Interview Question and Answers

Accounting Interview

GeekInterview.com is an Open Database where you can share interview questions, comment / answer any questions. Each question is like discussion thread that helps you to learn and understand each question and answer in detail instead of just reading them.

Preparing for a job interview can be a stressful experience, especially for fresher’s. Considering that you are an aspiring candidate seeking out to begin your career in accounts and accounts related domain, it is imperative that you thoroughly be prepared, in order to stand a good chance of getting hired.

Among the things that you need to plan and prepare for would be the questions that will most likely be asked during your interview. Preparation is the key to making a good first impression, particularly for first-time applicants. Consequently, lack of preparation could lead to nervousness and inability to answer questions satisfactorily. I will help you do well during your accounting job interview, which is why this e-Book has been created to specifically guide you on how best to answer 30 very common accounting interview questions.

Target Audience

This guide is designed to help anybody who is planning to attend accounting job interview in any company, big or small. With the accounting interview question and answers provided in this e-Book, you can better prepare for the interview and feel more confident during the question and answer session with your interviewer.
Disclaimer

This Accounting Interview Questions and Answers eBook contains 30 question and answers. All explanation and answers are based on user submitted comments and opinion. Exforsys Inc is not responsible for correctness of the same.
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Additional Resources
1. How to make a VAT entry in books including setoff?

*Asked by SandeepKelkaar | Answer contributed by: Mcgozon*

**Purchases**
- Accounts Payable: xxx
- VAT Input: xxx
- Cash in Bank: xxx
- Purchases recorded for the month.

**Sales**
- Accounts Receivable: xxx
- Sales: xxx
- VAT Output: xxx
- Sales recorded for the month.

**Set Off**
- VAT Output: xxx
- VAT Input: xxx
- VAT Debit & Credit Account: xxx
- Transfer of Surplus - VAT Debit & Credit Account.

**Payment**
- VAT Debit & Credit Account: xxx
- Cash in Bank: xxx
- Payment of VAT reported for the month of ______.

2. What Account is Salary outstanding? Is it real, personnel or nominal account?

*Asked by Sajith | Answer contributed by Naveen HP*

Salary outstanding is an administrative expense or rather an indirect expense. If the salary outstanding is related to previous year then it shall be debited to profit and loss account as an expense and the amount related to current year shall be shown as current liabilities under the liabilities side of the balance sheet. As far as it is real, personnel or nominal is concerned, it is
nominal account as the golden rule of accounting for nominal is debit all expenses and losses and credit all incomes and gains.

3. What are the advantages and disadvantages of the following methods of depreciation?

- Straight line method
- Reducing balance method
- Revaluation method
- Usage method
- Sum of digits method

*Asked by Pooja Goolaup | Answer contributed by Khurram*

You can choose whichever method you like however make sure you use according to the business you are running. If you want to use your expense in current period to generate extra income use double declining method. If you are not concerned about extra income use straight-line method.

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4. Describe and discuss the relevance of the Fisher Effect and the Purchasing Power Parity theories to a foreign currency dealer in a merchant bank?

*Asked by Mady_n2002 | Answer contributed by Vinay Kidangan*

**Fisher Effect**
An economic theory proposed by economist Irving Fisher that describes the relationship between inflation and both real and nominal interest rates. The Fisher effect states that the real interest rate equals the nominal interest rate minus the expected inflation rate. Therefore, real interest rates fall as inflation increases, unless nominal rates increase at the same rate as inflation.
For example, if the nominal interest rate on a savings account is 4% and the expected rate of inflation is 3%, then money in the savings account is really growing at 1%. The smaller the real interest rate the longer it will take for savings deposits to grow substantially when observed from a purchasing power perspective.

Purchasing Power Parity Theory of Exchange Rate is a theory, which establishes the fact that the exchange rates between currencies are in equilibrium in the event of equality in the purchasing power of each of the countries. This precisely means that the ratio of the price level of a fixed amount of goods and services of the two countries and the exchange rate between those two countries must be equivalent.

5. What is Short Term Solvency Ratio?

*Asked by Divyagarg09 | Answer contributed by Suji*

Short-term Solvency Ratios Its a ratio to measure the firms ability to meet short-term financial obligations. With this the firm will avoid financial distress in the short-run. There are two most important Short-term Solvency Ratios

1. Current Ratio
2. Quick Ratio

6. What is the difference between personal account real account and nominal account?

*Asked by Ferozbm | Answer contributed by Rama Krishna*

The total business transactions are divided into three. They are

Transactions related to persons
Transactions related to Things
Transactions related to incomes & expenditures
In accountancy we have three types of accounts they are - personal, real, nominal

A personal account refers to all the transactions related to natural persons, artificial persons and representative persons ex: - Rama, Ravi, Andhra bank, outstanding rent.

1st category of transactions belongs to personal accounts

RULE: Real accounts includes things in the business i.e. assets. Debit the receiver and credit the giver
2nd category of transactions related to Real accounts ex: buildings, machinery, cash etc.

RULE: Debit what comes in and credit what goes out
Nominal accounts include all the transactions related to expenditures, incomes, losses and profits. Ex: - rent paid, rent received, bad debts, profit on sale of an asset.

RULE: Debit all expenses and losses and credit all incomes and profits

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7. What does Finalization of Accounts mean?

*Asked by S.Govardhanam | Answer contributed by Jagadish*

Accounts Finalization means preparation of accounts with accurate figures & arriving at the accurate profit or loss incurred.

Normally an account is prepared by an accountant & finalized by a senior accountant or Auditor/Chartered Accountant.

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8. If an asset is purchased and the same is not used for the financial year, should the company charge the depreciation and the reason for the same?

*Asked by Swati1986 | Answer contributed by Suresh Purohit*
As per income tax law cannot claim depreciation but as per company act we can claim it.

If assets are machinery & it is ready to use but not used during period we can claim for depreciation because machinery is ready for use & company have certificate & bills for installation of machinery.

9. What is Contingent Liabilities?

*Asked by Ayaz Ahmed | Answer contributed by Vasudeo*

Contingent liabilities are those liabilities which are not liabilities as of now.

In future they may become liabilities. They are called contingent because they are not real.

Example: A bank shows all bank guarantees it has issued as contingent liabilities in its balance sheet. Reason: those bank guarantees may be invoked and may actually become liability in some unknown date in future.

Contingent liabilities are mentioned in balance sheet and annual report. There is a solid reason for the same. Suppose any contingent liability becomes a real liability in future then the stakeholders in the company should not get surprised by sudden expense by the company.

Investors need to be informed of possible liabilities in future.

10. What is the difference between Accounts and Finance?

*Asked by Gorakh.sharma | Answer contributed by Shailendra*

ACCOUNT is the detailed record of a particular asset, liability, owners' equity, revenue or expense.

FINANCIAL ACCOUNTING is the area of accounting concerned with reporting financial information to interested external parties
Answer contributed by Venkat

Accounting is concerned with the recording of transaction in a systematic manner. As such, it is concerned with recording the business event in a monetary form whether the cash is involved or not at the time of recording the business transaction.

Example: Consider a situation where a firm has bought material for 50,000 on 01.01.2007. This amount is to be paid after 30 days from the date of purchase to the supplier on 31.01.2007. In this though money is not spent on 01.01.2007, the transaction is recorded in the books of accounts.

Accounting functionalities involve,

1. Recording of transactions (Online transactions, Journal vouchers)
2. Checking the prime books (Cash book, Journals and Bank book)
3. Generating financial statements (P&L and B/S).

Finance is concerned with rising of funds to meet the various cash flow needs of the organization. Finance functions starts from gathering the cash flow information from the accounting records and also prepare projections of cash flow. Finance activities are concerned with preparing budgets and compare the same with the actual results for finding variances. Here, the sources and application of funds are prepared for both the budgets and actual scenarios.

Finance functionalities involve,

1. Bank co-ordination,
2. Sourcing and Application of funds,
3. Preparing Budgets and
4. MIS and EIS reporting.

Finance activities will encompass through the Accounting and Operations aspects of an organization.

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11. Retail Invoice vs. Tax Invoice

*Asked by Arunendra pratap singh | Answer contributed by Lokesh M*

Whenever sales transaction does not involve any tax component, then retail invoice is issued. Such type of invoice is also known as cash memo. No VAT credit can be claimed on retail invoices.

Whenever sales transaction involves tax component, then tax invoice (VAT Invoice) is issued. Tax Invoice can be issued by only registered dealers as per the guidelines only. In this type invoice the tax amount is distinctly mentioned and only such tax invoices are eligible for claiming VAT credit.

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12. What is Evaluated Receipt Settlement?

*Asked by Zulkarnain | Answer contributed by Lokesh M*

Evaluated Receipt Settlement also known, as ERS is a business transaction process between trading parties. In this type of process, the PO information as well as the goods receipt information is used to make direct payment to the supplier without even receiving an invoice.

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13. How to handle Credit Claims?

*Asked by Louise Spencer | Answer contributed by Lokesh M*

- Gather, transfer and transmit complete information and details related to credit claims such as identification, assessment and valuation
- Assign of identification numbers for the claim
- Check eligibility of credit claims
- Valuation and Registration
- Monitor claim process
- Reporting
- Conduct Post-claim Verification

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14. What are some methods to allocate support cost?

**Answer contributed by Lokesh M**

Some methods to allocate support cost are:

1. Direct Allocation Method
2. Step-Down Method (also known as Sequential Allocation Method)
3. Reciprocal Method

15. Explain what are Provisional Entries?

**Answer contributed by Kumar**

Provision entries are entries that are made to account for expenses that have not been accounted in the period for which it relates. Hence debiting the expenses and crediting the party account or liability account creates the provision.

16. How have you monitored the regulations that affect both your industry and your accounting position?

**Answer contributed by Sk.Khadar Mohiddin**

At first I would like to know what is the defective conditions the industry faced now.

After that make changes to the condition with effective manner. If I make the situations effective, automatically set the position of accountancy also.
17. How many types of fixed asset in accounting? What are they?

*Answer contributed by Sk.Khadar*

The immovable assets are called fixed assets

*Answer contributed by Ajay*

5 types of fixed assets are there

- Land
- Plant & Machinery
- Vehicles
- Buildings
- Furniture

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18. What are Fictitious Assets?

*Answer contributed by Sandeep*

There are certain expenditures/expenses, the benefit of which is not limited to one particular year. Therefore, the whole of these expenses cannot be charged to the profit and loss account at once and hence they are deferred.

For e.g. Share Issue Expenses, Discount of Issue of Debentures, etc.

Also the debit balance of Profit and Loss Account (loss) is a Fictitious Asset. It is to be cancelled out or adjusted with profit of subsequent years or reserves.

*Answer contributed by Daeswar*

Fictitious Assets are not assets, which are tangible and visible like buildings, machinery, computer but the expenditure on some activity, which is considered as a Capital expenditure instead of Revenue expenditure. When expenditure incurred amount is not debited to Profit and Loss A/C but shown as Fictitious asset and over a period the amount is written off or debited to
P & L account. For example Share issue expenses by a Corporate, This is not debited to P& L A/c in the year in which it is incurred but debited in installments as decided by Management over few years.

19. What would you do if upper management issues a new policy and it was questionable to you? Would you follow the new policy?

*Asked by ALWAYSZALADY | Answer contributed by Sameer Khan*

One should follow the policies of the company because it is an employee duty but in case a particular policy is questionable then report the same to upper management and suggest them that if we amend this policy then our company will get more benefits.

20. Why rule of nominal account is exactly opposite with the rule of personal and real account?

*Asked by Sujata Hiremath | Answer contributed by Mohamed Gazzali*

The reason why rule of nominal account is opposite with the rule of personal and real account is that Nominal Accounts CANNOT be SEEN & TOUCHED. So it has a different application in Accounting logic.

Here I wish to demystify the Accounting Rule & explain all the 3 accounting rules so that you & the rest of the readers may understand the accounting logic and learn themselves and even teach to others. If a person knows these rules then they can be very easily an accounting person (Not an Accountant). Chartered Accountants and Cost & Management Accountants are a step forward profession but are of Very high Standing with in depth knowledge in application of Accounting rules & logic in consistence with prevailing Company Laws & Accounting Standards.
1. Personal Account:
   - Debit the Receiver FROM the company
   - Credit the Giver TO the company

2. Real Account:
   - Debit what COMES-IN TO the company
   - Credit what GOES-OUT FROM the company

3. Nominal Account:
   - Debit all EXPENSES & LOSES TO the company
   - Credit all INCOMES / REVENUES & GAINS TO the company

If you see the 3nd Nominal Account all rules talk about what happens TO THE COMPANY’S BUSINESS - while the rest of the rules Personal & Real has what coming-in & going out and who gives & receives to & from the company. Hope the above helps you & all.

21. What are MIS reports and do you prepare it?

*Asked by Syed Imaduddin | Answer contributed by Herur*

MIS or Management Information System is a computer-based system used by most organizations worldwide for transforming data into useful information for better decision-making. It helps management make better plans and carefully organize business operations.

Management information system is used for generating reports including inventory status reports, financial statements, performance reports etc. These reports are essential for analyzing different aspects of business. These reports also help to answer ‘what-if’ questions like what would be the effect on cash flows of a company if the credit term were changed for its customers etc.

MIS reports also support decision-making and it helps to integrate the decision maker and the quantitative model being used. These automated systems allow managers to make decisions for smooth & successful operation of businesses. The system includes computer resources, people, and procedures used in the modern business enterprise.
22. What is bank reconciliation statement?

*Asked by Vijay kumar | Answer contributed by Teja*

In the banking scenario the account and mirror account having the opposite sign.

The process matching real account and mirror accounting is called Reconciliation.

This reconciliation to that of a bank then it is called as Bank's Reconciliation.

So, the statement is called Bank Reconciliation Statement.

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23. What is Letter of Credit?

*Asked by Ferozbm | Answer contributed by Gopalakrishna*

LC (Letter of Credit) is a set of documents, which are very essential for goods being transported from one country to another. This set includes that of invoices, shipping documents, guarantees and others.

*Answer contributed by Nishant Goel*

A letter of credit indicates for the customer’s ability (credit limit) and in other words LC is a commitment from bank to the receiver for payment.

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24. What is the difference between Accounts payable and Bills payable, Accounts receivable and Bills receivable?

*Asked by Rejsuj | Answer contributed by Subbop*

Account payable refers to the debts to be paid off within a given period of time to the creditors and whereas bills payable is the money a bank borrows, mainly on short-term basis and owes to other banks.

Account receivable refers to the money owed to the customer on credit terms for supply of goods or services and is to be received and whereas bills receivable is documents received by issuing banks under DC.

*Answer contributed by Anilrawatnokia*

1. Accounts payable are amounts due to vendors in the normal course of business, such as for rent and utilities, supplies, and the like. A note payable represents a loan, which bears interest, usually secured by something like equipment. A good example of this would be when you buy a car and are making payments...you have a note payable to the bank, and the note has a stated rate of interest and fixed monthly payments.

2. Same applies for Accounts receivable and bills receivable.

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25. What is shadow balance?

*Asked by Jyothi_k | Answer contributed by Vasudeo*

Shadow balance is that balance which is not yet clear.

Consider any company's case.

Company has given money to someone by a cheque. Then they have shown in their cashbook that money has been given. Subsequently the balance will show lower. While the same balance in bank account will look higher.

The difference of unclear cheque is shadow balance.
Similarly for a cheque company has received is deposited in bank account. In cashbook it will be shown as clear credit while it is yet to be cleared. That balance is called shadow balance.

26. Why always Liabilities are on left side and Assets on right side in Balance Sheet?

*Answer contributed by Vasudeo*

It is nothing but convention.

In United States they mention Assets on left and Liabilities on the right side.

Answer contributed by Steadyshot

The accounting equation is Assets= Liabilities + Stockholders Equity

As you can see the assets are on the left and Liabilities are on the right. On the Balance sheet Assets are reported first and Liabilities and Stockholders Equity after.

27. What is meant by turnover?

*Answer contributed by Vasudeo*

The word "Turnover" has many meanings.

For a trader/manufacturer/service provider it means total sales (cash+credit).

While when a bank gives loan to any person or company they see the turnover.

Here the turnover generally refers to the total credits in any given period in account holder's account.

While bank's own turnover is the total loans disbursed + outstanding recovery of earlier period - bad debts (loans written off) in this period.
Considering the disclosure norms in Accounting Standards the announcement of turnover is required. I am not sure for which industries it is mandatory and for which industries it is not. But it is nevertheless announced.

Balance sheet of any company can be easily window dressed. So to understand whether whatever profits are shown are really from turnover or not the announcement of turnover becomes necessary.

In case if a person/investor finds out that the turnover of any company is not high but the company is saying that they have made big profits then he can probe in details as to how the company is making its money.

In case if the investor finds out that the company is selling the goods to a huge quantity but not making much profit then he can investigate the books of accounts to find out what are the causes of low profitability.

28. What is JOC in accounting?

*Asked by Sharathchandra.Br | Answer contributed by Anilrawatnokia*

JOC means Job Order Costing and is a part of Cost Accounting

A job order costing system is used when a job or batch is significantly different from other jobs or batches. Cost accounting is usually fairly simple in these systems. Labor and materials are entered on a job ticket. Overhead is usually added to the amount the customer will be charged for labor and materials.

29. Why depreciation is not charged on land?

* Asked by Nictian | Answer contributed by Vasudeo*

Land does not get depreciated. The reason being that the depreciation is supposed to be the reduction in value of an asset because of
a) Usage, 
b) Extraction,  
c) Obsolescence etc. 

Either the capital asset is used and can no more provide as much level of output or some asset from which minerals, coal etc. are extracted are getting exhausted or some technology etc. are getting obsolete so they are depreciated.

Land is not subject to either of the things. The market value of the land may go down because of seasonal reasons, but land cannot get depreciated.

30. What is the difference between the periodic and perpetual method, how will you record it in your book?  

As asked by Zelle | Answer contributed by Steadyshot

A periodic inventory system adjusts inventory and records costs of goods only at the end of each reporting period. Since you have to count your ending inventory by hand. Perpetual inventory system continuously records both changes in inventory quantity and inventory costs.
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