CUET 2026 Accountancy May 13 Shift 2

Question Paper (Memory-Based)

Conducted by National Testing Agency (NTA)

General Instructions

(i) The examination will be conducted in Computer-Based Test (CBT) mode.

(ii) Each question carries +5 marks for correct answer and -1 mark for wrong answer.

(iii) The total number of questions are 50.

(iv) Duration of the exam is 1 hour (60 minutes).

1. Accounting for Goodwill is covered under which Accounting Standard:

(a) AS 26

(b) AS 3

(c) AS 4

(d) AS 27

Correct Answer: (a) AS 26

Solution:

Concept: Accounting Standards are issued to ensure transparency, reliability, and consistency in financial reporting. Goodwill is classified as an intangible asset, as it lacks physical substance but provides long-term economic value to a firm.

Step 1: Identify the relevant Accounting Standard for intangible assets.

The question seeks the specific standard governing Goodwill.

- **AS 26 (Intangible Assets):** This standard specifically prescribes the accounting treatment for all intangible assets, including Goodwill. It dictates that Goodwill should only be recognized in the books of accounts when some consideration in money or money's worth has been paid for it (e.g., during the purchase of a business).

- **Other Standards:** AS 3 covers Cash Flow Statements, AS 4 deals with Contingencies and

Events Occurring After the Balance Sheet Date, and AS 27 relates to Financial Reporting of Interests in Joint Ventures.

Since Goodwill falls under the definition of an intangible asset, its accounting treatment is governed strictly by AS 26.

Quick Tip: A key rule under AS 26 is that "Internally Generated Goodwill" should **not** be recognized as an asset. Only "Purchased Goodwill" appears on the Balance Sheet because a verifiable cost was incurred to acquire it.

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2. When a company issues fully paid shares to promoters for their services, the journal entry will be:

(a) Bank A/c Dr.

To Share Capital A/c

(b) Incorporation Costs A/c Dr.

To Share Capital A/c

(c) Promoters Personal A/c Dr.

To Share Capital A/c

(d) Promotion Expenses A/c Dr.

To Share Capital A/c

Correct Answer: (b) Incorporation Costs A/c Dr. To Share Capital A/c

Solution:

Concept: Promoters are individuals who undertake the necessary steps to form a company, such as preparing legal documents and securing initial capital. Often, instead of receiving cash, they are compensated for these pre-incorporation services through the allotment of fully paid-up shares.

Step 1: Identifying the nature of the transaction.

The services provided by promoters are considered part of the cost of setting up the company. These costs are technically known as **Incorporation Costs** or **Formation Expenses**. Since the company is issuing shares, the Share Capital Account must be credited to reflect the increase in equity.

Step 2: Determining the Debit and Credit entries.

Debit: The expense or asset created by the promoters' work. In accounting standards, this is debited to the **Incorporation Costs Account** (or sometimes the Goodwill Account). Credit: The Share Capital Account, as the company is fulfilling its obligation by providing ownership stakes.

The most precise entry is:

$$\text{Incorporation Costs A/c} \ldots \text{Dr.}$$

$$\text{To Share Capital A/c}$$

Quick Tip: Remember that "Promotion Expenses" is a broader term, but "Incorporation Costs" specifically refers to the legal and administrative fees of bringing a company into existence, which is the primary service provided by promoters.

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3. A company AB Ltd issued 12% debentures of 10,00,000 of 100 each to public. In the terms of issue, these debentures are redeemable after 10 months ending on 31st January, 2022. These debentures will be shown in balance sheet as on 31st March, 2021 under the heading:

(a) Long-Term Liability

(b) Current Liability

(c) Fixed Assets

(d) Current Assets

Correct Answer: (b) Current Liability

Solution:

Concept: The classification of liabilities in a Balance Sheet depends on the time remaining until settlement relative to the reporting date. Under Schedule III of the Companies Act, 2013, a liability is classified as "Current" if it is expected to be settled within 12 months after the reporting period or within the company's operating cycle.

Step 1: Analyze the timeline.

Reporting Date: 31st March, 2021. Redemption Date: 31st January, 2022. Time Remaining: From 31st March, 2021 to 31st January, 2022 is exactly 10 months.

Step 2: Apply the classification rule.

Since the debentures are due for redemption within 10 months from the date of the Balance

Sheet (which is less than the standard 12-month threshold), they can no longer be classified as Long-term Borrowings (Non-current Liabilities). Instead, they must be shown under the heading of Current Liabilities, specifically under the sub-heading "Other Current Liabilities" as "Current Maturities of Long-term Debt."

Quick Tip: Always check the "distance" between the Balance Sheet date and the maturity date.

- > 12 months = Non-current Liability.
- ≤ 12 months = Current Liability.

Even if a debenture was originally issued for 10 years, in its final year, it "moves" into the Current Liability section.

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4. At the time of dissolution of a firm, firm's total assets were 5,00,000, creditors were 1,00,000. Realisation expenses amounted to 10,000. Assets realised 20% more than the book value and creditors were paid 5% less. Gain/loss on realisation will be

(a) Gain 95,000.

(b) Loss 75,000.

(c) Gain 4,95,000.

(d) Loss 1,00,000.

Correct Answer: (a) Gain 95,000.

Solution:

Concept: The Gain or Loss on Realisation is determined by comparing the total amounts credited to the Realisation Account (sale of assets and liabilities settled at a lower value) against the total amounts debited (book value of assets, settlement of liabilities, and expenses).

Step 1: Identify the values and calculate realisations.

- **Total Assets (Book Value):** 5,00,000.
- **Creditors (Book Value):** 1,00,000.
- **Realisation Expenses:** 10,000.
- **Amount Realised from Assets:** $5,00,000 + 20\% = 5,00,000 + 1,00,000 = 6,00,000$.

- **Amount Paid to Creditors:** $1,00,000 - 5\% = 1,00,000 - 5,000 = 95,000$.

Step 2: Calculate the Gain/Loss. The Realisation Account logic is: $(\text{Assets Realised} + \text{Book Value of Creditors}) - (\text{Book Value of Assets} + \text{Amount Paid to Creditors} + \text{Expenses})$.

$$\text{Gain/Loss} = (6,00,000 + 1,00,000) - (5,00,000 + 95,000 + 10,000)$$

$$\text{Gain/Loss} = 7,00,000 - 6,05,000$$

$$\text{Gain/Loss} = 95,000 \text{ (Positive result indicates a Gain)}$$

Quick Tip: A faster way to calculate this is to look at the "net changes":

- Profit from Assets: + 1,00,000 (20% of 5L)
- Profit from Creditors: + 5,000 (5% of 1L)
- Realisation Expenses: - 10,000
- **Net Result:** $1,00,000 + 5,000 - 10,000 = 95,000$ Gain.

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5. Akash Ltd. registered capital is 50,00,000 in shares of 10 each. The company issued 2,00,000 of such shares, payable @ 3 per share on application, @ 3 per share on allotment and balance on first and final call. What will be the amount due on allotment, if shareholder holding 20,000 shares paid all call money at the time of allotment only?

(a) 4,00,000

(b) 6,00,000

(c) 60,000

(d) 1,50,000

Correct Answer: (b) 6,00,000

Solution:

Concept: The amount "due on allotment" refers to the total legal claim the company has on all issued shares at the allotment stage. This is a fixed calculation based on the number of shares issued and the per-share allotment rate, regardless of whether shareholders pay early (Calls-in-Advance) or late (Calls-in-Arrears).

Step 1: Identify the total shares issued and the allotment rate.

- **Shares Issued:** 2,00,000 shares.
- **Allotment Rate:** 3 per share.

Step 2: Calculate the total amount due on allotment.

$$\text{Amount Due on Allotment} = \text{Total Shares Issued} \times \text{Rate per Share on Allotment}$$

$$\text{Amount Due on Allotment} = 2,00,000 \times 3 = 6,00,000$$

Step 3: Address the Calls-in-Advance info.

The problem mentions that a shareholder holding 20,000 shares paid their call money early at the time of allotment. While this affects the total **cash received** (which would be $6,00,000 +$ advance payment), it does **not** change the amount that was originally **due** on the allotment call itself.

Quick Tip: In accounting for share capital, "Due" and "Received" are two different things.

- **Amount Due:** Total shares × Installment rate.
- **Amount Received:** Amount Due + Calls-in-Advance – Calls-in-Arrears.

Always look for the keyword "due" to avoid getting distracted by advance payments.

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6. As per Indian Partnership Act, 1932, the act of a partner carried out in the ordinary course of business is generally considered to be:

(a) binding only on the partner performing the act.

(b) binding on the firm as well as all the partners collectively.

(c) binding on all partners except those who expressly dissent.

(d) non-binding unless approved unanimously by all partners.

Correct Answer: (b) binding on the firm as well as all the partners collectively.

Solution:

Concept: The Indian Partnership Act, 1932, establishes the principle of **Mutual Agency**. This means that every partner is both an agent and a principal for the other partners.

Step 1: Understanding Implied Authority.

The law focuses on acts done in the "ordinary course of business."

- **Section 18:** States that a partner is the agent of the firm for the purposes of the business of the firm.
- **Section 19 (Implied Authority):** The act of a partner which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm.

Step 2: Conclusion.

Because each partner acts as an agent for the rest, any contract or transaction entered into by one partner while performing regular business duties creates a legal obligation for the entire firm and all other partners collectively.

Quick Tip: Think of the firm as a single unit. If one "arm" (partner) shakes hands on a deal related to the business, the whole "body" (the firm and all partners) is committed to that deal.

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7. Which of the following statements is correct regarding the issue of Shares and Debentures at a discount?

(a) Shares may be issued at a discount, whereas debentures cannot be issued below their face value.
(b) Debentures may be issued at a discount, but shares cannot ordinarily be issued at a discount under the Companies Act.
(c) Both shares and debentures are prohibited from being issued at a discount.
(d) Both shares and debentures can freely be issued at a discount without any legal restrictions.

Correct Answer: (b) Debentures may be issued at a discount, but shares cannot ordinarily be issued at a discount under the Companies Act.

Solution:

Concept: The Companies Act, 2013, governs how a company can raise capital through the issue of securities. There are strict legal distinctions between equity (shares) and debt (debentures) regarding their issue price.

Step 1: Rules for Shares (Section 53).

As per Section 53 of the Companies Act, 2013, a company is generally **prohibited** from issuing shares at a discount. Any shares issued by a company at a discounted price shall be void.

- *Exception:* The only major exception is the issue of "Sweat Equity Shares" under Section 54, which can be issued to employees or directors at a discount for their provide know-how or value additions.

Step 2: Rules for Debentures.

Unlike shares, there is **no legal restriction** in the Companies Act that prevents a company from issuing debentures at a discount. Since debentures are a form of loan (debt) rather than ownership (equity), companies often issue them at a discount to make the investment more attractive to the public when the stated interest rate is lower than the market rate.

Step 3: Conclusion

Therefore, while the law restricts the discounting of shares to protect capital maintenance, it allows flexibility for debentures. This makes option (b) the only legally accurate statement.

Quick Tip: To remember this:

- Shares = Equity. The law protects the value of ownership; therefore, **No Discount** (except Sweat Equity).
- Debentures = Debt. It's just a loan. Like any loan, you can negotiate the "entry price"; therefore, **Discount Allowed**.

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8. The capital balance of a partner at the end of the year (after adjusting for his drawings Rs. 3,500 and his share in the profit Rs. 2,300) is Rs. 12,000. Interest on capital is payable to him at 5% per annum. What will be the amount of interest on capital?

(a) Rs. 660

(b) Rs. 600

(c) Rs. 540

(d) None of these

Correct Answer: (a) Rs. 660

Solution:

Concept: Interest on capital is always calculated on the **Opening Capital** (the capital at the beginning of the year), unless any additional capital was introduced during the year. If the closing balance is given, we must work backward to find the opening balance.

Step 1: Calculate the Opening Capital using data

- **Closing Capital:** Rs. 12,000
- **Add: Drawings** (since drawings reduce capital, we add them back): Rs. 3,500
- **Less: Share of Profit** (since profit increases capital, we subtract it): Rs. 2,300

$$\text{Opening Capital} = \text{Closing Capital} + \text{Drawings} - \text{Profit}$$

$$\text{Opening Capital} = 12,000 + 3,500 - 2,300$$

$$\text{Opening Capital} = 15,500 - 2,300 = \text{Rs. } 13{,}200$$

Step 2: Calculate Interest on Capital.

The interest rate is 5% per annum.

$$\text{Interest on Capital} = \text{Opening Capital} \times \text{Rate}$$

$$\text{Interest on Capital} = 13,200 \times \frac{5}{100}$$

$$\text{Interest on Capital} = 132 \times 5 = \text{Rs. } 660$$

Quick Tip: A common trap is to calculate 5% on the Rs. 12,000 closing balance (which would be Rs. 600). Always remember: **Closing Capital is "polluted"** by the year's events; you must find the "clean" Opening Capital before applying interest.

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9. Nominal/Authorised Share Capital is

(a) that part of the share capital which is issued by the company.

(b) the amount of share capital which is actually applied for by the prospective shareholders.

(c) the maximum amount of share capital which a company is authorised to issue.

(d) the amount actually paid by the shareholders.

Correct Answer: (c) the maximum amount of share capital which a company is authorised to issue.

Solution:

Concept: Share capital is categorized into different types based on its stage in the issuance process. Authorised capital, also known as Nominal or Registered capital, is the legal limit established during the company's incorporation.

Step 1: Define Authorised Capital

Authorised capital is the maximum amount of share capital that a company is legally allowed to issue to its shareholders as per its Memorandum of Association. It represents the "ceiling" of the company's fundraising capacity through equity.

Step 2: Differentiate from other types of capital listed in the options.

To avoid confusion, it's helpful to identify what the other options represent:

- **Option (a)** refers to **Issued Capital**, which is the portion of authorised capital actually offered to the public.
- **Option (b)** refers to **Subscribed Capital**, representing the shares the public has agreed to take up.
- **Option (d)** refers to **Paid-up Capital**, which is the actual money received from shareholders.

The definition of Nominal/Authorised capital, option (c) is the correct choice as it highlights the legal authorization limit.

Quick Tip: Think of Authorised Capital as the size of an empty bucket. The company can fill it with "Issued Capital" up to that level, but it cannot overflow the bucket without legally increasing the bucket's size (altering the Memorandum of Association).

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10. When a company issues shares at a premium, the company can collect securities premium along with the following:

(a) Application money.

(b) Allotment money.

(c) Call money.

(d) Any of the above.

Correct Answer: (d) Any of the above.

Solution:

Concept: A share premium (Securities Premium) occurs when a company issues shares at a price higher than their face value. While accounting textbooks often demonstrate the premium being collected during the allotment stage, there is no legal restriction under the Companies Act regarding which installment is used to collect this extra amount.

Step 1: Understanding the flexibility of premium collection.

Company has the discretion to structure its share issue installments based on its capital needs. The securities premium can be collected:

- **On Application:** To secure the premium amount immediately from interested investors.
- **On Allotment:** This is the most common practice in many accounting problems.
- **On Calls:** The company may choose to collect the premium in later stages alongside the final installments of the face value.

Step 2: Conclusion.

Since the premium can be legally and practically attached to any stage of the payment process, the company can collect it with application, allotment, or call money.

Quick Tip: If a problem doesn't specify when the premium is collected, the standard accounting convention is to assume it is due along with the **Allotment money**.It can technically be any installment.