

CUET-UG Accountancy Sample Paper-3

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. Define Partnership and explain its essential elements such as agreement, profit-sharing, mutual agency, and lawful business. Also discuss how partnership differs from sole proprietorship and company form of organization.

- (A) Partnership includes agreement, profit-sharing, and mutual agency
- (B) No agreement is required
- (C) Only one person can form partnership
- (D) No sharing of profits

Q2. Explain the provisions of the Indian Partnership Act, 1932 relating to rights and duties of partners. Discuss implied authority and its impact on the firm's operations.

- (A) Partners have no rights
- (B) Partners have rights and duties defined by law
- (C) Only one partner has authority
- (D) No legal provisions exist

Q3. Discuss the concept of Profit and Loss Appropriation Account. Explain the treatment of interest on capital, salary, commission, and drawings in this account.

- (A) Shows distribution of profits among partners
- (B) Used to record purchases



- (C) Same as balance sheet
- (D) Not required in partnership

Q4. What is meant by interest on capital and interest on drawings? Explain their accounting treatment and importance in maintaining fairness among partners.

- (A) No interest is provided
- (B) Interest ensures fair compensation among partners
- (C) Only drawings are recorded
- (D) Only capital is considered

Q5. Explain the concept and need for valuation of goodwill. Discuss different methods such as average profit, super profit, and capitalization methods with examples.

- (A) Goodwill is a tangible asset
- (B) Represents reputation and earning capacity
- (C) Not considered in accounts
- (D) Only cash is goodwill

Q6. Explain the accounting treatment of goodwill at the time of admission of a partner. Discuss the concept of sacrificing ratio and its relevance.

- (A) No adjustment is required
- (B) Sacrificing partners are compensated
- (C) Only new partner benefits
- (D) Goodwill is ignored

Q7. Discuss the reconstitution of a partnership firm. Explain changes in profit-sharing ratio and the accounting treatment of reserves and accumulated profits.

- (A) No changes occur
- (B) Adjustments are made for reserves and profit-sharing
- (C) Only capital is changed



(D) Only liabilities are adjusted

Q8. Explain the revaluation of assets and liabilities at the time of admission or retirement of a partner. Discuss the preparation of Revaluation Account.

(A) No revaluation is required

(B) Revaluation account records changes in asset and liability values

(C) Only assets are considered

(D) Only liabilities are considered

Q9. What is meant by admission of a partner? Explain the accounting treatment including goodwill, revaluation, and capital adjustment.

(A) No change in firm

(B) New partner is admitted with necessary adjustments

(C) Only profit changes

(D) Only name changes

Q10. Explain the concept of retirement of a partner. Discuss the accounting treatment including goodwill adjustment, revaluation, and settlement of dues.

(A) No accounting required

(B) Adjustments are made for settlement

(C) Firm closes immediately

(D) Only capital is returned

Q11. Explain the calculation of gaining ratio and its importance at the time of retirement or death of a partner.

(A) Not required

(B) Used to distribute gaining share among remaining partners

(C) Only for profit calculation

(D) Only for losses



- Q12.** Discuss the accounting treatment on the death of a partner. Explain calculation of deceased partner's share of profit, goodwill, and settlement to legal heirs.
- (A) No settlement required
 - (B) Proper calculation and settlement is done
 - (C) Firm is dissolved immediately
 - (D) Only profit is shared
- Q13.** Explain the concept of Joint Life Policy in partnership. Discuss its accounting treatment at the time of death of a partner.
- (A) No policy is taken
 - (B) Policy helps in settling dues of deceased partner
 - (C) Only for investment
 - (D) Not related to partnership
- Q14.** Discuss the preparation of Partner's Capital Accounts under fixed and fluctuating capital methods. Explain the differences and their relevance in partnership accounting.
- (A) Only one method exists
 - (B) Fixed and fluctuating methods are used
 - (C) No capital accounts are maintained
 - (D) Only cash account is maintained
- Q15.** Explain the concept of partnership deed and its importance in a partnership firm. Discuss the contents of a partnership deed such as profit-sharing ratio, interest on capital, salary to partners, and rules regarding admission, retirement, and death of a partner.
- (A) Partnership deed defines terms and conditions among partners
 - (B) It is not required in partnership
 - (C) It is used only for taxation
 - (D) It contains no important clauses



- Q16.** Discuss the accounting treatment of admission of a partner. Explain adjustments related to goodwill, revaluation of assets and liabilities, reserves, and capital adjustments with proper reasoning.
- (A) No adjustments are required
 - (B) Adjustments for goodwill, revaluation, and reserves are made
 - (C) Only capital is changed
 - (D) Only liabilities are recorded
- Q17.** Explain the accounting treatment at the time of death of a partner. Discuss calculation of share of profit till date of death, goodwill adjustment, revaluation, and settlement of amount to legal heirs.
- (A) No calculation is required
 - (B) Proper calculation and settlement is necessary
 - (C) Firm closes immediately
 - (D) Only capital is returned
- Q18.** Explain the meaning and types of share capital such as authorized, issued, subscribed, and paid-up capital. Discuss the accounting treatment for issue of shares at par with necessary journal entries.
- (A) Share capital includes authorized, issued, subscribed, and paid-up capital
 - (B) Only paid-up capital is relevant
 - (C) No accounting entries are required
 - (D) Shares cannot be issued at par
- Q19.** Discuss the issue of shares at premium. Explain the treatment of securities premium and its permissible uses as per law.
- (A) Premium is treated as revenue profit
 - (B) Credited to Securities Premium Reserve
 - (C) Not recorded in accounts
 - (D) Treated as liability



- Q20.** Explain the issue of shares at discount and the legal provisions related to it. Why is issue at discount generally restricted?
- (A) Always allowed freely
 - (B) Restricted by legal provisions
 - (C) Not recorded
 - (D) Treated as income
- Q21.** Explain the concept of forfeiture of shares and its causes. Discuss the accounting treatment for forfeiture and reissue of shares.
- (A) Shares cannot be forfeited
 - (B) Forfeited for non-payment and can be reissued
 - (C) No reissue allowed
 - (D) No accounting required
- Q22.** Discuss the concept of pro-rata allotment of shares in case of oversubscription. Explain how excess application money is adjusted.
- (A) All applicants get equal shares
 - (B) Shares allotted proportionately
 - (C) Excess money ignored
 - (D) No adjustment required
- Q23.** Explain the issue of shares for consideration other than cash. Discuss accounting entries when shares are issued to vendors for purchase of assets.
- (A) Shares issued only for cash
 - (B) Can be issued for assets or services
 - (C) No accounting required
 - (D) Illegal transaction
- Q24.** Define debentures and explain their features. Distinguish between shares and debentures on the basis of ownership, risk, and return.



- (A) Debentures are ownership capital
- (B) Debentures are borrowed funds with fixed interest
- (C) No interest is paid
- (D) Same as shares

Q25. Explain the issue of debentures at par, at premium, and at discount. Discuss the accounting entries for each case.

- (A) Issued only at par
- (B) Can be issued at par, premium, or discount
- (C) No entries required
- (D) Premium treated as liability

Q26. Discuss the concept of Debenture Redemption Reserve (DRR). Explain its importance and legal requirements for redemption of debentures.

- (A) Not required
- (B) Ensures availability of funds for redemption
- (C) Used for dividends
- (D) Only optional reserve

Q27. Explain the methods of redemption of debentures such as lump sum payment, draw of lots, and purchase in open market with accounting treatment.

- (A) Debentures are not redeemed
- (B) Various methods exist for redemption
- (C) Only lump sum method
- (D) No accounting required

Q28. Explain the accounting treatment of interest on debentures including TDS deduction and its presentation in financial statements.

- (A) No interest is paid



- (B) Interest is a charge against profits
- (C) Treated as dividend
- (D) No entry required

Q29. Discuss the concept of collateral security in debenture issue. Explain its accounting treatment when debentures are issued as security for loans.

- (A) Not used
- (B) Debentures can be issued as collateral security
- (C) No accounting required
- (D) Treated as share capital

Q30. Explain the concept of writing off discount or loss on issue of debentures. Discuss methods such as fixed installment and fluctuating method with their accounting treatment.

- (A) Not written off
- (B) Written off over the life of debentures
- (C) Treated as income
- (D) Ignored completely

Q31. Explain the meaning of dissolution of a partnership firm. Discuss the circumstances under which a firm is dissolved, including dissolution by agreement, by court order, and on the occurrence of certain events.

- (A) Dissolution ends the business of the firm
- (B) Only partners change
- (C) No legal process involved
- (D) Firm continues as usual

Q32. Describe the preparation of Realisation Account at the time of dissolution. Explain how assets are realized, liabilities are settled, and profit or loss is distributed among partners.



- (A) No account is prepared
- (B) Realisation account records sale of assets and settlement of liabilities
- (C) Only cash is recorded
- (D) Only liabilities are recorded

Q33. Explain the treatment of partner's loan, unrecorded assets, and unrecorded liabilities during dissolution of a partnership firm with appropriate accounting entries.

- (A) Ignored completely
- (B) Properly recorded and adjusted
- (C) Only assets are recorded
- (D) Only liabilities are recorded

Q34. Discuss the settlement of accounts among partners during dissolution. Explain the application of Garner v/s Murray rule in case of insolvency of a partner.

- (A) No rule applies
- (B) Deficiency is borne by solvent partners
- (C) Deficiency is ignored
- (D) Government pays deficiency

Q35. Explain the objectives and importance of financial statement analysis. Discuss how it helps different stakeholders such as investors, creditors, and management in decision-making.

- (A) Helps in evaluating financial performance
- (B) Not useful for stakeholders
- (C) Only used for taxation
- (D) No analysis is required

Q36. Describe comparative financial statements and explain their advantages in analyzing changes in financial position over different periods.



- (A) Used for recording transactions
- (B) Helps in comparing financial data across periods
- (C) Not useful for analysis
- (D) Only for auditing

Q37. Explain common-size financial statements and their role in analyzing the structure of financial statements.

- (A) Shows absolute figures only
- (B) Shows percentage composition of items
- (C) Not useful
- (D) Used only for taxation

Q38. Discuss liquidity ratios such as current ratio and quick ratio. Explain their significance in assessing short-term financial position.

- (A) Measure long-term solvency
- (B) Measure short-term liquidity
- (C) Not useful
- (D) Used only for profit

Q39. Explain solvency ratios such as debt-equity ratio and proprietary ratio. Discuss their importance in evaluating long-term financial stability.

- (A) Measure short-term liquidity
- (B) Measure long-term stability
- (C) Not useful
- (D) Only for expenses

Q40. Discuss profitability ratios such as gross profit ratio and net profit ratio. Explain how they help in evaluating earning capacity of a business.

- (A) Show liquidity only



- (B) Measure earning capacity
- (C) Not useful
- (D) Only for liabilities

Q41. Explain activity ratios such as inventory turnover and receivables turnover. Discuss how these ratios help in assessing operational efficiency.

- (A) Measure profitability only
- (B) Measure efficiency of operations
- (C) Not useful
- (D) Used only for assets

Q42. Explain the meaning and objectives of Cash Flow Statement. Discuss its importance in assessing the liquidity, solvency, and financial flexibility of a business, and differentiate it from Fund Flow Statement.

- (A) Shows cash inflows and outflows
- (B) Records only non-cash items
- (C) Same as Fund Flow Statement
- (D) Not useful for analysis

Q43. Describe the classification of cash flows into operating, investing, and financing activities. Explain each category with suitable examples and their role in financial analysis.

- (A) Only operating activities included
- (B) Classified into operating, investing, and financing activities
- (C) No classification required
- (D) Only financing activities considered

Q44. Explain the preparation of Cash Flow Statement using the direct method. Discuss how cash receipts and cash payments are identified and recorded under operating activities.



- (A) Uses only net profit
- (B) Records actual cash receipts and payments
- (C) No calculation required
- (D) Only investing activities included

Q45. Explain the preparation of Cash Flow Statement using the indirect method. Discuss adjustments for non-cash items, non-operating items, and changes in working capital.

- (A) No adjustments needed
- (B) Adjusts net profit for non-cash and working capital changes
- (C) Only cash is recorded
- (D) Only financing activities considered

Q46. Discuss the treatment of extraordinary items, interest, dividends, and taxes while preparing Cash Flow Statement as per accounting standards.

- (A) Ignored completely
- (B) Properly classified under activities
- (C) Treated as liabilities only
- (D) Not recorded

Q47. Explain the limitations of Cash Flow Statement. Discuss situations where it may not reflect the true financial performance of a business.

- (A) Provides complete information
- (B) Ignores non-cash transactions and profitability aspects
- (C) Not useful at all
- (D) Same as balance sheet

Q48. Explain the meaning and features of a Computerised Accounting System (CAS). Discuss its advantages such as speed, accuracy, reliability, and real-time processing compared to manual accounting system.



- (A) Provides fast and accurate processing
- (B) Slower than manual system
- (C) Cannot store data
- (D) Not reliable

Q49. Describe the components of Computerised Accounting System including hardware, software, data, procedures, and people. Explain how these components interact to produce financial information.

- (A) Only software is required
- (B) Includes hardware, software, data, procedures, and people
- (C) No human involvement
- (D) Only manual process

Q50. Discuss the process of accounting in a Computerised Accounting System. Explain how transactions are recorded, processed, stored, and converted into useful financial reports with the help of database management systems.

- (A) No processing required
- (B) Transactions are automatically processed into reports
- (C) Only paper records used
- (D) Reports cannot be generated



Detailed Solutions**Q1.****Solution**

Concept: Partnership is defined as a relationship between persons who agree to carry on a lawful business and share profits. Its essential elements include agreement, profit-sharing, mutual agency, and lawful business. Unlike sole proprietorship, partnership involves more than one person, and unlike a company, it does not have a separate legal entity and partners have unlimited liability.

Solution: Partnership is formed through an agreement between two or more persons to carry on business and share profits. Mutual agency allows each partner to act on behalf of others. It differs from sole proprietorship, which is owned by one person, and from a company, which is a separate legal entity with limited liability. Partnership is more flexible but involves higher risk due to unlimited liability of partners.

Final Answer: Partnership includes agreement, profit-sharing, and mutual agency

Answer: (A)

Q2.**Solution**

Concept: The Indian Partnership Act, 1932 defines rights and duties of partners. Partners have rights such as participation in management and sharing profits, and duties like acting in good faith. Implied authority allows partners to act on behalf of the firm in usual business transactions.

Solution: Partners have equal rights to participate in business, access books, and share profits. Duties include honesty and acting for mutual benefit. Implied authority enables a partner to bind the firm through acts done in the normal course of business, such as purchasing goods. However, acts beyond authority may not bind the firm. This concept ensures smooth functioning and trust among partners.

Final Answer: Partners have rights and duties defined by law

Answer: (B)



Q3.

Solution

Concept: Profit and Loss Appropriation Account shows how net profit is distributed among partners. It includes appropriations like interest on capital, salary, commission, and interest on drawings.

Solution: After calculating net profit, this account allocates profit among partners. Interest on capital, salary, and commission are credited, while interest on drawings is deducted. These are appropriations, not expenses. The account ensures transparency and fairness in distribution and avoids disputes among partners.

Final Answer: Shows distribution of profits among partners

Answer: (A)

Q4.

Solution

Concept: Interest on capital is allowed to partners for their investment, while interest on drawings is charged for personal withdrawals. These adjustments ensure fairness among partners.

Solution: Interest on capital compensates partners for funds invested and is credited to their accounts. Interest on drawings is charged to discourage excessive withdrawals and is debited. Both are recorded in the Profit and Loss Appropriation Account. These adjustments maintain equity among partners and ensure proper sharing of profits.

Final Answer: Interest ensures fair compensation among partners

Answer: (B)

Q5.

Solution

Concept: Goodwill is an intangible asset representing the reputation, customer loyalty, and earning capacity of a business. It is valued when there is a change in partnership. Methods include Average Profit, Super Profit, and Capitalization methods.

Solution: Valuation of goodwill is necessary during admission, retirement, or death of a partner to ensure fair adjustment among partners. Under Average Profit Method, goodwill is based on average past profits multiplied by years' purchase. Under Super Profit Method, excess profit over normal profit is capitalized to find goodwill. Under Capitalization Method, total capitalized value of business is calculated and compared with net assets. Goodwill ensures fair distribution of profit rights among partners.

Final Answer: Represents reputation and earning capacity

Answer: (B)



Q6.

Solution

Concept: At the time of admission of a partner, goodwill is adjusted to compensate existing partners for sacrificing their profit share. Sacrificing ratio determines how old partners share goodwill.

Solution: When a new partner joins, existing partners sacrifice a portion of their profit share. This sacrifice is measured through sacrificing ratio. The new partner brings goodwill, which is distributed among sacrificing partners. This ensures fairness as old partners give up part of their profit rights. Goodwill adjustment may be done through cash or capital accounts. Sacrificing ratio is essential for proper distribution of benefits in partnership reconstitution.

Final Answer: Sacrificing partners are compensated

Answer: (B)

Q7.

Solution

Concept: Reconstitution of partnership occurs when there is a change in agreement among partners due to admission, retirement, death, or change in profit-sharing ratio.

Solution: During reconstitution, profit-sharing ratio is revised among partners. Reserves and accumulated profits are distributed in old ratio. Capital accounts are adjusted according to new arrangement. These changes ensure fair treatment of all partners and reflect the new structure of the firm. Proper accounting ensures transparency and accuracy in financial records after reconstitution.

Final Answer: Adjustments are made for reserves and profit-sharing

Answer: (B)

Q8.

Solution

Concept: Revaluation of assets and liabilities is done at the time of admission or retirement to reflect their current market values. Revaluation Account is prepared for this purpose.

Solution: Revaluation Account records increase or decrease in value of assets and liabilities. Profit or loss on revaluation is transferred to partners' capital accounts in old ratio. This ensures that partners share gains or losses fairly before change in partnership structure. It provides a true and fair view of financial position.

Final Answer: Revaluation account records changes in asset and liability values

Answer: (B)



Q9.

Solution

Concept: Admission of a partner means introducing a new partner into an existing partnership firm. It leads to reconstitution of the firm and requires various accounting adjustments.

Solution: On admission, goodwill is adjusted to compensate old partners. Assets and liabilities are revalued to reflect current values. Capital accounts are adjusted according to new profit-sharing ratio. The new partner brings capital and is admitted into the firm with agreed terms. These adjustments ensure fairness among all partners and proper representation of financial position after admission.

Final Answer: New partner is admitted with necessary adjustments

Answer: (B)

Q10.

Solution

Concept: Retirement of a partner means withdrawal of a partner from the partnership firm while the business continues with remaining partners. It leads to reconstitution of the firm. Accounting treatment includes adjustment of goodwill, revaluation of assets and liabilities, distribution of reserves, and final settlement of the retiring partner's capital.

Solution: When a partner retires, the firm continues its operations with remaining partners, but accounts must be adjusted. Goodwill is adjusted in gaining ratio to compensate sacrificing partners. Revaluation of assets and liabilities is done and profit or loss is shared among partners. Reserves and accumulated profits are distributed in old ratio. The retiring partner's capital account is prepared by adding share of profit, interest, goodwill, and deducting drawings. The final amount due is paid in cash or transferred to loan account, ensuring proper settlement.

Final Answer: Adjustments are made for settlement

Answer: (B)



Q11.

Solution

Concept: Gaining ratio is the ratio in which the remaining partners gain the share of profit sacrificed by an outgoing partner due to retirement or death. It is calculated as difference between new profit-sharing ratio and old ratio. It is important because it helps in distributing goodwill and ensuring fair adjustment among continuing partners.

Solution: Gaining ratio is calculated by subtracting old profit-sharing ratio from new ratio of remaining partners. It shows how much share each continuing partner gains from the outgoing partner. This ratio is used to distribute goodwill among remaining partners in their gaining proportion. It ensures fairness in compensation adjustments at the time of retirement or death. Proper calculation of gaining ratio avoids disputes and maintains balance in partnership structure.

Final Answer: Used to distribute gaining share among remaining partners

Answer: (B)

Q12.

Solution

Concept: On the death of a partner, the firm is reconstituted and the deceased partner's account is settled by calculating profit share, goodwill, revaluation profit/loss, and other dues. Final settlement is made to legal heirs.

Solution: On death of a partner, profit up to date of death is calculated based on time or turnover. Goodwill is adjusted in gaining ratio. Revaluation of assets and liabilities is done and profit/loss is transferred to capital accounts. The deceased partner's capital account is prepared by including capital, share of profit, interest, salary, and goodwill. The final balance is paid to legal heirs in cash or transferred as loan. This ensures fair and systematic settlement.

Final Answer: Proper calculation and settlement is done

Answer: (B)



Q13.

Solution

Concept: Joint Life Policy (JLP) is an insurance policy taken on partners' lives to provide funds in case of death of a partner. It helps in settling the deceased partner's dues without financial burden on the firm.

Solution: Under Joint Life Policy, premium is paid regularly and on death of a partner, the insurance amount is received. This amount is used to settle the deceased partner's capital account, goodwill share, and other dues. It reduces financial pressure on surviving partners. The policy may be treated as an asset or expense depending on accounting method. It ensures smooth settlement and financial security in partnership.

Final Answer: Policy helps in settling dues of deceased partner

Answer: (B)

Q14.

Solution

Concept: Partner's capital accounts can be maintained under two methods: fixed capital method and fluctuating capital method. These methods determine how transactions are recorded in capital accounts.

Solution: Under fixed capital method, capital remains unchanged and a separate current account is maintained for transactions like drawings, interest, and share of profit. Under fluctuating capital method, all adjustments are made directly in capital account, causing changes in balance. Fixed method provides stability, while fluctuating method reflects dynamic changes. Both methods are used depending on partnership agreement and accounting convenience.

Final Answer: Fixed and fluctuating methods are used

Answer: (B)



Q15.

Solution

Concept: A partnership deed is a written agreement among partners defining terms and conditions of partnership. It ensures clarity and avoids disputes. It includes profit-sharing ratio, interest on capital, salary, and rules for admission, retirement, and death.

Solution: Partnership deed is a legal document that defines rights, duties, and responsibilities of partners. It specifies profit-sharing ratio, interest on capital, salary to partners, and procedures for admission, retirement, and death. It helps in preventing conflicts by clearly defining terms. In absence of deed, provisions of Partnership Act apply. Thus, it is essential for smooth functioning and legal clarity in partnership.

Final Answer: Partnership deed defines terms and conditions among partners

Answer: (A)

Q16.

Solution

Concept: Admission of a partner leads to reconstitution of the firm. It requires adjustments in goodwill, revaluation of assets and liabilities, reserves, and capital accounts to ensure fairness among partners.

Solution: When a new partner is admitted, goodwill is adjusted in sacrificing ratio. Assets and liabilities are revalued and profit or loss is distributed among old partners. Reserves and accumulated profits are also shared. The new partner brings capital, and capital accounts are adjusted accordingly. These adjustments ensure fair distribution of rights and accurate financial representation of the new partnership structure.

Final Answer: Adjustments for goodwill, revaluation, and reserves are made

Answer: (B)



Q17.

Solution

Concept: At the time of death of a partner, proper accounting is required to settle the deceased partner's account. It includes profit calculation, goodwill adjustment, revaluation, and final settlement.

Solution: Profit up to date of death is calculated based on time or turnover. Goodwill is adjusted in gaining ratio. Revaluation of assets and liabilities is done and profit or loss is transferred to capital accounts. The deceased partner's capital account is prepared including all entitlements. Final amount is paid to legal heirs or transferred as loan. This ensures accurate and fair settlement.

Final Answer: Proper calculation and settlement is necessary

Answer: (B)

Q18.

Solution

Concept: Share capital is the total capital raised by a company through issue of shares. It is classified into authorized capital (maximum limit), issued capital (shares offered to public), subscribed capital (shares taken by investors), and paid-up capital (actual amount received). Shares issued at par are recorded at face value through proper journal entries.

Solution: Authorized capital is the maximum capital a company can raise. Issued capital is the portion offered to public, subscribed capital is the part accepted by investors, and paid-up capital is the amount actually received. When shares are issued at par, Bank Account is debited and Share Capital Account is credited. On application and allotment, appropriate entries are passed to record receipt and allotment of shares. This ensures proper recording of capital structure in financial statements.

Final Answer: Share capital includes authorized, issued, subscribed, and paid-up capital

Answer: (A)



Q19.

Solution

Concept: Shares may be issued at premium when issued above face value. The premium amount is credited to Securities Premium Reserve and is not treated as profit. It is governed by legal provisions and can be used only for specified purposes.

Solution: When shares are issued at premium, the excess amount over face value is transferred to Securities Premium Reserve Account. This reserve can be used for issuing bonus shares, writing off preliminary expenses, or premium on redemption of shares/debentures. It is not treated as revenue profit. Proper journal entries are passed for share capital and premium separately. This ensures legal compliance and correct presentation of capital structure.

Final Answer: Credited to Securities Premium Reserve

Answer: (B)

Q20.

Solution

Concept: Issue of shares at discount means issuing shares below face value. It is generally restricted by law to protect investors and maintain capital integrity.

Solution: Shares at discount are not freely allowed under company law except in special cases. This restriction prevents erosion of capital and protects shareholders. If allowed, Discount on Issue of Shares Account is debited. The amount of discount is treated as a capital loss and written off over time. Legal provisions ensure that companies maintain financial stability and do not misuse share issuance.

Final Answer: Restricted by legal provisions

Answer: (B)

Q21.

Solution

Concept: Forfeiture of shares occurs when a shareholder fails to pay allotment or call money. The company cancels such shares and may reissue them later. Proper accounting treatment is required for forfeiture and reissue.

Solution: When shares are forfeited, Share Capital Account is debited and unpaid amounts are reversed. Amount received earlier is transferred to Forfeited Shares Account. On reissue, Bank Account is debited and Share Capital is credited. Any profit on reissue is transferred to Capital Reserve. This ensures proper adjustment of capital and compliance with accounting principles.

Final Answer: Forfeited for non-payment and can be reissued

Answer: (B)



Q22.

Solution

Concept: Pro-rata allotment occurs when shares are oversubscribed. Shares are allotted proportionately and excess application money is adjusted against allotment or refunded.

Solution: In oversubscription, not all applicants receive full shares. Shares are allotted on a proportionate basis. Excess application money is adjusted towards allotment or future calls, or refunded if required. Journal entries ensure proper transfer of application money to allotment account. This system ensures fairness and proper utilization of funds collected.

Final Answer: Shares allotted proportionately

Answer: (B)

Q23.

Solution

Concept: Shares may be issued for consideration other than cash, such as purchase of assets or services from vendors. This is common during company formation or expansion.

Solution: When shares are issued to vendors, the asset account is debited and Share Capital Account is credited. If issued at premium, Securities Premium Account is also credited. This transaction records exchange of shares for assets instead of cash. It ensures proper valuation and recording of assets acquired by the company.

Final Answer: Can be issued for assets or services

Answer: (B)

Q24.

Solution

Concept: Debentures are long-term debt instruments issued by companies. They represent borrowed funds and carry fixed interest. Unlike shares, debenture holders are creditors, not owners.

Solution: Debentures provide fixed interest regardless of profits. They do not confer ownership rights or voting rights. Shares represent ownership and variable returns, while debentures represent fixed income and lower risk. Debenture holders are repaid before shareholders in case of liquidation. This distinction helps investors choose between risk and return preferences.

Final Answer: Debentures are borrowed funds with fixed interest

Answer: (B)



Q25.

Solution

Concept: Debentures may be issued at par, premium, or discount depending on market conditions. At par, issued at face value; at premium, above face value; and at discount, below face value. Each case requires proper accounting entries to record cash received, debenture liability, and premium or discount accounts.

Solution: When debentures are issued at par, Bank Account is debited and Debentures Account is credited. At premium, excess amount is credited to Securities Premium Reserve Account along with debentures. At discount, Discount on Issue of Debentures Account is debited and amortized over time. These entries ensure accurate recording of liability and compliance with accounting standards.

Final Answer: Can be issued at par, premium, or discount

Answer: (B)

Q26.

Solution

Concept: Debenture Redemption Reserve (DRR) is created to ensure availability of funds for repayment of debentures at maturity. It protects debenture holders and ensures financial discipline in companies.

Solution: Companies transfer a portion of profits to DRR every year until redemption. This reserve is used only for redemption of debentures and not for dividend distribution. Legal provisions require creation of DRR to safeguard investors' interests. It ensures that sufficient funds are available when debentures mature, maintaining financial stability and trust in the company.

Final Answer: Ensures availability of funds for redemption

Answer: (B)

Q27.

Solution

Concept: Debentures can be redeemed using different methods such as lump sum payment, draw of lots, or purchase in open market. Each method has specific accounting treatment.

Solution: Under lump sum method, debentures are repaid at maturity in one payment. In draw of lots, selected debentures are redeemed periodically. In open market purchase, company buys its own debentures from market. Accounting entries include debenture account, bank account, and profit/loss on redemption. These methods provide flexibility in repayment.

Final Answer: Various methods exist for redemption

Answer: (B)



Q28.

Solution

Concept: Interest on debentures is a fixed charge paid to debenture holders. It is treated as an expense and may involve TDS deduction before payment.

Solution: Interest on debentures is debited to Profit and Loss Account as it is a charge against profits. At the time of payment, TDS (Tax Deducted at Source) is deducted and deposited with authorities. The net amount is paid to debenture holders. In financial statements, interest is shown as finance cost, reflecting cost of borrowing.

Final Answer: Interest is a charge against profits

Answer: (B)

Q29.

Solution

Concept: Collateral security refers to issuing debentures as additional security for a loan. It does not represent a separate liability but acts as secondary security for lenders.

Solution: When debentures are issued as collateral security, no separate entry is passed in books except a disclosure in balance sheet notes. If loan is repaid, debentures are released. If loan is not repaid, debentures may be used by lender. This arrangement provides safety to lenders and helps companies obtain loans easily.

Final Answer: Debentures can be issued as collateral security

Answer: (B)

Q30.

Solution

Concept: Discount or loss on issue of debentures is a capital loss that must be written off over the life of debentures using fixed installment or fluctuating method.

Solution: Under fixed installment method, equal amount is written off every year against Profit and Loss Account. In fluctuating method, write-off depends on outstanding debentures. This ensures systematic allocation of loss over time. Proper accounting treatment ensures accurate profit calculation and compliance with accounting principles.

Final Answer: Written off over the life of debentures

Answer: (B)



Q31.

Solution

Concept: Dissolution of a partnership firm means complete closure of business and termination of all operations. It differs from dissolution of partnership where only the relationship among partners changes. A firm may be dissolved by agreement, court order, insolvency, or occurrence of events like death of partner or completion of venture.

Solution: A partnership firm is dissolved when its business activities are completely terminated and assets are liquidated. It may occur by mutual agreement among partners, by court order due to misconduct or incapacity of partners, or automatically due to events such as death, insolvency, or expiry of partnership term. Dissolution ends all business operations and requires settlement of liabilities and distribution of remaining assets among partners.

Final Answer: Dissolution ends the business of the firm

Answer: (A)

Q32.

Solution

Concept: Realisation Account is prepared at the time of dissolution to record sale of assets, payment of liabilities, and determine profit or loss on realization. It helps in closing books of accounts systematically.

Solution: At dissolution, all assets except cash are transferred to Realisation Account at book value. Liabilities are transferred to this account and paid off during realization. Assets are sold for cash, and realization expenses are recorded. The difference between total assets realized and liabilities settled results in profit or loss, which is distributed among partners in their profit-sharing ratio. This ensures proper closure of partnership accounts.

Final Answer: Realisation account records sale of assets and settlement of liabilities

Answer: (B)

Q33.

Solution

Concept: During dissolution, partner's loan, unrecorded assets, and unrecorded liabilities must be properly accounted for to ensure accurate settlement of accounts.

Solution: Partner's loan is treated as external liability and paid after external creditors. Unrecorded assets are recorded in Realisation Account and sold for cash. Unrecorded liabilities are recognized and paid through Realisation Account. Proper journal entries ensure that all hidden or missing items are included in final settlement. This provides a true and fair view of financial position at dissolution.

Final Answer: Properly recorded and adjusted

Answer: (B)



Q34.

Solution

Concept: At dissolution, accounts are settled among partners. In case of insolvency, Garner v/s Murray rule is applied to distribute deficiency among solvent partners.

Solution: According to Garner v/s Murray rule, when a partner is insolvent, their deficiency is shared by solvent partners in the ratio of their capital. The insolvent partner's loss is not shared by all partners in profit-sharing ratio. This rule ensures fair distribution of losses among financially capable partners during dissolution.

Final Answer: Deficiency is borne by solvent partners

Answer: (B)

Q35.

Solution

Concept: Financial statement analysis is used to evaluate financial performance and position of a business. It helps stakeholders like investors, creditors, and management in decision-making.

Solution: Financial statement analysis provides insights into profitability, liquidity, and solvency of a business. Investors use it to assess returns, creditors to evaluate repayment capacity, and management for planning and control. It helps in identifying strengths and weaknesses of the business. However, it has limitations as it relies on historical data and may not reflect future conditions accurately.

Final Answer: Helps in evaluating financial performance

Answer: (A)

Q36.

Solution

Concept: Comparative financial statements present financial data of different periods side by side to analyze changes in performance and position. They help in identifying trends and growth patterns.

Solution: Comparative statements show figures of two or more periods in a single statement, enabling easy comparison. They help identify increase or decrease in assets, liabilities, income, and expenses. This analysis assists in evaluating business performance and making strategic decisions. It is useful for management, investors, and analysts in understanding financial progress over time.

Final Answer: Helps in comparing financial data across periods

Answer: (B)



Q37.

Solution

Concept: Common-size financial statements express each item of financial statement as a percentage of a base figure such as total assets or sales. This helps in analyzing the structural relationship among different components of financial statements.

Solution: In common-size statements, each item is converted into percentage of a base item, such as sales in income statement or total assets in balance sheet. This allows easy comparison between companies or different periods. It helps in understanding the proportion of expenses, assets, and liabilities. It is useful for analyzing financial structure and identifying cost patterns, making it an important tool in financial analysis.

Final Answer: Shows percentage composition of items

Answer: (B)

Q38.

Solution

Concept: Liquidity ratios measure the ability of a business to meet short-term obligations. Important liquidity ratios include current ratio and quick ratio, which assess working capital strength.

Solution: Current ratio compares current assets with current liabilities, while quick ratio excludes inventories for more strict analysis. These ratios help determine whether a business can pay its short-term debts on time. High liquidity indicates financial stability, while low liquidity shows risk of default. These ratios are important for creditors and management in assessing short-term financial health.

Final Answer: Measure short-term liquidity

Answer: (B)



Q39.

Solution

Concept: Solvency ratios measure long-term financial stability of a business. Key ratios include debt-equity ratio and proprietary ratio, which indicate dependence on external funds and owner's contribution.

Solution: Debt-equity ratio compares borrowed funds with shareholders' funds, while proprietary ratio shows proportion of owner's funds in total assets. These ratios help assess long-term risk and financial strength. High debt indicates higher risk, while strong proprietary ratio shows financial stability. These ratios are important for investors and lenders in decision-making.

Final Answer: Measure long-term stability

Answer: (B)

Q40.

Solution

Concept: Profitability ratios measure earning capacity of a business. They include gross profit ratio and net profit ratio, which show efficiency in generating profits.

Solution: Gross profit ratio shows relationship between gross profit and sales, while net profit ratio shows net profit earned from total sales. These ratios help evaluate how efficiently a business manages its costs and generates profit. Higher ratios indicate better performance and profitability. They are important for investors and management in assessing financial success.

Final Answer: Measure earning capacity

Answer: (B)

Q41.

Solution

Concept: Activity ratios measure efficiency of business operations in using assets. Important ratios include inventory turnover ratio and receivables turnover ratio.

Solution: Inventory turnover ratio shows how quickly stock is sold and replaced, while receivables turnover ratio shows efficiency in collecting payments from customers. These ratios help evaluate operational efficiency and resource utilization. Higher ratios indicate better management of inventory and credit. They are useful for improving business performance and liquidity management.

Final Answer: Measure efficiency of operations

Answer: (B)



Q42.

Solution

Concept: Cash Flow Statement shows inflows and outflows of cash during a period. Its objectives are to assess liquidity, solvency, and financial flexibility. It helps users understand cash generation and usage. Unlike Fund Flow Statement, it focuses only on cash, while Fund Flow considers broader working capital changes.

Solution: Cash Flow Statement is prepared to analyze cash inflows and outflows from operating, investing, and financing activities. It helps in assessing liquidity position, repayment ability, and financial flexibility of a business. Investors and creditors use it to evaluate cash management efficiency. Unlike Fund Flow Statement, which shows movement of working capital, Cash Flow Statement focuses only on actual cash transactions, making it more precise for liquidity analysis.

Final Answer: Shows cash inflows and outflows

Answer: (A)

Q43.

Solution

Concept: Cash flows are classified into operating, investing, and financing activities. This classification helps in understanding different sources and uses of cash in a business.

Solution: Operating activities include cash from core business operations like sales and purchases. Investing activities involve purchase and sale of assets like machinery or investments. Financing activities include issue of shares, debentures, and repayment of loans. This classification helps in analyzing how a business generates and uses cash in different areas, improving financial decision-making and performance evaluation.

Final Answer: Classified into operating, investing, and financing activities

Answer: (B)

Q44.

Solution

Concept: Direct method of Cash Flow Statement records actual cash receipts and payments from operating activities. It provides a clear view of cash transactions.

Solution: Under direct method, cash received from customers and cash paid to suppliers, employees, and others are directly recorded. It excludes non-cash items and focuses only on actual cash movements. This method is simple and easy to understand but requires detailed cash records. It helps in clearly identifying cash generated from operations.

Final Answer: Records actual cash receipts and payments

Answer: (B)



Q45.

Solution

Concept: Indirect method of Cash Flow Statement starts with net profit and adjusts it for non-cash items, non-operating items, and changes in working capital.

Solution: In indirect method, net profit is adjusted for depreciation, provisions, and gains or losses. Changes in current assets and liabilities are also considered to calculate cash from operating activities. This method reconciles profit with cash flow, making it widely used in practice. It provides a bridge between income statement and cash flow statement.

Final Answer: Adjusts net profit for non-cash and working capital changes

Answer: (B)

Q46.

Solution

Concept: Extraordinary items, interest, dividends, and taxes must be properly classified in Cash Flow Statement according to accounting standards to ensure transparency and accuracy.

Solution: Extraordinary items are separately disclosed under operating, investing, or financing activities depending on nature. Interest and dividends may be classified as operating or financing cash flows depending on policy. Taxes are generally treated under operating activities. Proper classification ensures clarity in financial reporting and helps users understand true cash position of the business.

Final Answer: Properly classified under activities

Answer: (B)

Q47.

Solution

Concept: Cash Flow Statement has limitations as it only shows cash movements and ignores non-cash transactions. It does not consider profitability or accrual-based accounting. Therefore, it may not reflect the true financial performance of a business.

Solution: Cash Flow Statement focuses only on inflows and outflows of cash, ignoring non-cash items like depreciation, outstanding expenses, and accrued income. As a result, a business may appear strong in cash position even if it is not profitable. It does not measure overall profitability or long-term financial performance. In situations involving credit sales or non-cash transactions, it fails to present a complete financial picture. Hence, it must be analyzed along with Income Statement and Balance Sheet.

Final Answer: Ignores non-cash transactions and profitability aspects

Answer: (B)



Q48.

Solution

Concept: A Computerised Accounting System (CAS) uses computers and software to record and process financial transactions. It improves speed, accuracy, reliability, and enables real-time financial reporting compared to manual accounting.

Solution: CAS automates accounting processes, reducing human errors and increasing efficiency. It provides real-time data processing, instant reporting, and accurate financial information. Compared to manual systems, it is faster, more reliable, and allows easy storage and retrieval of large data. It also improves decision-making through timely reports. However, it depends on system security and skilled operators.

Final Answer: Provides fast and accurate processing

Answer: (A)

Q49.

Solution

Concept: Computerised Accounting System consists of five main components: hardware, software, data, procedures, and people. These components work together to generate financial information efficiently.

Solution: Hardware includes computers and devices used for processing. Software refers to accounting programs that handle calculations and reports. Data is financial information stored in the system. Procedures define rules and steps for processing transactions. People operate and manage the system. All components interact to record transactions, process data, and produce accurate financial reports, ensuring efficiency and reliability.

Final Answer: Includes hardware, software, data, procedures, and people

Answer: (B)

Q50.

Solution

Concept: In Computerised Accounting System, transactions are recorded electronically, processed automatically, stored in databases, and converted into financial reports using DBMS.

Solution: Transactions are entered into the system and stored in a database. The system processes data automatically using predefined rules. DBMS helps in organizing, storing, and retrieving financial data efficiently. The processed data is converted into financial statements like balance sheet and profit and loss account. This automation improves accuracy, speed, and reliability in accounting operations.

Final Answer: Transactions are automatically processed into reports

Answer: (B)



Answer Key

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

