi-variable overhead:
   a) Telephone expense
   b) Rent
   c) Depreciation
   d) Insurance

19. Formulas to calculate per unit variable cost in high-low method:
   a) Difference between operating levels / Difference between cost
   b) Difference between cost / Fixed cost
   c) Difference between cost at high and low level /difference between operating level
   d) None of above

20. In reciprocal services for more than two service departments, what method is normally used to allocate services department overheads:
   a) Simultaneous equation method
   b) Repeated distribution method
   c) High and low method
   d) Straight line method

21. Which of the following is not the treatment of under or over absorbed FOH?
   a) Charge to costs of goods sold
   b) Charge to profit and loss account
   c) Charge to entire production
   d) Treat as a reserve and carry forward

22. Which of the following is not the reason of under /over absorbed FOH?

23. Which of the following is not the method for splitting semi-variable expenses?
   a) Variance analysis
   b) High and low method
   c) Linear regression analysis
   d) Method of least square

24. For which of the following overheads, appropriate base for application is not stated:
   a) Insurance
   b) Factory rent
   c) Repair and maintenance
   d) Camera expense

25. Which of the following is not the advantage of using pre-determined overhead rates?
   a) It ensures accuracy of calculation of cost
   b) It is easy approach for costing of product or job
   c) It helps in decision making
   d) It helps in controlling the overhead cost

26. Which of the following is the not method of apportionment of services department cost to production department?
   a) Direct method
   b) Step down method
   c) Repetition distribution method
   d) Indices method

27. Entry for FOH absorption in:
   a) Finished goods account Dr, Overhead control account Cr
   b) Profit & loss account Dr, Overhead control account Cr
   c) Work in progress account Dr, Overhead control account Cr
   d) Overhead control account Dr, work in progress account Cr

28. Which of the following statement about over or under absorbed overheads is correct?
   a) Over absorbed overheads are credited to work in progress
   b) Under absorbed overheads are credited to work in progress
   c) Over absorbed overheads are credited to profit and loss account
   d) Under absorbed overheads are credited to profit and loss account

Answers:

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Income Statement

1. Which of the following is the correct statement:
   a) Units Sold = Units produced - Closing finished goods units - Opening finished goods units
   b) Units sold = Opening finished goods units + Units produced - Closing finished goods units
   c) Units sold = Sales + Average units of finished goods inventory
   d) Units sold = Sales - Average units of finished goods inventory

2. If Gross profit = Rs. 49,000 GP Margin = 20% of sales. What will be the value of cost of goods sold?
   a) Rs. 160,000
   b) Rs. 120,000
   c) Rs. 49,000
   d) Rs. 90,000

Hint: Cost of goods sold = 40000/20 = Rs 160000

3. Net Income before Interest and tax is also called:
   a) Operating Income/Profit
   b) Gross Profit
   c) Marginal Income
   d) Other Income

4. Cost of sales plus profit is:
   a) Selling price
   b) Value of finished product
   c) Value of goods produced
   d) Value of stocks

5. Which of the following is indirect cost?
   a) The depreciation of machinery
   b) The overtime premium incurred at the specific request of a customer
   c) The hire of tools for a specific job
   d) All of the given options

6. Net sales = Sales less:
   a) Sales returns
   b) Sales discounts
   c) Sales returns & allowances
   d) Sales returns, allowances and sales discounts

7. An organization sold units 4,000 and have closing finished goods 3500 units and opening finished goods units were 1000. The quantity of unit produced would be:
   a) 7500 units
   b) 6500 units
   c) 4500 units
   d) $500 units

8. Closing stock in process inventory of last year:
   a) Is treated as Opening inventory for current year
   b) Is not carried forward to next year
   c) Is included in the current year
   d) Is paid to Profit & Loss account

9. Sales are Rs. 49,000. Beginning finished goods were Rs. 23,000. Ending finished goods are Rs. 30,000. The cost of goods sold is Rs. 50,000. What is the cost of goods manufactured?
   a) Rs. 323,000
   b) Rs. 330,000
   c) Rs. 293,000
   d) Rs. 387,000

Hint: Cost of goods sold = Cost of goods manufactured + Finished goods opening – Finished goods closing

10. Cost accounting department prepares ______ that helps in preparing the final accounts.
   a) Cost sheets
   b) Cost of goods sold statement
   c) Cost of production report
   d) Material requisition form

11. All Indirect cost is charged/record in the head of:
   a) Prime cost
   b) FOB cost
   c) Direct labor cost
   d) None of the given options

12. Under Over applied FOB cost can be adjusted in which of the following:
   a) WIP inventory
   b) Cost of Goods sold
   c) Net Profit
   d) All of the above

13. Direct material ending inventory sold not purchases is called:
   a) Material consumed
   b) Material available for use
   c) Total material purchased
   d) Material ending inventory

14. Manufacturing entities classified the inventory in which of three kinds?
   a) Material inventory, WIP inventory, Finished goods inventory
15. Increase in material inventory means:
   a) The ending inventory is greater than opening inventory
   b) The ending inventory is less than opening inventory
   c) Both ending and opening inventories are equal
   d) None of the above

16. Amount of net purchase can be calculated as follows:
   a) Purchase of direct material add trade discount less purchase return add carriage inward less other material handling cost
   b) Purchase of direct material less trade discount i add purchase return add carriage inward less other material handling cost
   c) Purchase of direct material less trade discount less purchase return less carriage inward add other material handling cost
   d) Purchase of direct material less trade discount less purchase return add carriage inward add other material handling cost

17. Cost of goods sold can be calculated as follows:
   a) Cost of goods manufactured Add Opening finished goods inventory Less Closing finished goods inventory
   b) Cost of goods manufactured Less Opening finished goods inventory Less Closing finished goods inventory
   c) Cost of goods manufactured Less Opening finished goods inventory Add Closing finished goods inventory
   d) Cost of goods manufactured Add Opening finished goods inventory Add Closing finished goods inventory

18. If, cost of goods sold = Rs. 70,000, GIP Margin = 30% of sales, what will be the value?
   a) Rs. 20,000
   b) Rs. 66,667
   c) Rs. 100,000
   d) Rs. 62,500

   Sales = 70,000 / 100% / 70% = Rs. 100,000

19. Cost of finished goods inventory is calculated by:
   a) Multiplying units of finished goods inventory with the cost per unit
   b) Dividing units of finished goods inventory with the cost per unit
   c) Dividing per unit cost with finished goods inventory
   d) Deducting total cost from finished goods inventory

20. Cost of sales is equal to:
   a) Sales – purchases

21. If, Sales = 150,000, Gross Profit = 15,000. Net loss = 4,000 then the operating expenses will be:
   a) Rs. 15,000
   b) Rs. 145,000
   c) Rs. 131,000
   d) Rs. 11,000

   Hint: Operating profit or loss = C.P - Operating expense
   -4000 - 15000 = - Operating expense
   -19000 = - Operating expense
   19000 = Operating expense

22. If, Cost of goods manufactured = Rs. 259,500. Opening inventory of finished goods = Rs. 25,000. Closing inventory of finished goods = Rs. 22,500. What is cost of goods sold?
   a) Rs. 284,000
   b) Rs. 282,000
   c) Rs. 367,000
   d) Rs. 262,000

   Hint: Cost of goods sold = Cost of goods manufactured + Finished goods opening – Finished goods closing
   = 259500 + 25000 - 22500
   = 260000

23. The cost of goods manufactured under a periodic cost accumulation system is equal to:
   a) Beginning finished goods inventory plus purchases
   b) Beginning work-in-process plus cost of goods in process during the year
   c) Cost of goods put into production plus beginning work-in-process less ending work-in-process
   d) Cost of goods sold less beginning work in process

24. Which of the following is the direct cost of manufacturing the goods that were sold by the entity during the reporting period?
   a) Cost of Goods Sold
   b) Revenue
   c) Asset
   d) Liability

25. Which of the following is not included in the cost of goods sold?
   a) Cost of materials used
26. Which of the following represents the meaning of turnover in accounting?
   a) Gross sale
   b) Total profit
   c) Total output
   d) Total investment

27. How many types of possible format are provided by IAS-1 for income statement?
   a) Two types of possible formats
   b) Three types of possible formats
   c) Four types of possible formats
   d) Five types of possible formats

28. The cost of goods and services used up in the process of obtaining revenue are called:
   a) Net income
   b) Revenue
   c) Expenses
   d) Liabilities

29. The gross profit mark-up is 40% where:
   a) Sales are Rs. 120,000 and gross profit is Rs. 48,000
   b) Sales are Rs. 120,000 and cost of sales is Rs. 72,000
   c) Sales are Rs. 100,000 and cost of sales is Rs. 72,000
   d) Sales are Rs. 100,000 and cost of sales is Rs. 60,000

30. If the profit is 1/4 of the sales then it is:
   a) 1/4 of the cost price
   b) 1/3 of the cost price
   c) 1/5 of the cost price
   d) 1/2 of the cost price

31. On July 1 the finished goods inventory of Ahmad LTD was Rs. 400,000 during the year. The cost of goods manufactured was Rs. 160,000. Sales were Rs. 200,000 with a 10% gross profit. Value of finished goods inventory on July 31 will be:
   a) Rs. 400,000
   b) Rs. 200,000
   c) Rs. 190,000
   d) Rs. 60,000

Cost of goods sold = Cost of goods manufactured + Finished goods opening - Finished goods closing

\[
\text{Cost of goods sold} = 160,000 + 40,000 - 180,000
\]

Finished goods closing = 160,000 + 40,000 - 180,000

Finished goods closing = 20,000
Job, Batch and Service Costing

1. A system for assigning manufacturing costs to individual product or batch of product is called:
   a) Job costing
   b) Batch costing
   c) Service costing
   d) Textile mill

2. Job costing used in:
   a) Paper mills
   b) Chemical works
   c) Printing works
   d) Textile mill

3. A cluster of costs incurred when a group of product or service are produced is called:
   a) Job costing
   b) Batch costing
   c) Service costing
   d) Textile mill

4. A system of costing in which such costs are considered that are associated with individual services is called:
   a) Job costing
   b) Batch costing
   c) Service costing
   d) Textile mill

5. Cost unit of a sugar industry can be:
   a) Per liter
   b) Per ton
   c) Per acre
   d) Per meter

6. When job costing is used, under applied overhead:
   a) Represents the cost of manufacturing overhead that relates to unfinished jobs
   b) Is indicated by a credit balance remaining at year end in the manufacturing overhead account
   c) Is closed out at year end into the cost of goods sold account if the amount is not material
   d) Results when actual overhead costs incurred during a year are less than the amounts applied to individual jobs

7. Which of the following businesses would most likely use job order costing?
   a) A print shop that specializes in wedding invitations
   b) A company that makes frozen pizzas
   c) A brewery
   d) An oil refinery

8. The purpose of an overhead application rate is to:
   a) Assign a portion of indirect manufacturing costs to each product manufactured

9. Which of the following are not true regarding activity-based costing?
   a) A primary goal of using ABC is the more useful allocation of manufacturing overhead to product lines.
   b) Under ABC, direct labor hours are never used to allocate overhead costs to activity pools or product lines.
   c) The use of ABC is indicated when it is suspected that each of a firm's product lines consumes approximately the same amount of overhead resources but the current allocation scheme assigns each line a substantially different amount.
   d) ABC can be used in conjunction with job order costing.

10. Which of the following would be the most appropriate basis for allocating the costs of plant insurance that covers equipment theft and damage?
    a) Direct labor hours
    b) Value of equipment
    c) Machine hours
    d) Square feet of plant space

11. Using ABC to allocate manufacturing overhead can help managers to:
    a) Identify what activities drive overhead costs.
    b) Set product prices.
    c) Locate inefficiencies in the production process.
    d) Do all of the above.

12. A cost unit is:
    a) The cost per hour of operating a machine
    b) The cost per unit of electricity consumed
    c) A unit of product or services in relation to which costs are ascertained.
    d) A measure of work output in a standard hour.

13. In job costing, what journal entry should be made for return to the storekeeper of direct materials previously issued to the factory for use on a particular job?
    a) Debit materials and credit factory overhead
    b) Debit materials and credit work-in-process.
    c) Debit purchase returns and credit work-in-process.
    d) Debit work-in-process and credit materials.

14. In a job order cost system, the use of indirect materials would usually be reflected in the total costs as:
    a) Goods control
15. What is the best cost accumulation procedure to use when many batches, each differing as to product specifications, are produced? 
   a) Job order
   b) Process
   c) Actual
   d) Standard

16. Which of the following is an example of job order costing?
   a) Calculating cost of one unit
   b) Calculating cost of one batch
   c) Calculating cost of one process
   d) Calculating cost of one department

17. Which of the following industries is most likely to have job order costing?
   a) Cement industry
   b) Pizza restaurant
   c) Cell phone manufacturing
   d) Aircraft industry

18. In job order costing which is more appropriate for FOH?
   a) Only actual variable FOH are charged to job
   b) Only variable FOH are charged to job at pre-determined rate
   c) Total actual FOH are charged to job
   d) Total FOH are charged to job at pre-determined rate

19. Which of the following information is not found on job cost card?
   a) Job completion date
   b) Invoice value of job
   c) Normal loss
   d) Overhead

20. In job costing, job will be charged with:
   a) Actual cost of direct material used for job
   b) Standard cost of direct material used for job
   c) Relevant cost of direct material used for job
   d) Budgeted cost of direct material used for job

21. If NRV of closing work in process of a job is less than cost charged to that job, then which of the following is true?
   a) Closing work in progress will be valued at cost charged to the job
   b) Closing work in process will be valued at NRV

22. Which of the following is not the relevant cost of services industry?
   a) Lectures in education industry
   b) Patient in hospital industry
   c) Leather in garment industry
   d) Occupied bed in hotel industry

24. Prices of the main service should be based on:
   a) Variable cost only
   b) Fixed cost only
   c) Largely an variable cost plus a portion of fixed cost
   d) Largely an fixed cost plus a portion of variable cost

25. Which of the following is not the key driver of service cost?
   a) Number of complaints
   b) Opportunity cost for not providing service
   c) Labour
   d) All of the above

26. Toy manufacturing industry should use:
   a) Unit costing
   b) Process costing
   c) Batch costing
   d) Multiple costing

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
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Process Costing

1. Method for determining the total unit cost of the output of a continuous production process is called:
   a) Process costing
   b) Marginal costing
   c) Absorption costing
   d) None of the above

2. Process Costing is relevant to:
   a) Cement industry
   b) Job Order cost oriented Projects
   c) None of the above

3. Process costing is suitable for:
   a) Hospitals
   b) Oil refining firms
   c) Transport firms
   d) Brick laying firms

4. Which of the following businesses would most likely use process costing?
   a) A law firm
   b) A maker of frozen orange juice
   c) A hospital
   d) An auto repair shop

5. If power products use process costing, which of the following are likely to be true?
   a) The products are made with repetitive processes and high volume
   b) The products are created to meet customer specifications
   c) None of the above

6. Indicate which of the following phrases correctly completes this sentence: Equivalent units of production:
   a) Are measures of productive activity
   b) Represent work done on units still in process, as well as those completed during the period
   c) Are used for the basis for computing per unit costs in most process cost accounting systems
   d) All are correct.

7. The industries that would use process costing include all of the following except:
   a) Petroleum
   b) Sugar industry
   c) Food

8. What of the following production operations would be most likely to employ a process cost system?
   a) Shipbuilder
   b) Aircraft manufacturer
   c) Crude oil refiner
   d) Homebuilder

9. When using the first in first out method of process costing, total equivalent units of production for a given period of time in the number of units is:
   a) In work-in-process at the beginning of the period times the percent of work necessary to complete the items, plus the number of units started during the period, less the number of units remaining in work-in-process at the end of the period times the percent of work necessary to complete the items
   b) In work-in-process at the beginning of the period, plus the number of units started during the period, plus the number of units remaining in work-in-process at the end of the period times the percent of work necessary to complete the items
   c) Transferred into process during the period, plus the number of units in work-in-process at the beginning of the period
   d) Transferred out during the period, plus the number of units remaining in work-in-process at the end of the period times the percent of work necessary to complete the items

10. A factory transferred out 8,000 completed units during June. 2,000 opening work in progress was 400 units, 75% complete, and closing work in progress was 800 units, 50% complete. Assuming FIFO method is used, the equivalent production during the period was:
   a) 8,000 units
   b) 9,100 units
   c) 9,300 units
   d) 9,590 units

   Hint: Equivalent production = Unit completed + opening WIP units + stage of completion + closing WIP units - stage of completion
       = 8,000 + 400 x 75% + 800 x 50%
       = 8,900

11. A process loss that does not affect the cost per unit is:
   a) Standard loss
   b) Seasonal loss
   c) Normal loss
   d) Abnormal loss
12. Fifty units are processed at a cost of Rs. 80. Normal loss is 10% and unit cost includes scrap value of 25 paise. If actual output is 40 units, transfer to costing profit and loss account on account of abnormal loss is:

a) Rs. 1.22
b) Rs. 8.75
c) Rs. 7.50
d) Rs. 8.00

Hint: Cost of abnormal wastage = Total cost - scrap value of normal loss - Abnormal loss

= Rs. 80 - 40 * 0.25

= Rs. 59.50

Cost = scrap value of abnormal loss units (8.75 + 12.50)

= 7.50

13. A company which uses FIFO method begins the current year with 300 units, 50% complete transferred out 5,000 complete units during the year and ended with 500 units 70% completed. Equivalent production during the period was:

a) 4,700 units
b) 5,000 units
c) 5,200 units
d) 5,800 units

Hint: Equivalent production = Unit completed + opening WIP units x stage of completion + closing WIP units x stage of completion

= 5,000 + 300 * 50% + 500 * 70%

= 5,200

14. When average method is used, the cost of opening work-in-progress is:

a) Kept separate from the cost for the new period
b) Added to the new costs
c) Subtract from the new costs
d) Averaged with other costs to arrive at total cost

15. Which of the following is not standard assumption of cost of production report?

a) Normal loss always occur at beginning
b) Material addition in subsequent department does not affect number of unit
c) Opening work in process exist
d) Opening work in process does not exist

16. Which of the statements is correct about cost charged to department schedule?

a) Its represent debit side of WIP account
b) Its represent credit side of WIP account
c) Its represent debit side of F&OH account

d) Its represent credit side of F&OH account

17. Adjustment of normal loss is in first or subsequent department is accounted for in:

a) Cost charged to department schedule
b) Equivalent production
c) Cost accounted for schedule
d) Both a and c

18. If material is added at a specific point of time then stage of completion of closing WIP will be:

a) At good production cost less repair expense
b) At their scrap value
c) The same as good production
d) All above

19. In a process account abnormal losses are valued:

a) At good production cost less repair expense
b) At their scrap value
c) The same as good production
d) None of the above

20. Equivalent units needs not to be calculated where:

a) Opening WIP and closing WIP is same
b) There is no opening and closing WIP
c) All units produced during the period have been sold
d) None of above

21. What will be the impact of normal loss on the overall per unit cost?

a) Per unit cost will increase
b) Per unit cost will decrease
c) Per unit cost remain unchanged
d) Normal loss has no relation to unit cost

Answers:

1) d
2) c
3) a
4) b
5) b
6) b
7) d
8) c
9) c
10) a
11) d
12) c
13) c
14) c
15) a
16) a
17) a
18) c
19) c
20) b
21) a
Cost-Volume and Profit Analysis

1. Analysis which is used to determine how changes in costs and volumes affect a company's operating income and net income called:
   a) Cost-Volume-Profit analysis
   b) Profit analysis
   c) Revenue analysis
   d) None of above

2. Which assumption is used during cost-volume-profit analysis called:
   a) Sales price per unit constant
   b) Variable costs per unit constant
   c) Fixed costs constant
   d) All of above

3. Break-even point is also called:
   a) No profit, no loss point
   b) Profit zone
   c) Loss zone
   d) Profit and loss zone

4. Selling price per unit Rs. 10, Variable cost Rs. 8 per unit, Fixed cost Rs. 20,000. Break- even production in units:
   a) Rs. 10,000
   b) Rs. 16,300
   c) Rs. 2,000
   d) Rs. 2,500

Hint: Break-even Point = Fixed cost/contribution per unit = 20000/2 = 10000

5. Break-even is a point at which:
   a) Total revenue is equal to total costs
   b) Total revenue is equal to total costs
   c) Marginal revenue is equal to total variable costs
   d) Per unit fixed costs in equal to contribution per unit

6. In a break-even graph which is the following points true:
   a) Break-down even revenue line touch the fixed cost line
   b) At breakdown level profit line touch the axis
   c) The portion between total cost line and total contribution line is profit
   d) Profit can be found from left area to break-down point

7. Which of the following statement is incorrect for break-even graph:
   a) Break-down cost line and total cost line move parallel
   b) Area between budgeted sales and break-down point in margin of safety
   c) Total cost and total revenue line starts from origin
   d) Variable cost line and revenue line can never be parallel

8. Selling price - marginal cost:
   a) Fixed cost
   b) Semi-variable cost

9. Total sales - total variable cost:
   a) Fixed cost
   b) Semi-variable cost
   c) Contribution
   d) Break-even point

10. Fixed cost + profit:
    a) Fixed cost
    b) Semi-variable cost
    c) Margin of safety
    d) Contribution

11. Contribution margin is equal to:
    a) Fixed cost - loss
    b) Profit - variable cost
    c) Fixed cost profit
    d) Sales profit

12. Break-even Analysis is a useful technique for:
    a) Reducing operating costs
    b) Maximizing sales
    c) Resource allocation
    d) None of these

13. When a multi-product plant is being operated at capacity, the products which should be emphasized are those that provide:
    a) The highest contribution margin per unit of the limited resource
    b) The highest contribution margin per unit of product
    c) The highest contribution margin per sales dollar
    d) The highest contribution margin ratio

14. Profit volume ratio is an indicator of:
    a) The rate at which goods are sold
    b) The value of sales
    c) The volume of profit
    d) The rate of profit

15. Margin of Safety is the difference between:
    a) Planned sales and planned profit
    b) Actual sales and break-even sales
    c) Planned sales and actual sales
    d) Planned sales and planned expenses

16. A large margin of safety indicates:
    a) Over production
    b) Under capitalization
    c) The soundness of the business
    d) Under capitalization

17. An increase in variable costs:
    a) Increases break-even point
18. An increase in selling price:
   a) Increases the break-even point
   b) Decreases the break-even point
   c) Does not affect the break-even point
   d) Optimize the breakeven point

19. CVP analysis is most important for the determination of:
   a) Sales revenue necessary to equal fixed costs
   b) Relationship between revenues and costs at various levels of operations
   c) Variable revenues necessary to equal fixed costs
   d) Volume of operations necessary to break-even points

20. If fixed costs decrease while variable cost per unit remains constant, the new B.E.P. relation to the old B.E.P. will be:
   a) Lower
   b) Higher
   c) Unchanged
   d) Indeterminate

21. A low PV ratio indicates:
   a) High profitability
   b) Low profitability
   c) High loss
   d) Break even

22. Fixed cost / PV ratio =
   a) Break-even point
   b) Margin of safety
   c) Contribution
   d) Variable cost

23. Contribution = fixed cost +
   a) Sales
   b) Variable cost
   c) Profit
   d) Fixed cost

24. Which of the following statement is correct about contribution?
   a) Profit + fixed cost
   b) Contribution per unit x units sold
   c) Sales – variable cost
   d) All of the above

25. What is variable cost to sales ratio if selling price is Rs. 20 and contribution is Rs.?
   a) 20%
   b) 40%
   c) 80%
   d) 60%

26. Increase in per unit variable cost will result in:
   a) Increase in breakeven level
   b) Decrease in breakeven level
   c) Increase in profit margin
   d) None of above

27. Which of the following statements about breakeven point is false?
   a) Operating income is equal to zero
   b) Break even revenue equal fixed costs divide by the variable cost per unit
   c) Contribution margin and fixed costs is equal to zero
   d) Revenue equal fixed costs plus variable costs

28. The breakeven point decreases if:
   a) Variable cost per unit increases
   b) Total fixed cost decreases
   c) Contribution margin per unit increases
   d) Selling price per unit decreases

29. What selling price needs to be charged to give a profit of Rs. 40,000 on the sale of a 8000 units when fixed cost is Rs. 590,000 and variable cost is Rs. 1.20 per unit:
   a) Rs. 85
   b) Rs. 98.75
   c) Rs. 1.9835
   d) Rs. 95

30. Which of the following is not an assumption of CVP analysis?
   a) There is a single product or constant sales mix
   b) These analysis applies even outside the relevant range
   c) Costs can be divided into fixed and variable elements
   d) The analysis is applied only to a short-term period when fixed cost remains fixed

31. How will normal loss be adjusted while calculating break even sales units:
   a) Total amount of normal loss will be added to fixed cost
   b) Normal loss will be adjusted in contribution per unit
   c) Breakeven level cannot be calculated where normal loss exists
   d) Normal loss is considered in break-even analysis

32. Currently CM ratio is 25% how 10% decrease in selling price will affect CM ratio:
   a) Decrease in CM ratio by 10%
   b) Decrease in CM ratio by 10%
   c) Decrease in CM ratio by 33%
33. Margin of safety is 25% decrease in selling price by 10% will be result:
   a) Decrease in margin of safety by 10%
   b) Decrease in margin of safety by 25%
   c) Decrease in margin of safety by 33%
   d) Decrease in margin of safety by 50%

34. Margin of safety is 25%
   Break even sales are Rs. 30 million fixed cost is Rs 21 million calculate budgeted sales:
   a) Rs 30 million
   b) Rs 40 million
   c) Rs 50 million
   d) Rs 60 million

Hint: Budgeted sales = 30 Million / 100/75 = 40 Million

Answers:

| 1 | a | 2 | d | 3 | a | 4 | A | 5 | b | 6 | b | 7 | c | 8 | c | 9 | c | 10 |
| 11 | a | 12 | a | 13 | a | 14 | D | 15 | b | 16 | c | 17 | c | 18 | b | 19 | a | 20 |
| 21 | b | 22 | a | 23 | c | 24 | D | 25 | c | 26 | a | 27 | b | 28 | b | 29 | b | 30 |

Stock or Inventory Valuation

1. Which of the following is/are the method(s) for calculating the cost of inventory?
   a) FIFO Method
   b) Weighted Average Method
   c) Specific Identification Method
   d) All of the given options

2. FIFO stands for:
   a) First in first out
   b) First in last out
   c) Fast in fast out
   d) Fast issue of first order

3. Which of the following is an inventory pricing procedure in which the oldest costs incurred rarely have an effect on the ending inventory valuation?
   a) FIFO
   b) LIFO
   c) Specific identification
   d) Weighted-average

4. In the period of inflation, which of the following methods will result in the greatest value of ending inventory?
   a) First in first out method
   b) Last in first out method
   c) Weighted average cost method
   d) Fast in fast out method

5. LIFO stands for:
   a) Last in first out
   b) First in first out
   c) Fast in fast out
   d) Fast issue of last order

6. Even though LIFO generally results in lower reported earnings, firms will use LIFO which of the following reason?
   a) Decreased cash from higher taxes
   b) Increased cash flows from lower taxes
   c) Increased cash from higher taxes
   d) Decreased cash from higher taxes

7. The value of inventories or stock according to standard is figured out at the lower of cost and:
   a) Purchase price
   b) Opportunity cost
   c) Realizable value
   d) Net realizable value

8. Net realizable value of inventory is the expected selling price or market value less
9. Cost of an item in the closing inventory is $150 whereas its net realizable value is $120. At which one of the following amounts the item should be shown in the financial statement?
   a) $100
   b) $120
   c) $150
   d) $185

Hint: According to IAS-2, inventory will show in the financial statement at lower of cost or net realizable value.

10. An overstatement in the value of closing stock overstates all of the following except:
   a) Net Income
   b) Current Assets
   c) Capital of the business
   d) Cost of goods sold

11. Which of the following are generally the inventories of a service business?
   a) Finished goods inventories
   b) Purchased goods
   c) Raw material inventories
   d) Work in process inventories

12. All of the following are the methods of inventory costing except:
   a) FIFO method
   b) LIFO method
   c) Average cost method
   d) Standard cost method

13. Which one of the following methods of inventory costing yields highest taxable income?
   a) FIFO method
   b) LIFO method
   c) Average cost method
   d) Standard cost method

14. Which one of the following methods of inventory costing produces ending stock cost closest to the market value of the inventories?
   a) FIFO method
   b) LIFO method
   c) Average cost method
   d) None of the above

15. Which of the following inventory costing systems is regarded as the most complex?
   a) Periodic inventory system
   b) Perpetual inventory system
   c) Physical inventory system

16. Which one of the following double entries is passed when goods are purchased on credit under perpetual inventory system?
   a) Purchases-Debit and Creditors-Credit
   b) Purchases-Debit and A/C Payable-Credit
   c) Purchases-Debit and Cash-Credit
   d) Inventory-Debit and A/C Payable-Credit

17. Which of the following journal entries is passed when goods are purchased on credit under the periodic inventory system?
   a) Purchases-Debit and Cash-Credit
   b) Cash-Debit and Purchases-Credit
   c) Purchases-Debit and A/C Payable-Credit
   d) Inventory-Debit and A/C Payable-Credit

18. Which one of the following inventory systems associates the balance of stock or amount of stock at the end of an accounting period or at the time of physical inventory count?
   a) Periodic inventory system
   b) Perpetual inventory system
   c) ABC system
   d) None of the above

19. Which one of the following inventory costing methods is supposed to issue the most recently purchased goods?
   a) FIFO method
   b) Average cost method
   c) LIFO method
   d) Moving average

20. Which of the following inventory systems is the most appropriate for a business that deals in a precious metal such as gold?
   a) Periodic inventory system
   b) Perpetual inventory system
   c) Physical inventory system
21. At the end of ABC firm’s accounting period, the closing stock was found to be Rs.10,000. However, it was realized that a fixed asset of cost Rs. 1,000 was included in the stock count. Which of the following is the correct amount of ending inventory in Rs.?
   a) Rs. 10,000
   b) Rs. 11,000
   c) Rs. 9,000
   d) Rs. 8,000

   [Hint: Cost of fixed asset is not part of inventory so it is excluded from cost of inventory]

22. An item of inventory was purchased for $100. It can be sold for $125 and company is replacing the item with the new one at the cost of $105. Which of the following is the historical cost of that item?
   a) $125
   b) $105
   c) $100
   d) None of the above

23. Under which method of inventory costing a pre-determined cost is assigned to all items of inventory?
   a) Replacement cost method
   b) Standard cost method
   c) Average method
   d) FIFO method

24. Under which cost flow assumption, the ending inventory is composed of the earliest purchased merchandise?
   a) FIFO
   b) LIFO
   c) Average cost
   d) Specific identification

25. In a period of rising prices, all of the following statements regarding LIFO are true except:
   a) Net income is generally high
   b) Ending inventory is generally undervalued
   c) It can be used to manipulate net income
   d) Most recent inventory costs are allocated to cost of goods sold

26. Under which cost flow assumption, the ending inventory is composed of the most recently purchased merchandise?
   a) FIFO
   b) LIFO
   c) Average cost
   d) Specific identification

27. Which cost flow assumption most closely matches the actual physical flow of inventory in most retailing businesses?
   a) FIFO

28. According to which method of pricing issues is closest to current economic values?
   a) Last in First Out
   b) First in First Out
   c) Highest in First Out
   d) Weighted average price

29. Continuous stock taking involves:
   a) Annual stock taking
   b) Perpetual inventory
   c) ABC analysis
   d) Periodic inventory

30. Periodic inventory system involves:
   a) Bincard and stores ledger card
   b) Bill of materials and material requisition
   c) Purchase requisition and purchase order
   d) Inward and outward stores

31. LIFO method of pricing of materials is more suitable when:
   a) Material prices are rising
   b) Material prices are falling
   c) Material prices are constant
   d) Material prices are fluctuating

32. Average method of pricing the material issues is useful when:
   a) Material prices are rising
   b) Material prices are falling
   c) Material prices are constant
   d) Material prices are fluctuating

33. The primary purpose for using an inventory cost flow assumption is to:
   a) Parallel the physical flow of units of merchandise
   b) Offset against revenue an appropriate cost of goods sold
   c) Maximize income taxes
   d) Maximize the reported amount of net income

34. The journal entry of purchase of stock under periodic inventory system would be:
   a) Inventory to Cash
   b) Cash to Purchases
   c) Purchases to Inventory
   d) None of the given options

35. The FIFO inventory costing method assumes that the cost of the earliest units purchased is allocated in which of the following ways?
   a) First to be allocated to the cost of goods sold
   b) Last to be allocated to the cost of goods sold
   c) Last to be allocated to the ending inventory
   d) First to be allocated to the cost of goods sold
36. Weighted average cost per unit is calculated by which of the following formulae?
   a) Cost of goods issued/number of units issued
   b) Total cost/total units
   c) Cost of goods manufactured/closing units
   d) Cost of goods sold/total units

37. Store incharge after receiving the material as per the goods received note, where material at its location and makes an entry in:
   a) Bin Card
   b) Store Ledger Card
   c) Stock Ledger
   d) None of the given options

38. When prices are rising over time, which of the following inventory costing most suitable?
   a) FIFO
   b) LIFO
   c) Weighted average
   d) Cannot be determined

39. Under which of the following methods for inventory valuation, inventory held at most recent costs?
   a) FIFO Method
   b) LIFO Method
   c) Weighted Average Method
   d) Specific Identification Method

40. Which one of the following methods for inventory valuation is based on the notion that the most recently purchased merchandise to be sold first?
   a) FIFO Method
   b) LIFO Method
   c) Weighted Average Method
   d) Specific Identification Method

41. Under which of the following methods for inventory valuation, costs of ending inventory assumed still to be in inventory?
   a) FIFO Method
   b) LIFO Method
   c) Weighted Average Method
   d) Specific Identification Method

42. Which of the following is not an acceptable inventory method?
   a) Lower of cost or market
   b) Sales value
   c) Specific identification
   d) None of these

43. When are the goods which method is to which unit cost

44. The test of objectivity and verifiability is satisfied by valuing inventory at:
   a) Historical cost
   b) Current replacement price
   c) Net realizable value
   d) None of the above

45. Inventory is valued at lower of cost or net realizable value on account of the accounting principle:
   a) Consistency
   b) Conservation
   c) Realization
   d) None of the above

46. The system which gives continuous information regarding quantity and value of inventory is known as:
   a) Continuous stock taking
   b) Periodic inventory
   c) Perpetual inventory
   d) Standard inventory

47. The value of inventory will be the least in case of:
   a) Aggregate or total inventory method
   b) Item by item method
   c) LIFO method
   d) Group or category method

48. In times of rising prices, the valuation of inventory using the first in first out method, as opposed to the weighted average cost method, will result in which of the following combinations?

<table>
<thead>
<tr>
<th>Cost of sales</th>
<th>Profit</th>
<th>Closing inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Lower</td>
<td>Higher</td>
<td>Higher</td>
</tr>
<tr>
<td>b) Lower</td>
<td>Higher</td>
<td>Lower</td>
</tr>
<tr>
<td>c) Higher</td>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td>d) Higher</td>
<td>Higher</td>
<td>Lower</td>
</tr>
</tbody>
</table>

49. What would be the effect on a company’s profit of discovering inventory with cost of Rs. 1,250 and a net realizable value of Rs. 1,000, assuming that the same inventory had not been included in the original inventory count?
   a) An increase of Rs. 1,250
   b) An increase of Rs. 1,000
43. A decrease of Rs. 210

44. d) No effect at all

Hint: According to AS-2, inventory will show in the financial statement at lower of cost or market. Hence, in this scenario profit will be lower by Rs. 210 because NRV shall be considered in the profit calculation.

50. a) Closing inventory and profit are higher using FIFO rather than AVCO.
b) Closing inventory and profit are lower using FIFO rather than AVCO.
c) Closing inventory is higher and profit lower using FIFO rather than AVCO.
d) Closing inventory is lower and profit higher using FIFO rather than AVCO.

51. David performs an inventory count on 30 December 2009 ahead of the 31 December year end. He counts 1,200 identical units, each of which cost Rs. 50. On 31 December, David sold 200 of the units for Rs. 48 each. What figure should be included in David’s statement of financial position for inventory at the year end?

a) Rs. 50,000
b) Rs. 39,200
c) Rs. 57,600
d) Rs. 56,640

Hint: 1,200 (Rs. 50) = 60,000 (Rs. 48) = 56,640. Inventory is recorded at NRV because NRV is lower than cost.

52. A stock of inventory was purchased for Rs. 500. It is expected to be sold for Rs. 120, although Rs. 250 will need to be spent on it in order to achieve the sale. To replace it, the next item of inventory would cost Rs. 650. How should the inventory be valued in the accounts?

a) Rs. 500
b) Rs. 750
c) Rs. 50

d) Rs. 650

Hint: In this scenario, cost is lower than NRV so inventory is realized at cost.

53. In times of fluctuating prices, which of the following methods of stock valuation will be suitable?

a) LIFO
b) FIFO
c) Weighted average
d) None of these

54. Opening units are 1,000 @ Rs. 8 per unit purchase during the period are 400 units @ Rs. 9 per unit what will be average cost?

a) 9.19
b) 8.56
Standard Costing and Variance Analysis

1. Standard costs provide the building blocks for a (a):
   a) Variable cost
   b) Unit cost
   c) Budget
   d) Overhead cost

2. A standard cost system may be used to:
   a) Job order costing but not process costing
   b) Either job order costing or process costing
   c) Process costing but not job order costing
   d) Neither process costing nor job order costing

3. Difference between actual and standard performance is called:
   a) Variance
   b) Budget
   c) Standard
   d) When the variance should be investigated

4. Variances indicate:
   a) The cause of the variance
   b) Who is responsible for the variance
   c) That actual performance is not going according to plan
   d) When the variance should be investigated

5. The unit standard cost includes:
   a) The product of the standard price times the standard quantity for each unit
   b) The price standard for each unit
   c) The actual cost for a standard product
   d) The amount of actual cost to produce a unit in a standardized process

6. The labor rate variance is determined by multiplying the difference between the actual labor rate and the standard labor rate by:
   a) The standard labor hours allowed for a given level of output
   b) The standard labor rate
   c) The actual hours worked during the period.
   d) The actual labor rate

7. Which of the following is not a possible cause of an unfavorable direct labor efficiency variance?
   a) Lack of motivation
   b) Low quality materials
   c) Poor supervision

8. An unfavorable overhead volume variance indicates that:
   a) Cost of overhead has exceeded the standard amount budgeted
   b) Variable overhead per unit has exceeded the standard amount budgeted
   c) Actual production was less than the normal volume of output
   d) Actual production was more than the normal volume of output

9. Under the three variance methods for analyzing factory overhead, the difference between
   the actual factory overhead and the factory overhead applied to production is:
   a) Not overhead variance
   b) Controllable variance
   c) Efficiency variance
   d) Spending variance

10. A favorable overhead spending variance means that:
    a) Overhead has been under applied
    b) Overhead has been under budgeted
    c) Actual production was more than the normal volume of output
    d) None of the above

11. In setting price standards, the purchasing manager must consider:
    a) Freight
    b) Quality
    c) Discounts
    d) All of these

12. All of the following are true of currently attainable standards except:
    a) Currently attainable standards are based on operating work force
    b) Currently attainable standards are based on ideal conditions
    c) Currently attainable standards allow for downtime and rest periods
    d) Currently attainable standards are based on present production processes and technology

13. A company has calculated that volume variance for a given month was unfavorable. This could have been caused by which of the following factors?
    a) The number of rejected units was higher than normal
    b) Machine breakdowns were higher than normal
    c) Delays were experienced in the issuing of material to production
    d) All of the given options

14. A cost unit is:
    a) The cost per hour of operating a machine
    b) The cost per unit of electricity consumed
    c) A unit of product or services in relation to which costs are ascertained
    d) A measure of work output in a standard hour
23. Which of the following statement is correct regarding reasons of variances?
   a) Difference between actual output and standard output
   b) Difference between standard output and actual output
   c) Difference between standard output and budgeted output
   d) None of the above

24. The capacity variance arises when:
   a) Difference between actual output and standard output
   b) Difference between standard output and budgeted output
   c) Both a and b
   d) None of the above

25. The formula to estimate overhead cost variance is:
   a) Actual output × Standard overhead rate - predicted overhead
   b) Actual output × Standard overhead rate - actual overhead
   c) Actual output × Standard overhead rate - predicted overhead cost
   d) None of the above

26. Idle hours are not deducted in:
   a) Labour efficiency variance
   b) Labour rate variance
   c) Both a and b
   d) None of the above

27. The formula to estimate labour mix variance is:
   a) Total standard labour cost - Actual labour cost
   b) Standard rate per hour × Actual hours
   c) Standard hours × Standard rate
   d) None of the above

28. Which of the following statements are true about labour idle time?
   a) Labour idle time variance is not caused by the unavailability of raw material.
   b) Labour idle time variance is measured as: Abnormal idle hours × Standard rate
   c) Abnormal idle hours = Standard hourly rate
   d) All of the above

29. To get labour efficiency variance, the formula to be applied is:
   a) Total standard labour cost - Actual output - Standard rate
   b) Standard hours × Standard rate
   c) Actual hours × Standard rate
   d) Abnormal idle hours × Standard hourly rate

30. Labour efficiency variance is also known as:
   a) Labour time variance
   b) Labour quantity variance
   c) Labour usage variance
   d) All of the above

31. The formula used for calculation of labour rate variance is:
   a) Actual rate per hour × Actual hours
   b) Actual rate per hour × Actual hours - Standard rate per hour × Standard hours
   c) Actual rate per hour × Actual hours - Standard rate per hour × Actual hours
   d) All of the above
32. Material price, mix, usage and revised quantity variances are measured on __________ basis.
   a) Output, Input
   b) Output, Output
   c) Input, Output
   d) None of the above

33. The data related to production of T are for material X standard data and actual data are:
   material X 10 x 55 kgs @ Rs 8.
   The standard data and actual data for material Y are 30 kgs @ Rs 9.
   Determine material usage variance:
   a) Rs 75 favorable
   b) Rs 75 unfavorable
   c) Rs 10 unfavorable
   d) Rs 50 unfavorable

34. When actual output is different from standard output, determine:
   a) Standard cost of revised standard mix for standard output
   b) Actual yield for standard output
   c) Standard quantity for actual output
   d) None of the above

35. While calculating material yield variance if Standard loss on actual mix is more than actual loss on actual mix then the variance is:
   a) Unfavorable
   b) Favorable
   c) Neither favorable nor unfavorable
   d) None of the above

36. Material yield variance is measured using formula:
   a) (Actual yield - Standard yield) Standard cost per unit
   b) Standard cost of revised standard mix - Standard cost of actual mix
   c) (Actual unit price - Actual unit price) Actual quantity used
   d) (Actual yield - Standard yield) x Standard cost per unit

37. Material yield variance arises when:
   a) Actual output > Standard output
   b) Actual output < Standard output
   c) Both a and b
   d) None of the above

38. If the total actual input of units and total standard input of units is equal, there is no need to calculate revised standard quantity:
   a) True
   b) False

39. While calculating material mix variance, if revised standard quantity is greater than actual quantity, the variance is:
   a) Unfavorable
   b) Favorable
   c) Neither favorable nor unfavorable
   d) None of the above

40. The material usage variance which results due to the difference between standard quantities is measured as:
   a) Total standard cost - Total actual cost
   b) Total standard cost - Standard cost of actual mix
   c) Standard unit price - Actual unit price
   d) Standard quantity - Actual quantity

41. The formula to calculate material price variance is:
   a) Total standard cost - Total actual cost
   b) Total standard cost - Standard cost of actual mix
   c) Standard unit price - Actual unit price
   d) Standard quantity - Actual quantity

42. Material cost variances are measured as:
   a) Total standard cost - Total actual cost
   b) Standard cost of revised standard mix - Standard cost of actual mix
   c) Standard unit price - Actual unit price
   d) Standard quantity - Actual quantity

43. In standard costing, the amount of detailed record keeping will normally:
   a) Reduce
   b) Increase
   c) Sometimes reduce sometimes increase
   d) Makes no change

44. A company using ideal standards in standard costing should expect that:
   a) Most variances will be adverse
   b) A large incentive bonus will be payable
   c) Employees will be strongly motivated to attain the standards
   d) Costs will be controlled better than if lower standards are fixed

45. Material cost variance is Rs.1200 (A) and material price variance is Rs. 960 (F). What material quantity variance?
   a) 3000
   b) 2160
   c) 2160 (A)
   d) 300 (A)

46. Which variance is not computed for variable overhead?
   a) Expenditure variance
   b) Efficiency variance
   c) Capacity variance
47. Fixed overhead expenditure variance is the difference between:
   a) Budgeted overhead and actual overhead
   b) Absorbed overhead and budgeted overhead
   c) Standard overhead and actual overhead
   d) Absorbed overhead and standard overhead

48. Which of the following variance is always adverse?
   a) Material yield variance
   b) Calendar variance
   c) Idle time variance
   d) None of these

49. If actual material cost is 900 units at Rs.12 per unit and standard material cost is 1,000
   units at Rs.11 per unit, the material price variance is:
   a) Rs. 1000(F)
   b) Rs. 1000(A)
   c) Rs. 900(A)
   d) Rs. 900(F)

Hint: Material price variance = (Standard price – Actual price) Actual quantity
     = (12 - 11) × 900
     = 900

50. The formula standard price × (standard – actual quantity) is used for:
   a) Material cost variance
   b) Material price variance
   c) Material usage variance
   d) Material yield variance

51. What could be the possible causes of favorable material usage:
   a) Price in controlled
   b) Errors in allocation of material
   c) Material used is of higher quality
   d) Excessive waste

52. A variance due to budgeted or expense factors is called:
   a) Idle capacity variances
   b) Spending variance
   c) Labor efficiency variance
   d) None of these
Marginal and Absorption Costing

1. Change in the total cost when quantity produced is increased by one or more.
   a) Marginal costing
   b) Absorption costing
   c) Variable overheads
   d) None of above

2. A method of costing in which all fixed and variable costs are apportioned into.
   a) Marginal costing
   b) Absorption costing
   c) Variable overheads
   d) All of above

3. One of the primary differences between marginal costing and absorption costing.
   a) Prime cost
   b) Fixed overheads
   c) Variable overheads
   d) Direct materials

4. Absorption costing differs from marginal costing in the:
   a) Fact that standard costs can be used with absorption costing but not with marginal costing
   b) Amount of costs assigned to individual units of products
   c) Kind of activities for which each can be used
   d) Amount of fixed costs that will be incurred

5. Contribution margin is also known as:
   a) Marginal income
   b) Gross profit
   c) Net profit
   d) Net loss

6. Period costs are:
   a) Overhead costs
   b) Prime cost
   c) Variable cost
   d) Fixed costs

7. Absorption costing is also known as:
   a) Historical costing
   b) Real costing
   c) Marginal costing
   d) Real costing

8. Under marginal costing stock are valued at:
   a) Fixed cost
   b) Semi-variable cost
   c) Variable cost
   d) Market price

9. Absorption costing always emphasize on:
   a) Production
   b) Sales
   c) Marketing
   d) Advertising

10. Marginal costing always emphasize on:
    a) Production
    b) Sales
    c) Accounting
    d) Advertising

11. Key-factor in marginal costing is also called:
    a) None cost factor
    b) Cost factor
    c) Sales factor
    d) Limiting factor

12. What is the term that means that all manufacturing costs (direct and indirect, variable and fixed) which contribute to the production of the product are traced to output and inventories?
    a) Job order costing
    b) Process costing
    c) Full or absorption costing
    d) Variable or direct costing

13. Contribution margin is also known as:
    a) Gross profit
    b) Marginal income
    c) Net operating income
    d) Net income

14. When closing stock of finished goods is more than opening stock, profit as per absorption costing will be:
    a) More than
    b) Less than
    c) Equal to that shown by marginal costing
    d) A and b both

15. Marginal costing based selling prices may be used only in the:
    a) Short run
    b) Long run
16. Which of the following is the benefit of absorption costing?
   a) It is more useful in short term decision making
   b) It avoids arbitrary allocation of fixed overheads
   c) It is more useful in pricing decision
   d) It avoids profit distortion due to stock fluctuation
   
17. Which of the following statement is true for absorption costing?
   a) All production cost is absorbed into products and closing stock is measured accordingly
   b) All production cost is absorbed into products and closing stock is measured at direct cost only
   c) All production cost is absorbed into products and closing stock is measured at variable cost only
   d) Variable cost is absorbed into products and fixed cost is absorbed into closing stock only
   
18. Which of the following statement is correct for per unit cost?
   a) In absorption costing per unit cost is always higher
   b) In marginal costing per unit cost is always lower
   c) Per unit cost depends on closing stock
   d) Per unit cost depends on opening and closing stock
   
19. Profits under marginal and absorption costing may be reconciled as:
   a) Change in inventory x fixed cost per unit
   b) Change in inventory x total cost per unit
   c) Change in inventory x variable cost per unit
   d) None of the above
   
20. If a company has opening stock but no closing stock then:
   a) Profit under absorption costing will be higher
   b) Profit under marginal costing will be higher
   c) Profit under marginal and absorption costing will be same
   d) Profit will depend upon the value of opening stock
   
21. Which of the following statement is correct regarding absorption and marginal costing?
   a) Both methods give same profits in long run
   b) There is more profit under absorption costing if there is opening stock more than closing stock
   c) There is more profit under marginal costing if there is closing stock more than opening stock
   d) None of the above
   
22. Which of the following is not an argument in favor of marginal costing?

---

**Answers:**

1. a
2. b
3. c
4. b
5. b
6. a
7. a
8. b
9. a
10. c
11. a
12. c
13. b
14. a
15. a
16. c
17. a
18. a
19. a
20. b
21. a
22. c
Joint and By Product

1. Product which have significant values that are generated from a single production process that uses common inputs called:
   a) Joint product
   b) By product
   c) Similar product
   d) None of above

2. Product which incidentally generate from a common process is called:
   a) Joint product
   b) By product
   c) Similar product
   d) None of above

3. Which of the following statement is correct for by-product?
   a) A product which is produced at very low volume
   b) A product having very low demand in market
   c) An unwanted product but produces as a secondary goods
   d) A product sold as a part of scrap

4. Which of the following is not the appropriate basis of joint cost allocation to joint product?
   a) Sales value basis
   b) NRV basis
   c) Physical units basis
   d) Relevant cost basis

5. Joint costs are:
   a) Indivisible
   b) Present throughout the production process of joint products
   c) Common costs
   d) Both a and c

6. For purposes of allocating joint costs to joint products, the sale price at point of sale reduced by cost to complete after split-off is assumed to be equal to the:
   a) Relative sales value at split-off
   b) Sale price less a normal profit margin at point of sale
   c) Joint costs
   d) Total costs

7. Total joint cost is divided by the total number of units produced to obtain the cost per unit under:
   a) Sales value method
   b) Average cost method

Answers:
1. d
2. c
3. d
4. d
5. b
6. a
7. a
1. Process of selecting a logical choice from the available options is called:
   a) Planning
   b) Controlling
   c) Directing
   d) Decision making

2. Determining the selling price of a particular product is an example of:
   a) Planning
   b) Controlling
   c) Directing
   d) Decision making

3. The fundamental concept behind decision making is:
   a) Computation of cost
   b) To calculate probable
   c) Choosing between alternatives
   d) Problem solving

4. Shail Ltd has to purchase material X; it has two options either to purchase by supplier one at Rs. 50,000 or supplier two at Rs. 55,000, Rs. 5,000 will be saved by:
   a) Sunk cost
   b) Differential cost
   c) Opportunity cost
   d) Future cost

5. Which is the following statement is incorrect about decision making:
   a) It does not concentrates on historical data
   b) It excludes non-relevant cost
   c) It includes non-relevant cost
   d) None of above

6. Which is the best describes the opportunity cost:
   a) Cost involved is seeking new opportunities
   b) Cost of losing an order
   c) Cost of alternate course of action
   d) Cost incurred on training of staff

7. The predicate future cost that will differ depending upon the alternative course of action is called:
   a) Sunk cost
   b) Opportunities cost

8. A company purchased a raw material two years ago Rs. 300,000; it can be sold for Rs. 180,000 after further processing cost of Rs. 90,000. Further processing cost of Rs. 90,000 is:
   a) Opportunity cost
   b) Relevant cost
   c) Sunk cost
   d) Differential cost

9. Which of the following will be minimum price that a company can charge for a special order?
   a) Direct cost
   b) Production cost
   c) Variable cost
   d) Total cost plus profit

10. A company has purchased a machine for Rs. 100,000 for a contract. Company is 90% sure that it will win the contract by giving the competitive bid. Cost of machinery is:
    a) Opportunity cost
    b) Sunk cost
    c) Future cost
    d) Relevant cost

11. A company has spare production capacity which of the following will not affect its decision for new order:
    a) Fixed overheads
    b) Current selling
    c) Current contribution per unit
    d) All above

12. A company producing a single unit has spare capacity what minimum price it should charge for an order utilizing spare capacity:
    a) Normal selling price
    b) Variable cost
    c) Increment cost
    d) Opportunity cost

13. Long term cost is also added into minimum price in situation of spare capacity:
    a) When it is relevant
Relevant Costing for Decision Making

1. Future costs that affect the current management decisions is called:
   a) Fixed cost
   b) Step cost
   c) Standard cost
   d) Relevant cost
   
2. In deciding to make or buy a product, the management of ABC Corporation should consider as relevant:
   a) Historical cost
   b) Future costs which will be classified as variable rather than fixed
   c) Future costs which will be different under the two alternatives
   d) Future costs which will be classified as fixed rather than variable

3. Which of the following statement is correct?
   a) Depreciation is always irrelevant cost
   b) Book value of plant is relevant cost
   c) Depreciation based on number of unit is relevant cost
   d) None of these

4. Which of the following is incorrect about relevant cost?
   a) Relevant costs are future costs
   b) Relevant cost is each flow
   c) Relevant cost is sunk costs
   d) Relevant costs are incremental costs

5. Which of the following statement are incorrect?
   a) Variable overheads are generally relevant
   b) Cost of new plant and machinery is relevant
   c) Depreciation based on number of units produced is irrelevant
   d) Both b & c

6. Which of the following statement are correct?
   a) Revenue loss is not relevant cost
   b) Revenue loss is relevant cost
   c) Cost saving is relevant revenue
   d) Both b & c

7. Which is the following a relevant cost for decision making?
   a) Sunk cost
   b) Committed costs
   c) Allocate fixed costs
   d) Step cost

8. Which of the following statement is incorrect?
a) Fixed cost is relevant to decision making when it is avoidable.

b) Fixed cost is relevant to decision making when it is incremental.

c) Fixed cost is relevant when per unit fixed cost is expected to decrease on increased output.

d) Fixed cost is relevant in long term period.

e) Fixed cost is always irrelevant.

9. Which of the following statements is correct for relevant cost?

a) Fixed cost is always irrelevant.

b) Variable cost is always relevant.

c) Depreciation is always irrelevant even if it is being calculated at number of unit method.

d) All factory overhead are irrelevant if company is operating below normal capacity.

e) A past cost that is same among different alternatives.

f) A past cost that differs among different alternatives.

g) A future cost that is same among different alternatives.

h) A future cost that differs among different alternatives.

10. Which of the following best defines the concept of relevant cost?

a) A past cost that is same among different alternatives.

b) A past cost that differs among different alternatives.

Answers:

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9. A budget that gives a summary of all the functional budgets is:
   a) Cash budget
   b) Master budget
   c) Flexible budget
   d) Capital budget

10. Which of the following is usually a long-term budget?
   a) Fixed budget
   b) Cash budget
   c) Sales budget
   d) Capital expenditure budget

11. The fixed-variable cost classification has a special significance in the preparation of:
   a) Capital budget
   b) Cash budget
   c) Master budget
   d) Flexible budget

12. The budget, which is prepared, first of all is:
   a) Master budget
   b) Cash budget
   c) Budget for key factor
   d) Flexible budget

13. Preparing budget figures for different levels of activity within a range under flexible budgeting is:
   a) Formula method
   b) Multi-activity method
   c) Budget cost allowance method
   d) Proportionate method

14. What type of budget is designed to take into account forecast change in costs, prices, etc.
   a) Master budget
   b) Rolling budget
   c) Flexible budget
   d) Functional budget

15. Operating budgets normally cover a period of:
   a) One to ten years
   b) One to two years
   c) One to five years
   d) One year or less

The entire process of preparing the budgets is known as:
   a) Planning

17. Budgetary control starts with:
   a) Planning
   b) Organizing
   c) Budgeting
   d) Controlling

18. Budgetary control ends with:
   a) Planning
   b) Organizing
   c) Budgeting
   d) Control

19. Budget designed to remain constant irrespective of the level of activity attained is called:
   a) Fixed budget
   b) Flexible budget
   c) Sales budget
   d) Production budget

20. Long-term budgets are prepared for:
   a) 1 year
   b) 1-5 years
   c) 5-10 years
   d) 5-10 years

21. The budget which shows the budgeted quantity of output to be produced during a specific period is:
   a) Fixed budget
   b) Flexible budget
   c) Sales budget
   d) Production budget

22. Material consumption budget is prepared on the basis of:
   a) Production budget
   b) Sales budget
   c) Fixed budget
   d) Flexible budget

23. Material budget consists of two parts, one is the consumption budget and another is:
   a) Material purchase budget
   b) Material sales budget
   c) Material production budget
   d) Material budget
24. The material purchase budget is prepared on the basis of:
   a) Material sales budget
   b) Material consumption budget
   c) Material production budget
   d) Material budget

25. Labour budget is a part of:
   a) Fixed budget
   b) Sales budget
   c) Production budget
   d) Flexible budget

26. Labour budget is prepared by:
   a) Personal department
   b) Sales department
   c) Purchase department
   d) Accounts department

27. Budget of indirect costs in the form of indirect wages, indirect material and indirect expenses in the factory is:
   a) Production overhead budget
   b) Administration overhead budget
   c) Selling and distribution overhead budget
   d) Master budget

28. The budget prepared to estimate the expenditure to be incurred for planning, organizing, direction and control function of the management is:
   a) Production overhead budget
   b) Administration overhead budget
   c) Selling and distribution overhead budget
   d) Master budget

29. The budget prepared to estimate expenditure to be incurred to sell the product and its distribution is:
   a) Production overhead budget
   b) Administration overhead budget
   c) Selling and distribution overhead budget
   d) Master budget

30. The budget prepared to estimate the research and development expenditure to be incurred during a specific period is:
   a) Production overhead budget
   b) Administration overhead budget
   c) Selling and distribution overhead budget
   d) Research and development budget

31. The budget prepared to estimate the expenditure on fixed assets is known as:
   a) Capital expenditure budget
   b) Production overhead budget
   c) Administrative overhead budget
   d) Selling and distribution overhead budget

32. The budget prepared for replacement of assets, expansion of production facilities, and adoption of new technologies etc. is:
   a) Capital expenditure budget
   b) Production overhead budget
   c) Administration overhead budget
   d) Selling and distribution overhead budget

33. A fixed budget is prepared for only:
   a) One level of activity
   b) Range of activity
   c) Two level of activity
   d) Three level of activity

34. A flexible budget is prepared for:
   a) One level of activity
   b) Range of activity
   c) Two level of activity
   d) Three level of activity

35. The budget starts without any base is:
   a) Master budget
   b) Flexible budget
   c) Zero base budgeting
   d) Fixed budget

36. The budget which reviews a programme or project from scratch is:
   a) Master budget
   b) Flexible budget
   c) Zero base budgeting
   d) Fixed budget

37. The budget said as resource planning and redeployment process is:
   a) Zero base budgeting
   b) Master budget
   c) Flexible budget
   d) Fixed budget

38. Expected sales + desired closing stock - estimated opening stock
   a) Expected production
   b) Expected sales
   c) Expected purchase
   d) Expected loss

39. In production budget closing stock is added with:
40. In production budget opening stock is deducted from:
   a) Expense
   b) Sales
   c) Purchase
   d) None of above

41. ABC manufacturing company has just completed its master budget. The budget indicates that the company's operating cycle needs to be shortened. Thus, the company will take an attempt:
   a) Stocking larger inventory
   b) Reducing cash discounts for prompt payment
   c) Tightening credit policies
   d) None of the above selections is correct

42. Which of the following is not an element of the master budget?
   a) The capital expenditure budget
   b) The production schedule
   c) The operating expense budget
   d) All of the above are elements of the master budget

43. Which of the following is not a potential benefit of using budgets?
   a) Enhanced coordination of firm activities
   b) More motivated managers
   c) More accurate external financial statements
   d) Improved interdepartmental communication

44. A flexible budget is:
   a) Not appropriate when costs and expenses are affected by fluctuations within limits
   b) Appropriate for any relevant level of activity
   c) Appropriate for control of factory overhead but not for control of direct materials and direct labour
   d) Appropriate for control of direct materials and direct labour but not for control of factory overhead

45. A primary difference between a fixed budget and a variable (flexible) budget is that a fixed budget:
   a) Includes only fixed costs, while variable budget includes only variable costs
   b) Is concerned with only future acquisition of fixed costs, while a variable budget is concerned with expenses which vary with sales
   c) Cannot be changed after the period begins, while a variable budget can be changed after the period begins

46. A budget is expressed:
   a) Only in quantitative terms
   b) Only in financial terms
   c) Quantitative or financial terms
   d) Quantitative and/or financial terms

47. A budget which is generally prepared for short period is:
   a) Cash budget
   b) Master budget
   c) Flexible budget
   d) Capital expenditure budget

48. Assuming the company is not able to utilize its full capacity because of adverse market conditions, which of the following budgets should be prepared first:
   a) Cash budget
   b) Master budget
   c) Sales budget
   d) Production budget

49. Sales budget must be prepared:
   a) Independently
   b) Depending on production capacity
   c) Based on sales forecasts of market

50. Pakistan follows the following budget system at the federal level:
   a) Zero-based Budgeting
   b) Program Budgeting
   c) Responsibility Budgeting
   d) Incremental/Decremental Budgeting

51. Preparation of a budget by a company is compulsory under:
   a) No Law
   b) Several laws
   c) Securities & Exchange Ordinance, 1969
   d) Company ordinance, 1984

52. For management, budgeting is perhaps the most powerful:
   a) Forecasting tool
   b) Control device
   c) Hiring tool
   d) Accounting measure
1. Process of evaluating financing and investing options available to a firm is called:
   a) Planning
   b) Budgeting
   c) Forecasting
   d) None of above

2. In financial planning, the higher most option price will lead to:
   a) Longer option period
   b) Smaller option period
   c) Lower price
   d) Higher price

3. Financial policy is evaluated by which of the following?
   a) Profit Margin
   b) Total Assets Turnover
   c) Debt-equity ratio
   d) None of the given options

4. Developing a long-term financial plan allows the firm to:
   a) See how investment and financing decisions interact
   b) See how decisions can maximize shareholder wealth
   c) Reduce the acceptance of a positive NPV project with their determination of growth
   d) None of the above

5. The most common causes of financial problems are:
   a) Undercapitalization
   b) Inadequate expense control
   c) Credit terms
   d) All of the above

6. The steps in financial planning are:
   a) Forecasting financial needs and developing budgets to meet those needs
   b) Identifying sources of financing
   c) Establishing financial controls to ensure the company is following the financial plans
   d) A & C

7. A key element in financial planning models is:
   a) That profit is all reinvested
   b) That all debt is fixed
   c) That the change in assets must equal the change in debt and equity
8. Short-term financing plans with high liquidity have:
   a) High return and high risk
   b) Moderate return and moderate risk
   c) Low profit and low risk
   d) None of the above
9. Long-term financing plans with low liquidity have:
   a) High return and high risk
   b) Moderate return and moderate risk
   c) Low return and low risk
   d) None of the above
10. Concerning long term financial planning models, which of following statement is generally not correct:
    a) They are means of identifying positive NPV investments
    b) They are means of identifying inconsistencies in spending and financial plans
    c) They are means of analyzing risk and return on proposed capital spending
    d) Two of the above are generally not correct
11. Which forecast gives management some sense of the profit potential possible of different strategic plans?
    a) Short-term forecast.
    b) Cash flow forecast.
    c) Long-term forecast.
    d) None of the above.
12. A statement that projects management's expectations for revenues and, based on these financial expectations, allocates the use of specific resources throughout the firm is called:
    a) A cash flow.
    b) A budget.
    c) A resource plan.
    d) A resource allocation.
13. A(n) budget is the plan of the various costs and expenses needed to operate the business based on the short-term forecast:
    a) Capital budget
    b) Operating budget
    c) Cash budget
    d) None of the above
14. Debt capital refers to:
    a) Money raised through the sale of shares.
    b) Funds raised by borrowing that must be repaid.
    c) Factoring accounts receivable.
    d) Inventory loans.
15. The most widely used source of short-term funding is:
    a) Factoring.
    b) Trade credit.
    c) Family and friends.
    d) Commercial banks.
16. A loan backed by collateral is called a:
    a) Line of credit.
    b) Dividend.
    c) Secured loan.
    d) Trade credit.
17. Which of the following is a short-term source of funds:
    a) Issue corporate bonds.
    b) Factor accounts receivable.
    c) Issue common stock.
    d) Trade credit.
18. A short-term corporate equivalent to an IOU that is sold in the market place by a firm is called:
    a) Sinking bond.
    b) Mortgage.
    c) Commercial paper.
    d) Convertible bond.
19. A bond backed by the company's real assets is called a:
    a) Preferred bond.
    b) Unsecured bond.
    c) Convertible bond.
    d) First mortgage bond.
20. A firm's profit that is distributed to shareholders is called:
    a) Interest.
    b) Dividends.
    c) Profit.
21. The type of corporate ownership stock that gives owners preference over common shareholders in the payment of dividends and in a claim on assets if the company is liquidated is called:

a) Preferred stock.
b) Common stock.
c) Bondholders.
d) Creditors.

22. The _________ theory says that investors must be paid a premium to hold long-term securities:

a) Expectations hypothesis
b) Time value theory
c) Segmentation
d) Liquidity premium

23. Working capital management involves the financing and management of the _________ assets of the firm:

a) Fixed
b) Total
c) Current
d) None of the above

24. An asset sold at the end of a specified time period is called a _________ asset:

a) Temporary current
b) Self-liquidating
c) Current
d) Permanent current

25. Fixed assets are usually financed with _________ funds:

a) Long-term
b) Short-term
c) Permanent
d) None of the above

26. _________ is usually used to finance self-liquidating assets:

a) Long-term financing
b) Short-term financing
c) Permanent financing
d) None of the above

27. Short-term interest rates, in a normal economy, are generally _________ than long-term rates:

a) Higher
b) The same
c) Lower
d) None of the above

28. The expectations hypothesis says that _________ interest rates are a function of _________ interest rates:

a) Short-term; long-term
b) Long-term; short-term
c) Short-term; short-term
d) None of the above

29. Insurance companies would tend to invest in _________ securities:

a) Short-term
b) Intermediate term
c) Long-term
d) Not enough information to answer

30. Planning for future growth is called:

a) Capital budgeting
b) Working capital management
c) Financial forecasting
d) None of the above

31. Which one of the following is not a tool of financial forecasting?

a) Cash budget
b) Capital budget
c) Pro forma balance sheet
d) Pro forma income statement

32. The first step in preparing a pro forma income statement is to:

a) Build a sales forecast
b) Determine the production schedule
c) Determine cost of goods sold
d) None of the above

33. Pro forma statements are _________ statements:

a) Actual
b) Projected
c) A previous year’s
  d) None of the above

14. Financial managers use the ___________ to plan for monthly financing needs:
   a) Capital budget
   b) Cash budget
   c) Pro forma income statement
   d) None of the above

15. The payments that a firm collects from its customers are called:
   a) Cash disbursements
   b) Cash outflows
   c) Cash receipts
   d) None of the above

16. Examples of cash disbursements are all but:
   a) Payment for materials purchased
   b) Collection of accounts receivable
   c) Payment of dividends
   d) Payment of taxes

17. In developing the pro forma balance sheet, we get common stock from:
   a) The firm’s previous balance sheet
   b) The firm’s cash budget
   c) The firm’s income statement
   d) None of the above

18. The percent of sales method of financial forecasting shows us the relationship between
   sales and financing needs:
   a) Changes in the level of liabilities
   b) Changes in the level of assets
   c) Changes in debt
   d) Changes in the level of sales

19. Which of the following are microeconomic variables that help define and explain
   the discipline of finance?
   a) Risk and return
   b) Capital structure
   c) Inflation
   d) All of the above

The money markets deal with:

20. Securities with a life of more than one year
   a) Securities with a life of more than one year
   b) Short-term securities
   c) Securities such as common stock
   d) None of the above

21. The ability of a firm to convert an asset to cash is called:
   a) Liquidity
   b) Solvency
   c) Return
   d) Marketability

22. Early in the history of finance, an important issue was:
   a) Liquidity
   b) Technology
   c) Capital structure
   d) Financing options

23. The appropriate firm goal in a capitalist society is:
   a) Profit maximization
   b) Shareholder wealth maximization
   c) Social responsibility
   d) None of the above

24. The agency problem will occur in a business firm if the goals of
   a) Investors
   b) The public
   c) Management
   d) None of the above

25. Source of funds is:
   a) Decrease in a current asset
   b) Decrease in a current liability
   c) Increase in a current liability
   d) A and c above

26. Short-term financing for a business firm includes:
   a) Bonds
   b) Accounts payable
   c) Stockholder’s equity
   d) Mortgages
Finance is vital for which of the following business activity (activitess)?

a) Marketing research
b) Product pricing
c) Design of marketing and distribution channels
d) All of the given options

44. The most important item that can be extracted from financial statements is the actual _____ of the firm:
   a) Net working capital
   b) Cash flow
c) Net present value
d) None of the given option

d) None of the given options

45. Which of the following ratios is not from the set of asset management ratios?
   a) Inventory turnover ratio
   b) Receivables turnover
   c) Capital intensity ratio
   d) Return on assets

50. Which of the following statement is true regarding debt?
   a) Debt is an ownership interest in the firm.
   b) Unpaid debt can result in bankruptcy or financial failure.
   c) Debt provides the voting rights to the bondholders.
   d) Corporation’s payment of interest on debt is fully taxable.

_____ are also known as spontaneous financing:
   a) Current liabilities
   b) Current assets
c) Fixed assets
d) Long-term liabilities

51. In financial statement analysis, shareholders focus will be on the:
   a) Liquidity of the firm
   b) Long term cash flow of the firm
   c) Profitability and long-term health of the firm
   d) Return on investment

53. Which of the following is the cheapest source of financing available to a firm?
   a) Bank loan
   b) Commercial papers
   c) Trade credit

54. ______ refers to the extent to which fixed-income securities (debts and preferred stocks) are used in a firm's capital structure:
   a) Financial risk
   b) Portfolio risk
   c) Operating risk
d) Market risk

55. Cash management involves all of the following except:
   a) Efficient disbursement of cash
   b) Efficient collection of cash
   c) Wise investment of temporarily surplus cash
   d) Raising cash through the sale of new stock and bonds

56. Which of the following is the principal advantage of high debt financing?
   a) Tax savings
   b) Low bankruptcy costs
   c) Minimum financial risk
d) Low financial leverage

57. Which of the following holds true regarding aggressive working capital policy?
   a) High liquidity; high profitability; high risk
   b) High liquidity; low profitability; low risk
c) Low liquidity; low profitability; high risk
d) Low liquidity; high profitability; high risk

58. “Shareholder wealth” in a firm is represented by:
   a) The number of people employed in the firm
   b) The book value of the firm’s assets less the book value of its liabilities
c) The amount of salary paid to its employees
d) The market price per share of the firm’s common stock

59. The long-run objective of financial management is to:
   a) Maximize earnings per share.
b) Maximize the value of firm’s common stock.
c) Maximize return on investment.
d) Maximize market share.

60. If the earnings per share (EPS) for a company that earned Rs. 100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs. 1.2 million in retained earnings at the year end?
The market price of a share of common stock is determined by:

a) The board of directors of the firm
b) The stock exchange on which the stock is listed
c) The president of the company
d) Individuals buying and selling the stock

The key point of financial management in a firm is:

a) The number and types of products or services provided by the firm
b) The maximization of the amount of taxes paid by the firm
c) The creation of value for shareholders
d) The dollars profit earned by the firm

d) The dollars profit earned by the firm

Capital structure:
a) Capitalization
b) Over-capitalization
c) Under-capitalization
d) Market capitalization

Redemption value is the price at which the bond is traded on the stock exchange:

Redemption value
b) Face value
c) Market value
d) Maturity value

Free of cost:
a) Face value
b) Dividends
c) Redemption value
d) Book value

In book approach, the capital structure decision is relevant to the valuation of the firm:
a) Net income
b) Net operating income

d) Traditional

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d) Value maximization, Wealth maximization and carry a fixed rate of interest and are to be paid:

- a) Debentures, Dividends
- b) Debentures, Bonds
- c) Dividends, Bonds
- d) Dividends, Treasury notes

78. Credit policy of every company is largely influenced by:

- a) Liquidity, Accountability
- b) Liquidity, Profitability
- c) Liability, Profitability
- d) Liability, Liquidity

75. XYZ is an oil-based business company, which does not have adequate working capital. It fails to meet its current obligation, which leads to bankruptcy. Least type of decision involved to prevent risk of bankruptcy:

- a) Investment decision
- b) Dividend decision
- c) Liquidity decision
- d) Finance decision

74. How are earnings per share calculated?

- a) Use the income statement to determine earnings after taxes (net income) and divide by the previous periods earnings after taxes.
- b) Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding.
- c) Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding.
- d) Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period’s earnings after taxes.

77. Which of the following would not improve the current ratio?

- a) Borrow short term to finance additional fixed assets.
- b) Issue long-term debt to buy inventory
- c) Sell common stock to reduce current liabilities
- d) Sell fixed assets to reduce accounts payable

79. The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happened if:

- a) Cost of goods sold increased relative to sales
- b) Sales increased relative to expenses
- c) Govt. increased the tax rate
- d) Dividends were decreased

80. XYZ Industries has a debt-to-equity ratio of 1.8 compared with the industry average of 1.6. This means that the company:

- a) Will not experience any difficulty with its creditors
- b) Has less liquidity than other firms in the industry
- c) Will be viewed as having high creditworthiness
- d) Has greater than average financial risk when compared to other firms in its industry

81. Kanji Company had sales last year of Rs. 265 million, including cash sales of Rs. 25 million. If its average collection period was 36 days, its ending accounts receivable balance is closest to (Assume a 365-day year):

- a) Rs. 26.1 million
- b) Rs. 23.7 million
- c) Rs. 7.4 million
- d) Rs. 18.7 million

82. A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

- a) Borrow more
- b) Shift short-term to long-term debt
- c) Shift long-term to short-term debt
- d) Sell common stock

83. Which of the following statements (in general) is correct?

- a) A low receivables turnover is desirable
- b) The lower the total debt-to-equity ratio, the lower the financial risk for a firm
- c) An increase in net profit margin with no change in sales or assets means a poor ROI
- d) The higher the tax rate for a firm, the lower the interest coverage ratio

84. Debt-to-total assets (D/TA) ratio is 4. What is its debt-to-equity (D/E) ratio?

- a) 2
- b) 6
14. Inventory holding period plus receivable collection period is called:
   a) Operating cycle
   b) Cash conversion cycle
   c) Cash cycle
   d) None of the above

15. Uses of funds include a (an):
   a) Decrease in cash
   b) Increase in any liability
   c) Increase in fixed assets
   d) Tax refund

16. Which of the following would be included in a cash estimation budget?
   a) Depreciation charges
   b) Dividends
   c) Goodwill
   d) Patent amortization

17. Which of the following is not a cash outflow for the firm?
   a) Depreciation
   b) Dividends
   c) Interest payments
   d) Taxes

18. All of the following influence capital budgeting cash flows except:
   a) Accelerated depreciation
   b) Salvage value
   c) Tax rate changes
   d) Method of project financing used

19. The estimated benefits from a project are expressed as cash flows instead of income flows because:
   a) It is simpler to calculate cash flows than income flows
   b) It is cash, not accounting income, that is central to the firm's capital budgeting decision
   c) This is required by the internal revenue service
   d) This is required by the Securities and Exchange Commission

20. A profitability index of 0.85 for a project means that:
   a) The present value of benefits is 85% greater than the project's costs
   b) The project's NPV is greater than zero
   c) The project returns 85% of present value for each current rupee invested
   d) The payback period is less than one year

21. Which of the following statements is correct?
   a) If the NPV of a project is greater than 0, its PI will equal 1.
   b) If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0.
   c) If the PI of a project is less than 1, its NPV should be less than 0.
   d) If the IRR of a project is greater than the discount rate, k, its PI will be less than 1 and its NPV will be greater than 0.

22. You are considering two mutually exclusive investment proposals, project A and project B. B's expected value of net present value is Rs. 1,000 less than that for A and has less dispersion. On the basis of risk and return, you would say that:
   a) Project A dominates project B
   b) Project B dominates project A
   c) Project A is more risky and should offer greater expected value
   d) Each project is high on one variable, so the two are basically equal

23. To decrease a given present value, the discount rate should be adjusted:
   a) Upward
   b) Downward
   c) No change
   d) Constant

24. In finance, "working capital" means the same thing as:
   a) Total assets
   b) Fixed assets
   c) Current assets
   d) Current assets minus current liabilities

25. Which of the following would be consistent with a more aggressive approach to financing working capital?
   a) Reduces current assets
   b) Increases current liabilities
   c) Reduces current assets and current liabilities
   d) Increases current assets and current liabilities
a) Financing short-term needs with short-term funds
b) Financing permanent inventory buildup with long-term debt
c) Financing seasonal needs with short-term funds
d) Financing some long-term needs with short-term funds

Which asset-liability combination would most likely result in the firm's having the greatest risk of technical insolvency?
a) Increasing current assets while lowering current liabilities
b) Increasing current assets while incurring more current liabilities
c) Reducing current assets, increasing current liabilities, and reducing long-term debt
d) Replacing short-term debt with equity

94. In deciding the appropriate level of current assets for the firm, management is confronted with:
   a) A trade-off between profitability and risk
   b) A trade-off between liquidity and marketability
c) A trade-off between equity and debt
d) A trade-off between short-term versus long-term borrowing

95. Profitability varies inversely with:
   a) Liquidity
   b) Risk
c) Financing
d) Liabilities

108. Spontaneous financing includes:
   a) Accounts receivable
   b) Accounts payable
c) Short-term loans
d) A line of credit

109. Permanent working capital:
   a) varies with seasonal needs
   b) includes fixed assets
c) is the amount of current assets required to meet a firm's long-term minimum needs
d) includes accounts payable

Net working capital refers to:
a) Total assets minus fixed assets

b) Current assets minus current liabilities
c) Current assets minus inventories
d) Current assets

111. Marketable securities are primarily:
   a) Short-term debt instruments
   b) Short-term equity securities
c) Long-term debt instruments
d) Long-term equity securities

114. Which of the following marketable securities is the obligation of a commercial bank?
   a) Commercial paper
   b) Negotiable certificate of deposit
c) Repurchase agreement
d) T-bills

e) The basic requirement for a firm's marketable securities:
   a) Safety
   b) Yield
c) Marketability
d) All of the above

118. A firm's inventory turnover is 5 times on a cost of goods sold of Rs. 800,000. If the inventory turnover ratio is improved to 8 times while the cost of goods sold remains the same, a substantial amount of funds is released from or additionally invested in inventory. In fact:
   a) Rs. 160,000 is released
   b) Rs. 100,000 is additionally invested
c) Rs. 60,000 is additionally invested
d) Rs. 60,000 is released

117. Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in:
   a) An increase in the average collection period
   b) A decrease in bad debt losses
c) An increase in sales
d) Higher profits

118. An increase in the firm's receivable turnover ratio means that:
   a) It is collecting credit sales more quickly than before
   b) Cash sales have increased
c) It has initiated more liberal credit terms
   d) Inventories have increased

110. In calculating the costs of the individual components of a firm’s financing, the corporate tax rate is important to which of the following component cost formulae?
   a) Common stock
   b) Debts
   c) Preferred stock
   d) None of the above

110. The term “capital structure” refers to:
   a) Long-term debt, preferred stock, and common stock equity
   b) Current assets and current liabilities
   c) Total assets minus liabilities
   d) Shareholders’ equity

111. The traditional approach towards the valuation of a company assumes:
   a) That the overall capitalization rate holds constant with changes in financial leverage
   b) That there is an optimum capital structure
   c) That total risk is not altered by changes in the capital structure
   d) That markets are perfect

112. Reserves & Surplus are which form of financing?
   a) Security financing
   b) Internal financing
   c) Leans financing
   d) International financing

113. The sum of all current assets investment is known as:
   a) Net working capital
   b) Gross working capital
   c) Temporary working capital
   d) All of these

114. Which of the following would not be financed from working capital?
   a) Cash float
   b) Accounts receivable
   c) Credit sales
   d) A new personal computer for the office

115. What is the difference between the current ratio and the quick ratio?

   a) The current ratio includes inventories and the quick ratio does not.
   b) The current ratio does not include inventories and the quick ratio does.
   c) The current ratio includes physical capital and the quick ratio does not.
   d) The current ratio does not include physical capital and the quick ratio does.

116. Which of the following working capital strategies is the most aggressive?
   a) Making greater use of short term finance and maximizing net short term asset.
   b) Making greater use of long term finance and minimizing net short term asset.
   c) Making greater use of short term finance and minimizing net short term asset.
   d) Making greater use of long term finance and maximizing net short term asset.

117. Which of the following is not the responsibility of financial management?
   a) Allocation of funds to current and capital assets.
   b) Obtaining the best mix of financing alternatives.
   c) Preparation of the firm’s accounting statements.
   d) Development of an appropriate dividend policy.

118. Which of the following are not among the daily activities of financial management?
   a) Sale of shares and bonds.
   b) Credit management.
   c) Inventory control.
   d) The receipt and disbursement of funds.

119. Banks generally prefer debt-equity ratio as:
   a) 1:1
   b) 1:2
   c) None of the above.

120. An asset is:
   a) Source of fund
   b) Use of fund
   c) Inflow of funds
   d) None of the above.

121. If a company issues bonus shares the debt equity ratio will:
   a) Remain unaffected
   b) Will be affected
   c) Will improve
   d) None of the above.

122. In the balance sheet amount of total assets is Rs. 10 lac, current liabilities Rs. 2 lac, and capital & reserves are Rs. 4 lac. What is the debt-equity ratio?
   a) 1:1
   b) 1:2
   c) 1:3
   d) None of the above.

123. In last year the current ratio was 3:1 and quick ratio was 2:1 presently current ratio is 3:1 but quick ratio is 1:1. This indicates comparably:
a) High liquidity  
b) Higher stock  
c) Lower stock  
d) Low liquidity

124. Proprietary ratio is calculated by:
   a) Total assets/Total outside liability  
b) Total outside liability/Total tangible assets  
c) Fixed assets/Long term source of fund  
d) Equity/Total assets

125. If current ratio of a company is 2.5:1, then net working capital will be:
   a) Positive  
b) Negative  
c) Nil  
d) None of the above

126. Current ratio is 4:1. Net working capital is Rs.30,000. Find the amount of current Assets:
   a) Rs.10,000  
b) Rs.40,000  
c) Rs.24,000  
d) Rs.6,000

127. Current ratio is 3:1. Current liability is Rs.30,000. The net working capital is:
   a) Rs.90,000  
b) Rs.30,000  
c) Rs.50,000  
d) Rs.60,000

128. Quick assets do not include:
   a) Inventories.  
b) Govt. bond  
c) Bank debt  
d) Advance for supply of raw materials

129. The ideal quick ratio is:
   a) 2:1  
b) 1:1  
c) 0:1  
d) None of the above

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Audit

Settlement of audit objections
Scrutiny of record for Audit purpose

This topic has broader scope and covers followings areas of audit

- Introduction to audit
- Audit planning
- Audit procedures
- Fraud and errors
- Verification
- Vouching
- Quality audit
- Internal control system
- Sampling
- Auditor and legal environment
- Audit report
- Miscellaneous topics
  - Code of ethics
  - Government audit
  - General information about audit
  - Information about Auditor General of Pakistan
  - Computer based auditing

Settlement of Audit Objections

1. To which of the following authority audit report is presented:
   a) Audit committee
   b) SECP
   c) Board of directors
   d) Manager finance

2. To which of the following authority take decision about audit objections and further actions plan:
   a) Audit committee
   b) SECP
   c) Board of directors
   d) Manager finance

3. To which authority minutes of meeting of audit committee is forwarded:
   a) Director audit and finance department
   b) SECP
   c) Board of directors
   d) Manager finance

4. Reply of the objections of audit report is done in:
   a) Para-Wise
   b) As a whole
   c) Only selected objections are reply
   d) None of above

5. Time period in which reply of objections is required:
   a) Within one week from the date of audit report
   b) Within six weeks from the date of audit report
   c) Within one month from the date of audit report
   d) Within two weeks from the date of audit report

6. Which of the following authority supervise the progress of settlements of objections:
   a) Senior officer of audit cell
7. Time period in which first reminder issued for the reply of settlement of objection:
   a) After six weeks from the date of issue of audit report
   b) Within 6 months of audit report
   c) At any time
   d) All of above

8. Time period in which second reminder issued for the reply of settlement of objection:
   a) Within a month from first reminder
   b) Within fifteen days from first reminder
   c) Within ten days from first reminder
   d) None of above

9. Which of the following book is maintained at every audit office for record of objection:
   a) Objections book
   b) Audit inquiry book
   c) Audit manual
   d) None of above

10. Objections of routine like cash book, stock register, log books and service book are settled:
    a) When head of department accepted auditor point of view and compliance noted
    b) When head of department not agree with auditor
    c) When head of department not reply to audit officer
    d) All of above

11. When follow up of audit report is necessary:
    a) When concern area is audited again
    b) When concern area is audited first time
    c) When SECP force to follow up of objections
    d) All of above

12. Which of the following is the area of follow up:
    a) Casual
    b) Limited
    c) Detailed
    d) All of above

13. Follow up that is mostly through telephone conversation and review of audit procedures called:
    a) Casual follow up
    b) Limited follow up
    c) Detailed follow up
    d) All of above

14. Follow up in which maximum interaction involve with client called:
    a) Casual follow up
    b) Limited follow up
    c) Detailed follow up
    d) All of above

15. Follow up in which detailed interaction involve with client called:
    a) Casual follow up
    b) Limited follow up
    c) Detailed follow up
    d) All of above

16. Serious irregularity which are sent to the ministry for reply called:
    a) Advance Para
    b) Draft Para
    c) Audit report
    d) All of above

17. When no reply receive again advance Para issued to ministry then which Para issued:
    a) Draft Para
    b) Objection Para
    c) Observation Para
    d) All of above
18. Which of the following is the way to settlement of audit observations:
   a) Spot disposal during audit
   b) Disposal in headquarter
   c) Disposal in the meeting
   d) Disposal by the public committee
   e) All of above

Note: Audit of expenditures and receipts include in the topic of settlement of audit objections.

19. Which of the following is the account that government maintains:
   a) Consolidated fund
   b) Contingency fund
   c) Public account
   d) All of above

20. Which of the following is the type of consolidated fund:
   a) Revenue
   b) Capital
   c) Debt
   d) All of above

21. Fund which are maintained to meet emergency or unforeseen events called:
   a) Contingency fund
   b) General fund
   c) Consolidated fund
   d) All of above

Answers:

1. a 2 3 a 4 a 5 b 6 a 7 a 8 a 9 b 10 a 11 a 12 d 13 a 14 b 15 c 16 a 17 a 18 e 19 d 20 d

2. Systematic examination of books of account by an independent qualified person for issuing report to shareholders or any other appropriating authority called:
   a) Audit
   b) Audit report
   c) Vouching
   d) Inspection

3. Definition of audit states that auditor is:
   a) Independent person
   b) Person that evaluate internal control
   c) Part of client organization
   d) None of above

4. An independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form called:
   a) Audit
   b) Observation
   c) Inspection
   d) Vouching

5. Which type of audit examines the reliability and integrity of the accounting records:
   a) Financial
   b) Informational
   c) Information systems
   d) Operational

6. Objective of audit depends on:
   a) Selection of auditor
   b) Fraud and errors
   c) Type of audit
   d) Expression of opinion

7. In scope of audit which of the matter is considered:
   a) Audit procedures
   b) Timing of audit
   c) Nature of audit report
   d) Internal control
8. Types of audit on the basis of time:
   a) Interim audit
   b) Continuous audit
   c) Final audit
   d) All of above

Note: Interim audit: Audit which is conducted during the period. Continuous audit: Audit that remains continuous throughout the period. Final audit: Audit which is conducted after completion of the accounting period.

9. Types of audit on the basis of theory:
   a) Statutory
   b) Private
   c) Internal
   d) Government
   e) All of above

Note: Statutory audit: Audit which is conducted by chartered accountants. Private audit: Audit which is concerned with sole traders and partnerships. Internal audit: Audit which is not necessary that the audit should be conducted by a chartered accountant. Government audit: Audit which is related to municipal

10. Types of audit on the basis of purpose:
    a) Management
    b) Cost
    c) Special
    d) All of above

Note: Management audit: Audit which is concerned with the function of management, cost audit: Audit which concerns cost of goods and services, Special audit: Audit which is conducted on the direction of SECP, FBR or any other authority.

11. Audit which is concerned with the checking of balance sheet items, journal ledger or supporting documents called:
    a) Balance sheet audit/ Final audit
    b) Cost audit
    c) Management audit
    d) None of above

12. Audit which is concerned with the checking of income and expenditure as well as all funds called:
    a) Propriety audit
    b) Cost audit

13. Audit of the same company which is conducted by two audit firms called:
    a) Propriety audit
    b) Cost audit
    c) Joint audit
    d) None of above

14. Which type of audit is expensive:
    a) Continuous audit
    b) Final audit
    c) Interim audit
    d) None of above

15. For which type of companies continuous audit is necessary:
    a) Large scale companies
    b) Small scale companies
    c) Cottage industries
    d) None of above

16. Continuous audit supports to company in:
    a) Reducing fraud
    b) Reducing errors
    c) Reducing fraud and errors
    d) None of above

17. Which type of audit is effective when internal control system of an organization is weak:
    a) Final audit
    b) Continuous audit
    c) Interim audit
    d) None of above

18. Primary purpose of interim audit:
    a) Declare interim dividend
    b) Timely reporting
    c) Reduce fraud
    d) None of above

19. Which type of audit is compulsory by government:
    a) Management audit
    b) Statutory audit
    c) Cost audit
    d) None of above

20. Which type of audit is necessary under the companies ordinance 1984:
    a) Management audit
21. For management audit, auditor must be expert in:
   a) All functions of business
   b) Only knowledge of accounting
   c) Only knowledge of audit
   d) None of above

22. Characteristics of auditing include all of the following except:
   a) Evidence collection
   b) System development
   c) Set scope and objective
   d) Set materiality level

23. Financial statements are the representation of:
   a) Management
   b) Board of directors
   c) Auditor
   d) All of above

24. Auditors of financial statements can be classified into categories:
   a) 2
   b) 3
   c) 4
   d) 5

25. When deterring materiality level auditor should consider:
   a) Prior year errors
   b) Prior year financial statement
   c) Interim financial statement
   d) All of above

Answers:

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Note: Engagement partner means partner of audit firm under that's supervision audit is being conducted.

4. Which of the following should involve in audit planning:
   a) Engagement partner
   b) Key members of engagement team
   c) Both a & b
   d) None of above

5. Which of the following is the preliminary engagement activity in the audit planning:
   a) Performing audit procedures for continuance of client relationship
   b) Evaluating compliance with ethical requirements
   c) Establishing and understanding of terms of engagement
   d) All of above

6. In overall audit strategy auditor determine:
a) Scope, timing and direction of audit
b) Working paper
c) Determine sampling method
d) None of above

7. In establishing overall audit strategy auditor shall:
   a) Identify the characteristics of engagement
   b) Ascertain the reporting objective of engagement
   c) Ascertain the nature, timing and extent of resources necessary
   d) All of above

8. Which of the following is not part of audit planning:
   a) Establish scope and objectives
   b) Identify risk factors
   c) Review of audit documentation
   d) Prepare an audit program

9. Which of the following is not an audit risk factor that is considered during audit:
   a) Control risk
   b) Compliance risk
   c) Inherent risk
   d) Detection risk

Note: Compliance risk means different legal penalties and material losses that are faced by an organization due to failure to act in accordance with laws and regulations, and risk management.

10. At which stage of audit ‘risk and materiality’ level is considered:
    a) Audit planning
    b) Collection of audit evidence
    c) Issue audit report
    d) All of above

11. Objective of audit plan is to:
    a) Reduce the risk of material misstatement

b) Conduct audit in accordance with ISA
c) Issue unqualified report
d) All of above

12. Audit programme is prepared by:
    a) Auditor
    b) Client
    c) Internal auditor
    d) Auditor and its team

13. Which of the following factors that affect in the direction, supervision and review of audit work of engagement team at the time of planning:
    a) Size and complexity of the entity
    b) Area of audit
    c) Assessed risks of material misstatement
    d) Capabilities and competence of individual team members
    e) All of above

14. In which activities overall audit strategy supports to auditor:
    a) Resources require for specific audit area
    b) Amount of resources to allocate specific audit area
    c) When these resources are to be deployed
    d) How such resources will manage
    e) All of above

Answers:

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Audit Procedures

1. Different activities that auditor perform to collect audit evidence on which is base opinion is called:
   a) Audit procedures
   b) Confirmation
   c) Audit sampling
   d) All of the above

2. Which of the following is the type of audit procedure:
   a) Risk assessment procedures
   b) Test of controls
   c) Substantive procedures
   d) All of the above

3. Procedures apply to assess the risk of material misstatement that exists called:
   a) Risk assessment procedures
   b) Test of details
   c) Substantive procedures
   d) All of the above

4. Procedure perform to test the effectiveness of a control used by a client to prevent detect material misstatement called:
   a) Substantive procedures
   b) Test of control
   c) Analytical procedures
   d) All of above

5. Those activities that are performed by the auditor to detect material misstatement or error called:
   a) Substantive procedures
   b) Confirmation
   c) Audit sampling
   d) All of the above

Note: Substantive procedures also called substantive tests

6. Which of the following is the type of substantive procedure:
   a) Analytical procedures
   b) Test of detail
   c) Both a & b
   d) None of the above

7. Audit procedures which identify the financial fluctuation or variation between budget of different periods called:
   a) Analytical procedures
   b) Test of details
   c) Audit sampling
   d) All of the above

8. Substantive audit procedure in which transaction is verified by different ways or by documentary support called:
   a) Analytical procedures
   b) Test of details
   c) Audit sampling
   d) All of the above

9. If auditor want to verify sales he applies different audit procedures like inspect sales order, gate outward, cash ledger and confirmation from debtors directly these are called:
   a) Analytical procedures
   b) Test of details
   c) Audit sampling
   d) All of the above

10. Analytical procedures in planning stage support to:
    a) Determine nature, timing and extent of audit procedures
    b) Attention to important areas of audit
    c) Identify the risk areas
    d) All of above
11. Which of the following are the different sources that an auditor generally uses to obtain sufficient and appropriate audit evidence:
   a) Inspection and observation
   b) External confirmation and recalculation
   c) Reperformance and analytical procedures
   d) Inquiry
   e) All of the above

12. Examining record or documents and physical examination of assets called:
   a) Inspection
   b) Observation
   c) Confirmation
   d) Analytical procedure

13. Looking at a process or procedures being performed by others called:
   a) Inspection
   b) Observation
   c) Confirmation
   d) Analytical procedure

Note: When management counts inventory at the end of the period and auditor observes the process that is an example of observation.

14. Audit evidence obtained by the auditor as a direct written response to the auditor from a third party called:
   a) Inspection
   b) Observation
   c) External Confirmation
   d) Analytical procedure

15. Checking the mathematical accuracy of documents or records called:
   a) Inspection
   b) Recalculation
   c) Confirmation
   d) Analytical procedure

16. Auditor independent execution of procedures or controls that were originally performed as part of the entity's internal control called:
   a) Inspection
   b) Reperformance
   c) Confirmation
   d) Analytical procedure

17. Seeking information from knowledgeable persons, both financial and non-financial within the entity or outside the entity called:
   a) Inspection
   b) Reperformance
   c) Inquiry
   d) Analytical procedure

Explanation about audit procedures

Types of audit procedures:
1. Risk assessment procedures
2. Other audit procedures
   a) Test of control
   b) Test of detail

Different sources to collect audit evidence
1. Inspection
2. Observation
3. External confirmation
4. Recalculation
5. Reperformance
6. Analytical procedures
7. Inquiry

Answers:
1  a  2  d  3  a  4  b  5  a  6  c  7  a  8  b  9  b  10  d  11  c  12  a  13  b  14  c  15  b  16  b  17  c
1. An inquiry into the value, title, ownership, existence and any charge on the assets are
   a) Vouching
   b) Verification
   c) Voucher
   d) Investigation

2. In the process of verification auditor observes assets:
   a) Physically
   b) Account balance
   c) legers
   d) None of above

3. Verification is an evaluation of truth and fairness of assets and liabilities appearing:
   a) Legar
   b) Balance sheet
   c) Trial balance
   d) None of above

4. Objectives of verification are:
   a) Certify ownership and title
   b) Valuation
   c) Ascertain existence
   d) All of above

5. Verification supports an organization about:
   a) No embezzlement
   b) True and fair view
   c) Proper disclosures
   d) All of above

6. In the process of verification followings techniques are used:
   a) Physical existence
   b) Ownership of assets
   c) Proper disclosures

7. Which of the followings is not verification technique:
   a) Valuation of assets
   b) Possession of assets
   c) Tick mark
   d) Charge on asset

8. Vouching is a part of:
   a) Verification
   b) Voucher
   c) Investigation
   d) Audit planning

Note: Assertion is the claim/representation of management about transaction and events, account balance and disclosures

9. Different categories of assertions:
   a) Assertion about transactions and events
   b) Assertion about account balance
   c) Assertion about presentation and disclosure
   d) All of above

10. Which of the following is not one of three categories of assertion:
    a) Assertion about transactions
    b) Assertion about account balance
    c) Assertion about presentation and disclosure
    d) Assertion about financial statements

11. Assumptions of management used by the auditor to consider:
    a) Material misstatements
    b) Errors
    c) Fraud
    d) None of above

12. Which of the following is the assertions about transactions and events:
    a) Occurrence
13. Which of the following is the assertion about account balances:
   a) Existence
   b) Completeness
   c) Rights and obligations
   d) Valuation and allocation
   e) All of above

14. Which of the following is the assertion about presentation and disclosures:
   a) Occurrence, rights and obligations
   b) Completeness
   c) Classification and understandability
   d) Accuracy and valuation
   e) All of above

15. Which of the following is not an assertion about transactions:
   a) Occurrence
   b) Completeness
   c) Classification
   d) Vouching

16. If auditor want to verify all assertions of misstatement then audit
   a) Will fully complete
   b) Fraud will not occur in future
   c) Will not economically feasible
   d) Audit procedures will reduce

17. If a debtor is included in the account payable on the financial statements, it is violation of
   assertion of:
   a) Occurrence
   b) Completeness
   c) Classification

18. Points which are required to consider during verification of assets:
   a) Purchase and disposal
   b) Depreciation
   c) Opening and closing balance
   d) All of above

19. Procedures for verification of Buildings:
   a) Classification
   b) Schedule of Buildings
   c) Valuation
   d) All of above

20. Procedures for verification of vehicles:
   a) Log books
   b) Purchase and disposal
   c) Opening and closing balance
   d) All of above

21. Procedures for verification of goodwill:
   a) Acquisition agreements
   b) Purchase consideration
   c) Presentation and disclosures
   d) All of above

22. Procedures for verification of bank balances:
   a) List of bank accounts
   b) Bank reconciliation statement
   c) Bank payments/Receivables
   d) All of above

23. Procedures for verification of cash balance:
   a) Opening/Closing balance
   b) Cash receipts/payments
   c) Physical count
d) All of above

24. Procedures for verification of wages and salaries:
   a) Personal files of employees
   b) Salaries & wages sheet
   c) Time records
   d) All of above

25. Procedures for verification of directors remuneration:
   a) Minutes of meeting and approval
   b) Components of remuneration like basic salary, allowances
   c) Presentation and disclosures
   d) All of above

26. During verification of self construted building which of the document has least importance:
   a) Minutes of meeting
   b) Bill of contractor
   c) Certificate of Engineer
   d) All of above

27. When counting cash on hand auditor should:
   a) Ensure presence of somebody from management
   b) Obtain a receipt from cashier
   c) Ensure postage and stamps not included in physical count
   d) Consider temporary advances to employees

28. Which of the following statement is not true about valuation of assets:
   a) Management is responsible for valuation of assets
   b) Auditor can rely on certificate of authorized valuer
   c) Valuation is not part of audit report
   d) External auditor shall value the assets as per accepted accounting principle

Note: Auditor shall value the assets as per accepted standard on auditing

**Vouching**

1. Comparing transactions/entries with documentary evidence in support there is called:
   a) Vouching
   b) Verification
   c) Voucher
   d) Investigation

2. Which is the authentic way to ascertain the accuracy of the transactions/entries:
   a) Vouching
   b) Verification
   c) Voucher
   d) Investigation

3. Vouching is an examination of truth and fairness of transactions recorded in the books of:
   a) Original entry
   b) Balance sheet
   c) Trial balance
   d) None of above

4. Documentary evidence in support of transactions/entries is called:
   a) Vouching
   b) Verification
   c) Voucher
   d) Investigation

Note: Vouching and voucher are two different concepts, voucher is the base of vouching.

5. Different examples of voucher:
   a) Cash memo, invoice, agreements
   b) Sales ledger
   c) Cash book
   d) Purchase book

6. Vouching supports to auditor is detection and prevention of:
   a) Errors
   b) Frauds
7. Auditor verifies the books of original entries, subsidiary books with the help of:
   a) Vouching
   b) Investigation
   c) Verification
   d) None of above

8. Source of examine/verification of proper authority for any transaction is:
   a) Vouching
   b) Investigation
   c) Verification
   d) None of above

9. Which of the following ways are used to observe the period and allocation of transactions:
   a) Vouching
   b) Investigation
   c) Verification
   d) None of above

10. Which of the following is the technique of vouching:
    a) Voucher should be dated
    b) Voucher should relate to business
    c) Voucher should signed
    d) All of above

11. Trick marks on transactions is the technique of:
    a) Vouching
    b) Investigation
    c) Verification
    d) None of above

12. Which of the following aspects are observed while vouching the cash sales:
    a) Cash book

13. Which of the following aspects are observed while vouching the cash purchases:
    a) Cash book
    b) Cash purchase return
    c) Purchase order
    d) All of above

14. Which of the following aspects are observed while vouching the debtors:
    a) Credit sales
    b) Sales return/Trade discount
    c) Receipt from debtors
    d) All of above

15. Which of the following aspects are observed while vouching the creditors:
    a) Credit purchase
    b) Purchase return/Trade discount
    c) Payment to creditors
    d) All of above

16. Which of the following aspects are observed while vouching the investments:
    a) Minutes of meeting
    b) Cash book
    c) Opening/Closing balance
    d) All of above

17. Which of the following aspects are observed while vouching the fixed assets sales and purchase:
    a) Minutes of meeting
    b) Cash book
    c) Opening/Closing balance
    d) All of above

18. Which of the following aspects are observed while vouching the wages account
19. Which of the following aspects are observed while vouching the wages sheet?
   a) Wages sheet
   b) Cash book
   c) Payee's signatures
   d) All of above

20. Which of the following is the source document for staff salaries?
   a) Vouchers
   b) Bank statements
   c) Approved payrolls
   d) All of above

21. Which of the following aspects are observed while vouching the travelling allowance?
   a) Manuals for travelling allowance
   b) Cash book
   c) Cash memos
   d) All of above

22. Which of the following aspects are observed while vouching the commission?
   a) Agreement of commission
   b) Cash book
   c) Rate of commission
   d) All of above

23. Which of the following aspects are observed while vouching the interest payment?
   a) Agreement of interest
   b) Cash book/Bank account
   c) Rate of interest
   d) All of above
Quality Audit

1. Systematic examination of a quality of management system called:
   a) Quality audit
   b) Compliance audit
   c) Service audit
   d) None of above

2. The most comprehensive type of audit is the:
   a) Product audit
   b) Process audit
   c) System audit
   d) All of above

3. Types of quality audit are:
   a) Product audit
   b) Process audit
   c) System audit
   d) All of above

4. Types of quality audit are:
   a) 3
   b) 2
   c) 5
   d) 7

5. An examination of a particular product or service, whether it meets customer specifications called:
   a) Product audit
   b) Process audit
   c) System audit
   d) All of above

6. Process of verification that whether organization system is working with its sales limit:
   a) Product audit
   b) Process audit
   c) System audit
   d) All of above

7. An audit conducted for evaluation of management system called:
   a) Product audit
   b) Process audit
   c) System audit

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8. An audit conducted for evaluation of management system called:
   a) Product audit
   b) Process audit
   c) System audit
   d) All of above

9. Evaluation of efficiency, effectiveness and goal achievements are objectives of:
   a) Financial audit
   b) Information systems audit
   c) Operational audit
   d) All of above

10. A system of quality audit may verify the effectiveness of a quality management system, this is part of:
    a) ISO 9000
    b) ISO 9001
    c) ISO 9002
    d) ISO 9003

11. Comprehensive type of audit is the examination of suitability and effectiveness of the system as a whole called:
    a) Quality audit
    b) Quantity audit
    c) Preliminary audit
    d) All of above

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Internal Control System

1. Internal auditors are responsible for:
   a) Helping management to improve organizational effectiveness and efficiency
   b) Providing an independent review of the financial statements
   c) Assisting in the design and implementation of an ISA
   d) Both a & c

2. Which of the following is the types of internal audits:
   a) A financial audit
   b) An information system audit
   c) An operational audit
   d) A compliance audit
   e) An investigation audit
   f) All of above

3. Purpose of an information system audit is to review and evaluate the:
   a) Internal control
   b) Efficiency of computer department
   c) Efficiency of production department
   d) All of above

4. Which of the following is the employee of the company:
   a) Internal auditor
   b) External auditor
   c) SECP
   d) All of above

5. Internal auditor generally follows audit standard of:
   a) Institute of Internal auditor
   b) ICMA
   c) SECP
   d) All of above

6. Internal auditor provides report to:
   b) Government
   c) Shareholders
   d) All of above

7. Which of the following is not function of internal auditor:
   a) Internal control review
   b) Risk audit
   c) Financial statements audit
   d) All of above

8. Which auditor frequently measures the compliance of entity policies and procedures:
   a) Internal auditor
   b) External auditor
   c) Both a & b
   d) All of above

9. Which of the following is the component of internal control system:
   a) Control environment
   b) Entity risk assessment process
   c) Control activities
   d) Information system
   e) Monitoring of control
   f) All of above

10. Which of the following is the element of control environment of a company:
    a) Commitment to competence
    b) Organizational structure
    c) Human resource policies and practices
    d) Assignment of authority and responsibility
    e) All of above

11. Factors due to which risk can arise and change in the entity:
    a) Change in operating environment
    b) New personal, technology, information system
    c) Corporate restructuring and new accounting pronouncements
d) All of above

12. Which of the following are the different control activities in the company:
   a) Performance review
   b) Information processing / Physical control
   c) Segregation of duties
   d) All of above

13. Which of the following procedures to obtain audit evidence about the internal control system of a company:
   a) Inquiry of entity personnel
   b) Observing application of specific controls
   c) Inspecting documents and records
   d) All of above

14. Which of the different factors that are considered to obtain understanding of entity internal control system:
   a) Business operation
   b) Investments and investment activities
   c) Financing and financing activities
   d) Financial reporting
   e) All of above

15. Which of the following should be considered as significant risk during understanding of entity internal control system:
   a) Whether risk is risk of fraud
   b) About complexity of transactions
   c) Whether risk is related to recent significant economic, accounting or other developments
   d) All of above

16. Which of the following characteristics should be in well-designed internal control questionnaire (ICQ):
   a) Questions about strength and weaknesses
   b) Organized according to the function of organization
   c) Provide sufficient source of data about internal control system
   d) All of above

Answers:
1 d 2 f 3 a 4 a 5 a 6 a 7 c 8 a 9 f 10 t
11 d 12 d 13 d 14 e 15 d 16 d

Sampling

1. Application of audit procedures to less than 100% of items within a population of audit relevance on which to base auditor draw conclusions about entire population called:
   a) Sampling
   b) Population
   c) Vouching
   d) Investigation

2. The entire set of data from which a sample is selected and about which auditor wishes to draw conclusions called:
   a) Sampling
   b) Population
   c) Vouching
   d) Investigation

3. Risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subject to the same audit procedures called:
   a) Sampling
   b) Sampling risk
   c) Vouching
   d) Investigation

4. The individual item constituting a population called:
   a) Sampling
   b) Sampling unit
   c) Vouching
   d) Investigation

5. Which of the following factors is considered during sample designing, determining size and selection of items for testing:
   a) Purpose of audit procedures and characteristics of population
   b) Sampling risk
   c) Each sampling unit has chances of selection
   d) All of above
6. A misstatement or deviation that is demonstrably not representative of misstatement in a population called:
   a) Anomaly
   b) Sampling unit
   c) Verification
   d) Investigation

7. Which of the following is the method of sample selection:
   a) Random selection
   b) Systematic selection
   c) Monetary unit sampling
   d) Haphazard selection
   e) Block selection
   f) All of above

8. Sampling method in which sample is selected through random number generation and random number table called:
   a) Random selection
   b) Systematic selection
   c) Monetary unit sampling
   d) Haphazard selection

9. Sampling method in which sample is selected by specific interval:
   a) Random selection
   b) Systematic selection
   c) Monetary unit sampling
   d) Haphazard selection

10. Sampling method in which sample size, selection and evaluation of results in monetary amounts called:
    a) Random selection
    b) Systematic selection
    c) Monetary unit sampling
    d) Haphazard selection

11. Sampling method in which auditor selects the sample without following a structured technique:
    a) Random selection
    b) Systematic selection
    c) Monetary unit sampling
    d) Haphazard selection

12. Sampling method in which selection of contiguous (similar) items from the population:
    a) Random selection
    b) Systematic selection
    c) Monetary unit sampling
    d) Block selection

13. Which of the following factor influence the sample size for test of controls details:
    a) Extent to which risk assessment
    b) Tolerable rate of deviation
    c) Expected rate of deviation
    d) Number of sampling unit in the population
    e) All of above

14. Process of dividing a population into sub-population which have similar characteristics called:
    a) Stratification
    b) Sampling
    c) Block selection
    d) None of above

Answers:
1 d 2 b 3 b 4 b 5 d 6 a 7 f 8 a 9 b 10 c 11 d 12 c 13 e 14 a
Auditor and Legal Environment

1. A person appointed to examine the books of accounts and report upon them called:
   a) Auditor
   b) Director
   c) Management
   d) All of above

2. A person appointed by the management to check the internal system of the organization called:
   a) External auditor
   b) Internal auditor
   c) Board of directors
   d) All of above

3. An independent person who carries out the work of audit to give his legal opinion on financial statements called:
   a) External auditor
   b) Internal auditor
   c) Board of directors
   d) All of above

4. Appointment of auditors of a company is made according to the provisions of Companies ordinance 1984:
   a) Section 252
   b) Section 253
   c) Section 254
   d) Section 255

5. Auditor is appointed by followings ways:
   a) First auditor
   b) Subsequent auditor
   c) Casual vacancy
   d) All of above

6. Who is responsible for the appointment of statutory auditor of a limited company:
   a) Human resource manager
   b) Members/Shareholders of the company
   c) Government
   d) All of above

7. Casual vacancy of auditor is appointed by which authorities:
   a) Board of directors
   b) SECP
   c) Both a & b
   d) None of above

8. First auditor is appointed by directors after incorporation of company:
   a) Within 60 days
   b) Within 30 days
   c) Within 50 days
   d) None of above

9. First auditor is appointed, by which authority if auditor could not appoint by directors within 60 days of incorporation:
   a) Shareholders
   b) Directors
   c) Both & b
   d) None of above

10. First auditor is appointed, by which authority if auditor could not appoint by directors within 120 days of incorporation:
    a) Shareholders
    b) Directors
    c) SECP
    d) None of above

11. Subsequent auditor is appointed by shareholders at:
    a) Annual general meeting
    b) At any time after retirement of auditor
    c) Extraordinary general meeting
12. If subsequent auditor is not appointed by shareholders at AGM then appointment:
   a) SECP
   b) Directors
   c) Both & b
   d) None of above

13. Tenure of subsequent auditor till:
   a) Conclusion of next annual general meeting
   b) Commencement of instant annual general meeting
   c) Depends on SECP
   d) None of above

14. Tenure of first auditor till:
   a) Conclusion of first annual general meeting
   b) Commencement of next annual general meeting
   c) Depends on SECP
   d) None of above

15. Casual vacancy of auditor is fulfilled within 30 days of occurrence by:
   a) SECP
   b) Directors
   c) Both & b
   d) None of above

16. Casual vacancy of auditor is not filled within 30 days of occurrence by, which authority shall appoint:
   a) SECP
   b) Directors
   c) Both & b
   d) None of above

17. Tenure of auditor of casual vacancy:
   a) Till next AGM
   b) One financial year

18. If auditor is appointed by directors then remuneration shall be fixed by:
   a) Directors
   b) Shareholders
   c) SECP
   d) None of above

19. If auditor is appointed by commission (SECP) then remuneration shall be fixed by:
   a) Directors
   b) Shareholders
   c) SECP
   d) None of above

20. If auditor is appointed by Shareholders then remuneration shall be fixed by:
   a) Directors
   b) Shareholders
   c) SECP
   d) None of above

21. Qualification of auditor of public company or subsidiary of public company or private company which has capital 3 million or more must be:
   a) Chartered Accountant
   b) Cost and management Accountant
   c) Accountant
   d) None of above

22. Which of the following are disqualified to appoint as an auditor:
   a) Person who was a director, officer or employee of the company during last 3 years
   b) Person who is an employee of a director or officer of the company
   c) Spouse of a director of the company
   d) None of above

23. Which of the following are disqualified to appoint as an auditor:
   a) Person who is indebted to the company
24. As per companies ordinance, a person is disqualified from being appointed as an auditor of a company if he holds:
   a) Securities carrying voting rights of the company
   b) Property of the company
   c) Vehicle of the company
   d) Goods of the company

25. Which of the following section deals with disqualification of the auditor:
   a) Section 254
   b) Section 252
   c) Section 251
   d) Section 256

26. Time period in which notice from a member must be given about appointment of new auditor instead of retiring auditor:
   a) At least 14 days before AGM
   b) At least 21 days before AGM
   c) At least 28 days before AGM
   d) None of above

27. Time period in which notice from company to other members must be given about appointment of new auditor instead of retiring auditor:
   a) At least 7 days before AGM
   b) At least 21 days before AGM
   c) At least 28 days before AGM
   d) None of above

28. Statutory auditor has right to obtain information from:
   a) Employees
   b) External stakeholders
   c) Officers of the company
Audit Report

1. Written opinion expressed by the auditor about the financial statements called:
   a) Auditor's report
   b) Report
   c) Audit conclusion
   d) None of them

2. According to international standards on auditing, basic parts of auditor report are:
   a) 7
   b) 10
   c) 2
   d) 5

Note: Parts of auditor report (Title, Address, Introductory paragraph, Management responsibilities, Auditor responsibilities, Auditor opinion, other reporting responsibilities, Signature of the auditor, Date of report, Audit firm address)

3. Auditor report generally addressed to:
   a) Shareholders
   b) Board of directors
   c) Bankers
   d) Both a & b

Note: Addressee of auditor report may vary with the appointing authority

4. Contents and form of auditor report may change:
   a) Due to different nature of engagement
   b) Due to different audit scope
   c) Due to different audit firms
   d) Both a & b

5. Auditor report should be dated:
   a) Not earlier than the date on which auditor has obtained sufficient and appropriate audit evidence
   b) Date on which management letter is issued
   c) Date on which engagement letter is issued
   d) Date on which auditor report is prepared

6. Types of audit reports:
   a) Statutory report
   b) Annual report
   c) Prospectus report
   d) All of above

Note: When there is disagreement between auditor and management and effect of such disagreement is material or pervasive then auditor issued:
   a) Qualified report
   b) Adverse report
   c) Disclaimer report
   d) None of above

10. When there is disagreement between auditor and management and effect of such disagreement is material or pervasive then auditor issued:
   a) Qualified report
   b) Adverse report
   c) Disclaimer report
   d) None of above

11. When auditor is unable to express an opinion and effect of which is not material or pervasive then auditor issued:
   a) Qualified report
   b) Adverse report
   c) Disclaimer report
   d) None of above

Note: When misstatement affect the decision of the user of financial statements called material misstatement and when misstatement not confined limited to one account balance or item of financial statement called pervasive

12. Standard format of the auditor's report as per Companies Ordinance 1984 is given which of the legal forms:
   a) Form 31 A
   b) Form 32 A
   c) Form 35A
   d) Form 36A
13. When issuing a qualified opinion, the auditor must satisfy that:
   a) Total material misstatement is less than materiality level
   b) Total material misstatement more than materiality level
   c) Total material misstatement equal to materiality level
   d) None of above

14. When the format and layout of the auditor's report prescribed by local laws and regulations is different from the international standards, then which format and layout will follow:
   a) Format of local laws and regulations
   b) Format of international standards
   c) Format of American standards
   d) None of above

15. When supplementary information could not differentiate from financial statements, then:
   a) Auditor shall express an audit report such information has not been audited
   b) Auditor shall explain in the audit report such information has been audited
   c) Auditor shall express an opinion
   d) None of above

Note: Supplementary information is the information which is attached with financial statements and not required by international accounting standards.

Answers:

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Miscellaneous topics

Code of Ethics and Threats for Professional Accountants (Auditor)

1. Fundamental principles that a professional accountant (audit firm) are required to comply with are:
   a) Code of ethics
   b) Audit procedures
   c) Substantive procedures
   d) None of above

2. Terms who after completion of chartered accountancy job an audit firm or established an audit firm that are called professional accountants

3. Different types of code of ethics:
   a) Integrity
   b) Objectivity
   c) Professional competence and due care
   d) Confidentiality
   e) Professional behavior
   f) None of above

4. How many types of code of ethics:
   a) 3
   b) 4
   c) 5
   d) 6

4. Auditor should be straightforward and honest in all professional and business relationship, called:
   a) Integrity
   b) Objectivity
   c) Confidentiality
   d) Professional behavior
5. Auditor should not allow bias, conflict of interest or influence of others during audit called:
   a) Integrity
   b) Objectivity
   c) Confidentiality
   d) Professional behavior

6. Auditor should maintain professional knowledge and skill as well as follow professional standards during all stages of audit called:
   a) Integrity
   b) Objectivity
   c) Confidentiality
   d) Professional behavior

7. Auditor should not disclose any such information to third parties without proper specific authority during and after audit called:
   a) Integrity
   b) Objectivity
   c) Confidentiality
   d) Professional behavior

8. Auditor should comply with relevant laws and regulations called:
   a) Integrity
   b) Objectivity
   c) Confidentiality
   d) Professional behavior

9. Specific circumstances which create limitations to the auditor to follow code of ethics called:
   a) Threats
   b) Audit limitations
   c) Professional misconduct
   d) None of above

10. Types of threats to the auditor:

    Answers:
    1.  a  b  c  d  e  f  g  h  i  j  k  l  m  n  o  p  q  r  s  t  u  v  w  x  y  z  
    11. a  b  c  d  e  f  g  h  i  j  k  l  m  n  o  p  q  r  s  t  u  v  w  x  y  z  

12. Threat which occur as a result of re-evaluation of previous judgment (An estimate or judgment which he has already given to the entity)
   a) Self-interest threats
   b) Self-review threats
   c) Advocacy threats
   d) Familiarity threats

13. Threat which occur when a auditor promotes a position or opinion to the point that subsequent objectivity may be compromised
   a) Self-interest threats
   b) Self-review threats
   c) Advocacy threats
   d) Familiarity threats

14. Threat which occur when a auditor could not act objectively during audit due to actual or perceived threats.
   a) Self-interest threats
   b) Self-review threats
   c) Advocacy threats
   d) Intimidation threats
1. Audit of government of Pakistan conduct under the supervision of:
   a) Department of accounts and audit (DAAI)
   b) Department of accounts and audit (DGPA)
   c) Department of public accounts (DPGCP)
   d) None of above
2. Types of government audit:
   a) Certification audit
   b) Compliance with authority audit
   c) Performance audit
   d) None of above
3. Audit of economy, efficiency, and effectiveness called:
   a) Certification Audit
   b) Compliance with Authority Audit
   c) Performance Audit
   d) None of above
4. Components of government audit:
   a) Government revenue receipt and payment
   b) Expenditure incurred by government
   c) Receipt of foreign aid
   d) Grants
   e) Transfer of money to lower levels of government
   f) Fixed and current assets of government
   g) All of above
5. Which of the following risks are considered during an audit of government:
   a) Fluctuations in exchange rates
   b) Fluctuations in economic conditions
   c) Natural disasters and other unforeseen occurrences
   d) Potential liability for environmental damages
   e) All of above
6. Which of the following risk is not considered during an audit of government:
   a) Show over expenditures in one grant and under expenditures in another grant
   b) Delay presentation of accounts
   c) Lack of reconciliation
   d) Lack of disclosure of terms and conditions attached to loans
   e) Delay confirmation from debtor
7. Which of the following is the main component of government revenue:
   a) Federal tax collection
   b) Foreign loans and grants
   c) Domestic loans (Debt)
   d) All of above
8. Auditor of government should remain aware about government:
   a) Policies in the area of audit
   b) Administration
General Information about Audit

1. International Standards on Auditing (ISA) issued by:
   a) International Federation of Accountants (IFAC)
   b) International Group of Accountants (IGAC)
   c) Institute of Chartered Accountants (ICAI)
   d) Institute of Chartered Accountants (ICAP)
   e) Institute of Cost and Management Accountants (ICMA)
   f) American Institute of CPAs
2. Which independent authority force to auditors to follow (ISA) in Pakistan:
   a) Institute of Chartered Accountants (ICAI)
   b) Institute of Cost and Management Accountants (ICMA)
   c) Institute of Chartered Accountants (ICAP)
   d) Institute of Cost and Management Accountants (ICMA)
3. How many International Standard on Auditing issued by IFAC:
   a) 36
   b) 40
   c) 38
   d) 42
4. ISA 200 deals with:
   a) Overall objectives of independent auditor and conduct of audit according to international standard on audit
   b) Agreed upon terms of audit engagements
   c) Audit documentation
   d) Quality control for an audit of financial statements
5. ISA 300 deals with:
   a) Overall objectives of independent auditor and conduct of audit according to international standard on audit
   b) Audit planning
   c) Audit documentation
   d) Quality control for an audit of financial statements
6. ISA 500 deals with:
   a) Audit evidence
   b) Audit planning
   c) Audit documentation
   d) Quality control for an audit of financial statements

Financial reporting framework adopted by management and those charged with governance in the preparation of financial statements called:

a) Applicable financial reporting framework
b) Compliance framework
c) General framework
d) None of above

Financial reporting framework that requires compliance with the requirements of framework called:

a) Applicable financial reporting framework
b) By presentation framework
c) Compliance framework
d) None of above

Financial statements of government and non-profit companies are:

a) Representation by treasury
b) Representation by officials responsible for financial management of the company
c) Representation by operation manager
d) Representation by general manager

Purposes objective of a financial audit of a government and non-profit entities is to provide assurance that:

a) Financial statements present fairly the financial position
b) Entity issuing resource effectively and efficiently
c) Financial statements are free of errors and omissions
d) None of above

Objective of the ordinary audit of financial statements is the expression of an opinion on:

a) Fairness of the financial statements
b) Financial statements
c) Accuracy of financial statements
d) None of above

Auditor accumulate evidence to:

a) Reach conclusion about the fairness of the financial statements
b) Defend themselves that he have observed evidence
c) Satisfy the requirements of company ordinance
d) Defend themselves in the event of law

Responsibility for adopting sound accounting principles and maintaining adequate internal control attach with:

a) Management
b) Board of directors
c) Auditor
d) Internal auditor
14. Responsibility for the fair presentation of financial statements attach with:
   a) Management
   b) Board of directors
   c) Auditor
   d) Internal auditor

15. When management draws favorable picture of the state of affairs of the company than
actual is called:
   a) Windows Dressing
   b) Teeming and lading
   c) Manipulation of financial position
   d) None of above

16. Which of the following is the example of windows dressing:
   a) Goods sent on sale or return basis recorded as regular sale
   b) Changing less expression on assets
   c) Revenue expenditure recorded in deferred revenue expenditure
   d) Recovery of loan at the end of the year and recorded at the start of the year
   e) All of above

17. Take out money from one account and put back money in same account after some time called:
   a) Windows Dressing
   b) Teeming and lading
   c) Manipulation of financial position
   d) None of above

18. Mr. Ajmal pays cash of Rs. 10000 to the cashier and cashier makes no entry in record and
Mr. Ajmal later Mr. Aham pays Rs. 10000 then cashier makes entry in Mr. Ajmal
a) This is called:
   a) Windows Dressing
   b) Teeming and lading
   c) Manipulation of financial position
   d) None of above

19. An entity whose audit is being conducted called:
   a) Auditor
   b) Client
   c) Auditor
   d) Both a & b

20. Information used by the auditor in arriving at the conclusions on which auditor opinion,
based called:
   a) Audit evidence
   b) Audit procedures

21. Measure of quantity of audit evidence called:
   a) Sufficiency of audit evidence
   b) Appropriateness of audit evidence
   c) Quality of audit evidence
   d) All of above

22. Measure of quality of audit evidence called:
   a) Appropriateness of audit evidence
   b) Appropriateness of audit evidence
   c) Quality of audit evidence
   d) All of above

23. The risk that the auditor expresses an inappropriate audit opinion when the financial
statements are materially misstated called:
   a) Misstatement
   b) Audit risk
   c) Detection risk
   d) Control risk

24. Audit risk is a function of risks of:
   a) Material misstatement
   b) Audit risk
   c) Detection risk
   d) Both a & c

25. Which of the following is the type of audit risk:
   a) Inherent risk
   b) Control risk
   c) Detection risk
   d) All of above

26. The risk that financial statements are materially misstated prior to audit called:
   a) Risk of material misstatement
   b) Audit Risk
   c) Both a & b
   d) All of above

27. The susceptibility of an assertion about a class of transactions, account balance or
   disclosure to a misstatement before consideration of any related control called:
   a) Inherent risk
   b) Control risk
   c) Detection risk
   d) All of above
28. The risk that a misstatement that will occur in assertions about a class of transactions and recorded on an accrual basis or disclosure in a financial statement that will not be prevented, or detected, and corrected on a timely basis, by the entity's internal control system called:
   a) Inherent risk
   b) Control risk
   c) Detection risk
   d) All of above

29. Such risk in which auditor cannot detect material misstatement is called:
   a) Inherent risk
   b) Control risk
   c) Detection risk
   d) All of above

30. A difference between amount, classification, presentation or disclosure of a reported financial statements and the amount, classification, presentation or disclosure that is required for the item to be in accordance with applicable financial reporting framework called:
   a) Misstatement
   b) Control risk
   c) Detection risk
   d) Audit risk

31. Professional skepticism means attitude that include:
   a) Questioning mind
   b) Inquisitive
   c) Unbelieving
   d) None of above

32. The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the course of actions that are appropriate in the circumstances of engagement called:
   a) Professional Judgment
   b) Professional skepticism
   c) Audit procedures
   d) None of above

33. In which of the following scenario auditor use professional judgment:
   a) Setting materiality and audit risk
   b) In determining nature, timing and extent of audit procedures
   c) Evaluating whether sufficient and appropriate audit evidence has obtained
   d) All of above

34. An independent auditor gives assurance after audit of financial statements:
   a) Reasonable
   b) Introspective
   c) Unbelieving
   d) None of above

35. Reasonable assurance means:
   a) Auditor is not entirely sure about correctness of financial statements
   b) Auditor is not responsible for the fairness of financial statements
   c) Auditor is responsible only for issuing of report
   d) None of above

36. High but not absolute level of assurance called:
   a) Reasonable assurance
   b) Absolute level of assurance
   c) hub x & b
   d) None of above

37. Auditor gives reasonable assurance due to:
   a) Audit limitations
   b) Delay presentation of financial statements to auditor
   c) lack of cooperation by management
   d) None of above

38. Which of the following is the type of inherent limitation of audit:
   a) Nature of financial reporting
   b) Nature of audit procedures
   c) Audit is compulsory to conduct within reasonable time and cost
   d) All of above

39. Different transactions which has significant impact on the audit limitations:
   a) Fraud
   b) Non-compliance with laws and regulations
   c) Existence of related party relationship
   d) All of above

40. Prior or organizations that are responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity called:
   a) Those charged with governance
   b) General manager
   c) Purchase manager
   d) All of above

41. A written contract between audit firm and client or written agreement to perform services by audit firm in exchange of compensation called:
   a) Audit engagement letter
   b) Management letter
42. Which of the following terms that are determined at the time of audit engagement to which of the following is the part of audit engagement letter?
   a) Objective and scope of audit
   b) Responsibilities of management and auditor
   c) List of inherent limitations of audit
   d) Identification of applicable financial reporting framework
   e) All of above
   f) None of above

43. Letter issued by the auditor to the management to convey weaknesses/drawbacks is the internal control system of the company called:
   a) Management letter
   b) Auditor report
   c) Engagement letter
   d) None of above

44. In how many days management letter (ML) issued by the auditor to the management by the issuing of auditor report?
   a) Within 60 days
   b) Within 90 days
   c) Within 56 days
   d) Within 30 days

45. Letter issued during the audit to the management for confirming any information called
   a) Audit memorandum
   b) Audit note
   c) Audit report
   d) Management letter

46. The record of audit procedures performed, audit evidence obtained and conclusion reached is called:
   a) Audit documentation/working paper
   b) Auditor report
   c) Audit plan
   d) All of above

47. Form, content and extent of audit documentation depends on which of the following factors:
   a) Size and complexity of the entity
   b) Nature of audit procedures performed
   c) Identified risks of material misstatement
   d) Audit methodology and tools used
   e) All of above

48. Which of the following is an example of audit documentation:
   a) Audit program
   b) Checklist
   c) Letter of confirmation and representation
   d) Ankylos
   e) All of above

49. Time period in which assembly of audit file is required after the auditor report:
   a) Within 60 days
   b) Within 90 days
   c) Within 56 days
   d) Within 30 days

50. How much time period auditor is bound to retain audit working papers after the audit according to ISA:
   a) 5 years
   b) 6 years
   c) 7 years
   d) 4 years

51. How much time period auditor is bound to retain audit working papers after the audit according to ICAP:
   a) 5 years
   b) 6 years
   c) 7 years
   d) 4 years

52. Which of the following amendments can auditor bring in audit working paper after the finalization of audit file:
   a) Deleting, discarding superseded document
   b) Sorting and cross-referencing of working papers
   c) Signing off on completion of checklists
   d) All of above

53. Audit documentation is the property of:
   a) Auditor
   b) Client
   c) Audit committee
   d) All of above

54. Quantity of audit working papers collected by auditor mostly effect by:
   a) Auditor experience and professional judgment
   b) Management integrity
   c) Auditor qualification
   d) None of above
55. Which of the following is the advantage of audit working paper:
   a) Provide a basis for review of audit work
   b) Provide a basis for subsequent audits
   c) Provide evidence of audit work according to audit program
   d) All of above

56. Types of files which auditor maintains during audit:
   a) Current file
   b) Permanent/Master file
   c) Both a & b
   d) None of above

57. Audit file which contain information about current working of audit is called:
   a) Current file
   b) Permanent/Master file
   c) Both a & b
   d) None of above

58. Audit file which contain information about the nature of the entity and its internal control called:
   a) Current file
   b) Permanent/Master file
   c) Both a & b
   d) None of above

59. Which of the following is the advantage of audit working paper:
   a) Assist the engagement team to plan and perform audit
   b) Maintain record for future
   c) Enable the conduct of quality control review and inspection
   d) All of above

60. Which of the following are characteristics of good working papers:
   a) Description about period of audit
   b) Tick marks
   c) Cross-referencing
   d) Indexing
   e) All of above

61. Different symbols that auditor use to indicate work that has been done during audit called:
   a) Vouching
   b) Tick marks
   c) Cross-referencing
   d) Indexing

62. Performance of test of control is documented in:

   a) Audit programme
   b) Auditor working paper
   c) Audit report
   d) All of above

63. Which of the following locations that auditor shall audit of any organization:
   a) Principal business place
   b) Attached departments
   c) Operational locations
   d) Location where assets are located
   e) All of above

64. Procedure in which auditor record transactions in the proper period called:
   a) Cut-off procedures
   b) Analytical procedures
   c) Test of control
   d) None of above

65. To against the government laws and regulation is called:
   a) Legal Act
   b) Fraud
   c) Error
   d) None of above

66. Facts affect the financial statements:
   a) Indirectly
   b) Directly
   c) Do not effect
   d) None of above

67. Which of the following statement is true according to companies ordinance 1984:
   a) Books of account should be at head office
   b) Books of account should be kept for 10 years
   c) Shareholders and directors can review books of accounts
   d) None of above

68. Opinion or misstatement shall consider material if it individually or in aggregate with other material points could influence:
   a) Economic decision of the users of financial statements
   b) Economic decision of auditor
   c) Economic decision of SECP
   d) None of above

69. Which of the different levels materiality is determine for audit of financial statements:
   a) Materiality as a whole
   b) Materiality for particular classes of transactions
List of different International Standard on Auditing

1. ISA 200, Overall objectives of the independent auditor and conduct of audit according with international standard on Auditing
2. ISA 210, Agreeing the Terms of audit engagements
3. ISA 220, Quality control for an audit of Financial statements
4. ISA 230, Audit Documentation
5. ISA 240, The auditors responsibilities relating to fraud
6. ISA 250, Consideration of Laws and regulations in an audit of Financial statements
7. ISA 260, Communication with those charged with Governance
8. ISA 285, Communicating deficiencies In Internal control
9. ISA 285, Planning an Audit of financial statements
10. ISA 315, Identifying and Assessing the risks of material misstatement through understanding of entity and its environment
11. ISA 320, Materiality in planning and performing of audit
12. ISA 330, Auditors response to assessed risks
13. ISA 340, Audit considerations relating to an entity using a service organization
14. ISA 350, Evaluation of materiality identified during the audit
15. ISA 380, Audit evidence
16. ISA 380, Audit evidence-specific consideration for selected item
17. ISA 385, External communications
18. ISA 380, Initial audit engagements-opening balance
19. ISA 390, Analytical procedures
20. ISA 400, Audit Sampling
21. ISA 410, Auditing accounting estimates, including fair value accounting estimates, and related disclosures
22. ISA 420, Subsequent events
23. ISA 430, Going concern
24. ISA 450, Written representation
25. ISA 450, Special considerations-Audits of group financial statement
26. ISA 460, Using the work of the internal auditors
27. ISA 470, Using the work of internal auditor
28. ISA 480, Forming an opinion and reporting on financial statements
29. ISA 490, Modification to the opinion in the independent auditors report
30. ISA 500, Emphasis of matter paragraphs and other matter paragraphs in the independent auditors report
31. ISA 510, Comparative information—corresponding figures and comparative financial statements
Information about Auditor General of Pakistan

1. Office of Auditor General of Pakistan was developed under the constitution of:
   a) Pakistan
   b) India
   c) USA
   d) UAE

2. Terms and conditions of the office of Auditor General of Pakistan determined by:
   a) Parliament
   b) SECP
   c) FBR
   d) All of above

3. Terms and conditions of the office of Auditor General of Pakistan after approval of parliament finally approve by:
   a) President
   b) SECP
   c) FBR
   d) All of above

4. Auditor General of Pakistan remove from the office by the order of:
   a) Supreme court of Pakistan
   b) SECP
   c) FBR
   d) All of above

5. Auditor General of Pakistan is appointed for period of:
   a) 3 years
   b) 4 years
   c) 5 years
   d) 1 year

6. Time period in which Auditor General of Pakistan cannot reappoint in the office after he has ceased:
   a) 2 years
7. Basic function of office of Auditor General of Pakistan is to:
   a) Bring improvement in financial and reduce possibility of fraud and wastage
   b) Bring transparency in the government operations
   c) Bring maximum employment in the country
   d) Both a & b
8. How many number of employees are working in the office of Auditor General of Pakistan:
   a) 1200
   b) 1300
   c) 1400
   d) 1500
9. Office of Auditor General of Pakistan is located in the:
   a) Lahore
   b) Islamabad
   c) Karachi
   d) Faisalabad
10. Under which articles of constitution of Pakistan 1973 “Role and powers” of office of Auditor General of Pakistan are described:
   a) 168
   b) 169
   c) 170
   d) All of above
11. Under approval of which authority a person can act as Auditor General in case of absent or unable to perform function by Auditor General of Pakistan:
   a) President
   b) Chief Justice of Pakistan
   c) Speaker Punjab Assembly
1. Which of the following is the most common audit procedure in computer based audit?
   a) Computer-assisted audit technique (CAAT)
   b) Analytical
   c) Test of control
   d) None of above
2. Which of the following is the type of CAAT?
   a) Generalized audit software (GAS)
   b) Utility software
   c) Test data
   d) Audit expert system
   e) All of above
3. Software that has the capability to directly read and access data from various platforms called:
   a) Generalized audit software (GAS)
   b) Utility software
   c) Test data
   d) Audit expert system
4. Which of the following is the feature of Generalized audit software (GAS):
   a) Mathematical calculation
   b) Data analysis
   c) Sequence checking
   d) Duplication checking
   e) All of above
5. Which of the following is the advantage of CAAT:
   a) Computer assisted sampling
   b) File management
   c) Report generation
   d) All of above
6. Which of the following is not an advantage of CAAT:
7. Which of the following is the internal checks in a computer environment?
   a) Application controls
   b) Control checks
   c) Both a & b
   d) None of above
8. Different procedures used to initiate, record, process, and report transactions or other financial data called:
   a) Application controls
   b) General controls
   c) Both a & b
   d) All of above
9. Different types of application controls:
   a) Input controls
   b) Processing controls
   c) Output controls
   d) All of above
10. Application controls normally apply on:
    a) Sales
    b) Purchases
    c) Wages
    d) All of above
11. Policies and procedures that relate to many applications and support in effective functioning of application controls called:
    a) General control
    b) Application control
    c) Both a & b
12. Different types of general controls:
   a) Data center and network operations
   b) System software acquisition, change and maintenance
   c) Access security (physical security of assets)
   d) Authorization
   e) Application system acquisition, development and maintenance
   f) All of above

13. When sorting inventory record by location with generalized audit software, which function of such software is being used?
   a) Data analysis
   b) Calculation
   c) Statistics
   d) File manipulation

14. Audit which assess computer security include a review of:
   a) Type of security errors and fraud
   b) Asset balance verification
   c) Review of compensating controls
   d) Both a & b

Answers:

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6. A bid which is most closely conforming the evaluation criteria and other specified conditions in bidding documents and have lower evaluated cost called:
   a) Lowest evaluated bid
   b) Highest evaluated bid
   c) Bid
   d) None of above

7. Procurement of the same commodity from same source without competition called:
   a) Repeat orders
   b) Same order
   c) Lowest bid
   d) None of above

8. Return for each repeat order in terms of quality, timeliness, reliability, after said services called:
   a) Value for money
   b) Money
   c) Return on investment
   d) None of above

9. Procurement rules apply to all procurements made by procuring agencies of the Federal Government:
   a) Within Pakistan
   b) Outside Pakistan
   c) Within or outside Pakistan
   d) None of above

10. Which is the principle of procurements agencies:
    a) Procurements should conduct in a fair and transparent manner
    b) Procurements should conduct in quality manner
    c) Procurement should follow principles of procurements
    d) None of above

11. When there are conflict between Federal Government and international treaty about any obligation/commitment then:
    a) Provisions of Federal Government shall follow
    b) Provisions of International treaty shall follow
    c) Provisions of local Government shall follow
    d) None of above

12. Communication and documentation related to procurements of the Federal Government shall either be:
    a) Urdu or English or both
    b) Urdu
    c) English
    d) None of above

13. When procurement agency is outside the territories of Pakistan and procurement is made locally the procurement agency may use:
    a) Urdu language
    b) Local language
    c) English language
    d) All of above

14. When procurement exceeding the prescribed limit shall be subject to:
    a) Integrity pact
    b) Principles of procurements
    c) National procurement rules
    d) All of above

15. What of the followings factors that procurement agency shall consider during planning:
    a) Determine the requirements of procuring agency
    b) Delivery time or completion date
    c) Benefits that are likely to accrue to procuring agency in future
    d) All of above

16. Which of the followings factors that procurement agency shall consider during planning:
    a) Determine the requirements of procuring agency
    b) Delivery time or completion date
    c) Benefits in future
17. Which of the following limitations apply to the procurement agency:
   a) Splitting or regrouping of proposed procurements
   b) Time period of procurement must be less than one year
   c) Time period of procurement must be more than one year
   d) All of above

18. Specification for procurement should be generic and should not include reference of:
   a) Brand names
   b) Model numbers
   c) Catalogue numbers
   d) All of above

19. Specification rules for procurement do not apply to:
   a) Public sector entities
   b) Private sector entities
   c) Both public and private sector entities
   d) All of above

20. How much of the value of procurement shall be advertised on the authority website:
   a) 100,000 To 2,000,000
   b) 200,000 To 200,000
   c) 500,000 To 300,000
   d) 1,000,000 To 5,000,000

21. All procurement over two million rupees should be advertised on:
   a) Authority website as well as on newspapers
   b) Only authority website
   c) Only newspaper
   d) None of above

22. How much period of information about the procurement should available on the website:
   a) Only one week
   b) Until closing date of submission of bid
   c) One month after date of advertisement

23. Fifteen days after date of advertisement:
   a) How much time period shall be for response time of national competitive bid:
      a) Less than 15 days
      b) Less than 30 days
      c) More than 15 days
      d) More than 20 days
   b) How much time period shall be for response time of international competitive bid:
      a) Less than 15 days
      b) Less than 30 days
      c) More than 15 days
      d) More than 20 days
   c) From which date response time shall calculate:
      a) Date of submission of information by the supplier
      b) Date of first publication of the advertisement
      c) Date of inquiry of bid
      d) All of above
   d) When response time shall consider in case of advertisement in both electronic and print media:
      a) Date of print media/Date of publication in newspaper
      b) Date of publication in electronic media
      c) Both shall not consider
      d) All of above

24. Procurement rules under clause (b) of rule 42 does not apply to procurements of:
   a) National security
   b) Intellectual property
   c) Both a & b
   d) All of above

25. Which of the following factors that procuring agency shall consider before selection of suppliers and contractors:
   a) Relevant experience and past performance
29. Which of the following information that procurement agency shall announce in the pre-qualification documents:
   a) All information required for pre-qualification
   b) Instruction for preparation and submission of pre-qualification documents
   c) Evaluation criteria
   d) List of documentary evidence required by suppliers or contractors
   e) All of above

30. When suppliers or contractors shall consider disqualified by the procurement agency:
   a) Provide false information
   b) Provide inaccurate information
   c) Provide incomplete information
   d) All of above

31. When supplier or contractor shall consider blacklisted by the procurement agency:
   a) Fail to provide satisfactory performance
   b) Indulge in corruption
   c) Indulge in fraudulent practices
   d) All of above

32. Which principal method a procurement agency shall use:
   a) Open competitive bidding
   b) Close competitive bidding
   c) Open merit base bidding
   d) None of above

33. Which principal method a procurement agency shall use:
   a) Open competitive bidding
   b) Close competitive bidding
   c) Open merit base bidding

34. When procurement agency shall engage in open competitive bidding:
   a) When cost of the object is more than prescribed financial limit in rule-42
   b) When cost of the object is equal to prescribed financial limit in rule-42
   c) When cost of the object is less than prescribed financial limit in rule-42
   d) All of above

35. When procurement agency shall engage in open competitive bidding:
   a) When cost of the object is more than prescribed financial limit in rule-42
   b) When cost of the object is equal to prescribed financial limit in rule-42
   c) When cost of the object is less than prescribed financial limit in rule-42
   d) All of above

36. Which of the followings shall include in the bidding documents:
   a) Form of bid
   b) Instructions for bidders
   c) General or special conditions of contract
   d) Delivery time and qualification criteria
   e) All of above

37. Procurement agency has right to reserve or can provide preference to national or local suppliers or contractors according to the policies of Federal Government:
   a) Yes
   b) No
   c) Both a & b
   d) None of above

38. How much security a bidder is required to submit to procuring agency:
   a) 5% of bid price
   b) 10% of bid price
   c) 50% of bid price
   d) 3% of bid price

39. When bid shall open after submission of bid to procurement agency:
   a) Within 20 minutes
b) Within 20 minutes

c) Within 60 minutes

d) Within 40 minutes

40. All bids submitted to procurement agency shall open in the presence of:

a) Government agent

b) Bidders or their representative

c) Senior officer

d) Bankers of bidder

41. During evaluation of bid, which rate of exchange shall follow procurement agency:

a) Selling rate specified by State Bank of Pakistan

b) Purchase rate specified by State Bank of Pakistan

c) Purchase rate specified by the Government of Pakistan

d) Purchase rate specified by KSE

42. Which type of clarification a procurement agency shall obtain from bidder after opening of bid:

a) Which change the substance of bid

b) Which does not change substance of bid

c) Which affect the substance of bid

d) All of above

43. Request for clarification of bids shall be:

a) In writing

b) Verbal

c) Both written and verbal

d) None of above

44. Which of the following factors a procurement agency shall consider before inviting a re-bidding:

a) Assess the reason for rejection

b) Specifications for procurement shall revise

c) Evaluation criteria shall revise

d) All of above

45. Time period in which announcement of evaluation report shall be:

a) 10 days before award of procurement contract

b) 15 days before award of procurement contract

c) 20 days before award of procurement contract

d) 30 days before award of procurement contract

46. Bid in which one single envelope shall use; in which separate financial and technical proposals called:

a) Single stage-one envelope procedure

b) Single stage-two envelope procedure

c) Separate financial and technical procedures

d) None of above

47. Bid in which one single package involves two separate envelopes; in which separate envelope for financial and technical proposals called:

a) Single stage-one envelope procedure

b) Single stage-two envelope procedure

c) Separate financial and technical procedures

d) None of above

48. Which bidder shall select after evaluation by procurement agency:

a) That has lowest evaluated bid

b) That’s bid does not conflict with any other law, rules and regulations

c) That’s bid according to policy of Federal Government

d) All of above

49. How much performance guarantee shall demand from successful bidder:

a) Shall not exceed 10% of the contract price

b) Shall not exceed 15% of the contract price

c) Shall not exceed 20% of the contract price

d) Shall not exceed 5% of the contract price

50. Time period up to which procurement agency is required to keep information confidential until:

a) Completion of project
51. Which of the following are the alternative methods for procurements other than bid:
   a) Petty purchases
   b) Request for quotations
   c) Direct contracting
   d) Negotiated tendering
   e) All of above

52. Procurement that's limit below twenty-five thousand and shall be exempt from the
    requirements of bidding or quotation price called:
   a) Petty purchases
   b) Request for quotations
   c) Direct contracting
   d) Negotiated tendering
   e) All of above

53. Which of the following conditions are required for request for quotations procurement:
   a) Cost of the project below one hundred thousand rupees
   b) Minimum three quotations have been obtained
   c) Object of purchase from the supplier offering lowest price
   d) All of above

54. Which of the following conditions are required for direct contracting procurement:
   a) Procurement about acquisition of spare parts or supplementary services
   b) Only one manufacturer or supplier exist
   c) In case of an emergency
   d) All of above

55. Which of the following conditions are required for negotiated tendering:
   a) Supplies involve are manufactured purely for supporting a specific piece of research
   b) Technical or artistic reasons
   c) In case of extreme urgency

56. Time period in which payment to suppliers and contractors shall made:
   a) Within 30 days
   b) Within 20 days
   c) Within 10 days
   d) Within 5 days

57. How much time period procurement agency shall keep record of all proceedings and
    associated documents:
   a) 1 years
   b) 10 years
   c) 15 years
   d) 7 years
Preparation of Pension documents

1. Concept of pension was first time given by which country:
   a) Pakistan
   b) Germany
   c) India
   d) USA

2. A periodical payment made by Government to servant or his family against something tendered by him called:
   a) Pension
   b) Gratuity
   c) Retirement benefit
   d) None of above

3. A recipient of a retirement pension is known as:
   a) Pensioner
   b) Employee
   c) Retired employee
   d) None of above

4. Types of pensions according to pension rules:
   a) Compensation pension
   b) Superannuation pension
   c) Retiring pension
   d) All of above

5. Pension which is paid on the permanent abolition (elimination) of a servant from the Government called:
   a) Compensation pension
   b) Superannuation pension
   c) Retiring pension
   d) Invalid pension
   e) All of above

6. Pension which is paid to servant who by bodily or mentally sick and to whom medical board issue certificate called:
   a) Compensation pension
   b) Superannuation pension
   c) Invalid pension
   d) All of above

7. Pension which is paid to Government servant who is compelled by rule to retire at a particular age called:
   a) Compensation pension
   b) Superannuation pension
   c) Invalid pension
   d) All of above

8. Pension which is paid to Government servant who is permitted to retire after completing qualifying service of 25 years called:
   a) Compensation pension
   b) Superannuation pension
   c) Retiring pension
   d) All of above

9. Pension which is paid on 60 years age called:
   a) Ordinary pension
   b) Extraordinary pension
   c) Service pension
   d) All of above

10. Pension which is paid to employee that is medically unfit and his service less than 10 years called:
    a) Ordinary pension
    b) Extraordinary pension
    c) Gratuity
    d) All of above
11. How much amount of pension is paid to servant if he retires on the basis of framed pension:
   a) 2/3 of the pension
   b) 3/4 of the pension
   c) 1/4 of the pension
   d) Full amount of pension

12. Temporary service performed by employee afterward he becomes permanent employee, whether such period shall count in the pension:
   a) Yes
   b) No
   c) 1/2 period shall consider
   d) Only 5 years shall consider

13. How much period of apprenticeship shall consider in the pension:
   a) 1/2
   b) 1/3
   c) 2/3
   d) 3/4

14. If service of probationers subsequently confirmed, how much period of probation shall consider:
   a) Full period
   b) Half period
   c) Only 2 years
   d) Only 4 years

15. Which of the following period shall consider in the calculation of amount of pension:
   a) Time spent by Government servant in approved training
   b) All leaves other than extra-ordinary leaves
   c) Both a & b
   d) All of above

16. How much period before employee shall apply to appointing authority about issues of retirement notification:
   a) At least 3 months before date of retirement
   b) At least 2 years before date of retirement
   c) At least 6 months before date of retirement
   d) None of above

17. Which of the following documents submitted to apply for retirement notification:
   a) Photograph of full 4 page of service book
   b) Retirement certificate
   c) National identity card
   d) No demand certificate/No enquiry certificate
   e) All of above

18. To which authority a person shall apply for pension:
   a) District Account officer
   b) District Audit officer
   c) DCO
   d) All of above

19. Which of the following conditions shall fulfill for qualifying service for pension:
   a) On the date of taking charge of any office
   b) Employment must be permanent
   c) Service must be under Government
   d) All of above

20. Different benefits and allowances that a Government servant is receiving before retirement called:
   a) Pension
   b) Emolument
   c) Retirement benefit
   d) None of above

21. In which of the following Government servants, pension rules not apply:
   a) Engaged on contract
   b) Whose appointment and conditions are made under any other law
   c) Who are excluded by application of this rule
22. Lump-sum amount that is paid to employees after retirement called:
   a) Pension
   b) Gratuity
   c) Retirement benefit
   d) None of above

23. Pakistan pension fund was constituted under the voluntary pension system rules:
   a) 2005
   b) 2004
   c) 2006
   d) 2003

24. Which pension rule applicable in Punjab:
   a) Pension rules 1963
   b) Pension rules 1962
   c) Pension rules 1965
   d) Pension rules 1964

25. Age limit for the employees to go on retirement or retire from service:
   a) 60 years
   b) 59 years
   c) 61 years
   d) 50 years

26. Which of the followings are included in the definition of family according to pension rules:
   a) Wife or wives in case of male servant
   b) Husband in case of female servant
   c) Children of Government servant
   d) Widow or widows and children of deceased son of Government servant
   e) All of above

27. Which of the following documents are sent to accountant general by the widow/claimant in case of death of servant:
   a) Application from widow/claimant
   b) Death certificate
   c) List of surviving members
   d) Specimen signature of widow/claimant
   e) All of above

28. If a person dies after retirement but within ten years, payment shall be made to his family at the rate of:
   a) 75%
   b) 70%
   c) 50%
   d) 90%
   e) None of above

29. To whom pension shall equally divide if widow of a servant died:
   a) Among serving nons not above 24 years
   b) Unmarried daughters of the died pensioner
   c) Both a & b
   d) None of above

30. How much amount shall be given for marriage of daughter of a servant who died during service:
   a) 60000
   b) 50000
   c) 30000
   d) 10000

All above mentioned amount vary with change in budget or any other notification issued.

31. To how many children’s, educational scholarship shall be given in case of death of servant during service:
   a) 3
   b) 4
   c) 5
   d) 2

32. If Government servant dies after five years of retirement then who will get group insurance:
   a) No one can obtain
   b) His heirs can obtain
33. Government servant can withdraw GP fund:
   a) After 15 years of service
   b) When his service 20 years
   c) When his service 25 years
   d) When his service 30 years

34. Government servant can withdraw GP fund for which purpose:
   a) House/Building repair
   b) Car purchase
   c) Motorcycle purchase
   d) Return of loans to bank

35. If Government servant age is less than 56 years than how much amount of GP fund he can withdraw:
   a) 36%
   b) 50%
   c) 40%
   d) 10%

36. Certificate by the department concerned that all dues against retiring Government servant have been realized and nothing is now outstanding against him called:
   a) No demand certificate
   b) Demand certificate
   c) Pension
   d) Clearance certificate

**Preparation of Budget**

Note: The syllabus of FPSC. Contents are given about the Process of preparation of budget and the types of budget but it is to be noted that why some books mention merely types of budget. So we have focused on the process of preparation of budget which is followed by the Ministry of Finance.

1. Which authority of Government of Pakistan prepares budget:
   a) Ministry of Finance
   b) Ministry of Public relations
   c) Ministry of External affairs
   d) Ministry of extraction of natural resources

2. Budget year in Pakistan is from:
   a) 1st July to 30th June
   b) 1st January to 31st December
   c) 1st August to 30th September
   d) None of above

3. Budget preparation process starts in the month of:
   a) December
   b) October
   c) September
   d) May

4. On issuing of which circular budget preparation process starts:
   a) Budget call circular
   b) Budget data circular
   c) Budget preparation circular
   d) Budget circular

5. Development requirements are determine in the months of:
   a) November to February
   b) October to June
   c) March to June
   d) May to June
6. Scrutiny of data that is collected about the budget is take place in the months of:
   a) March
   b) October
   c) April
   d) May

7. Consideration on the budget is take place in the month of:
   a) April
   b) October
   c) March
   d) May

8. Budget call circular is issued to the:
   a) Administrative Ministries/Divisions
   b) Foreign Government
   c) Local Government
   d) Federal Board of Revenue

9. Budget estimate is prepared separately for:
   a) Development expenditures
   b) Non-development expenditures
   c) Both a & b
   d) None of above

10. In which of two categories budget is divided:
    a) Revenue budget
    b) Capital budget
    c) Both a & b
    d) None of above

11. Budget which deals with creation of assets and development expenditures called:
    a) Revenue budget
    b) Capital budget
    c) Both a & b
    d) None of above

12. Budget which deals with day to day expenditures/Non-development expenditures called:
    a) Revenue budget
    b) Capital budget
    c) Both a & b
    d) None of above

13. Program which deals with inclusion of development expenditures in the annual budget is called:
    a) Annual Development Programme (ADP)
    b) Annual Development Provisions (ADP)
    c) Annual Development Project (ADP)
    d) None of above

14. Which authority finally approve Annual Development Programme (ADP):
    a) National Economic Council
    b) National Economic Department
    c) National Budget Department
    d) All of above

15. Budget proposal prepared by ministry of finance is presented to:
    a) Federal Cabinet
    b) Provincial Cabinet
    c) Auditor General of Pakistan
    d) All of above

16. After presentation of budget/finance bill to Federal Cabinet then it is presented to:
    a) Federal Cabinet
    b) National Assembly
    c) Speaker National Assembly
    d) All of above

17. Period in which budget/finance bill is approved/rejected by Senate after presentation:
    a) Within 7 days
    b) Within 15 days
    c) Within one month
d) Within 30 days

18. Which authority authenticate the schedule of authorized expenditures:
   a) Prime Minister
   b) Speaker National Assembly
   c) Speaker Senate
   d) Chief Justice of Pakistan

19. When discussion on the budget could not start after presentation to National Assembly
   a) On the same day of presentation
   b) On the next day of presentation
   c) After one week of presentation
   d) None of above

20. Which are the Stages of discussion on the budget:
   a) First General discussion on the budget as a whole
   b) Second discussion on charged expenditures
   c) Third discussion on grants
   d) All of above

### Answers:

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Bird's eye view of Budget Process:

1. Determine budget year
2. Issue budget call circular
3. Preparation of estimates
4. Annual Development program (ADP)
5. New Taxation Proposal
6. Schedule of authorized expenditure
7. Submission of budget proposals to the Federal Cabinet
8. Submission of budget to the National Assembly
9. Submission of budget to the Senate
10. Authentication of schedule of authorize expenditures
1. Budget speech of the Finance Minister
2. Detail about grants and appropriation
3. Demands for Grants and appropriations
4. Budget in brief
5. Annual Budget Statement
6. Explanatory memorandum of budget
7. Schedule of authorized expenditures
8. Estimates of foreign Assistance
9. Winding up budget speech by the Finance Minister

Bird's eye view of Budget documents

1. Different ways and means through which transactions are recorded in accounting principles and procedures manuals called:
   a) Chart of account
   b) Chart of detail
   c) Chart of finance
   d) None of above
2. Which of the following is the part (element) of chart of accounts (COA) of government:
   a) Entity
   b) Function
   c) Object
   d) Fund
   e) Project
   f) All of above
3. How many elements of chart of accounts:
   a) Five
   b) Three
   c) Sixes
   d) Two
4. Chart of accounts (COA) specifically deals with the transactions of:
   a) Federal Government
   b) Provincial Government
   c) Both a & b
   d) None of above
5. Which type of accounts used Federal Government before chart of accounts:
   a) COC
   b) COA
   c) CDS
   d) AOC
6. Which authority is responsible to update and maintain chart of accounts:
a) Auditor General of Pakistan
b) Ministry of Finance
c) SECP
d) None of above

7. Chart of accounts applies on entities that maintain:
a) Manual operation
b) Computerized operation
c) Both a & b
d) None of above

8. Which of the following are the entity sub-elements:
a) Government
b) Divisions/Departments
c) Attached departments
d) District
e) Drawing and disbursing officers
f) All of above

9. Which of the following are the sub-element of government:
a) Federal Government
b) Provincial Government
c) Both a & b
d) None of above

10. Which of the following is the entity object:
a) Expenditures
b) Taxes and non-revenue
c) Capital receipts
d) Assets, Liabilities and equity
e) All of above

11. Chart of account generally start with which of the following accounts:
a) Assets
b) Liabilities

e) Equity
d) Income

12. Each government is represented in chart of accounts by:
a) Single alpha character
b) Two alpha character
c) Three alpha character
d) Four alpha character

13. Each division or department identified by:
a) Single alpha character
b) Two numeric characters
c) Three alpha characters
d) Four alpha characters

14. Each district is identified in chart of accounts by:
a) Single alpha character
b) Two alpha characters
c) Three alpha characters
d) Four alpha characters

15. Drawing and disbursing officer is identified in chart of accounts by:
a) Single alpha character
b) Four numeric characters
c) Three alpha characters
d) Four alpha characters

16. The object elements consist of two sub-elements:
a) Accounting element
b) Account number
c) Both a & b
d) None of above

17. Which of the followings are accounting elements:
a) Expenditures
b) Tax receipts
18. In which of the following categories accounting members are divided:
   a) Major object
   b) Minor object
   c) Detailed object
   d) All of above

19. Which of the followings are different types of expenditures of Federal Government:
   a) Employee related expense
   b) Grants, subsidies and transfers
   c) Operating expenses
   d) Purchase of assets and repayment of loans
   e) Investments
   f) All of above

20. Which code is use for expenditures:
    a) A0000
    b) A00
    c) A000
    d) A0

21. Which code is use for tax receipts:
    a) B0000
    b) A00
    c) A003
    d) B000

22. Which code is use for non-tax receipts:
    a) C000
    b) C0000
    c) C00
    d) C0

23. Which code is use for tax receipts:
    a) C0000
    b) C00
    c) C0
    d) C0

24. Which code is use for assets:
    a) C000
    b) F0000
    c) C000
    d) C0

25. Which code is use for liabilities:
    a) G0000
    b) C0000
    c) C00
    d) F000

26. Which code is use for equity:
    a) H0000
    b) C0000
    c) C00
    d) F000

27. Which code is use for employee related expense by government:
    a) A04
    b) A02
    c) A03
    d) A04

28. Which code is use for employee related expense by government:
    a) A04
29. Which of the followings is the type of assets according to chart of account:
   a) Cash and bank balance
   b) Receivables
   c) Physical assets
   d) Investments
   e) All of above

30. Which of the followings is the type of liabilities according to chart of account:
   a) Current liabilities
   b) Deferred liabilities
   c) Loans
   d) All of above

31. Which of the followings are the different types of fund according to chart of account:
   a) Consolidated fund
   b) Public account
   c) Both a & b
   d) None of above

32. Consolidated fund consists of:
   a) Capital
   b) Revenue
   c) Both a & b
   d) None of above

33. Which of the followings are the types of public accounts:
   a) Provident fund
   b) Benevolent fund
   c) Welfare fund
   d) Insurance fund
   e) All of above

34. Which of the followings are the description of function elements:
   a) General public service
   b) Defense affairs
   c) Public order and safety
   d) Economic affairs
   e) All of above

35. Why Auditor General of Pakistan prepared chart of accounts:
   a) It provides accurate and timely information to Government
   b) It supports government to reduce expenditures
   c) It is source of earning maximum revenue
   d) None of above

36. Federal government has different types of receipts:
   a) Revenue
   b) Capital
   c) Both revenue and capital
   d) None of above

37. Which of the followings is the main category of revenue receipts:
   a) Taxes and non-tax
   b) Gain on sales of assets
   c) Gain on sales of land
   d) None of above

38. Which of the followings is the source of revenue receipts:
   a) Dividend
   b) Return on investment of Federal Government
   c) Mark up on loan and advances of Federal Government
   d) Revenue of commercial departments
   e) All of above

39. Which of the followings is the type of direct taxes:
   a) Income tax
   b) Workers welfare fund
40. Which of the followings is the type of indirect taxes:
   a) Custom
   b) Sales taxes
   c) Federal excise
   d) All of above

41. Which of the followings is the type of non-tax revenue:
   a) Income from property and enterprise
   b) Receipts from civil administration
   c) Both a & b
   d) None of above

42. Which of the followings is the type of capital receipt:
   a) Recoveries on investments
   b) Recoveries of loans and advances
   c) Debts
   d) All of above

43. Allocation of funds to different departments called:
   a) Appropriation
   b) Re-appropriation
   c) Supplementary Grants
   d) None of above

44. Transfer of funds from one primary unit of appropriation to another unit called:
   a) Appropriation
   b) Re-appropriation
   c) Supplementary Grants
   d) None of above

45. Re-appropriation is possible:
   a) Before expiry of financial year
   b) After expiry of financial year
   c) First quarter only
   d) None of above

46. Which of the following is the type of re-appropriation of funds:
   a) From a voted item to another voted item within grant
   b) Between operating units
   c) From a voted item to another voted item within one grant to another
   d) From one charged item to another charged item
   e) From a charged item to a voted item
   f) All of above

47. Which of the following authority sanction re-appropriation from a voted item to another voted item within grant:
   a) Finance Division
   b) Ministers
   c) Auditor
   d) Head of department

48. Which of the following authority sanction re-appropriation between operating units:
   a) Finance Division
   b) Ministers
   c) Auditor
   d) Head of department

49. Which of the following authority sanction re-appropriation from a voted item to another voted item from one grant to another:
   a) Finance Division
   b) Ministers
   c) Parliament
   d) Head of department

50. To which authority copy of sanction order of appropriation of funds should endorse:
   a) Chief accountant officer
   b) Auditor General of Pakistan
c) SECP

d) None of above

31. Application for additional appropriation of funds should ordinarily be supported by:
   a) Form G.R. 11
   b) Form G.R. 12
   c) Form G.R. 20
   d) Form G.R. 15.

32. Additional funds that are provided to any head of expenditure (hereafter called):
   a) Supplementary Grants
   b) Gift
   c) Donation
   d) None of above

33. Which of the following reasons force for supplementary grants:
   a) An unforeseen emergency
   b) Underestimate of expenditure
   c) Both a & b
   d) None of above

34. Which of the following officer proceed for supplementary grants:
   a) Head of department/Controller officer
   b) Auditor General of Pakistan
   c) SECP
   d) None of above

35. Which Article of Articles apply on supplementary grants under constitution of Pakistan 1973:
   a) 89 to 93
   b) 90
   c) 70 to 75
   d) All of above

36. Which Government has power to authorize supplementary grants:
   a) Federal Government
   b) Provincial Government
   c) Local Government
   d) All of above

37. Supplementary grants are presented for approval to:
   a) National Assembly
   b) Senate
   c) Controller General of Pakistan
   d) Auditor General of Pakistan

38. All applications for supplementary grants normally be submitted to:
   a) Government
   b) SECP
   c) Controller General of Pakistan
   d) Auditor General of Pakistan

39. In which of the month normally applications for supplementary grants are submitted:
   a) November
   b) June
   c) December
   d) October
The Sentence

A sentence is a word or group of words that give clear sense in a given context. e.g. You read a book is a sentence because it provides information about a subject. You read a book and know the meanings are clear. When we define a sentence, we are concerned with clarity of meaning to give a particular situation rather than complete sense. Look at the above sentence where we don’t have any information about the type of book that You read or place where he reads, or time of this activity but still the meanings are pretty clear. Although not completely, to, we will still maintain. Note: For a sentence, a group or collection of words is not essential, a single word may also align the meanings of particular context e.g. Teacher asks from the student “Have you done your homework?” and student reply “Yes.” Here “Yes” has clarified the meanings to teacher, so it is sentence under given context.

The subject in a sentence is the part of the sentence or clause about which something is being said. In some sentences the subject is understood, e.g. stop! (The subject ‘you’ understood), it’s normally occurs before the verb in sentences; e.g. the boy came in room quietly. (The noun ‘boy’ is the subject). The subject may person, place or thing.

The Predicate is a part of a sentence or clause containing a verb and stating something about the subject. The part of a sentence that expresses what is said about the subject. Predicate is one of the two main parts of a sentence. In above example; the words other than subject (boy) are part of predicate i.e. came in room quietly.

Types of sentence:
The sentences are broadly categorized into following four major types:
1. Declarative or assertive (Contains a statement e.g. we play cricket daily.)
2. Interrogative (Asks a question e.g. Do you love me? (where is your money?)
3. Imperative (Contains an order or request e.g. come here or come here please.)
4. Exclamatory (Contains strong feelings and emotions of happiness, sorrow, wish, pray e.g. Hurrah! We have won! (May you live long!)

Hint: You might have noted that every category of sentence is followed by a specific type of punctuation e.g. interrogative sentence always entails a question mark ‘?’ and exclamatory sentence involves sign of exclamation ‘!’; and other categories have full stop at the end.

Activity No. 1.
1. A word or group of words that gives clear sense in a given context is called:
As the dog barked, one cat sat on the fence, and the other licked its paws.

Now, independent and dependent clauses are the building blocks of sentences. A single simple or compound clause can be a sentence on its own. However, when dependent clauses are used to make a sentence more complex and interesting, an independent clause (or main clause) is formed that can stand on its own as a simple sentence. An independent clause contains a subject and a predicate; it makes sense by itself and therefore expresses a complete thought. A dependent clause is a clause that does not express a complete thought.

Activity No 2
1. Nidal and Yousef have a big argument every summer over where they should spend their summer vacation.
   a) Simple sentence.
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

2. Mariam loves to go to the beach and spend her days sunbathing.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

3. Shabir, on the other hand, likes the view that he gets from the log cabin up in the mountains, and he enjoys hiking in the forest.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

4. Mariam says there is nothing relaxing about chopping wood, swatting mosquitoes, and cooking over a woodstove.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

5. Ali feels he is sitting on the beach, he always gets burnt.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Complex sentence
6. Aimal needs to get bored sitting on the beach, watching the waves, getting sand in your eyes, and reading detective novels for a week.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

7. This year, after a lengthy, noisy debate, they decided to take separate vacations.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

8. Aimal went to the White Mountains of New Hampshire, and Pauline went to Cape Cod.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

9. Although they are 250 miles apart, they keep in constant contact on the internet.
   a) Simple sentence
   b) Compound sentence
   c) Complex sentence
   d) Compound-complex sentence

10. Ali took the desktop computer that he uses at work, and Salma sits on the beach with her laptop computer, which she connects to the internet with a cellular phone.
    a) Simple sentence
    b) Compound sentence
    c) Complex sentence
    d) Compound-complex sentence

Answers:
1. c
2. a
3. d
4. c
5. b
6. a
7. a
8. b
9. c
10. d

Parts of Speech

In a sentence, there are different words that play their role to clarify the meanings of the sentence. Some words are integral part of sentence and others are ancillary and surround the meanings. On the whole, there are following 8 parts of speech even though there are conflicts in classification on some theoretical basis:

1. Noun
2. Pronoun
3. Adjective
4. Verb
5. Adverb
6. Preposition
7. Conjunction
8. Interjection

Activity No. 3

1. Which of the following is a part of speech?
   (a) Noun
   (b) Conjunction
   (c) Preposition
   (d) All of these

2. Which of the following is not considered as a part of speech?
   (a) Verb
   (b) Adjective
   (c) Article
   (d) Noun

3. Which of the following is (are) referred as definite article?
   (a) a
   (b) an
   (c) the
   (d) All of these

Answers:
Noun
Noun is name of a person, place or thing and is typically used in a sentence as subject or object of a verb or as object of a preposition.

e.g. Ajmal, Chishty, Mango

Classification of nouns:
Nouns are generally classified into following categories:
1. Proper Noun
2. Common Noun
3. Collective Noun
4. Material Noun
5. Abstract Noun

Proper Noun is name of particular person, place or thing e.g. Ajmal, Chishty, Mango.

Collective Noun is the name of group or collection of persons, places or things e.g. police, herd, fleet etc.

Material Noun is name of matter or substance from which things are made e.g. wood, water, gold, wheat etc.

Abstract Noun is the name of quality, state or action e.g. service, death, inflation, poverty etc.

Activity No. 1:
1. A name of a person, place or thing is called:
   a) Noun
   b) Adjective
   c) Adverb
   d) Pronoun

2. The name of a particular person, place or thing is called:
   a) Proper Noun
   b) Common Noun
   c) Material Noun
   d) Abstract Noun

3. The name of quality, state or action is called:
   a) Proper Noun
   b) Material Noun
   c) Common Noun
   d) Abstract Noun

4. “Mohsin” is an example of:
   a) Common Noun
   b) Proper Noun
   c) Abstract Noun
   d) Material Noun

5. “Death” is an example of:
   a) Proper Noun
   b) Collective Noun
   c) Abstract Noun
   d) Material Noun

6. A name which is used to represent collection of things or group is called as:
   a) Proper Noun
   b) Collective Noun
   c) Abstract Noun
   d) Material Noun

7. “Flock” is the example of:
   a) Proper Noun
   b) Material Noun
   c) Abstract Noun
   d) Collective Noun

1. Identify the collective Noun from following sentence “Ahmad saw a wild buffalo and a herd of sheep grazing in the forest near the bank of river”:
   a) Wild
   b) Buffalo
   c) Herd
   d) Forest
   e) River
2. Pronouns

Pronouns are words that are used in place of a noun or noun phrases; that is, they can function as the subject or object of a clause.

Adjectives

An adjective is a word that modifies, or changes the meaning of a noun or pronoun; it may modify one, describe, or limit the meaning of the noun or pronoun.

Beautiful, pretty, big, force, massive, many, few, small, blue, much, green, tall, etc., red, smart, two, any-and the list just goes on. These words might look random but they are all describing words, called adjectives. Adjectives cannot stand on their own as they are supposed to describe nouns or pronouns and modify them. Adjectives are used to bring color to your sentence by making the noun look something special and the sentence sounds more complete. The many types of adjectives make it even more convenient to know where which type of adjective is to be used. The types of adjectives available for use are governed by a number of rules. And it is these rules that need to be understood in order to be able to use these parts of speech to your advantage. For better understanding, know and learn all the kinds of adjectives and the ways in which each type can be used to describe words and/or phrases.

Kinds of Adjectives

1. Descriptive Adjectives or adjective of quality
2. Adjective of quantity
3. Predicative Adjectives
4. Personal Titles
5. Possessive Adjectives
6. Demonstrative Adjectives
7. Indefinite Adjectives
8. Interrogative adjectives
9. Comparative Adjectives
10. Superlative Adjectives

Descriptive Adjectives or adjective of quality

Descriptive adjectives are those adjectives which describe nouns or the noun phrases. For example: A beautiful day. In this case, 'beautiful' is the adjective which qualifies or modifies the noun 'day'. Descriptive adjectives have several forms as discussed below.


Characteristics:

Color as adjectives: Black, Blue, White, Green etc.

Texture as adjectives: Slippery, Sticky etc.

Mood as adjectives: Happy, Sad, Angry etc.

Size as adjectives: Big, Small, Thin, Thick etc.

Shape as adjectives: Triangular, Rectangular, Square, Circular etc.

Quality as adjectives: Good, Bad, Average etc.

Time as adjectives: Yearly, Monthly etc.

Age as adjectives: Young, Ancient, Old etc.

Material as adjectives: Wood, Cotton, Gold etc.

Origin as adjectives: Pretty, hot, expensive etc.

Adjective of quantity or numeric adjective

Adjective of quantity talks about the quantity of the noun being talked about and makes answer to the question of 'how much'. It shows the quantity or the numbers present in the sentence. For example: there were three boys playing in the ground. Here the word 'three' signifies the quantity or the number of boys playing. Other examples are:

He has little intelligence. Sunday is the first day of the week. That child is young.

Predicative Adjectives

Predicative adjectives are those which follow a linking verb and not placed before a noun. Predicative adjective does not act as a part of the noun it modifies but serves as a complement of a linking verb which connects it to the noun of the sentence. Take for example: The bag is heavy. Here, the predicative adjective 'heavy' is associated with the verb 'is' and links to the noun 'bag'. Other examples are: The weather will be cool and dry.
Possessive Adjectives
Possessive adjectives are used where the sentence shows possession or belongingness. They are similar to possessive pronouns and, in this case, are used as adjectives which modify a noun or a noun phrase. Here words such as, our, my, your, his, her, its and theirs, are used. For example:

Have you seen their house? This is his room.

Demonstrative Adjectives
Demonstrative adjectives are used when there is a need to point specific things. The adjectives function as a way to demonstrate something and are similar to demonstrative pronouns. Here words such as this, that, these, those, what and what are used. Take, for instance, the sentence: 'If I hear that sound again, I will call the Police.' Here that refers to a specific sound. Other examples are as follows:

Whose is this bag?
These mangoes are sour.

Indefinite Adjectives
Indefinite adjectives are used when the sentence has nothing to point out or specify. These adjectives are formed from indefinite pronouns and do not indicate anything in particular. It uses words such as, any, many, few and several, etc. Here is an example explained in detail: 'The chef has heard many people make the same promise.' The word 'many' is an indefinite adjective which does not specify the quantity of people who modifies the noun 'people' without pointing out exactly who all have made the said promise. Other examples:

Many children like dinosaurs.

Interrogative Adjectives
An interrogative adjective modifies a noun or a noun phrase and is similar to its interrogative pronoun. It does not stand on its own and includes words such as, which, what, who, whose, whom, where and so on. For example: 'What dress are you wearing?' Here, 'what' modifies the noun 'dress' and is the object of the compound 'are wearing'. Other examples:

Which leaves turn color first?
Verbs
Verbs are a class of words that serve to indicate the occurrence or performance of an action, the existence of a state etc.

Kinds of Verbs
There are two types of verbs in English: Main Verbs and Auxiliary Verbs (Helping Verbs). Main verbs are either regular (play, like, pass) or irregular (drink, buy). Though irregular verbs are not completely irregular.

Adverbs
An adverb is a word that modifies a verb, an adjective, an adverb, or even a whole clause or sentence.

They walked quickly. (Modifies the verb “walked”)
He was very tired. (Modifies the adjective “tired”)
She spoke fairly slowly. (Modifies the adverb “slowly”)
Thus he was punished. (Modifies the sentence “he was punished”)

Adverbs usually express time, place, manner, frequency or degree.

They arrived soon. (Time)

He stood there alone. (Place)

Everyone worked diligently. (Manner)

We often eat out. (Frequency)

She almost slipped on the pavement. (Degree)

Besides the kinds of adverbs above, there are also relative and interrogative adverbs.

Relative adverbs
This is the time when cherry blossoms come out.

Show me the spot where the accident happened.

We don’t know the reason why he left.

Activity No.4
1. The word which is used to qualify or explain the meanings of verb, adjective and preposition is called:
   a) Adjective
   b) Adverb
   c) Preposition
   d) Pronoun

2. Identify the adverb from following sentence “Mr. Ahan is driving his car slowly”
   a) Is
   b) Driving
   c) Slowness
Articles

The indefinite article is used with singular countable nouns in a general or indefinite context, *a* with a noun starting with a consonant sound, and *an* with one starting with a vowel sound. If an adjective comes between the article and the noun, the article used is according to the initial sound of the adjective.

- A bicycle
- A union
- A clever answer
- An animal
- An hour
- An interesting story

The indefinite article can also be used with proper nouns as illustrated below:

- A Mr. Brown from the audience offered a suggestion.

An Einstein appears only once.

The definite article is used in a more specific reference with all kinds of nouns, countable and uncountable, singular and plural, except most proper nouns. Proper nouns usually carry the definite article only if they include a word which is generally a common noun. This is often the case with places, for example, countries, seas, rivers and mountains.

- The United Kingdom (compare “England”)
- The United States (Compare “North America”)
- The Indian Subcontinent (Compare “India”)
- The Atlantic (meaning “the Atlantic Ocean”)
- The Himalayas (meaning “the Himalayan Mountains”)

The definite article is used with a noun which is:

- unique or is the only one of its kind in the context,
- the second or later reference to a particular noun, qualified by a phrase or clause.

*He is the leader.*
A student won the prize. The student was very pleased with himself.

The progress of this student is excellent.

No article is used for an indefinite reference to a plural noun or an uncountable noun. The determiner all or some may sometimes be used instead, according to the meaning intended.

1a. Boys like soccer.
1b. All boys like soccer.
2a. Salt must be added.
2b. Some salt must be added to the soup.

No article is used in expressions involving the special function of a noun, such as bed, school, hospital, prison.

1a. I always go to bed early.
1b. The man lay dying on the bed.
2a. The children go to school in the afternoon.
2b. There is a celebration held at the school.

No article is used in referring to ordinary meals, but an article has to be used for a meal which is a special function or gathering.

1a. It’s time for lunch.
1b. Everyone was invited to the lunch for the new representative.
2a. Please stay for tea.
2b. A tea was held in his honour.

No article is used in expressions referring to means of transport or the time of the day.

1a. We always go to work by bus.
1b. The bus was very crowded.
2a. He stays up late at night.
2b. The baby woke up late in the night.

No article is necessary in certain common phrases.

1a. He was suspicious of friend and foe.
1b. I met a friend yesterday.
2a. They strolled arm in arm in the park.
2b. The victim lost an arm in the accident.
3a. The sorting is done by machine.
3b. A machine is used to sort out the articles.

No article is necessary in expressions involving one’s special responsibility or job in a particular or known context.

1a. The society made him chairman.
1b. He was the chairman of a large firm.
2a. He was elected leader.
2b. The leader of the group was away.

Prepositions

Functions of prepositions

The function of prepositions is to connect a noun structure to some other word in a sentence. This noun structure may be:

1. A noun: the salesman showed the pots and pans to his wife.
2. A pronoun: The salesman showed the pots and pans to her.
3. A gerund phrase: The salesman did not mind showing the pots and pans to her.
4. A noun phrase: The salesman showed the pots and pans to whoever might want to buy them.

Prepositions also have special functions as:

Part of a verb (verb-preposition combinations):

Look over (=review); get up (=wake up)

An adverb (mostly adverbs of place and direction):

They sit down. (Down=adverb)
They went down the steps. (Down=preposition)

Forms of prepositions

Prepositions may consist of one, two or three parts:

Examples of single part prepositions:

About before for on to
Above below from over under
After beside in past until
Along between into since up
Around by of till with
At down off through without
Examples of two part prepositions:
According to because of out of
Along with due to owing to
As for except for up to

Examples of three part prepositions:
By means of in relation to
In comparison with on top of In front of

Positions of prepositions:
Generally a preposition comes before its noun object:
He gave the book to the teacher.
However, it may appear in final position in:
1. a question Which school does he go to?
2. an adjective clause There is the school that he goes to.
3. A noun clause I don’t know which school he goes to.

Meanings of Prepositions
Concepts of Time, Place, Direction and Distance, etc. can be expressed by prepositions.
Such prepositions normally have an adverbial position in a sentence.

Preposition of Time
These can express:
One point in time:
At— with noon, night, midnight; with the time of day.
Periods of time:
On—with days.
In—with periods longer or shorter than a day; i.e. with parts of the day, with months, with years, with seasons.
Extended time (duration):
Since, for, by, from…..to, from……until, during, (with)in, while.

Examples
They are getting married on Saturday at 4 o’clock in the evening.
The reception will be on Sunday at 3 o’clock in the afternoon.
She has been away from school for two weeks.
I'll ring you again within the month.

Note

At can be used for indefinite periods such as: at night, at lunch-time; or for short holiday periods: at the weekend, at Easter.

Prepositions are almost always omitted before phrases beginning with last, next, this, that, today, yesterday, tomorrow: e.g.

Did you attend the lecture yesterday?

I saw that film last week.

**Prepositions of Place**

These can express:

i) the point itself:

*in, inside*—for something contained:

- There is plenty of food in the refrigerator.
- You will find some stamps in the second drawer of my desk.
- My father owns a cottage in the country.
- Please play inside. It’s too hot outside.

*on, on(to)*—the surface:

- A coconut tree fell on to the roof of his house.
- There’s a ‘Beware of Dogs’ sign on the gate.

*at*—a general vicinity:

- I’ll meet you at the Majestic Hotel.
- We are still living at 64 Primrose Avenue.

- Please sit at the table when you eat!
- I stayed at my cousin’s house last night.
- Turn left at the next intersection.

ii) Away from the point:

*Away (from)*—general places or vicinities:

- I came (away) from the library.
- I stayed away from the haunted house.
- He drove away from the scene of the accident.

*Off*—at a distance from the point:
The car ran off the road when it knocked the signpost.
The Channel Islands are off the coast of France.
The marble rolled off the table.
Across, through, over, along—moving from one place to another:
He kicked the ball through the window.
He walked across the park to his office.
The boy jumped over the fence to get away from the angry bull.
They went along the railway line looking for the missing child.
Out of—moving from a bounded area:
The gunmen were persuaded to come out of the old house.
They chased the dogs out of the school compound.

(iii) Towards the point:
To, into, towards—movement towards a particular place:
I went to South America last year.
He went to the airport to get his mother.
The car went slowly into the tunnel.
The people crowded into the streets to watch the National Day celebrations.
The ambulance sped towards the entrance of the hospital.

(iv) Towards and then away from the point:
Behind, through, across, round, by, past—movement towards a place and then away from it:
He walked across the bridge on his way to the shops.
The car skidded round the corner.
They drove past the new Town Hall.
The students ran by the judges as they crossed the finishing line.

(v) Vertical and horizontal movement from the point:
Up, down, along, across, over—movement in relation to a direction:
The old man walked slowly across the street.
The dog followed his master across the road.
Two schoolboys walked along Manchester Street.
She crossed over the road to post a letter.
The ball rolled over the grass.
The elderly couple climbed slowly up the steps.
The boy skated down the road on his new skateboard.
vi) Higher than the point:
Over—generally higher than the point:
There is a thick fog over the entire city.
The planes fly over the city to get to the airport.
Over—directly above:
The doctor leaned over the patient.
He had a deep cut over his eye.
A lamp hung over the dining-table.
Above—directly higher than the point; on a higher level:
We flew above the clouds.
There was a dark cloud above the bank.
On top of—close to the point; sometimes touching:
The tourists put their bags on top of the bus.
You’ll find a bottle of ink on top of my desk.
vii) Lower than the point:
Under—directly below:
The boy hid the money under a rock in the garden.
There is a small stream under that bridge.
Underneath—close under; sometimes touching:
She wore a pretty dress underneath her thick coat.
Beneath, below—directly under; at a lower level:
The police found the body beneath a pile of wood.
viii) Neighbouring the point:
By, beside, next to—at the side of; near:
He sat by the river reading a book.
She was standing by the window looking at the rain.
They live in a small village beside the sea.
John likes to sit beside his father in the car.
He sits at the desk next to the door.
I don’t like wool next to my skin.
Between—relating the positions of one object to more than two objects:
In the photograph Maria was standing between her father and mother.
Among, amid—in the middle of (several objects):
She found her gold chain amid the ruins of the burnt house.
I live among the mountains.
Opposite—facing:
She sits opposite her friend in the school library.
Around—surrounding; all round:
She put a frame around the painting.
We sat around the table and discussed the film.
In front of—at the beginning (in relation to the point):
He was standing in front of a long queue.
A three-wheeled car was in front of my car.
Near—close to the point; not far from the point:
I like to have my bed near (to) the window.

**Conjunction**
The work of a conjunction is to join words, phrases, clauses, or sentences. But while doing so, it can also express certain idea or notions such as time, contrast, reason, etc.

**Types of Conjunctions**
There are two main kinds of conjunctions—co-ordinate and sub-ordinate:

**Co-ordinate Conjunctions** join together words, phrases and clauses of equal rank. There are two types of co-ordinate conjunction:

**Simple Co-ordinate Conjunctions** and, or, but, nor:
I looked for the dictionary on the shelf and in the cupboard. (Phrases)
The thunder rolled and the lightning flashed. (Clauses)

**Correlative Co-ordinate Conjunctions** (i.e. those that go in pairs):
Either ... or, neither ... nor, both ... and, not only ... but also:
Neither wheat nor groundnuts grow well in this soil. (Phrases)
He's not only a talented pianist but also a good painter. (Clauses)
**Subordinate Conjunctions** join clauses of unequal rank, i.e. they join sub-clauses to main clauses:

Main clause       sub-clause
I can buy a car    when I have saved a thousand dollars more.

Subordinate conjunctions are of three kinds:

**Simple Subordinate Conjunctions:**
- After, (al) though, as, because, before, if, how (ever), like, once, since, that, till, unless, until, when (ever), where (ever), whereas, whereby, whereupon, while, whilst.

**Compound Subordinate Conjunctions:**
- Except that, for all that, in that, so that, in order that, in order + to infinitive, such that.
- But (that), now (that), providing (that), provided (that), supposing (that), considering (that), given (that), granting (that), granted (that), admitting (that), assuming (that), presuming (that), seeing (that), immediately (that).
- As for as, as long as, as soon as, in-so-far as, according to, so as (+ to infinitive).
- As if, as though, in case.
- Sooner than, rather than.

- **Correlative Subordinate Conjunctions:**(i.e. those that go in pairs):
  - If... then, (al) though ... yet/nevertheless, more/less/-er ... that, as ... as, so ... as, so ...
  - (that), such ... as, such ... (that), no sooner ... than, whether ... or, the ... the.

*Note:* Some subordinating conjunctions are also prepositions: as, like, since, until, till, after, before, but.

**Function of Conjunctions**

**Co-ordination of words**

(Of the same word class):

Nouns The violin or the cello is a suitable instrument for her.

Adjectives The house is beautiful but old-fashioned

Conjunctions If and when the electricity is installed, we can move to the house.

Adverbs He works slowly but skillfully.

**Co-ordination of Clauses**

(Or parts of clauses)

Maria plays the guitar and she also sings in three languages. Arshad is a bright student but he makes little effort.
You may study French or you may take Dutch.

Co-ordination of Parts of Clauses:
(Note: This occurs where repeated items may be omitted.)
Subjects:
I bought some apples, mangoes, and I bought some limes.
Rashid and his sister are frequent visitors to London.
Verb Phrases:
She writes, or used to write, to her pen-friend every month.
Complements:
He is tall but skinny.
Adverbials:
I can mend the hole in your dress by hand or by sewing machine.

Omission of conjunctions
When several items are linked together, the conjunction is usually omitted (or left out) before all items except the last one.

Please bring me a tomato sandwich, an egg sandwich and a bottle of coke.
This year she is studying History, Geography, French and Spanish.
Often the conjunctions are omitted before the adverbs then, so and yet:
My income is low (and) yet I still manage to live on it.
Her mother is seriously ill (and) so she has to visit the hospital every day.
The car hit the kerb (and) then bounced across the road divider.

Activity No.8

1. The word which joins two or more related sentences, clauses or phrases is called:
   a) Conjunction
   b) Interjection
   c) Preposition
   d) Punctuation

2. Identify the conjunction from following sentence: “Aslam is regular but Ali is not punctual”
   a) But
   b) Punctual
   c) Regular
3. Identify the conjunction from the following sentence “Yousaf goes to office daily and performs his job with diligence.
   a) Goes
   b) To
   c) daily
   d) And

4. “And, but, So, if etc.” are usually used as:
   a) Interjection
   b) Conjunction
   c) Preposition
   d) Adjective

5. The word which depicts the feelings, emotions, sentiments and passions expressed in a particular sentence is called as:
   a) Interjection
   b) Conjunction
   c) Preposition
   d) Gerund

6. Identify the interjection from following sentence: “Hurrah! I have passed the examination”
   a) Hurrah
   b) The
   c) Have
   d) passed

7. The word “Class” is grammatically:
   a) Proper noun
   b) Common noun
   c) Collective noun
   d) Both b and c

1.a  2.a  3.d  4.b  5.a  6.a  7.d
**Interjections**

When we wish to express our feelings we sometimes use an interjection—a word of exclamation whose only function is to express emotion or feeling.

Interjections can express such emotions as:
- **Surprise**: Oh, What a lovely present!
- **Satisfaction**: Ah, that’s much neater essay!
- **Great satisfaction**: Aha those are the books I’ve been looking for.
- **Great surprise**: Wow, did you see that goal?
- **Pain**: Ouch, you’re treading on my foot!
  Ow, I’ve hurt myself.
- **Excitement/delight**: Yipee, grandfather is coming to visit us!
- **Disgust**: Ugh, what a filthy kitchen.
- **Pleasure, pain**: Ooh, the water’s lovely and cool.
  Ooh, my back aches terribly.

**Activity-9**

Choose the correct answer. Circle the letter A, B, or C.

1. I wonder if you____ ready by 3 0' clock
   a. would be
   b. are
   c. will be

2. But for them we ______ in Madrid on time yesterday
   a. arrived
   b. had arrived
   c. should have arrived

3. She worries lest he ______ to mow the lawn
   a. have forgotten
   b. should forget
   c. Would forget.

4. But for high tax they _____ a very successful business
   a. had got
   b. would have got
   c. Had had got.
5. Mother asked me if I _____ the room and _____ the floor.
   a. should clean ... and wash
   b. shall clean ... and wash
   c. clean ... and wash

6. He was afraid lest they _____ him the job
   a. had offered
   b. should offer
   c. would offer

7. He behaves as if he _____ a license to drive a taxi.
   a. Obtained
   b. had obtained
   c. obtain

8. It is natural that the general’s car ______.
   a. should be polished
   b. have been polished
   c. would be polished

9. He spoke to the police as if he _____ the child.
   a. hadn't kidnapped
   b. didn't kidnap
   c. wouldn't have kidnapped

10. If you your cousin give him my best wishes.
    a. will see
    b. saw
    c. see

Answer:
<table>
<thead>
<tr>
<th>Incorrect Sentence</th>
<th>Correct Sentence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. He has got headache</td>
<td>He has got a headache</td>
</tr>
<tr>
<td>2. He gave me sad news</td>
<td>He gave me a sad news</td>
</tr>
<tr>
<td>3. Wisdom is the gift of God</td>
<td>Wisdom is a gift of God</td>
</tr>
<tr>
<td>4. Punjab has university of Punjab</td>
<td>Punjab has a university of Punjab</td>
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<tr>
<td>5. Do not make noise</td>
<td>Do not make a noise</td>
</tr>
<tr>
<td>6. A green and a white cow is grazing in the field</td>
<td>A green and white cow is grazing in the field</td>
</tr>
<tr>
<td>7. Islamabad is as famous city as Karachi</td>
<td>Islamabad is as famous city as Karachi</td>
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<tr>
<td>8. My teacher is a honest man</td>
<td>My teacher is an honest man</td>
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<tr>
<td>9. He is a M.N.A</td>
<td>He is an M.N.A</td>
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<tr>
<td>10. The English is the language of English</td>
<td>English is the language of the English</td>
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<tr>
<td>11. Muslims are a brave people</td>
<td>The Muslims are a brave people</td>
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<tr>
<td>12. He is at the fault</td>
<td>He is at fault</td>
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<td>13. He speaks the English fluently</td>
<td>He speaks English fluently</td>
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<tr>
<td>14. The beauty is short-lived</td>
<td>Beauty is short-lived</td>
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<td>15. Dog is the faithful animal</td>
<td>The dog is a faithful animal</td>
</tr>
<tr>
<td>16. Chenab is a famous river</td>
<td>The Chenab is a famous river</td>
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<tr>
<td>17. Express is a popular newspaper</td>
<td>The Express is a popular newspaper</td>
</tr>
<tr>
<td>18. The Sugarcane is grown in Pakistan</td>
<td>Sugarcane is grown in Pakistan</td>
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<td>19. You are in wrong</td>
<td>You are in the wrong</td>
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<td>20. He is taller of the two</td>
<td>He is the taller of the two</td>
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<tr>
<td>1. The honesty is the best policy</td>
<td>Honesty is the best policy</td>
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<td>Word</td>
<td>Synonyms</td>
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<tr>
<td>Alone</td>
<td>Lonely</td>
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<td>Ambitions</td>
<td>Desires, wishes</td>
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<td>Appearance</td>
<td>Emergence</td>
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<td>Ancestors</td>
<td>Forefather</td>
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<td>Astrology</td>
<td>Horoscopy</td>
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<td>Acceptable</td>
<td>Agreeable, Suitable</td>
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<td>Assume</td>
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<td>Educational</td>
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<td>Attempt</td>
<td>Try</td>
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<td>Assigned</td>
<td>Given, Allotted</td>
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<td>Argue</td>
<td>Discuss, Debate, reason</td>
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<td>Avoid</td>
<td>Avert</td>
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<td>Alive to</td>
<td>Aware, conscious of</td>
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<td>Adequate</td>
<td>Proper, Suitable</td>
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<td>Apparent</td>
<td>Clear, Obvious</td>
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<td>Assert</td>
<td>Declare, Affirm</td>
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<td>Alcohol</td>
<td>Wine</td>
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<td>Apart</td>
<td>Away</td>
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<td>Flat, Room</td>
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<td>Achieve</td>
<td>Gain, Get</td>
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<td>Astonishment</td>
<td>Amazement</td>
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<td>Abandon</td>
<td>Given up, discontinue</td>
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<td>Chance</td>
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<td>Appalling</td>
<td>Horrifying, Shocking</td>
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<td>Ardent</td>
<td>Sever, intense</td>
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<td>Absolutely</td>
<td>Utterly, completely</td>
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<td>Allies</td>
<td>Friends, Associates</td>
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<td>Aside</td>
<td>Away, apart</td>
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<td>Attitude</td>
<td>Behavior</td>
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<td>Ancient</td>
<td>Very old</td>
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<td>Audience</td>
<td>Spectators, listeners</td>
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<td>Assiduous</td>
<td>Industrious, laborious</td>
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<td>Aroma</td>
<td>Fragrance, sweet smell</td>
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<td>Absorb</td>
<td>Grasp, understand</td>
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<td>Amalgam</td>
<td>Blend, Combination</td>
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<td>Adamant</td>
<td>Strict, firm</td>
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<td>Holy, Scared</td>
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<td>Marks, Spots</td>
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<td>Bedouin</td>
<td>Normadic, Wandering</td>
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<td>Hardly, Scarcely</td>
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<td>Defender, Protector</td>
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**Eager**

- **Synonyms**
  - Keen

**Elevate**

- **Synonyms**
  - Raise

**Enormous**

- **Synonyms**
  - Huge

**Extremely**

- **Synonyms**
  - Greatly, Very much

**Entirely**

- **Synonyms**
  - Completely, Fully, Totally

**Empty**

- **Synonyms**
  - Unoccupied, Blank

**Expect**

- **Synonyms**
  - Hope

**Eradicate**

- **Synonyms**
  - Uproot, Remove

**Enlightenment**

- **Synonyms**
  - Awareness, Knowledge
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<td>Naughty</td>
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<td>Trial, Test, Painful</td>
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<td>Seldom, Rarely</td>
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<td>Insight</td>
<td>Place</td>
<td>Space, area, spot</td>
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<td>Provide</td>
<td>Supply</td>
<td>Predicament</td>
<td>Quandary, Dilemma, Pickle</td>
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<td>Specific</td>
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<td>Queer</td>
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<td>Quake</td>
<td>Tremble</td>
<td>Qualification</td>
<td>Education</td>
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<td>Queue</td>
<td>Line, Row</td>
<td>Quote</td>
<td>Cite, Mention</td>
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<td>Reproduce</td>
<td>Procreate</td>
<td>Remarkable</td>
<td>Notable, Noteworthy</td>
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<td>Refuse</td>
<td>Rubbish</td>
<td>Resources</td>
<td>Means</td>
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<td>Recall</td>
<td>Remember</td>
<td>Relax</td>
<td>Rest</td>
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<td>Reflected</td>
<td>Considered, thought</td>
<td>Respite</td>
<td>Break, Pause, Interval</td>
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<td>Reveal</td>
<td>Show, Display, Expose</td>
<td>Relish</td>
<td>Taste, Tang</td>
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<td>Rubbish</td>
<td>Trash, Waste</td>
<td>Rattle</td>
<td>Worry</td>
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<td>Rival</td>
<td>Opponent</td>
<td>Rigid</td>
<td>Hard, strict, inflexible</td>
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**Set-S**

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<td>Memento, Reminder</td>
<td>Scarce</td>
<td>Short, Scanty</td>
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<td>Shattered, Disunited</td>
<td>Subdue</td>
<td>Defeat</td>
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<td>Subsist</td>
<td>Live</td>
<td>Sermon</td>
<td>Address, Speech</td>
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<td>Striving</td>
<td>Struggling, Trying</td>
<td>Stately</td>
<td>Graceful, Majestic</td>
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<td>Stimulate</td>
<td>Encourage</td>
<td>Signalized</td>
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<td>Safety</td>
<td>Sagacity</td>
<td>Wisdom</td>
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<td>Sufficient</td>
<td>Enough</td>
<td>Shrub</td>
<td>Bush</td>
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<td>Star</td>
<td>Gaze</td>
<td>Supremacy</td>
<td>Mastery, Hold</td>
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**Set-T**

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<td>Tell</td>
<td>Disclose, Show, Reveal</td>
<td>Transform</td>
<td>Convert</td>
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<td>Take</td>
<td>Hold, Catch, Seize</td>
<td>Try</td>
<td>Attempt</td>
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<tr>
<td>Trouble</td>
<td>Anxiety, Worry, inconvenience</td>
<td>Trustworthy</td>
<td>Reliable</td>
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<td>Think</td>
<td>Judge, Deem</td>
<td>Temperature</td>
<td>Degree of heat</td>
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<td>Talk</td>
<td>Speak</td>
<td>Thrift</td>
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<td>Temper</td>
<td>Mood</td>
<td>Tread</td>
<td>Walk, Gait</td>
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### Set-U

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<td>Miserable, Uncomfortable</td>
<td>Unwilling</td>
<td>Hesitant</td>
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<td>Use</td>
<td>Employ, Utilize, Exhaust</td>
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<td>Dirty</td>
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<td>Unusual</td>
<td>Undecided</td>
<td>Unsettled, disputed</td>
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<td>Uncooked</td>
<td>Raw</td>
<td>Urgently</td>
<td>Immediately</td>
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<td>Under</td>
<td>Below</td>
<td>Unanimous</td>
<td>United, collective</td>
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<td>Unlucky</td>
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<td>Usually</td>
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### Set-V

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<td>Holidays</td>
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<td>Resist</td>
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<td>Countered, Faced</td>
<td>Warmth</td>
<td>Heat</td>
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<tr>
<td>Whip</td>
<td>Punish, Beat, Thrash</td>
<td>Wondering</td>
<td>Thinking</td>
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**Preposition**

1. We should be affectionate ____ children  
   a) to b) on c) with d) at
2. Ali is addicted _____ heroin  
   a) to b) on c) with d) at
3. Sidra is accomplished _____ painting  
   a) to b) on c) with d) in
4. Your plan is not agreeable _____ your father's wishes  
   a) to b) on c) with d) in
5. My house is adjacent _____ mosque  
   a) to b) on c) with d) in
6. The pay was not adequate _____ my qualification  
   a) to b) on c) with d) in
7. A leader should be alive _____ the public opinion  
   a) to b) on c) with d) in
8. I am not amazed _____ his success  
   a) at b) on c) with d) in
9. I am anxious _____ your health  
   a) at b) about c) with d) in
10. I am not adverse _____ your health  
   a) at b) to c) with d) in
11. We must be ashamed _____ our evil doings  
    a) at b) of c) with d) in
Milk is beneficial _____ health
13. He was annoyed _____ my performance
   a) at b) of c) with d) in
14. The baby was clothed _____ beautiful dress
   a) at b) of c) with d) in
15. There is no compensation _____ this loss
   a) for b) of c) with d) in
16. The officer is conversant _____ all rules
   a) for b) of c) with d) in
17. We should not act contrary _____ all rules
   a) for b) of c) to d) in
18. Arslan is eager _____ learning
   a) for b) of c) for d) in
19. Students were engaged _____ healthy activities
   a) for b) of c) for d) in
20. The Muslims have firm faith _____ Islamic principles
   a) for b) of c) for d) in
21. I could not grasp _____ anything from your speech
   a) for b) of c) for d) at
22. Corruption is hurtful _____ every society
   a) for b) of c) to d) at
23. Do not grumble _____ your fate
   a) for b) of c) to d) at
24. He incited _____ theft
   a) for b) of c) to d) at
25. The child was leaning _____ theft
   a) for b) of c) against d) at
26. Do not meddle _____ my affairs
   a) for b) of c) with d) at
27. I was overwhelmed _____ grief
   a) for b) of c) with d) at
28. He did not act _____ my advice
   a) for b) of c) upon d) at
29. I have no access _____ the minister
   a) for b) of c) upon d) to
30. We should abstain _____ drinking
31. His father died ______ cancer
   a) for b) of c) upon d) from
32. He was absorbed ______ her studies
   a) for b) in c) upon d) from
33. Death is preferable ______ her studies
   a) for b) in c) upon d) from
34. We do not agree ______ his proposal
   a) for b) in c) to d) from
35. He was charged ______ theft
   a) for b) in c) to d) with
36. Why are you angry ______ me
   a) for b) in c) on d) with
37. The boy was staring ______ the girl
   a) for b) in c) at d) with
38. I prefer milk ______ tea
   a) for b) in c) to d) with
39. He insisted ______ my going there
   a) on b) in c) to d) with
40. He always boasts ______ his wealth
   a) of b) in c) to d) with
41. He was deprived ______ clothes
   a) of b) in c) to d) with
42. He was ignorant ______ my arrival
   a) of b) in c) to d) with
43. He is blind ______ one eye
   a) of b) in c) to d) with
44. He has been suffering ______ Malaria
   a) of b) from c) to d) with
45. Distribute these apples ______ the children
   a) in b) among c) between d) with
46. A drowning man catches ______ a straw
   a) at b) among c) between d) with
47. He was addicted ______ smoking
   a) to b) of c) in d) with
48. He is devoid ______ common sense
49. I am not afraid ____ any person
  a) to b) of c) in d) with

50. He was born ____ December 5, 2015
  a) to b) on c) in d) with

51. He was absent ____ the class yesterday
  a) to b) on c) from d) with

52. I am not afraid ____ any person
  a) to b) on c) of d) with

53. The Muslims trust ____ God
  a) to b) on c) of d) in

54. He was not conscious ____ his weaknesses
  a) to b) on c) of d) from

55. I am fond ____ fresh fruit
  a) to b) on c) of d) from

56. He is glad ____ your success
  a) to b) at c) of d) from

57. I live in a house close ____ post office
  a) to b) at c) of d) from

58. He is jealous ____ my efficiency in work
  a) to b) at c) of d) from

59. We are ____ war with them
  a) to b) at c) of d) from

60. He carried ____ the orders of his officer
  a) to b) out c) of d) from

61. He apologized to me ____ his behavior
  a) to b) for c) of d) from

62. I am obliged ____ him for his help
  a) to b) for c) of d) from

63. I am grieved ____ his failure in the examination
  a) to b) at c) of d) from

64. He has been loyal ____ his friends in every situation
  a) to b) to c) of d) from

65. Please come to me ____ dinner tonight
  a) to b) at c) of d) from

66. He quarreled with me ____ a trivial matter
67. Do not blame him ______ the accident
   a) to  b) at  c) of  d) over

68. The beggars live ______ charity
   a) to  b) at  c) of  d) on

69. Take care ______ your property
   a) to  b) at  c) of  d) on

70. Who is knocking ______ the door
    a) to  b) at  c) at  d) on

71. He is born ______ rich family
    a) to  b) at  c) at  d) of

72. He insists ______ leaving immediately
    a) to  b) at  c) at  d) on

73. We are accustomed ______ doing hard work
    a) to  b) at  c) at  d) on

74. He is very good ______ physics
    a) to  b) at  c) at  d) on

75. Early rising is good ______ health
    a) to  b) for  c) at  d) on

76. She comes ______ a good health
    a) to  b) of  c) at  d) on

77. I laughed ______ his joke
    a) to  b) at  c) at  d) on

78. He was run ______ by a Tonga
    a) to  b) over  c) at  d) on

79. He was run ______ by a Tonga
    a) to  b) over  c) at  d) on

80. He is eligible ______ this post due to his ability
    a) to  b) over  c) at  d) for

81. She put the kettle ______ fire to boil milk
    a) to  b) on  c) at  d) for

82. I cannot bear ______ your story
    a) to  b) out  c) at  d) for

83. You should be polite ______ others
    a) to  b) out  c) at  d) for

84. Good citizens abide ______ the laws
85. Beware ____ dogs
   a) to b) out c) at d) of
86. I am thankful ____ you
   a) to b) out c) at d) for
87. She is vain ____ her beauty
   a) to b) out c) at d) of
88. I am proud ____ my teachers
   a) to b) out c) at d) of
89. We have a great fondness ____ our neighbour
   a) to b) out c) at d) for
90. She was eager ____ learning
   a) to b) out c) at d) for
91. This train is bound ____ Lahore
   a) to b) out c) at d) for
92. My brother is ____ home in English
   a) to b) out c) at d) for
93. They burst ____ tears
   a) to b) out c) into d) for
94. Cholera has broken ____ in the city
   a) to b) out c) out d) for
95. I was ____ for class
   a) to b) of c) out d) for
96. The teacher was offended ____ the students
   a) to b) of c) out d) with
97. He inquired ____ the minister
   a) to b) out c) for d) with
98. The manager drew ____ a new plan
   a) to b) out c) up d) with
99. The table is being laid ____ tea
   a) to b) for c) up d) with
100. The principal gave ____ prizes
    a) to b) out c) away d) with
101. I feel ____ the poor
    a) to b) out c) for d) with
102. Charity begins ____ home
103. He is _____ drugs.
   a) to  b) out  c) at  d) with

104. We should not boast _____ our wealth.
   a) to  b) out  c) of  d) with

105. I learn this poem _____ heart.
   a) by  b) out  c) of  d) with

106. The cat pounced _____ the rate.
   a) Upon  b) out  c) of  d) with

107. They were laughing _____ the clown.
   a) at  b) out  c) of  d) with

108. He apologized _____ me.
   a) on  b) out  c) of  d) with

109. The ship is _____ fir.
   a) on  b) out  c) of  d) with

110. I am suspicious _____ your statement.
    a) on  b) out  c) of  d) with

**Answers:**

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