CUET 2026 May 21 Accountancy Shift 1

Question Paper (Memory-Based) with Solutions

Conducted by National Testing Agency (NTA)

General Instructions

- The examination will be conducted in Computer-Based Test (CBT) mode.
- Each question carries +5 marks for correct answer and -1 mark for wrong answer.
- The total number of questions are 50.
- Duration of the exam is 1 hour (60 minutes).

1. A and B are partners sharing profits in the ratio of $3:2$. C is admitted as a new partner for a $\frac{1}{5}$th share in the profits, which he acquires entirely from A. What will be the new profit-sharing ratio of A, B, and C?

(A) $2:2:1$

(B) $3:2:1$

(C) $12:8:5$

(D) $4:3:1$

Correct Answer: (A) $2:2:1$

Solution:

Concept: When a new partner is admitted, they acquire their profit share from the old partners. The sacrificing fraction is deducted exclusively from the specific old partners' existing shares to compute the new profit-sharing ratio.

Step 1: Calculate A's new profit share balance.

A's old share is $\frac{3}{5}$. Since C acquires his entire share of $\frac{1}{5}$ from A, we subtract this fraction directly from A:

$$\text{A's New Share} = \frac{3}{5} - \frac{1}{5} = \frac{2}{5}$$

Step 2: Determine B's new share and align denominators.

Since C acquired nothing from B, B's share remains completely unchanged:

$$\text{B's New Share} = \frac{2}{5}$$

C's admitted share is explicitly given as:

$$\text{C's Share} = \frac{1}{5}$$

Step 3: Express the combined new profit-sharing ratio.

Combining the individual fractions A : B : C:

$$\frac{2}{5} : \frac{2}{5} : \frac{1}{5} \quad \Rightarrow \quad 2 : 2 : 1$$

Quick Tip: Always read the exact wording of the sacrifice carefully. Phrases like "acquires entirely from" mean you perform a direct subtraction from that single partner, bypassing any multi-partner distribution steps.

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2. X and Y are partners in a firm with capitals of \$60,000 and \$40,000 respectively. Z is admitted as a new partner for a $\frac{1}{4}$th share in profits and brings in \$40,000 as his capital contribution. What is the total value of the Hidden Goodwill of the firm?

(A) \$60,000

(B) \$20,000

(C) \$160,000

(D) \$40,000

Correct Answer: (B) \$20,000

Solution:

Concept: Hidden Goodwill occurs when a firm's value is not explicitly stated but can be inferred by capitalizing the incoming partner's capital contribution relative to their profit share, and comparing it against the firm's combined net worth.

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Step 1: Calculate the total capitalized value of the firm based on Z's share.

Z brings \$40,000 for a $\frac{1}{4}$th share. The total capitalized valuation of the firm is:

$$\text{Total Capitalized Value} = \$40,000 \times \frac{4}{1} = \$160,000$$

Step 2: Calculate the actual combined net worth of all partners.

Sum the capital balances of the old partners together with the incoming partner's cash injection:

$$\text{Actual Combined Capital} = \text{Capital of X} + \text{Capital of Y} + \text{Capital of Z}$$

$$\text{Actual Combined Capital} = \$60,000 + \$40,000 + \$40,000 = \$140,000$$

Step 3: Isolate the Hidden Goodwill value.

Subtract the actual combined capital from the total capitalized worth:

$$\text{Hidden Goodwill} = \text{Total Capitalized Value} - \text{Actual Combined Capital}$$

$$\text{Hidden Goodwill} = \$160,000 - \$140,000 = \$20,000$$

Quick Tip: When calculating total actual capital for hidden goodwill, never forget to add the new partner's capital injection to the old partners' capital balances. Omitting this step is a common exam mistake.

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3. A company forfeited 200 equity shares of \$10 each, fully called up, on which application and allotment money of \$6 per share was paid. Out of these, 150 shares were reissued as fully paid up for \$8 per share. What exact amount must be transferred to the Capital Reserve Account?

(A) \$600

(B) \$900

(C) \$750

(D) \$300

Correct Answer: (A) \$600

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Solution:

Concept: When shares are forfeited, the amount already paid by shareholders is locked inside the Share Forfeiture Account. When these shares are reissued at a discount, the loss is covered by this forfeiture balance. Any remaining surplus from the reissued portion represents a capital gain transferred to the Capital Reserve.

Step 1: Determine the per-share forfeiture credit value.

The per-share amount received and forfeited is:

$$\text{Forfeited Amount Per Share} = \$6$$

Step 2: Calculate the reissue discount loss and net profit per share.

The shares were reissued for \$8 as fully paid up (\$10 face value), which creates a discount loss:

$$\text{Reissue Discount Per Share} = \$10 - \$8 = \$2$$

Subtract the discount loss from the initial forfeiture gain to find the net profit per share:

$$\text{Net Capital Gain Per Share} = \$6 - \$2 = \$4$$

Step 3: Calculate total transfer to Capital Reserve based on reissued shares.

Multiply the net gain per share by the number of shares actually reissued (150 shares):

$$\text{Transfer to Capital Reserve} = 150 \text{ shares} \times \$4 = \$600$$

Quick Tip: Capital reserve balances are calculated based only on the number of shares reissued, not the total number of shares forfeited. Leftover balances for unreissued shares stay in the Share Forfeiture Account.

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4. During a financial year, Zenith Ltd. paid \$50,000 as an interim dividend to its equity shareholders. Under which specific activity classification must this transaction be reported within a Cash Flow Statement prepared as per AS-3?

(A) Operating Activities

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(B) Investing Activities

(C) Financing Activities

(D) Cash and Cash Equivalents

Correct Answer: (C) Financing Activities

Solution:

Concept: Cash Flow Statements break down corporate transactions into three categories: Operating (core revenue operations), Investing (acquisition/disposal of long-term assets), and Financing (activities changing the scale/composition of contributed equity and borrowings).

Step 1: Analyze the structural nature of dividend distributions.

Paying a dividend represents a direct cost of servicing capital contributed by equity owners. Transactions involving the payment of returns on equity or debt financing change the equity framework of the firm.

Step 2: Assign the item to its cash flow category.

Because dividends relate directly to the maintenance and sourcing of corporate capital, the cash outflow must be reported under Financing Activities.

(Note: For non-financial companies, dividend payment is always a financing outflow, whereas dividend received is classified as an investing inflow).

Quick Tip: Any cash flow item involving the payment of returns to providers of capital—such as paying interest on debentures or dividends on shares—is classified as a Financing Activity outflow.

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5. The financial records of Alpha Ltd. show a Current Ratio of $2.5 : 1$ **and a Quick Ratio of** $1.5 : 1$**. If the total Current Liabilities of the company equal \$40,000, what is the total dollar valuation of the Inventory held by the firm?**

(A) \$40,000

(B) \$60,000

(C) \$100,000

(D) \$20,000

Correct Answer: (A) \$40,000

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Solution:

Concept: The Current Ratio measures a firm's total short-term liquidity, while the Quick Ratio excludes less liquid items like inventory and prepaid expenses. The difference between current assets and quick assets helps isolate the value of inventory:

$$\text{Current Assets} - \text{Quick Assets} = \text{Inventory}$$

Step 1: Calculate the total absolute value of Current Assets.

Given that the Current Ratio is $\frac{\text{Current Assets}}{\text{Current Liabilities}} = 2.5$, we substitute current liabilities ($40,000):

$$\text{Current Assets} = 2.5 \times \$40,000 = \$100,000$$

Step 2: Calculate the total absolute value of Quick Assets.

Given that the Quick Ratio is $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = 1.5$, substitute current liabilities ($40,000):

$$\text{Quick Assets} = 1.5 \times \$40,000 = \$60,000$$

Step 3: Isolate the value of inventory by subtraction.

Subtract the quick assets from the total current assets:

$$\text{Inventory} = \text{Current Assets} - \text{Quick Assets}$$

$$\text{Inventory} = \$100,000 - \$60,000 = \$40,000$$

Quick Tip: You can solve this faster by looking at the ratio differences directly. The difference between the current ratio (2.5) and quick ratio (1.5) is exactly 1.0. Multiplying this index difference directly by current liabilities gives the answer immediately: $1.0 \times \$40,000 = \$40,000$.

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6. If a company issues debentures as a secondary security to back a primary bank loan, under which classification entry title must these corporate debentures be presented in the Notes to the Balance Sheet?

(A) Secured Loans

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(B) Collateral Security

(C) Current Liabilities

(D) Contingent Liabilities

Correct Answer: (B) Collateral Security

Solution:

Concept: Collateral security refers to a secondary asset pledged to back a primary loan. If the company fails to pay off its main bank loan, the lender can activate these secondary debentures to recover the outstanding debt.

Step 1: Analyze the presentation methods for collateral issues.

When debentures are issued as collateral security, a firm can choose between two accounting methods:

- Method 1: No active journal entry is made, and the collateral pledge is disclosed simply as a explanatory note under the main loan item.
- Method 2: An active entry is logged by debiting a *Debenture Suspense Account* and crediting *Debentures Account*.

Step 2: Identify the reporting title in the statements.

Under both disclosure methods, these backup securities are presented inside the financial notes under the heading Collateral Security, linked to the primary long-term borrowing loan entry.

Quick Tip: Debentures issued as collateral security do not create an immediate, active cash flow injection or increase current interest liabilities. They serve as a secondary backup guarantee for lenders.

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7. An unrecorded liability of $5,000 is settled at $4,500 during the dissolution of a partnership firm. Which of the following accounting treatments correctly records this settlement transaction inside the Realisation Account?

(A) Debiting the Realisation Account with $4,500

(B) Crediting the Realisation Account with $4,500

(C) Debiting the Realisation Account with $5,000

(D) Crediting the Realisation Account with $500

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Correct Answer: (A) Debiting the Realisation Account with $4,500

Solution:

Concept: During dissolution, a Realisation Account is opened to close out asset accounts and pay off liabilities. Any cash payment made to settle a liability represents a business expenditure that must be recorded on the debit side of this account.

Step 1: Identify the proper treatment for unrecorded liabilities. Unrecorded liabilities do not have an initial balance to transfer into the Realisation Account. However, when an actual cash settlement occurs, the cash outflow must be recorded.

Step 2: Determine the journal entry and amount for the settlement.
The payment entry is recorded by debiting the Realisation Account and crediting the Bank Account. The entry uses the actual cash amount paid ($4,500), rather than the original unrecorded book estimate ($5,000):

$$\text{Realisation A/c} \quad \text{Dr.} \quad \$4,500$$

$$\text{To Bank A/c} \quad \$4,500$$

Therefore, the Realisation Account is debited with exactly $4,500.

Quick Tip: For any liability payment during dissolution—whether the item was recorded or unrecorded—always debit the Realisation Account with the exact cash amount paid.

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8. A corporate entity issues 1,000, 9% Debentures of $100 each at a premium of 10%. What is the total annual interest obligation that the company must pay on these debentures?

(A) $9,000

(B) $9,900

(C) $900

(D) $10,000

Correct Answer: (A) $9,000

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Solution:

Concept: Interest on debentures is a fixed financial charge calculated strictly based on the nominal face value of the securities, completely ignoring any issue premiums or market discounts.

$$\text{Interest Expense} = \text{Total Nominal Face Value} \times \text{Stated Interest Rate}$$

Step 1: Calculate the total nominal face value of the issue.

Multiply the total number of issued debentures by their nominal face value:

$$\text{Total Face Value} = 1,000 \text{ debentures} \times \$100 = \$100,000$$

Step 2: Calculate annual interest using the nominal rate. The stated interest rate for this issue is 9%. Apply this percentage to the total face value, ignoring the 10% premium:

$$\text{Annual Interest} = \$100,000 \times \frac{9}{100} = \$9,000$$

Quick Tip: Debenture interest rates are always applied directly to the face value of the security. Issue premiums or discounts affect cash proceeds at launch, but do not alter the company's fixed annual interest obligations.

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9. Under pro-rata allotment, a company receives applications for 20,000 shares but allots only 10,000 shares to applicants. If a shareholder was allotted 400 shares under this scheme, how many shares did they originally apply for?

(A) 800 shares

(B) 200 shares

(C) 400 shares

(D) 600 shares

Correct Answer: (A) 800 shares

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Solution:

Concept: Pro-rata allotment distributes shares proportionally when an issue is oversubscribed. To find an individual's applied or allotted shares, we use the ratio of total applications received to total shares allotted:

$$\text{Applied Shares} = \text{Allotted Shares} \times \left(\frac{\text{Total Applications Received}}{\text{Total Shares Allotted}} \right)$$

Step 1: Determine the general pro-rata allotment ratio.

Using the company's total issue figures:

$$\text{Allotment Ratio} = \frac{\text{Total Applied}}{\text{Total Allotted}} = \frac{20,000}{10,000} = \frac{2}{1}$$

This means applicants were allotted exactly 1 share for every 2 shares they applied for.

Step 2: Calculate the individual shareholder's applied shares.

Multiply the individual's allotted shares (400) by the allotment ratio:

$$\text{Individual Applied Shares} = 400 \times \frac{2}{1} = 800 \text{ shares}$$

Quick Tip: When an issue is oversubscribed, an individual's applied shares will always be greater than their allotted shares. If your calculation results in a smaller number, you accidentally reversed your adjustment fraction.

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10. If an item titled 'Premium on Redemption of Debentures' is visible inside a corporate balance sheet, under which primary classification category heading must it be presented?

(A) Non-Current Liabilities (Long-term Borrowings)

(B) Reserves and Surplus

(C) Current Liabilities (Other Current Liabilities)

(D) Share Capital

Correct Answer: (A) Non-Current Liabilities (Long-term Borrowings)

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Solution:

Concept: A redemption premium represents a contractually agreed future expenditure that a company must pay when it redeems its debentures. Because it represents a long-term obligation, it is classified as a non-current liability.

Step 1: Analyze the lifetime of the redemption obligation.

The premium on redemption is a known future liability that stays active throughout the entire lifetime of the debentures. It represents part of the total long-term cost of borrowing.

Step 2: Identify its location on the balance sheet.

In accordance with Schedule III disclosure requirements, this future payment obligation is presented under the primary heading of Non-Current Liabilities, grouped alongside the main debenture liability within Long-term Borrowings.

Quick Tip: Be careful not to confuse Securities Premium with Premium on Redemption. Securities Premium is a capital gain held under *Reserves and Surplus*, while Premium on Redemption represents a future payment obligation classified under *Non-Current Liabilities*.

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