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Most Probable MCQs on Commerce & Accountancy



Most Probable MCQs on Commerce & Accountancy (Questions 1-70)

1. What is the primary role of accounting as a financial information system?

- A) To provide non-financial data for marketing decisions
- B) To record, classify, and summarize financial transactions for decision-making
- C) To manage human resources in an organization
- D) To handle legal compliance only

Correct Answer: B

Explanation: Accounting serves as a financial information system by systematically recording transactions, classifying them into accounts, and summarizing them in financial statements to aid stakeholders in economic decisions. This covers the foundational concept in the syllabus.

2. Which accounting standard deals with revenue recognition?

- A) AS 9
- B) AS 10
- C) AS 11
- D) AS 12

Correct Answer: A

Explanation: AS 9 (Revenue Recognition) outlines when and how revenue should be recognized in financial statements, ensuring it is earned and realizable. This is a key subtopic under accounting standards.

3. Under which accounting standard are fixed assets accounted for?

- A) AS 9
- B) AS 10
- C) AS 11
- D) AS 13

Correct Answer: B

Explanation: AS 10 (Property, Plant, and Equipment) governs the recognition, measurement, and depreciation of fixed assets, emphasizing initial cost and subsequent expenditures.

4. What does AS 11 primarily address?

- A) Investments
- B) Effects of changes in foreign exchange rates
- C) Revenue recognition
- D) Fixed assets

Correct Answer: B

Explanation: AS 11 deals with the accounting for foreign currency transactions and translations, including exchange differences arising from monetary items.

5. Which standard covers the accounting for investments?

- A) AS 10
- B) AS 11
- C) AS 13
- D) AS 9

Correct Answer: C

Explanation: AS 13 (Accounting for Investments) classifies investments as current or long-term and specifies valuation methods like cost or fair value.

6. What is the main purpose of a cash flow statement?

- A) To show profitability
- B) To detail changes in cash and cash equivalents from operating, investing, and financing activities
- C) To list assets and liabilities
- D) To calculate equity changes

Correct Answer: B

Explanation: The cash flow statement, prepared under AS 3, categorizes cash flows into operating, investing, and financing to reveal liquidity and solvency.

7. How does a fund flow statement differ from a cash flow statement?

- A) It focuses only on cash transactions
- B) It shows changes in working capital, not just cash
- C) It is prepared annually only

D) It ignores non-current assets

Correct Answer: B

Explanation: Fund flow statement analyzes sources and applications of funds, highlighting working capital changes, unlike cash flow which is cash-specific.

8. What is financial statement analysis primarily used for?

A) Day-to-day operations

B) Evaluating a company's financial health through ratios, trends, and comparisons

C) Marketing strategies

D) Employee performance

Correct Answer: B

Explanation: It involves techniques like ratio analysis, common size statements, and trend analysis to assess profitability, liquidity, and efficiency.

9. Which ratio measures a company's ability to meet short-term obligations?

A) Debt-Equity Ratio

B) Current Ratio

C) Return on Equity

D) Gross Profit Ratio

Correct Answer: B

Explanation: Current Ratio ($\text{Current Assets} / \text{Current Liabilities}$) indicates liquidity; a ratio above 2:1 is generally favorable.

10. What does the Debt-Equity Ratio assess?

A) Profitability

B) Solvency and capital structure

C) Efficiency

D) Market value

Correct Answer: B

Explanation: It compares total debt to shareholders' equity, showing leverage; high ratio indicates higher financial risk.

11. Return on Investment (ROI) is an example of which type of ratio?

A) Liquidity

B) Profitability

C) Activity

D) Leverage

Correct Answer: B

Explanation: ROI measures the efficiency of investments in generating returns, key in profitability analysis.

12. How are bonus shares accounted for in share capital transactions?

A) As fresh capital infusion

B) By transferring from reserves to share capital without cash outflow

C) As debt

D) As expense

Correct Answer: B

Explanation: Bonus shares are issued from accumulated profits or reserves, capitalizing them, with no change in total shareholders' funds.

13. What is a rights issue in share capital?

A) Shares offered to public

B) Shares offered to existing shareholders at a discount

C) Buy-back of shares

D) Employee options

Correct Answer: B

Explanation: Rights shares allow existing shareholders to buy additional shares proportionally, often at a price below market value.

14. How are Employee Stock Options (ESOPs) accounted for?

A) As immediate expense

B) Using fair value method, expensed over vesting period

C) Ignored until exercised

D) As liability only

Correct Answer: B

Explanation: Under AS 15 or Ind AS 102, ESOPs are recognized as compensation expense based on fair value at grant date.

15. What is the accounting treatment for buy-back of securities?

A) Reduce share capital and use reserves or proceeds

B) Increase assets

C) Treat as investment

D) No entry needed

Correct Answer: A

Explanation: Buy-back reduces equity share capital and utilizes securities premium or free reserves, as per Section 68 of Companies Act.

16. In preparation of company final accounts, what is the format for balance sheet?

A) Horizontal only

B) As per Schedule III of Companies Act 2013, vertical format

C) Free form

D) Cash basis

Correct Answer: B

Explanation: Schedule III mandates a classified balance sheet with assets (current/non-current) and equity/liabilities.

17. What must be disclosed in the profit and loss account?

A) Only revenues

B) Income, expenses, profit/loss as per Schedule III

C) Assets only

D) Cash flows

Correct Answer: B

Explanation: It shows revenue from operations, other income, expenses, and net profit, ensuring true and fair view.

18. Which ratio is used to measure operational efficiency?

A) Current Ratio

B) Inventory Turnover Ratio

C) Earnings Per Share

D) Price-Earnings Ratio

Correct Answer: B

Explanation: Inventory Turnover ($\text{Cost of Goods Sold} / \text{Average Inventory}$) indicates how quickly inventory is sold.

19. Under AS 10, how are fixed assets initially measured?

A) At fair value only

B) At cost including acquisition expenses

C) At market value

D) At replacement cost

Correct Answer: B

Explanation: Cost includes purchase price, duties, and directly attributable costs to bring the asset to working condition.

20. What is the treatment of foreign exchange differences under AS 11?

A) Ignored

B) Recognized in profit or loss for monetary items

C) Always capitalized

D) Deferred indefinitely

Correct Answer: B

Explanation: Exchange differences on monetary items are recognized in P&L, while non-monetary are carried at historical rates.

21. In ratio analysis, what does Quick Ratio exclude?

A) Cash

B) Inventory

C) Debtors

D) Bank balances

Correct Answer: B

Explanation: Quick Ratio (Quick Assets / Current Liabilities) excludes inventory as it's less liquid.

22. For bonus shares, which reserve is typically used?

A) General Reserve

B) Debenture Redemption Reserve

C) Capital Reserve only

D) None

Correct Answer: A

Explanation: Free reserves like general reserve or securities premium are utilized for bonus issues.

23. What is the vesting period in ESOPs?

A) Time before options can be exercised

B) Exercise period

C) Grant date

D) Expiry date

Correct Answer: A

Explanation: Vesting period is the duration employees must wait to gain rights to exercise options, during which expense is amortized.

24. In buy-back, what is the maximum limit as per Companies Act?

A) 10% of paid-up capital

B) 25% of paid-up capital and free reserves

C) 50%

D) No limit

Correct Answer: B

Explanation: Section 68 limits buy-back to 25% of aggregate paid-up capital and free reserves in a financial year.

25. What is included in company final accounts notes?

A) Nothing

B) Significant accounting policies and contingent liabilities

C) Only profits

D) Marketing data

Correct Answer: B

Explanation: Notes provide additional disclosures for transparency, as required by Schedule III.

26. Which standard requires segment reporting?

A) AS 17

B) AS 13

C) AS 3

D) AS 9

Correct Answer: A

Explanation: AS 17 (Segment Reporting) is relevant for diversified companies, though not core but related to financial analysis.

27. What is operating cash flow?

A) From investments

B) From core business operations

C) From financing

D) Negative cash

Correct Answer: B

Explanation: Operating activities include cash from sales, payments to suppliers, adjusted for non-cash items.

28. In fund flow, increase in long-term loan is a

A) Source of fund

B) Application of fund

C) No effect

D) Decrease in working capital

Correct Answer: A

Explanation: Long-term borrowings are sources, increasing funds available.

29. Gross Profit Ratio is

A) $\text{Gross Profit} / \text{Net Sales} * 100$

B) $\text{Net Profit} / \text{Sales}$

C) $\text{Cost} / \text{Sales}$

D) $\text{Expenses} / \text{Income}$

Correct Answer: A

Explanation: It measures margins after direct costs, indicating pricing and cost control.

30. What is the formula for Earnings Per Share (EPS)?

A) $\text{Net Profit} / \text{Number of Equity Shares}$

B) $\text{Gross Profit} / \text{Shares}$

C) $\text{Cash} / \text{Shares}$

D) $\text{Assets} / \text{Shares}$

Correct Answer: A

Explanation: $\text{EPS} = (\text{Net Profit after tax} - \text{Preference Dividend}) / \text{Weighted Average Equity Shares}$, key for valuation.

31. Under AS 9, when is revenue from services recognized?

A) On completion

B) Using percentage of completion

C) On cash receipt

D) At year end

Correct Answer: B

Explanation: For services, revenue is recognized by stage of completion if outcome reliable.

32. Depreciation under AS 10 is

- A) Cash expense
- B) Allocation of fixed asset cost over useful life
- C) Optional
- D) Ignored in accounts

Correct Answer: B

Explanation: It systematically allocates depreciable amount over useful life, using methods like straight-line or WDV.

33. Foreign exchange gain on non-monetary item is

- A) Recognized in P&L
- B) Not recognized, carried at historical cost
- C) Deferred
- D) Capitalized always

Correct Answer: B

Explanation: Non-monetary items like inventory are not retranslated; exchange rate at transaction date is used.

34. Investments under AS 13 are valued at

- A) Cost or fair value, lower for current
- B) Market value only
- C) Nominal value
- D) No valuation

Correct Answer: A

Explanation: Current investments at lower of cost and fair value; long-term at cost, provision for diminution.

35. What is indirect method in cash flow statement?

- A) Starts with net profit, adjusts for non-cash items
- B) Direct receipts and payments
- C) Only investing
- D) Financing only

Correct Answer: A

Explanation: Indirect method reconciles profit to operating cash flow by adding back non-

cash expenses like depreciation.

36. Fund flow ignores

- A) Working capital changes
- B) Non-fund items like depreciation
- C) Cash transactions
- D) Long-term funds

Correct Answer: B

Explanation: It focuses on fund movements, treating non-fund items (e.g., depreciation) as adjustments.

37. Trend analysis in financial statements involves

- A) Comparing with industry
- B) Year-over-year percentage changes
- C) Ratios only
- D) Absolute figures

Correct Answer: B

Explanation: It identifies patterns by expressing figures as percentages of a base year.

38. Leverage ratios include

- A) Current Ratio
- B) Interest Coverage Ratio
- C) Inventory Turnover
- D) Receivables Turnover

Correct Answer: B

Explanation: Interest Coverage ($\text{EBIT} / \text{Interest}$) measures ability to pay interest, indicating leverage risk.

39. For rights shares, the entry is

- A) Debit bank, credit share capital
- B) No entry
- C) Debit reserves
- D) Credit liabilities

Correct Answer: A

Explanation: Upon subscription, cash received is debited to bank, credited to share capital and premium if any.

40. ESOP expense is debited to

- A) P&L account over vesting period
- B) Balance sheet directly
- C) Reserves
- D) No debit

Correct Answer: A

Explanation: It's treated as employee compensation, expensed in income statement.

41. Buy-back must be authorized by

- A) Articles of Association
- B) Board only
- C) Shareholders only
- D) Creditors

Correct Answer: A

Explanation: Companies Act requires authorization in Articles, plus board/shareholder approval.

42. In final accounts, contingent liabilities are

- A) Shown in balance sheet
- B) Disclosed in notes
- C) Ignored
- D) Expensed

Correct Answer: B

Explanation: They are not provisioned but disclosed if possible outflow exists.

43. Which is not a profitability ratio?

- A) Net Profit Ratio
- B) Return on Assets
- C) Acid Test Ratio
- D) Operating Ratio

Correct Answer: C

Explanation: Acid Test is liquidity; others measure profits relative to sales/assets.

44. AS 3 is for

- A) Cash Flow Statements

B) Investments

C) Revenue

D) Fixed Assets

Correct Answer: A

Explanation: It mandates classification of cash flows for listed companies and large entities.

45. Exchange difference on foreign loan for asset is

A) Capitalized under certain conditions

B) Always expensed

C) Ignored

D) Deferred

Correct Answer: A

Explanation: Per AS 11, if qualifying asset, it can be added to cost.

46. Long-term investments diminution is

A) Provided if other than temporary

B) Always provided

C) Never

D) Optional

Correct Answer: A

Explanation: Provision for decline if not temporary, per AS 13.

47. Common size statement expresses

A) Figures as percentages of total

B) Absolute values

C) Ratios

D) Trends

Correct Answer: A

Explanation: Balance sheet items as % of total assets, P&L as % of sales for comparison.

48. Activity ratios measure

A) Efficiency in asset utilization

B) Liquidity

C) Profit

D) Leverage

Correct Answer: A

Explanation: E.g., Asset Turnover ($\text{Sales} / \text{Total Assets}$) shows sales generation from assets.

49. Bonus issue increases

- A) Number of shares, not total equity
- B) Cash
- C) Liabilities
- D) Assets

Correct Answer: A

Explanation: It's a capitalization of reserves, no change in shareholders' wealth.

50. Rights renunciation means

- A) Selling rights to others
- B) Ignoring rights
- C) Buying more
- D) Cancelling

Correct Answer: A

Explanation: Shareholders can renounce rights, selling entitlement, accounted as income.

51. ESOP intrinsic value is

- A) Market price minus exercise price
- B) Zero always
- C) Fair value
- D) Nominal

Correct Answer: A

Explanation: If positive, it's the value at grant; alternative to fair value method in accounting.

52. Buy-back through tender offer is

- A) Fixed price buy from shareholders
- B) Open market
- C) Private
- D) No offer

Correct Answer: A

Explanation: Company offers to buy at specified price, pro-rata if oversubscribed.

53. In final accounts, prior period items are

- A) Adjusted in current year

- B) Shown separately
- C) Ignored
- D) Capitalized

Correct Answer: B

Explanation: Disclosed as extraordinary if material, per AS 5.

54. DuPont analysis breaks ROE into

- A) Profit margin, asset turnover, leverage
- B) Liquidity components
- C) Cash flows
- D) Trends

Correct Answer: A

Explanation: $ROE = \text{Net Margin} \times \text{Asset Turnover} \times \text{Equity Multiplier}$, for detailed performance analysis.

55. Under AS 9, royalty revenue is recognized

- A) On accrual basis per agreement
- B) Cash only
- C) Completion
- D) Yearly

Correct Answer: A

Explanation: Based on substance of agreement, if collectible.

56. Revaluation of fixed assets under AS 10 is

- A) Allowed, surplus to revaluation reserve
- B) Prohibited
- C) Expense
- D) Income

Correct Answer: A

Explanation: If fair value model used, surplus credited to OCI/reserve.

57. Integral foreign operations translation uses

- A) Current rate for all items
- B) Temporal method
- C) Closing rate for assets/liabilities
- D) Historical for equity

Correct Answer: B

Explanation: Monetary at closing, non-monetary at historical, per AS 11.

58. Dividend income on investments is

- A) Recognized when right established
- B) Cash received
- C) Year end
- D) Ignored

Correct Answer: A

Explanation: Per AS 13, when shareholder's right to receive is established.

59. Non-cash transactions in cash flow are

- A) Excluded but disclosed
- B) Included in operating
- C) In financing
- D) Ignored completely

Correct Answer: A

Explanation: E.g., asset acquisition by shares, disclosed in notes.

60. Working capital in fund flow is

- A) Current assets minus current liabilities
- B) Fixed assets
- C) Equity
- D) Cash only

Correct Answer: A

Explanation: Changes in working capital are central to fund flow analysis.

61. Horizontal analysis compares

- A) Financial statements over periods
- B) With competitors
- C) Ratios
- D) Budgets

Correct Answer: A

Explanation: Year-to-year comparison to spot growth/decline.

62. Market ratios include

- A) P/E Ratio
- B) Current Ratio
- C) Debt Ratio
- D) Turnover

Correct Answer: A

Explanation: Price-Earnings (Market Price / EPS) assesses market perception.

63. Forfeited shares in share capital are

- A) Credited to capital reserve
- B) Expense
- C) Liability
- D) Asset

Correct Answer: A

Explanation: Amount received on forfeited shares transferred to reserve upon reissue.

64. ESOP cancellation is

- A) Reversed expense
- B) Accelerated vesting
- C) Ignored
- D) New grant

Correct Answer: B

Explanation: If cancelled, remaining expense recognized immediately.

65. Buy-back CRR (Capital Redemption Reserve) is created from

- A) Profits
- B) Premium
- C) Debt
- D) Assets

Correct Answer: A

Explanation: Equivalent to nominal value, from distributable profits.

66. Depreciation in final accounts is shown as

- A) Deduction from fixed assets and expense in P&L
- B) Liability
- C) Income
- D) Reserve

Correct Answer: A

Explanation: Accumulated depreciation contra to assets, current in P&L.

67. Which is a solvency ratio?

- A) Proprietary Ratio
- B) Stock Turnover
- C) GP Ratio
- D) Debtors Turnover

Correct Answer: A

Explanation: Proprietary (Equity / Total Assets) shows owner funding proportion.

68. AS 11 exchange rate for non-integral operations is

- A) Closing rate for assets/liabilities, average for income/expense
- B) Historical
- C) Spot
- D) Forward

Correct Answer: A

Explanation: Differences to foreign currency translation reserve.

69. Carrying amount of investments is

- A) Cost less impairment
- B) Fair value
- C) Nominal
- D) Market

Correct Answer: A

Explanation: Reduced for any diminution in value.

70. Vertical analysis is

- A) Common size statements
- B) Time series
- C) Cross-sectional
- D) Ratio

Correct Answer: A

Explanation: Expresses each item as percentage of base (e.g., total sales), for intra-firm analysis.