

CUET-UG Accountancy Sample Paper-1

Duration: 1 Hour

Maximum Marks: 250

Instructions

- This paper contains a total of 50 Multiple Choice Questions.
- Each correct answer carries **+5 marks**.
- Each incorrect answer carries **-1 mark**.
- No negative marking for unattempted questions.

Q1. In the absence of a Partnership Deed, the interest on a partner's loan is provided at:

- (A) 6% per month
- (B) 12% per annum
- (C) 6% per annum
- (D) Not allowed

Q2. A and B are partners sharing profits in the ratio of 3:2. They admit C for $\frac{1}{5}$ th share. C acquires $\frac{1}{10}$ th from A and $\frac{1}{10}$ th from B. The new profit-sharing ratio will be:

- (A) 5:3:2
- (B) 4:4:2
- (C) 2:1:1
- (D) 3:2:1

Q3. Sacrificing Ratio is used at the time of:

- (A) Death of a partner
- (B) Dissolution of a firm
- (C) Admission of a partner
- (D) Retirement of a partner



- Q4.** If the average profit of a firm is ₹ 70,000, the normal rate of return is 10%, and the total assets and liabilities are ₹ 8,00,000 and ₹ 3,00,000 respectively, the value of goodwill by Capitalisation of Average Profit will be:
- (A) ₹ 2,00,000
 - (B) ₹ 5,00,000
 - (C) ₹ 3,00,000
 - (D) ₹ 1,00,000
- Q5.** Accumulated profits and reserves are transferred to the _____ at the time of admission of a partner.
- (A) Realisation Account
 - (B) Old Partners' Capital Accounts
 - (C) New Partner's Capital Account
 - (D) Revaluation Account
- Q6.** At the time of admission, if the value of Land is increased by ₹ 20,000 and Stock is decreased by ₹ 5,000, the net profit/loss on revaluation is:
- (A) Profit ₹ 15,000
 - (B) Loss ₹ 15,000
 - (C) Profit ₹ 25,000
 - (D) Loss ₹ 25,000
- Q7.** X, Y, and Z are partners sharing profits in the ratio of 5:3:2. Z retires. X and Y decide to share future profits in the ratio of 3:2. The gaining ratio is:
- (A) 1:1
 - (B) 2:3
 - (C) 1:3
 - (D) 3:2



- Q8.** On the death of a partner, his share of profit till the date of death is transferred to the Debit of:
- (A) Profit & Loss Account
 - (B) Profit & Loss Appropriation Account
 - (C) Profit & Loss Suspense Account
 - (D) Deceased Partner's Capital Account
- Q9.** The amount due to the deceased partner is paid to his:
- (A) Father
 - (B) Friend
 - (C) Legal Heir/Executor
 - (D) Remaining Partners
- Q10.** Interest on Drawings of Mr. Pyare at 10% p.a. for the year ended 31st March 2024, if he withdrew ₹ 5,000 per month in the middle of every month, will be:
- (A) ₹ 3,000
 - (B) ₹ 3,250
 - (C) ₹ 2,750
 - (D) ₹ 6,000
- Q11.** Premium for Goodwill brought in by a new partner is shared by old partners in:
- (A) Old Ratio
 - (B) New Ratio
 - (C) Sacrificing Ratio
 - (D) Gaining Ratio
- Q12.** In a fixed capital system, "Interest on Capital" is credited to:
- (A) Partner's Capital Account
 - (B) Partner's Current Account



- (C) Profit & Loss Account
- (D) Interest Account

Q13. Revaluation Account is a:

- (A) Real Account
- (B) Personal Account
- (C) Nominal Account
- (D) Liability Account

Q14. If at the time of retirement, "Goodwill" appears in the Balance Sheet, it is written off among:

- (A) All partners in Old Ratio
- (B) Remaining partners in New Ratio
- (C) Retiring partner only
- (D) Remaining partners in Gaining Ratio

Q15. A, B, and C are partners. C retires. The value of the firm's goodwill is ₹ 60,000. If the new ratio of A and B is 1:1 and the old ratio was 3:2:1, what is C's share of goodwill?

- (A) ₹ 10,000
- (B) ₹ 20,000
- (C) ₹ 30,000
- (D) ₹ 15,000

Q16. Which of the following is not a part of the Partnership Deed?

- (A) Name of the firm
- (B) Method of valuation of goodwill
- (C) Ratio of sharing profits
- (D) Details of partners' personal properties



- Q17.** Liability of a partner in a partnership firm is:
- (A) Limited
 - (B) Unlimited
 - (C) Limited to the extent of capital
 - (D) Fixed
- Q18.** If a partner withdraws ₹ 10,000 in the beginning of each quarter, for how many months will the interest on drawings be calculated?
- (A) 6 months
 - (B) 7.5 months
 - (C) 4.5 months
 - (D) 5.5 months
- Q19.** On dissolution, the balance of "Profit and Loss Account (Debit)" is transferred to:
- (A) Realisation Account
 - (B) Partners' Capital Accounts
 - (C) Cash Account
 - (D) Suspense Account
- Q20.** Unrecorded liabilities when paid at the time of dissolution are debited to:
- (A) Liability Account
 - (B) Realisation Account
 - (C) Partners' Capital Account
 - (D) Cash Account
- Q21.** At the time of dissolution, "Partner's Loan Account" is transferred to:
- (A) Realisation Account
 - (B) Credited to Partner's Capital Account



- (C) Paid separately through Cash/Bank Account
- (D) Debited to Realisation Account

Q22. Realisation expenses paid by the firm on behalf of a partner are debited to:

- (A) Realisation Account
- (B) Partner's Capital Account
- (C) Cash Account
- (D) P&L Account

Q23. If Sundry Creditors are ₹ 40,000 and they are settled at 10% discount, the amount paid will be recorded in Realisation Account as:

- (A) ₹ 4,000
- (B) ₹ 44,000
- (C) ₹ 36,000
- (D) ₹ 40,000

Q24. The maximum amount of capital a company can raise as per its Memorandum of Association is:

- (A) Issued Capital
- (B) Subscribed Capital
- (C) Authorized Capital
- (D) Called-up Capital

Q25. Equity shareholders are called:

- (A) Creditors of the company
- (B) Owners of the company
- (C) Debtors of the company
- (D) Customers of the company

Q26. Shares can be forfeited for:



- (A) Non-payment of call money
- (B) Failure to attend meetings
- (C) Transfer of shares
- (D) Pledging shares as security

Q27. The balance of "Shares Forfeited Account" after the reissue of forfeited shares is transferred to:

- (A) General Reserve
- (B) Capital Reserve
- (C) Revenue Reserve
- (D) Profit & Loss Account

Q28. If 1,000 shares of 10 rupees each (8 rupees called up) are forfeited for non-payment of 3 rupees per share, the amount credited to Share Forfeiture Account will be:

- (A) ₹ 3,000
- (B) ₹ 5,000
- (C) ₹ 8,000
- (D) ₹ 10,000

Q29. Premium on redemption of debentures is a:

- (A) Personal Account
- (B) Real Account
- (C) Nominal Account
- (D) Liability Account

Q30. Debentures issued as collateral security are recorded by:

- (A) Debiting Debenture Suspense A/c and Crediting Debentures A/c
- (B) Debiting Bank A/c and Crediting Debentures A/c



- (C) Debiting Debentures A/c and Crediting Bank Loan A/c
- (D) No entry is required

Q31. Discount on issue of debentures is shown in the Balance Sheet under:

- (A) Current Assets
- (B) Non-Current Assets (Other)
- (C) Reserves and Surplus
- (D) Long-term Borrowings

Q32. A company issued 5,000, 10% Debentures of ₹ 100 each at a premium of 5%. The total interest for one year will be:

- (A) ₹ 50,000
- (B) ₹ 52,500
- (C) ₹ 5,00,000
- (D) ₹ 5,250

Q33. Minimum subscription for a public issue as per SEBI guidelines is:

- (A) 100%
- (B) 90%
- (C) 75%
- (D) 50%

Q34. If 500 shares of ₹ 100 each are issued to a vendor for the purchase of machinery worth ₹ 45,000, the difference of ₹ 5,000 will be:

- (A) Capital Reserve
- (B) Goodwill
- (C) Discount on Issue
- (D) Securities Premium

Q35. Securities Premium Reserve cannot be used for:



- (A) Issuing fully paid bonus shares
- (B) Writing off preliminary expenses
- (C) Paying dividends to shareholders
- (D) Buyback of its own shares

Q36. Loss on issue of debentures is generally written off:

- (A) Over the life of the debentures
- (B) Within 10 years
- (C) At the time of redemption only
- (D) In the year of issue

Q37. Which of the following is not a feature of Debentures?

- (A) Fixed rate of interest
- (B) Voting rights
- (C) Borrowed fund
- (D) Charge on assets

Q38. Ideal Current Ratio is:

- (A) 1:1
- (B) 2:1
- (C) 3:1
- (D) 0.5:1

Q39. Which ratio measures the efficiency with which a company uses its inventory?

- (A) Current Ratio
- (B) Operating Ratio
- (C) Inventory Turnover Ratio
- (D) Debt-Equity Ratio



- Q40.** If Sales is ₹ 4,0,000 and Gross Profit is 25% on Cost, then Gross Profit amount is:
- (A) ₹ 1,00,000
 - (B) ₹ 80,000
 - (C) ₹ 75,000
 - (D) ₹ 1,25,000
- Q41.** Comparative Balance Sheet shows:
- (A) Financial position on a particular date
 - (B) Changes in various items of Balance Sheet over two periods
 - (C) Cash inflows and outflows
 - (D) Profitability of the firm
- Q42.** Debt-Equity Ratio is a:
- (A) Liquidity Ratio
 - (B) Solvency Ratio
 - (C) Profitability Ratio
 - (D) Activity Ratio
- Q43.** Proprietary Ratio is calculated as:
- (A) Total Assets / External Liabilities
 - (B) Shareholders' Funds / Total Assets
 - (C) Fixed Assets / Current Assets
 - (D) Net Profit / Sales
- Q44.** An increase in the Liquid Ratio without a change in the Current Ratio indicates:
- (A) Decrease in Inventory
 - (B) Increase in Inventory
 - (C) Decrease in Debtors



(D) Increase in Cash

Q45. Interest Coverage Ratio is:

(A) Net Profit after Tax / Interest

(B) Net Profit before Interest and Tax / Interest

(C) Gross Profit / Interest

(D) Total Assets / Interest

Q46. Under AS-3, "Interest paid by a finance company" is classified as:

(A) Operating Activity

(B) Investing Activity

(C) Financing Activity

(D) Cash Equivalent

Q47. Purchase of Marketable Securities is treated as:

(A) Cash Outflow from Investing

(B) Cash Outflow from Financing

(C) No flow (Cash & Cash Equivalent)

(D) Cash Inflow from Operating

Q48. Depreciation is added back to Net Profit under Operating Activity because:

(A) It is a non-cash expense

(B) It involves cash outflow

(C) It is an income

(D) It is a non-operating income

Q49. Issue of Bonus Shares results in:

(A) Cash Inflow

(B) Cash Outflow



- (C) No Cash Flow
- (D) Operating Inflow

Q50. In a Database Management System (DBMS), the unique key that identifies a record is called:

- (A) Foreign Key
- (B) Candidate Key
- (C) Primary Key
- (D) Composite Key



Detailed Solutions

Q1.

Solution

Concept: A **Partnership Deed** is a written agreement among partners. In its absence, the provisions of the **Indian Partnership Act, 1932** apply to govern the relationship between partners. These rules act as the "default" settings for the firm.

Solution: According to the Indian Partnership Act, 1932, when there is no agreement (Partnership Deed) regarding specific financial matters, the following rules apply:

- Profits and losses are shared **equally**.
- No interest is allowed on Capital.
- No interest is charged on Drawings.
- No salary or commission is paid to any partner.
- **Interest on Partner's Loan:** Interest must be paid at a fixed rate of **6% per annum**.

It is important to note that interest on a partner's loan is a **charge against profit**, meaning it must be paid even if the firm incurs a loss.

Final Answer: 6% per annum

Answer: (C)

Q2.

Solution

Concept: When a new partner is admitted, they acquire their share from the existing partners. The sacrificing ratio determines how much each old partner gives up from their existing profit share.

Solution: A and B initially share profits in the ratio 3:2. So, A's share = $\frac{3}{5}$ and B's share = $\frac{2}{5}$.

C is admitted for $\frac{1}{5}$ share, acquiring $\frac{1}{10}$ from A and $\frac{1}{10}$ from B.

$$\text{New share of A} = \frac{3}{5} - \frac{1}{10} = \frac{6}{10} - \frac{1}{10} = \frac{5}{10} = \frac{1}{2}$$

$$\text{New share of B} = \frac{2}{5} - \frac{1}{10} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}$$

$$\text{C's share} = \frac{1}{10} + \frac{1}{10} = \frac{2}{10} = \frac{1}{5}$$

$$\text{Thus, the new ratio} = \frac{1}{2} : \frac{3}{10} : \frac{1}{5}$$

Convert into a common denominator (LCM = 10): 5 : 3 : 2

Final Answer: 5 : 3 : 2

Answer: (A)



Q3.

Solution

Concept: The **Sacrificing Ratio** is the ratio in which existing partners surrender a portion of their profit share in favor of a new partner. It is calculated to determine how the "Premium for Goodwill" brought in by the new partner should be distributed among the old partners to compensate them for their loss of future profits.

Solution: The Sacrificing Ratio is specifically relevant during the **Admission of a partner**.

- When a new partner enters, the old partners' total share of 100% must be redistributed to accommodate the newcomer.
- The formula is: $\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$.

In contrast:

- **Retirement/Death:** We use the **Gaining Ratio**, as the remaining partners acquire the share of the outgoing partner.
- **Dissolution:** No profit-sharing ratios are adjusted; instead, assets are realized and liabilities are settled.

Final Answer: Admission of a partner

Answer: (C)

Q4.

Solution

Concept: Under the Capitalisation of Average Profit method, goodwill is calculated as the excess of the capitalised value of average profits over the net assets of the firm.

$$\text{Goodwill} = \text{Capitalised Value of Average Profit} - \text{Net Assets}$$

Solution: Average Profit = ₹ 70,000 Normal Rate of Return = 10%

$$\text{Capitalised Value} = \frac{70,000 \times 100}{10} = ₹ 7,00,000$$

Total Assets = ₹ 8,00,000 Total Liabilities = ₹ 3,00,000

$$\text{Net Assets} = ₹ 8,00,000 - ₹ 3,00,000 = ₹ 5,00,000$$

$$\text{Goodwill} = ₹ 7,00,000 - ₹ 5,00,000 = ₹ 2,00,000$$

Final Answer: ₹ 2,00,000

Answer: (A)



Q5.

Solution

Concept: At the time of admission of a new partner, accumulated profits and reserves belong to the old partners. Therefore, they are distributed among the existing partners in their old profit-sharing ratio.

Solution: Accumulated profits (like General Reserve, Profit Loss Account balance, etc.) are not meant for the new partner as they were earned before their admission. Hence, these are transferred to the capital accounts of the old partners in their old profit-sharing ratio.

Final Answer: Old Partners' Capital Accounts

Answer: (B)

Q6.

Solution

Concept: The **Revaluation Account** (or Profit and Loss Adjustment Account) is prepared at the time of admission, retirement, or death of a partner to account for changes in the value of assets and liabilities.

- **Credits (Gains):** Increase in asset value or decrease in liability value.
- **Debits (Losses):** Decrease in asset value or increase in liability value.

Solution: Based on the data provided:

(a) **Increase in Land:** ₹ 20,000 (This is a gain/profit).

(b) **Decrease in Stock:** ₹ 5,000 (This is a loss).

Calculation of Net Result:

$$\text{Net Profit/Loss} = \text{Total Gains} - \text{Total Losses}$$

$$\text{Net Profit/Loss} = | 20,000 - | 5,000 = | 15,000$$

Since the result is positive (gains exceed losses), it represents a **Net Profit of ₹ 15,000**, which will be distributed among the old partners in their old profit-sharing ratio.

Final Answer: Profit ₹ 15,000

Answer: (A)



Q7.

Solution

Concept: The Gaining Ratio is the ratio in which the continuing partners acquire the share of profit from the retiring or deceased partner. It is calculated as the difference between the New Profit Sharing Ratio and the Old Profit Sharing Ratio: Gain = New Share – Old Share.

Solution: Old Ratio of X, Y, and Z = 5 : 3 : 2. X's old share = $\frac{5}{10}$; Y's old share = $\frac{3}{10}$. New Ratio of X and Y = 3 : 2. X's new share = $\frac{3}{5}$; Y's new share = $\frac{2}{5}$.

X's Gain = $\frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$ Y's Gain = $\frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$ Gaining Ratio = $\frac{1}{10} : \frac{1}{10} = 1 : 1$.

Final Answer: The gaining ratio of X and Y is 1:1.

Answer: (A)

Q8.

Solution

Concept: When a partner dies mid-year, their share of profit must be calculated up to the date of death to settle their accounts. Since final accounts are not yet prepared, this "accrued" profit is adjusted through a temporary account called the Profit & Loss Suspense Account to keep the books balanced until the end of the financial year.

Solution: The accounting entry to record the deceased partner's share of profit is: *Profit & Loss Suspense A/c* *Dr. To Deceased Partner's Capital A/c*

If there is a loss, the entry is reversed. The Profit & Loss Suspense Account is eventually closed by transferring it to the Profit & Loss Account at the end of the accounting period. If the remaining partners change their profit-sharing ratio, this profit may instead be adjusted through the gaining partners' capital accounts.

Final Answer: The share of profit is transferred to the Debit of the Profit & Loss Suspense Account.

Answer: (C)



Q9.

Solution

Concept: Upon the death of a partner, the partnership technically dissolves (or is reconstituted), and the total amount standing to the credit of the deceased partner's account becomes payable. This amount includes their capital, share of accumulated profits, interest on capital, and share of goodwill up to the date of death.

Solution: Legally, the amount due to a deceased person cannot be paid to friends or non-authorized family members unless they are specifically designated as the legal successor. The amount is transferred to the ****Deceased Partner's Executor's Account****. The executor (or legal heir) is the person legally entitled to settle the affairs of the deceased. If the firm does not pay the amount immediately, the executor is generally entitled to interest at ****6% per annum**** or a share of subsequent profits earned using that capital.

Final Answer: The amount due is paid to the Legal Heir/Executor.

Answer: (C)

Q10.

Solution

Concept: When a partner withdraws a fixed amount at regular intervals, the **Average Period**

Method is used to calculate interest on drawings. The formula is:

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Average Period}}{12}$$

The Average Period is calculated as:

$$\text{Average Period} = \frac{\text{Months left after 1st drawing} + \text{Months left after last drawing}}{2}$$

Solution: 1. **Total Drawings:** Since Mr. Pyare withdraws ₹ 5,000 per month for 12 months:

$$\text{Total Drawings} = 5,000 \times 12 = | 60,000$$

2. **Average Period (Middle of every month):**

- Months left after 1st drawing (April 15): 11.5 months
- Months left after last drawing (March 15): 0.5 months
- Average Period = $\frac{11.5+0.5}{2} = 6$ months

3. **Calculation:**

$$\text{Interest} = 60,000 \times \frac{10}{100} \times \frac{6}{12}$$

$$\text{Interest} = 6,000 \times 0.5 = | 3,000$$

Final Answer: ₹ 3,000

Answer: (A)



Q15.

Solution

Concept: At the time of retirement of a partner, the continuing partners compensate the retiring partner for their share of goodwill in the ratio of their *gain*. The gain is calculated as the difference between the new share and the old share.

Solution:

Old profit-sharing ratio of A, B, and C = 3 : 2 : 1

Total parts = 3 + 2 + 1 = 6

$$\text{A's old share} = \frac{3}{6}, \quad \text{B's old share} = \frac{2}{6}, \quad \text{C's old share} = \frac{1}{6}$$

New ratio of A and B = 1 : 1

$$\text{A's new share} = \frac{1}{2}, \quad \text{B's new share} = \frac{1}{2}$$

Gain Calculation:

$$\text{A's gain} = \frac{1}{2} - \frac{3}{6} = 0$$

$$\text{B's gain} = \frac{1}{2} - \frac{2}{6} = \frac{1}{6}$$

Thus, only B gains from C.

C's share of goodwill:

$$= 60000 \times \frac{1}{6} = 10000$$

Final Answer: C's share of goodwill = ₹ 10,000

Answer: (A)



Q16.

Solution

Concept: A Partnership Deed is a written agreement among partners that outlines the terms and conditions governing the partnership. It typically includes details related to the business and its operations, not the personal matters of the partners.

Solution:

Let us examine each option:

- **Name of the firm** — This is an essential part of the partnership deed.
- **Method of valuation of goodwill** — This is included to avoid disputes during admission/retirement.
- **Ratio of sharing profits** — This is a core element of the agreement.
- **Details of partners' personal properties** — This is **not** related to the partnership business and is not included in the deed.

Final Answer: Details of partners' personal properties

Answer: (D)

Q17.

Solution

Concept: In a partnership firm, partners have *unlimited liability*. This means that if the firm's assets are insufficient to meet its liabilities, the personal assets of the partners can also be used to pay off the debts.

Solution:

Let us analyze the options:

- **Limited** — Incorrect, as liability is not restricted.
- **Unlimited** — Correct, partners are fully liable.
- **Limited to the extent of capital** — Incorrect, this applies to companies, not partnerships.
- **Fixed** — Incorrect, liability is not predetermined.

Final Answer: Unlimited

Answer: (B)



Q18.

Solution

Concept: When drawings are made at the *beginning of each quarter*, interest on drawings is calculated using the *average period method*. The average period is the mean of the time intervals (in months) for which each drawing remains outstanding.

Solution:

Drawings are made at the beginning of each quarter:

- 1st April → 12 months
- 1st July → 9 months
- 1st October → 6 months
- 1st January → 3 months

$$\text{Average period} = \frac{12 + 9 + 6 + 3}{4} = \frac{30}{4} = 7.5 \text{ months}$$

Final Answer: 7.5 months

Answer: (B)

Q19.

Solution

Concept: At the time of dissolution of a partnership firm, the balance of the Profit and Loss Account represents accumulated losses (if it has a debit balance). These losses are transferred to the *Partners' Capital Accounts* in their profit-sharing ratio.

Solution:

A debit balance in the Profit and Loss Account indicates accumulated losses of the firm. On dissolution, such losses must be borne by the partners.

- **Realisation Account** — Used to record sale of assets and payment of liabilities.
- **Partners' Capital Accounts** — Correct, losses are transferred here.
- **Cash Account** — Used for cash transactions only.
- **Suspense Account** — Not used in dissolution for this purpose.

Final Answer: Partners' Capital Accounts

Answer: (B)



Q20.

Solution

Concept: At the time of dissolution of a partnership firm, a Realisation Account is prepared to record the realization of assets and the settlement of liabilities. Since unrecorded liabilities do not exist in the books of accounts, they are not initially transferred to the Realisation Account, but their actual payment must still be recorded as an expense or loss of realization.

Solution: An unrecorded liability is a liability that does not appear in the Balance Sheet on the date of dissolution. When such a liability is paid off during the dissolution process, it results in an outflow of cash. Because there is no specific liability account to debit, the expense is charged directly to the Realisation Account.

The journal entry passed for the payment of an unrecorded liability is: Realisation A/c . . . Dr.
To Cash/Bank A/c

Thus, the payment of an unrecorded liability is debited to the Realisation Account and credited to the Cash/Bank Account.

Final Answer: Realisation Account

Answer: (B)

Q21.

Solution

Concept: According to the rules of dissolution under the Indian Partnership Act (or standard partnership accounting principles), the settlement of accounts follows a specific order: first, outside/third-party liabilities are paid off; second, loans or advances given by any partner to the firm are repaid; and finally, the capital accounts of the partners are settled.

Solution: Because a partner's loan is an internal liability (owed to a partner) rather than an external one, it is not transferred to the Realisation Account. Furthermore, it is kept distinct from the partner's capital balance. Therefore, it is not transferred to the Partner's Capital Account either. Instead, the Partner's Loan Account remains separate and is settled directly by making a payment from the firm's cash or bank balance.

The journal entry for the payment of a partner's loan is: Partner's Loan A/c . . . Dr. To Cash/Bank A/c

Final Answer: Paid separately through Cash/Bank Account

Answer: (C)



Q22.

Solution

Concept: During the dissolution of a firm, the responsibility for realization expenses is determined by the agreement between the partners. If a partner agrees to bear the expenses but the firm pays them on their behalf, it is treated as a withdrawal or a reduction of that partner's claim against the firm.

Solution: When the firm pays realization expenses that were actually the responsibility of a partner, it is not considered an expense of the firm. Instead, it is treated as a payment made to the partner. This transaction reduces the partner's equity in the firm; therefore, the partner's Capital Account is debited to reflect this decrease, and the Cash/Bank Account is credited to reflect the outflow of funds.

The journal entry for this transaction is: Partner's Capital A/c . . . Dr. To Cash/Bank A/c

Final Answer: Partner's Capital Account

Answer: (B)

Q23.

Solution

Concept: During the dissolution of a partnership firm, all outside liabilities are transferred to the Realisation Account at their book values. When these liabilities are actually paid, the Realisation Account is debited with the actual amount paid to settle them, regardless of their book value.

Solution: The Sundry Creditors are listed at a book value of ₹ 40,000. They are settled at a 10

- Book Value of Creditors = ₹ 40,000
- Discount Rate = 10%
- Discount Amount = 10% of 40,000 = ₹ 4,000
- Actual Amount Paid = 40,000 - 4,000 = ₹ 36,000

The journal entry for the payment is: Realisation A/c . . . Dr. ₹ 36,000 To Cash/Bank A/c ₹ 36,000 (Being creditors settled at 10

Therefore, the amount recorded on the debit side of the Realisation Account is the actual cash outflow of ₹ 36,000.

Final Answer: ₹ 36,000

Answer: (C)



Q24.

Solution

Concept: The **Memorandum of Association (MoA)** is the fundamental document of a company. The **Capital Clause** of the MoA specifies the maximum amount of share capital that a company is legally permitted to raise during its lifetime. This is known as the Authorized, Registered, or Nominal Capital.

Solution: The classification of share capital follows a hierarchy. The **Authorized Capital** is the ceiling limit. Out of this, the company offers a portion to the public, known as **Issued Capital**. The portion actually taken up by the public is **Subscribed Capital**, and the amount the company asks shareholders to pay is **Called-up Capital**. Since the limit is defined in the MoA, the maximum amount is the Authorized Capital.

Final Answer: Authorized Capital

Answer: (C)

Q25.

Solution

Concept: A company is a legal entity that raises funds by issuing shares. Those who purchase equity shares contribute to the permanent capital of the company and take on the highest level of risk.

Solution: Equity shareholders are considered the primary risk-bearers of a company. They have voting rights, participate in management decisions, and receive dividends from residual profits. Unlike creditors (who lend money) or debtors (who owe money), equity shareholders hold an ownership interest in the corporation. Therefore, they are legally and financially regarded as the owners.

Final Answer: Owners of the company

Answer: (B)

Q26.

Solution

Concept: Forfeiture of shares is the legal action taken by a company to cancel the membership of a shareholder and seize the amount already paid by them. This happens when a shareholder fails to fulfill the financial obligations agreed upon at the time of subscription.

Solution: A company can only forfeit shares if it is authorized by its Articles of Association and only on the grounds of **non-payment of call money** (allotment money or subsequent calls). Missing meetings, transferring shares, or using shares as collateral (pledging) are not legal grounds for the forfeiture of shares under company law.

Final Answer: Non-payment of call money

Answer: (A)



Q27.

Solution

Concept: When shares are forfeited, the amount already paid by the defaulting shareholder is credited to the "Shares Forfeited Account." When these shares are later reissued, any discount allowed on the reissue is debited to this account.

Solution: The remaining balance in the ****Shares Forfeited Account**** represents a capital gain for the company because it is a profit arising from a non-recurring transaction related to the company's share capital. According to accounting standards, capital profits must be transferred to a ****Capital Reserve**** account, as they are not available for distribution as dividends.

The journal entry is: Shares Forfeited A/c . . . Dr. To Capital Reserve A/c

Final Answer: Capital Reserve

Answer: (B)

Q28.

Solution

Concept: The ****Share Forfeiture Account**** is credited with the amount that has been ****actually paid**** by the shareholder up to the date of forfeiture. The called-up value represents the total amount the company has asked for, which consists of the amount paid and the amount in arrears (unpaid).

Solution: To find the amount to be credited to the Share Forfeiture Account, we use the following logic:

- Number of Shares = 1,000
- Called-up Amount per Share = ₹ 8
- Unpaid Amount (Arrears) per Share = ₹ 3
- Paid-up Amount per Share = Called-up - Unpaid = 8 - 3 = ₹ 5

The amount credited to the Share Forfeiture Account is:

Number of Shares × Paid-up Amount per Share

$$1,000 \times 5 = 5,000$$

The journal entry for forfeiture would be: Share Capital A/c (1,000 × 8) . . . Dr. ₹ 8,000 To Calls in Arrears A/c (1,000 × 3) ₹ 3,000 To Share Forfeiture A/c (1,000 × 5) ₹ 5,000

Final Answer: ₹ 5,000

Answer: (B)



Q29.

Solution

Concept: Premium on redemption of debentures is the extra amount a company agrees to pay over and above the face value of the debentures at the time of their repayment. Since this amount represents a future obligation of the company to the debenture holders, it is recorded in the books at the time of issue of debentures.

Solution: Under the traditional classification of accounts, any account that represents a person or a group of persons (in this case, the debenture holders to whom the premium is payable) is categorized as a **Personal Account**. Specifically, it is a "Representative Personal Account." In modern accounting terms, it is a liability, but according to the golden rules of accounting and the options provided:

- It is not a Real Account because it is not a tangible or intangible asset.
- It is not a Nominal Account because it is not an expense or income (the loss on issue is the nominal component; the premium account itself represents the liability to pay individuals).
- It is a **Personal Account** because it represents the amount due to debenture holders.

Final Answer: Personal Account

Answer: (A)

Q30.

Solution

Concept: Collateral security refers to a secondary or additional security given to a lender in addition to the primary security. When a company takes a loan from a bank, it may issue its own debentures as collateral. There are two methods to deal with this: either by making a disclosure in the notes to accounts without a formal entry, or by recording a formal journal entry.

Solution: When a formal accounting entry is passed to record debentures issued as collateral security, the company uses a temporary account called **Debenture Suspense Account**. This account is used because no actual liability is created until the company defaults on the loan. The entry passed is:

- **Debenture Suspense A/c ... Dr.**
- **To Debentures A/c**

In the Balance Sheet, the Debenture Suspense Account is shown as a deduction from the Debentures Account on the equity and liabilities side.

Final Answer: Debiting Debenture Suspense A/c and Crediting Debentures A/c

Answer: (A)



Q31.

Solution

Concept: Discount on the issue of debentures (or Loss on Issue) is a capital loss. According to current accounting practices and Schedule III of the Companies Act, 2013, such fictional assets or deferred charges are no longer shown as "Miscellaneous Expenditure."

Solution: Discount or loss on issue of debentures is generally written off in the year it occurs or over the life of the debentures. Until it is fully written off, the unamortized portion is shown in the Balance Sheet.

- The portion to be written off within 12 months is shown under **Other Current Assets**.
- The portion to be written off after 12 months is shown under **Other Non-Current Assets**.

Given the standard options provided in academic contexts, it falls under the umbrella of Non-Current Assets if it is a long-term deferral.

Final Answer: Non-Current Assets (Other)

Answer: (B)

Q32.

Solution

Concept: The interest on debentures is always calculated on the **nominal (face) value** of the debentures, regardless of whether they were issued at par, at a discount, or at a premium. The rate of interest is prefixed to the name of the debenture (e.g., 10

Solution: To calculate the total interest for one year, we follow these steps:

(a) **Calculate Total Face Value:**

$$\text{Total Face Value} = \text{Number of Debentures} \times \text{Face Value per Debenture}$$

$$5,000 \times | 100 = | 5,00,000$$

(b) **Identify the Interest Rate:** The interest rate is 10% per annum.

(c) **Calculate Annual Interest:**

$$\text{Interest} = \text{Total Face Value} \times \text{Rate of Interest}$$

$$| 5,00,000 \times \frac{10}{100} = | 50,000$$

Note: The 5

Final Answer: ₹ 50,000

Answer: (A)



Q33.

Solution

Concept: Minimum subscription refers to the minimum amount of capital that must be subscribed by the public before a company can proceed with the allotment of shares. This rule is designed to ensure that the company raises enough funds to meet its initial business objectives and operational requirements.

Solution: According to the guidelines issued by the **Securities and Exchange Board of India (SEBI)**, a company making a public issue must receive subscriptions for at least 90% of the issued amount. If the company fails to receive this minimum subscription within the specified period, the entire amount received from applicants must be refunded to them immediately.

Final Answer: 90

Answer: (B)

Q34.

Solution

Concept: When a company issues shares for a consideration other than cash (such as purchasing an asset), it must compare the **Purchase Consideration** (value of the asset) with the **Nominal Value** (Face Value) of the shares issued.

- If Nominal Value > Asset Value, the difference is a **Discount**.
- If Nominal Value < Asset Value, the difference is a **Premium**.

Solution: 1. **Total Face Value of Shares Issued:** $500 \text{ shares} \times 100 \text{ rupees} = 50,000$

2. **Value of Machinery Received:** 45,000

3. **The Difference:** $50,000 \text{ (Face Value)} - 45,000 \text{ (Asset Value)} = 5,000$

Since the company is giving away ₹ 50,000 worth of capital to acquire an asset worth only ₹ 45,000, it effectively means the shares are being issued at a price lower than their face value. This difference is recorded as a **Discount on Issue of Shares**.

Journal Entry:

- (a) Machinery A/c . . . Dr. ₹ 45,000
 To Vendor A/c ₹ 45,000
- (b) Vendor A/c . . . Dr. ₹ 45,000
 Discount on Issue of Shares A/c . . . Dr. ₹ 5,000
 To Share Capital A/c ₹ 50,000

Final Answer: Discount on Issue

Answer: (C)



Q35.

Solution

Concept: The **Securities Premium Reserve (SPR)** is a capital reserve created when shares or debentures are issued at a price higher than their face value. Due to its nature as a capital receipt, its usage is strictly regulated by law to prevent the erosion of the company's capital base.

Solution: Under **Section 52(2)** of the Companies Act, 2013, the Securities Premium Reserve can only be used for five specific purposes:

- (a) Issuing **fully paid bonus shares** to members.
- (b) Writing off **preliminary expenses** of the company.
- (c) Writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures.
- (d) Providing for the **premium payable on the redemption** of any redeemable preference shares or debentures.
- (e) For the **purchase of its own shares** (Buyback).

The reserve **cannot** be used for the distribution of profits in the form of **cash dividends** to shareholders, as dividends must be paid out of divisible (revenue) profits.

Final Answer: Paying dividends to shareholders

Answer: (C)

Q36.

Solution

Concept: "Loss on Issue of Debentures" is a capital loss that arises when debentures are issued at a discount and/or are redeemable at a premium. According to modern accounting standards (AS-16 and Ind AS) and the practices governed by the Companies Act, 2013, prudence dictates that losses should be recognized as soon as they are incurred.

Solution: Earlier accounting practices allowed for the amortization of this loss over the tenure of the debentures. However, current guidelines (specifically followed in professional accounting education and by the Institute of Chartered Accountants) suggest that any discount or loss on the issue of debentures should be written off **in the year the debentures are issued**.

It is written off first against the **Securities Premium Reserve** (if any exists) and then against the **Statement of Profit and Loss**. This ensures the Balance Sheet reflects a true and fair view by not carrying forward "fictitious assets" longer than necessary.

Final Answer: In the year of issue

Answer: (D)



Q37.

Solution

Concept: Debentures are a popular instrument used by companies to raise long-term debt capital. They represent a loan taken by the company from the public, making the debenture holders creditors of the company rather than owners.

Solution: To identify which option is not a feature, let us examine the characteristics of debentures:

- **Fixed rate of interest:** Debentures always carry a fixed rate of interest (coupon rate) payable regardless of profits.
- **Borrowed fund:** They are a part of "Debt" or borrowed capital, not "Equity" or owned capital.
- **Charge on assets:** Most debentures (secured debentures) create a charge on the company's assets, giving holders a claim in case of default.
- **Voting rights:** This is a feature of ownership. Since debenture holders are creditors, they **do not possess voting rights** in the company's general meetings. Only shareholders (the owners) have the power to vote.

Final Answer: Voting rights

Answer: (B)

Q38.

Solution

Concept: The **Current Ratio** is a liquidity ratio that measures a company's ability to pay its short-term obligations (current liabilities) with its short-term assets (current assets). It indicates the margin of safety available to short-term creditors.

Solution: A ratio of **2:1** is generally considered the "Ideal Current Ratio." This means that for every ₹ 1 of current liability, the firm should have ₹ 2 of current assets. This 2:1 standard is based on the principle of "Prudence," ensuring that even if the value of current assets (like inventory) shrinks by half, the company can still meet its immediate debts.

Final Answer: 2:1

Answer: (B)



Q39.

Solution

Concept: Efficiency ratios (also known as Activity or Turnover Ratios) measure how effectively a company manages its resources to generate revenue. These ratios analyze the speed at which various assets are converted into sales or cash.

Solution: The **Inventory Turnover Ratio** specifically measures how many times a company has sold and replaced its inventory during a specific period.

- A higher ratio suggests efficient management and fast-moving stock.
- A lower ratio might indicate overstocking or poor sales performance.

In contrast, the Current Ratio measures liquidity, the Operating Ratio measures cost efficiency relative to sales, and the Debt-Equity Ratio measures solvency.

Final Answer: Inventory Turnover Ratio

Answer: (C)

Q40.

Solution

Concept: Gross Profit can be expressed as a percentage of either the Cost of Goods Sold (COGS) or the Net Sales. When the profit is given on "Cost" but the available figure is "Sales," a mathematical conversion is required because:

$$\text{Sales} = \text{Cost} + \text{Profit}$$

Solution: Let the **Cost** be x . The Gross Profit is 25% of the Cost, which is $0.25x$.

Using the formula:

$$\text{Sales} = \text{Cost} + \text{Gross Profit}$$

$$| 4,00,000 = x + 0.25x$$

$$| 4,00,000 = 1.25x$$

Now, solve for x (Cost):

$$x = \frac{4,00,000}{1.25} = | 3,20,000$$

Now, calculate the **Gross Profit**:

$$\text{Gross Profit} = \text{Sales} - \text{Cost}$$

$$\text{Gross Profit} = 4,00,000 - 3,20,000 = | 80,000$$

Alternative Shortcut Method: If profit is $\frac{1}{4}$ (25%) on Cost, it is always $\frac{1}{4+1} = \frac{1}{5}$ (20%) on Sales. 20% of 4,00,000 = | 80,000.

Final Answer: ₹ 80,000

Answer: (B)



Q41.

Solution

Concept: Financial Statement Analysis involves tools like Comparative Statements and Common-size Statements. A **Comparative Balance Sheet** is a horizontal analysis tool used to compare the assets, liabilities, and equity of a business across two or more accounting periods.

Solution: While a standard Balance Sheet provides a "snapshot" of the financial position at a single point in time, a Comparative Balance Sheet places the figures of two different dates side-by-side.

- It lists the absolute figures for both periods.
- It calculates the **absolute change** (increase or decrease) for each item.
- It expresses these changes in **percentage terms**.

This allows management to see the trend and direction of changes in various items like fixed assets, long-term debts, and working capital over time.

Final Answer: Changes in various items of Balance Sheet over two periods

Answer: (B)

Q42.

Solution

Concept: Accounting ratios are categorized based on the specific aspect of financial performance or position they measure. The four primary categories are Liquidity, Solvency, Activity (Turnover), and Profitability ratios.

Solution: The **Debt-Equity Ratio** measures the relationship between long-term external debts (borrowed funds) and shareholders' funds (owned funds).

- **Liquidity Ratios** measure short-term debt-paying ability (e.g., Current Ratio).
- **Solvency Ratios** measure the long-term financial health and the ability of the firm to meet its long-term obligations.
- **Activity Ratios** measure efficiency of asset usage (e.g., Inventory Turnover).
- **Profitability Ratios** measure the results of business operations (e.g., Net Profit Ratio).

Since the Debt-Equity Ratio assesses the long-term capital structure and financial stability, it is classified as a **Solvency Ratio**.

Final Answer: Solvency Ratio

Answer: (B)



Q43.

Solution

Concept: The **Proprietary Ratio** is a solvency ratio that indicates the proportion of a company's total assets that are funded by the owners' (shareholders') equity. It highlights the financial strength of the firm and the extent to which the company is independent of outside creditors.

Solution: The Proprietary Ratio establishes a relationship between **Shareholders' Funds** (Equity) and **Total Assets**.

- A higher ratio indicates a strong financial position and a greater margin of safety for creditors.
- A lower ratio suggests that the business is heavily dependent on external debts.

The formula is:

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

Shareholders' Funds include Equity Share Capital, Preference Share Capital, and Reserves & Surplus. Total Assets include both Non-Current Assets and Current Assets.

Final Answer: Shareholders' Funds / Total Assets

Answer: (B)

Q44.

Solution

Concept: To understand this change, we must look at the components of both ratios:

- **Current Ratio** = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- **Liquid Ratio (Quick Ratio)** = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{\text{Current Assets} - (\text{Inventory} + \text{Prepaid Expenses})}{\text{Current Liabilities}}$

Solution: If the **Current Ratio** remains unchanged, the total value of Current Assets (relative to Current Liabilities) has not moved. However, if the **Liquid Ratio** increases, it means the "Liquid" portion of those assets (Cash, Debtors, Marketable Securities) has increased.

Since Current Assets = Liquid Assets + Inventory, if the total (Current Assets) stays the same but the Liquid Assets part grows, the non-liquid part (**Inventory**) must have decreased.

Essentially, the firm has converted some of its "slow-moving" inventory into "quick" assets like Cash or Debtors, thereby improving its immediate liquidity without changing its total current asset base.

Final Answer: Decrease in Inventory

Answer: (A)



Q45.

Solution

Concept: The **Interest Coverage Ratio** (also known as the "Debt Service Coverage Ratio" in some contexts) is a solvency ratio that measures how many times a company can cover its interest obligations using its operating profits. It indicates the margin of safety available to lenders.

Solution: Interest is a charge against profits and is deducted *before* calculating the tax liability. Therefore, to assess the company's true ability to pay interest, we must use the profit figure **before** interest and taxes have been deducted.

- **Numerator:** Net Profit before Interest and Tax (EBIT - Earnings Before Interest and Tax).
- **Denominator:** Fixed Interest Charges (on long-term loans and debentures).

The formula is:

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$$

A higher ratio indicates that the company is in a comfortable position to pay its interest regularly, whereas a ratio below 1 suggests the company is not generating enough profit to meet its interest expenses.

Final Answer: Net Profit before Interest and Tax / Interest

Answer: (B)

Q46.

Solution

Concept: Under **Accounting Standard-3 (AS-3)**, activities are classified into Operating, Investing, and Financing. The classification of "Interest Paid" usually depends on the nature of the business. For a non-finance company, interest paid is a Financing Activity because it relates to the cost of borrowing capital.

Solution: For a ****Finance Company****, the main business (operating) involves borrowing and lending money. Therefore:

- Interest received and interest paid are considered part of the company's primary revenue-producing activities.
- Just as a manufacturing company treats the purchase of raw materials as an operating expense, a finance company treats interest paid as an ****Operating Activity****.

Final Answer: Operating Activity

Answer: (A)



Q47.

Solution

Concept: As per AS-3, "Cash and Cash Equivalents" include cash on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash. ****Marketable Securities**** (unless specified otherwise) are generally considered cash equivalents due to their high liquidity and negligible risk of change in value.

Solution: The Cash Flow Statement aims to show the movement of cash *into* and *out of* the "Cash and Cash Equivalent" bucket.

- Since both Cash and Marketable Securities are part of the **same bucket** (Cash Equivalents), moving money from a bank account to purchase marketable securities is simply a movement within the total cash balance.
- There is no net change in the total "Cash and Cash Equivalents" figure.

Therefore, this transaction is treated as ****No flow****, as it is merely a change in the composition of cash equivalents rather than an inflow or outflow.

Final Answer: No flow (Cash & Cash Equivalent)

Answer: (C)

Q48.

Solution

Concept: The "Indirect Method" of preparing a Cash Flow Statement starts with Net Profit. Since Net Profit is calculated after deducting all expenses (both cash and non-cash), we must adjust it to arrive at the actual "Cash Generated from Operations."

Solution: Depreciation is a ****non-cash expense****. While it reduces the Net Profit in the Profit and Loss Account, it does not actually involve any physical movement of cash out of the business.

- To find the real cash inflow from operating activities, we must "reverse" the effect of items that reduced profit but didn't reduce cash.
- Therefore, depreciation is added back to Net Profit.

Final Answer: It is a non-cash expense

Answer: (A)



Q49.

Solution

Concept: Bonus shares are additional shares given to existing shareholders without any additional cost, based upon the number of shares that a shareholder owns. These are issued by "capitalizing" the company's existing reserves (like General Reserve or Securities Premium).

Solution: When bonus shares are issued:

- The company's Share Capital increases, and its Reserves decrease by the same amount.
- There is **no receipt of cash** from shareholders (unlike a fresh issue of shares).
- There is **no payment of cash** to anyone.

Because it is merely a bookkeeping entry (moving funds from one part of Equity to another), it results in **No Cash Flow**.

Final Answer: No Cash Flow

Answer: (C)

Q50.

Solution

Concept: In a relational database, keys are used to establish and identify relationships between tables and to uniquely identify records. While several keys might have the potential to identify a row, the database designer selects one specific key for this primary purpose to ensure data integrity.

Solution: The **Primary Key** is a specific choice of a minimal set of attributes (columns) that uniquely specifies a tuple (row) in a relation.

- It must contain unique values.
- It cannot contain **NULL** values.
- A table can have only one Primary Key.

Definitions of other options:

- **Foreign Key:** A field that links to the primary key of another table.
- **Candidate Key:** Any key that *could* potentially be a primary key (all candidate keys are unique).
- **Composite Key:** A primary key that consists of two or more columns.

Final Answer: Primary Key

Answer: (C)



Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	C	2	A	3	C	4	A	5	B
6	A	7	A	8	C	9	C	10	A
11	C	12	B	13	C	14	A	15	A
16	D	17	B	18	B	19	B	20	B
21	C	22	B	23	C	24	C	25	B
26	A	27	B	28	B	29	A	30	A
31	B	32	A	33	B	34	C	35	C
36	D	37	B	38	B	39	C	40	B
41	B	42	B	43	B	44	A	45	B
46	A	47	C	48	A	49	C	50	C

