

CUET-UG Accountancy Sample Paper-5

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. If the Partnership Deed is silent, interest on a partner's loan is allowed at:

- (A) 12% p.a.
- (B) 6% p.a.
- (C) 10% p.a.
- (D) No interest is allowed

Q2. A and B are partners sharing profits in the ratio 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) 2:1:1
- (C) 1:1:1
- (D) 4:3:2

Q3. In the absence of an agreement, Partners are entitled to:

- (A) Salary
- (B) Commission
- (C) Share in profits in capital ratio
- (D) None of the above



- Q4.** At the time of admission of a new partner, the General Reserve appearing in the old Balance Sheet is transferred to:
- (A) All partners in the new ratio
 - (B) Old partners in the sacrificing ratio
 - (C) Old partners in the old profit-sharing ratio
 - (D) New partner's capital account
- Q5.** Sacrifice Ratio is calculated as:
- (A) New Ratio - Old Ratio
 - (B) Old Ratio - New Ratio
 - (C) Gaining Ratio - Old Ratio
 - (D) None of the above
- Q6.** Goodwill of a firm is valued at ₹ 1,20,000. X, Y, and Z are equal partners. Z retires. The gaining ratio of X and Y is 1:1. What amount will be credited to Z's Capital Account?
- (A) ₹ 40,000
 - (B) ₹ 60,000
 - (C) ₹ 1,20,000
 - (D) ₹ 20,000
- Q7.** Revaluation Account is a:
- (A) Real Account
 - (B) Personal Account
 - (C) Nominal Account
 - (D) Asset Account
- Q8.** On the death of a partner, the deceased partner's share of profit from the last Balance Sheet date to the date of death is usually debited to:



- (A) Profit & Loss Account
- (B) Profit & Loss Appropriation Account
- (C) Profit & Loss Suspense Account
- (D) Deceased Partner's Capital Account

Q9. Which method of valuation of goodwill considers the 'Normal Rate of Return'?

- (A) Average Profit Method
- (B) Super Profit Method
- (C) Weighted Average Method
- (D) Arbitrary Method

Q10. If the fluctuating capital method is followed, which of the following is recorded in the Capital Account?

- (A) Interest on Capital
- (B) Drawings
- (C) Share of Profit
- (D) All of the above

Q11. On dissolution, the balance of 'Profit & Loss Account (Debit)' is transferred to:

- (A) Realization Account
- (B) Partners' Capital Accounts
- (C) Cash Account
- (D) Suspense Account

Q12. Unrecorded liabilities, when paid at the time of dissolution, are debited to:

- (A) Liability Account
- (B) Realization Account
- (C) Partners' Capital Account
- (D) Cash Account



- Q13.** In the Realization Account, Assets are transferred at:
- (A) Market Value
 - (B) Book Value
 - (C) Realizable Value
 - (D) Cost or Market Value, whichever is lower
- Q14.** If a partner takes over an asset on dissolution, his Capital Account is:
- (A) Debited
 - (B) Credited
 - (C) Not affected
 - (D) Debited with the book value of the asset
- Q15.** Order of payment on dissolution: Which of the following is paid last?
- (A) Outside Debts
 - (B) Partner's Loan
 - (C) Partner's Capital
 - (D) Dissolution Expenses
- Q16.** Securities Premium Reserve cannot be used for:
- (A) Issuing fully paid bonus shares
 - (B) Writing off preliminary expenses
 - (C) Paying dividends
 - (D) Buyback of shares
- Q17.** If 1,000 shares of ₹ 10 each (₹ 8 called up) are forfeited for non-payment of ₹ 3, the Share Forfeiture Account will be credited with:
- (A) ₹ 8,000
 - (B) ₹ 3,000
 - (C) ₹ 5,000



(D) ₹ 10,000

Q18. Discount on issue of Debentures is a:

- (A) Revenue Loss
- (B) Capital Loss
- (C) Deferred Revenue Expenditure
- (D) Current Asset

Q19. Debentures issued as 'Collateral Security' means:

- (A) Primary Security
- (B) Secondary/Subsidiary Security
- (C) No Security
- (D) Government Guarantee

Q20. Minimum subscription for a public issue as per SEBI guidelines is:

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

Q21. When forfeited shares are reissued at a discount, the discount amount is debited to:

- (A) Discount on Issue Account
- (B) Share Forfeiture Account
- (C) Profit & Loss Account
- (D) Capital Reserve

Q22. Interest on Debentures is:

- (A) An appropriation of profit



- (B) A charge against profit
- (C) Paid only when there is profit
- (D) None of the above

Q23. Capital Reserve is created out of:

- (A) Normal trading profits
- (B) Capital profits
- (C) Securities premium
- (D) Sale of inventory

Q24. Which of the following describes 'Authorised Capital'?

- (A) Capital called up from the public
- (B) Maximum amount of share capital a company is authorized to issue
- (C) Capital actually paid by shareholders
- (D) Capital reserved for winding up

Q25. Debenture holders are the:

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

Q26. Ideal Current Ratio is:

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

Q27. Proprietary Ratio establishes a relationship between:



- (A) Shareholder's Funds and Total Assets
- (B) Long-term debt and Equity
- (C) Current Assets and Current Liabilities
- (D) Fixed Assets and Turnover

Q28. If Inventory Turnover Ratio is 5 times and Average Inventory is ₹ 40,000, the Cost of Revenue from Operations is:

- (A) ₹ 2,00,000
- (B) ₹ 8,000
- (C) ₹ 1,60,000
- (D) ₹ 40,000

Q29. Which ratio is a measure of 'Liquidity'?

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

Q30. Analysis of Financial Statements is significant for:

- (A) Investors
- (B) Creditors
- (C) Management
- (D) All of the above

Q31. Cash Flow Statement is prepared as per:

- (A) AS-1
- (B) AS-3
- (C) AS-10
- (D) AS-26



Q32. Interest received by a Finance Company is classified under:

- (A) Investing Activity
- (B) Financing Activity
- (C) Operating Activity
- (D) Extraordinary Item

Q33. Issue of shares for consideration other than cash results in:

- (A) Inflow of Cash
- (B) Outflow of Cash
- (C) No flow of Cash
- (D) Increase in Operating Profit

Q34. Dividend paid by a non-banking company is a:

- (A) Operating Activity
- (B) Investing Activity
- (C) Financing Activity
- (D) Cash Equivalent

Q35. An increase in Current Assets (e.g., Debtors) results in:

- (A) Increase in Cash from Operations
- (B) Decrease in Cash from Operations
- (C) Increase in Investing Cash Flow
- (D) No change

Q36. A sequence of instructions in a computer language is called:

- (A) Hardware
- (B) Data
- (C) Software/Program



(D) RAM

Q37. Which of the following is not a component of CAS?

(A) Hardware

(B) Software

(C) People

(D) Physical Inventory

Q38. AIS stands for:

(A) Accounting Information System

(B) Automated Insurance System

(C) Annual Income Sheet

(D) Audit Inspection System

Q39. In a Database Management System (DBMS), a 'Primary Key' is used for:

(A) Encrypting data

(B) Uniquely identifying a record

(C) Calculating ratios

(D) Printing reports

Q40. The process of making a duplicate copy of data to prevent loss is called:

(A) Formatting

(B) Backup

(C) Restoring

(D) Processing

Q41. (High Level) X and Y share profits in 2:1. Z is admitted for 1/4th share. Z brings ₹ 20,000 as his capital and the necessary amount for goodwill in cash. Goodwill of the firm is valued at ₹ 36,000. How much goodwill will be credited to X?



- (A) ₹ 9,000
- (B) ₹ 6,000
- (C) ₹ 3,000
- (D) ₹ 12,000

Q42. A company issued 10,000, 10% Debentures of ₹ 100 each at a premium of 5%, redeemable at a premium of 10%. The 'Loss on Issue of Debentures' account will be debited with:

- (A) ₹ 50,000
- (B) ₹ 1,00,000
- (C) ₹ 1,50,000
- (D) ₹ 10,000

Q43. Debt-Equity Ratio of a company is 2:1. Which of the following will decrease the ratio?

- (A) Issue of new shares for cash
- (B) Redemption of debentures
- (C) Purchase of fixed assets on long-term credit
- (D) Both A and B

Q44. (Case Based) If the Net Profit before tax is ₹ 5,00,000 and the company has a Non-Cash expense (Depreciation) of ₹ 50,000 and a Gain on sale of machinery of ₹ 20,000, the Operating Profit before working capital changes is:

- (A) ₹ 5,70,000
- (B) ₹ 5,30,000
- (C) ₹ 4,70,000
- (D) ₹ 5,50,000

Q45. Which of the following is a 'Cash Equivalent'?

- (A) Inventory



- (B) Marketable Securities (Short-term)
- (C) Furniture
- (D) Bills Receivable (9 months)

Q46. Buyback of shares must be authorized by:

- (A) The Auditor
- (B) Articles of Association
- (C) Memorandum of Association
- (D) The Bank

Q47. Premium on Redemption of Debentures is shown in the Balance Sheet under:

- (A) Current Liabilities
- (B) Non-Current Liabilities (Long-term Provisions/Liabilities)
- (C) Shareholders' Funds
- (D) Current Assets

Q48. Goodwill is an:

- (A) Intangible Asset
- (B) Fictitious Asset
- (C) Current Asset
- (D) Liquid Asset

Q49. In the event of a partner's death, the amount due to him is paid to:

- (A) His wife
- (B) His Legal Representative/Executor
- (C) The remaining partners
- (D) The Government

Q50. Comparing the financial statements of two different companies is known as:



- (A) Intra-firm analysis
- (B) Inter-firm analysis
- (C) Vertical analysis
- (D) Internal analysis



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

Concept: In the absence of a written Partnership Deed or if the deed is silent on specific matters, the provisions of the **Indian Partnership Act, 1932** apply. According to these rules, partners are not entitled to salary or interest on capital, and profits are shared equally. However, a specific provision exists for loans advanced by a partner to the firm.

Solution: According to Section 13(d) of the Indian Partnership Act, 1932:

- If a partner advances any loan or advance to the firm beyond the amount of capital agreed to be subscribed, they are entitled to receive interest on such a loan.
- The statutory rate of interest is fixed at **6% per annum**.
- This interest is treated as a "Charge against Profit," meaning it must be paid even if the firm incurs a loss.

Final Answer: Interest on a partner's loan is allowed at 6% p.a.

Answer: (B)



Q2.

Solution

Concept: When a new partner is admitted and acquires their share by taking specific proportions from existing partners, the new profit-sharing ratio is calculated by subtracting the sacrificed share from the old share of the existing partners.

Solution: Given:

- Old Ratio of A and B = 3 : 2 (i.e., $A = \frac{3}{5}$, $B = \frac{2}{5}$)
- C's share = $\frac{1}{5}$
- Share acquired by C from A = $\frac{1}{10}$
- Share acquired by C from B = $\frac{1}{10}$

1. Calculate A's new share:

$$\text{New Share} = \text{Old Share} - \text{Sacrifice}$$

$$A = \frac{3}{5} - \frac{1}{10} = \frac{6-1}{10} = \frac{5}{10}$$

2. Calculate B's new share:

$$B = \frac{2}{5} - \frac{1}{10} = \frac{4-1}{10} = \frac{3}{10}$$

3. C's share (given as 1/5):

$$C = \frac{1}{5} = \frac{2}{10}$$

4. New Profit Sharing Ratio (A:B:C):

$$\frac{5}{10} : \frac{3}{10} : \frac{2}{10} = 5 : 3 : 2$$

Final Answer: The new profit-sharing ratio will be 5:3:2.

Answer: (A)



Q3.

Solution

Concept: When a partnership firm does not have a formal Partnership Deed, or the deed is silent on certain aspects, the provisions of the **Indian Partnership Act, 1932** dictate the relationship between partners. These rules are designed to ensure a basic level of fairness when no prior agreement exists.

Solution: According to the Indian Partnership Act, 1932, in the absence of an agreement:

- **Remuneration:** No partner is entitled to any **Salary** or **Commission** for taking part in the conduct of the business.
- **Interest on Capital/Drawings:** No interest is allowed on capital or charged on drawings.
- **Profit Sharing:** Profits and losses must be shared **equally** among all partners, regardless of their capital contribution.

Evaluating the options:

- **Option A & B:** Incorrect, as remuneration is not allowed.
- **Option C:** Incorrect, as profits are shared equally, not in the capital ratio.

Since none of the specific entitlements listed are granted by the Act, the correct choice is "None of the above."

Final Answer: None of the above

Answer: (D)



Q4.

Solution

Concept: General Reserve represents accumulated profits that were set aside by the existing partners from the firm's earnings in previous years. Since these profits were earned before the admission of a new partner, they belong exclusively to the partners who were present when the profit was generated.

Solution: At the time of admission, all accumulated profits, reserves, and losses appearing in the Balance Sheet must be distributed among the existing partners to ensure the new partner neither benefits from nor suffers for past activities.

- The General Reserve is transferred to the **Old Partners' Capital Accounts**.
- This transfer is made in their **Old Profit-Sharing Ratio**.
- **Journal Entry:**

General Reserve A/c Dr.
To Old Partners' Capital A/cs

Evaluating the options:

- **Option A:** Incorrect, as the new partner has no claim over past reserves.
- **Option B:** Incorrect, the sacrificing ratio is used only for the treatment of Goodwill.
- **Option C:** Correct. It returns the retained earnings to the original owners in the ratio they were earned.
- **Option D:** Incorrect, the new partner is not entitled to a share of old reserves.

Final Answer: Old partners in the old profit-sharing ratio

Answer: (C)



Q5.

Solution

Concept: The Sacrificing Ratio is used at the time of admission of a new partner. Since the new partner acquires a share of the profits, the existing partners must "sacrifice" or give up a portion of their previous share. This ratio is essential for distributing the premium for goodwill brought in by the new partner.

Solution: The sacrifice made by an individual partner is the difference between what they used to receive (Old Share) and what they will receive after the change (New Share).

The mathematical formula is:

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$

- **Option A:** Incorrect. $\text{New Ratio} - \text{Old Ratio}$ is the formula for the **Gaining Ratio** (usually calculated upon retirement or death).
- **Option B:** Correct. This represents the reduction in the existing partners' shares.
- **Option C:** Incorrect. This is not a standard accounting formula.

Final Answer: Old Ratio - New Ratio

Answer: (B)



Q6.

Solution

Concept: When a partner retires, they are entitled to their share of the firm's goodwill, as the remaining partners will benefit from the reputation built by the retiring partner in the future. The retiring partner's share of goodwill is credited to their Capital Account and debited to the Gaining Partners' Capital Accounts in their gaining ratio.

Solution: Given:

- Total Goodwill of the firm = | 1, 20, 000
- Profit sharing ratio (X, Y, and Z) = 1 : 1 : 1 (Equal partners)
- Retiring partner = Z

1. Calculate Z's share in the firm:

$$Z's \text{ share} = \frac{1}{1 + 1 + 1} = \frac{1}{3}$$

2. Calculate the amount of goodwill to be credited to Z:

$$Z's \text{ share of Goodwill} = \text{Total Goodwill} \times Z's \text{ share}$$

$$Z's \text{ share of Goodwill} = | 1, 20, 000 \times \frac{1}{3} = | 40, 000$$

This amount (| 40, 000) will be credited to Z's Capital Account and contributed by X and Y in their gaining ratio (1 : 1, i.e., | 20, 000 each).

Final Answer: ₹ 40,000

Answer: (A)



Q7.

Solution

Concept: A Revaluation Account (also known as a Profit and Loss Adjustment Account) is prepared to find the net profit or loss arising from the revaluation of assets and the reassessment of liabilities at the time of a change in the constitution of a partnership (such as admission, retirement, or death).

Solution: To determine the nature of the account, we look at the rules of debit and credit applied to it:

- **Debit side:** Records decreases in the value of assets and increases in the value of liabilities (losses/expenses).
- **Credit side:** Records increases in the value of assets and decreases in the value of liabilities (gains/incomes).

Since this account follows the rule "*Debit all expenses and losses, Credit all incomes and gains,*" it is classified as a **Nominal Account**. The final balance (profit or loss) is transferred to the partners' capital accounts.

- **Option A:** Incorrect. Real accounts deal with tangible and intangible assets (e.g., Cash, Building).
- **Option B:** Incorrect. Personal accounts deal with persons, firms, or representative persons.
- **Option C:** Correct.
- **Option D:** Incorrect. "Asset Account" is a sub-classification of Real accounts, whereas Revaluation is a temporary account used to calculate profit/loss.

Final Answer: Nominal Account

Answer: (C)



Q8.

Solution

Concept: When a partner dies during the accounting year, their legal representatives are entitled to the share of profits earned by the firm from the beginning of the year until the actual date of death. Since the final accounts (Profit & Loss Account) are typically prepared only at the end of the year, this interim profit is estimated based on past performance or sales.

Solution: To record this estimated profit without closing the actual Profit & Loss account of the firm prematurely, a temporary account is used.

- The amount is **credited** to the Deceased Partner's Capital Account (increasing their balance).
- The corresponding **debit** is made to the **Profit & Loss Suspense Account**.

Journal Entry:

Profit & Loss Suspense A/c Dr.

To Deceased Partner's Capital A/c

Note: This entry is used when the profit-sharing ratio of the remaining partners does not change. If the ratio changes, the adjustment is usually made through the gaining partners' capital accounts.

- **Option A & B:** Incorrect. These are final accounts prepared at the end of the financial year.
- **Option C:** Correct. It acts as a "suspense" or temporary placeholder until the year ends.
- **Option D:** Incorrect. The Deceased Partner's Capital Account is credited, not debited, for their share of profit.

Final Answer: Profit & Loss Suspense Account

Answer: (C)



Q9.

Solution

Concept: Goodwill represents the value of a firm's reputation that enables it to earn higher profits than a normal firm in the same industry. To calculate these "excess" profits, we use the **Normal Rate of Return (NRR)**, which is the standard percentage of profit expected on the capital invested in that particular class of business.

Solution: The **Super Profit Method** specifically utilizes the Normal Rate of Return to determine the 'Normal Profit' ($Normal\ Profit = Capital\ Employed \times \frac{NRR}{100}$).

The Super Profit is then calculated as:

$$\text{Super Profit} = \text{Actual/Average Profit} - \text{Normal Profit}$$

Goodwill is then valued as a certain number of years' purchase of this Super Profit.

- **Option A & C:** Incorrect. The Average and Weighted Average methods focus only on past actual profits without comparing them to industry standards.
- **Option B:** Correct. It is the only method listed that adjusts for the Normal Rate of Return to isolate excess earnings.
- **Option D:** Incorrect. This is not a formal accounting method for valuation.

Final Answer: Super Profit Method

Answer: (B)



Q10.

Solution

Concept: Under the **Fluctuating Capital Method**, only one account—the Capital Account—is maintained for each partner. All transactions between the partner and the firm are recorded directly in this account. As a result, the balance of the Capital Account "fluctuates" or changes with every entry.

Solution: In this method, the Capital Account is:

- **Credited with:** Initial capital, additional capital, **Interest on Capital**, **Share of Profit**, and Salary/Commission.
- **Debited with:** **Drawings** (against capital or profit), Interest on Drawings, and Share of Loss.

Since all the items mentioned in options A, B, and C are recorded in the single Capital Account under this method, the correct choice is "All of the above."

- **Note:** This contrasts with the **Fixed Capital Method**, where these adjustments would instead be recorded in a separate "Current Account."

Final Answer: All of the above

Answer: (D)



Q11.

Solution

Concept: Dissolution of a firm involves closing all books of accounts. While assets and external liabilities are transferred to the Realization Account to determine profit or loss on sale, **fictitious assets** and **accumulated losses** (like a debit balance in the P&L Account) are not "sold." Instead, they represent a loss that must be borne by the partners.

Solution: A debit balance in the Profit & Loss Account represents an accumulated loss. Since the firm is closing, this loss must be written off by charging it to the partners who owned the firm when the loss occurred.

- The amount is **debited** to the **Partners' Capital Accounts**.
- This reduces the partners' equity in the firm.
- It is distributed among all partners in their **Profit-Sharing Ratio**.

Journal Entry:

Partners' Capital A/cs Dr.
To Profit & Loss A/c

Evaluating the options:

- **Option A:** Incorrect. Realization Account is for assets and liabilities to be realized or paid.
- **Option B:** Correct. Accumulated losses are always transferred to Capital Accounts.
- **Option C & D:** Incorrect. These accounts are not used for writing off losses.

Final Answer: Partners' Capital Accounts

Answer: (B)



Q12.

Solution

Concept: During the dissolution of a firm, the **Realization Account** is prepared to record all transactions related to the sale of assets and the settlement of liabilities. Any profit or loss arising from these activities—including items not previously recorded in the books—is captured here.

Solution: When a liability that was not recorded in the Balance Sheet (an "unrecorded liability") is discovered and paid during dissolution, it represents an additional expense/loss for the firm.

- According to the rules of the Realization Account, all payments for liabilities are **debited** to the Realization Account.
- The corresponding credit is to the Cash/Bank Account.

Journal Entry:

Realization A/c Dr.
To Cash/Bank A/c

- **Option A:** Incorrect. Since the liability was unrecorded, no specific "Liability Account" exists to debit.
- **Option B:** Correct.
- **Option C:** Incorrect. It is only debited to a Partner's Capital Account if the partner personally agrees to pay the liability.

Final Answer: Realization Account

Answer: (B)



Q13.

Solution

Concept: The first step in the dissolution process is to "close" the existing books of accounts. This is done by transferring the balances of all realizable assets and external liabilities from the Balance Sheet to the Realization Account.

Solution: To ensure the accounting books are properly closed, assets must be transferred at the values currently standing in the ledger.

- Assets are transferred at their **Book Value** (the value appearing in the Balance Sheet).
- Any difference between the Book Value and the actual amount received (**Realizable Value**) will automatically result in a profit or loss within the Realization Account.

Journal Entry for Transfer:

Realization A/c Dr. (at Book Value)

To Various Assets A/c

- **Option A & C:** Incorrect. Market or Realizable values are only recorded when the asset is actually sold (credited to Realization).
- **Option B:** Correct.
- **Option D:** Incorrect. This is a principle for inventory valuation in a going concern, not for closing books on dissolution.

Final Answer: Book Value

Answer: (B)



Q14.

Solution

Concept: When a firm dissolves, assets are usually sold for cash. However, a partner may agree to take over a specific asset (like a vehicle or office equipment) instead of the firm selling it to an outsider. In this case, rather than receiving cash, the firm reduces the amount it owes to that partner.

Solution: When a partner takes over an asset:

- The **Realization Account** is credited because the asset is going out of the firm's books (similar to a sale).
- The **Partner's Capital Account** is **debited** because this transaction is treated as a form of "drawing" or a distribution of the firm's property to the partner, thereby decreasing their capital balance.
- The amount used for the entry is the **agreed value** between the partner and the firm, not necessarily the book value.

Journal Entry:

Partner's Capital A/c Dr. (Agreed Value)
To Realization A/c

Evaluating the options:

- **Option A:** Correct. The account is debited to reflect the reduction in the firm's liability to the partner.
- **Option B:** Incorrect. Crediting would imply the partner is bringing something into the firm.
- **Option D:** Incorrect. While the account is debited, it is debited with the **agreed-upon value**, which may differ from the book value.

Final Answer: Debited

Answer: (A)



Q15.

Solution

Concept: Section 48 of the **Indian Partnership Act, 1932** specifies the order in which the proceeds from the realization of assets must be applied to settle the firm's obligations. This legal hierarchy ensures that external creditors are protected before partners receive their dues.

Solution: The order of payment during dissolution is as follows:

- (a) **Dissolution Expenses:** Costs incurred to realize assets (e.g., auctioneer fees, legal costs).
- (b) **Outside Debts:** Liabilities owed to third parties (e.g., Creditors, Bank Loans, Bills Payable).
- (c) **Partner's Loan:** Loans advanced by partners to the firm (distinct from capital).
- (d) **Partner's Capital:** The balance remaining in the partners' capital accounts.

If any surplus remains after these four steps, it is distributed among the partners in their profit-sharing ratio. Since partners are the owners, they are the **residual claimants**, meaning they are paid only after every other obligation has been met.

Evaluating the options:

- **Option A, B, & D:** These are all prior charges that must be cleared before capital.
- **Option C:** Correct. Capital is the last to be returned.

Final Answer: Partner's Capital

Answer: (C)



Q16.

Solution

Concept: The **Securities Premium Reserve (SPR)** is the profit earned by a company when it issues shares at a price higher than their face value. Because this is a capital profit, its usage is strictly restricted by law to prevent companies from inflating their distributable profits.

Solution: According to **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 expenses, commission, or discount allowed on the issue of shares or debentures.
- (d) Providing for the **premium payable on redemption** of redeemable preference shares or debentures.
- (e) For the **buyback** of its own shares.

Evaluating the options:

- **Option A, B, & D:** These are all legally permitted uses under the Act.
- **Option C:** Correct. Securities Premium **cannot** be used to pay dividends. Dividends must be paid out of free reserves (revenue profits).

Final Answer: Paying dividends

Answer: (C)



Q17.

Solution

Concept: The **Share Forfeiture Account** is credited with the amount **actually received** by the company from the shareholder toward the face value of the shares up until the point of forfeiture. It does not include the called-up amount that remains unpaid.

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

- **Called-up value:** 8 per share (This is the amount the company asked for).
- **Unpaid amount (Calls-in-Arrears):** 3 per share.
- **Paid-up amount (Amount received):** Called-up – Unpaid = $8 - 3 = 5$ per share.

Calculation: Amount to be credited = Number of Shares \times Amount received per share
 Amount = $1,000 \times 5 = 5,000$.

Journal Entry at the time of Forfeiture:

Share Capital A/c (1,000 \times 8)	Dr.	8,000
To Calls-in-Arrears A/c (1,000 \times 3)		3,000
To Share Forfeiture A/c (1,000 \times 5)		5,000

Evaluating the options:

- **Option A:** Incorrect. This is the total called-up amount debited to Share Capital.
- **Option B:** Incorrect. This is the unpaid amount.
- **Option C:** Correct. This represents the 5 per share already collected.
- **Option D:** Incorrect. This is the total face value of the shares.

Final Answer: 5,000

Answer: (C)



Q18.

Solution

Concept: When a company issues debentures at a price lower than their nominal (face) value, the difference is called a **Discount on Issue of Debentures**. Since debentures are long-term borrowings and not part of the regular day-to-day trading operations of the business, this discount is not a regular operating expense.

Solution: The nature of this discount is as follows:

- It is a **Capital Loss** because it arises from a capital-raising activity (issuing long-term debt).
- It is generally written off against the **Securities Premium Reserve** (if available) or the **Statement of Profit & Loss** in the year it is incurred or over the tenure of the debentures.

Evaluating the options:

- **Option A:** Incorrect. Revenue losses arise from regular business operations (e.g., loss by fire or sale of inventory).
- **Option B:** Correct. It is a loss of a capital nature.
- **Option C:** Incorrect. While historically treated this way, modern accounting standards prefer writing it off as a capital loss/fictitious asset until amortized.
- **Option D:** Incorrect. It is not an asset that can be converted to cash.

Final Answer: Capital Loss

Answer: (B)



Q19.

Solution

Concept: 'Collateral Security' refers to an additional or parallel security given in addition to the primary security. When a company takes a loan from a bank or financial institution, it may offer some assets as primary security. If the value of the primary security is deemed insufficient, the company may issue its own debentures to the lender as an extra guarantee.

Solution: Debentures issued as collateral security are ****Secondary/Subsidiary Security****.

- The lender can only exercise their right on these debentures if the primary security fails to cover the loan amount.
- No interest is paid on these debentures as long as the loan is being serviced regularly.

Evaluating the options:

- **Option A:** Incorrect. Primary security is the main asset pledged (like land or machinery).
- **Option B:** Correct. "Collateral" literally means parallel or secondary.
- **Option C & D:** Incorrect. It is a form of security, but not a government guarantee.

Final Answer: Secondary/Subsidiary Security

Answer: (B)

Q20.

Solution

Concept: Minimum subscription is the minimum amount of capital that must be subscribed by the public out of the total issue before a company can proceed with the allotment of shares. This rule exists to prevent companies from starting operations with inadequate funds.

Solution: As per the guidelines issued by the ****Securities and Exchange Board of India (SEBI)****:

- A company must receive at least ****90%**** of the entire issue size.
- If the company fails to receive this minimum subscription within the specified period, the entire amount received must be refunded to the applicants immediately.

Evaluating the options:

- **Option A, B & D:** Incorrect. These do not meet the legal threshold set by SEBI.
- **Option C:** Correct. 90% is the mandatory requirement for a public issue.

Final Answer: 90%

Answer: (C)



Q21.

Solution

Concept: When a company reissues shares that were previously forfeited, it can offer a discount to the new buyer. However, this discount is not a normal "Discount on Issue." Instead, the loss on reissue is covered by the profit the company already made from the previous shareholder (the amount sitting in the Share Forfeiture Account).

Solution: The maximum discount allowed on the reissue of forfeited shares is the amount previously forfeited on those shares.

- When these shares are reissued at a price lower than their face value, the deficit is **debited to the Share Forfeiture Account**.
- This effectively reduces the "profit" from forfeiture by the "loss" on reissue.

Journal Entry for Reissue:

Bank A/c Dr. (Actual amount received)

Share Forfeiture A/c Dr. (Discount amount)

To Share Capital A/c (Face Value)

Evaluating the options:

- **Option A:** Incorrect. "Discount on Issue" is only used for the initial issue of shares (where permitted) or debentures.
- **Option B:** Correct.
- **Option C & D:** Incorrect. Capital Reserve is only credited with the *final* balance left in the Share Forfeiture account after reissue.

Final Answer: Share Forfeiture Account

Answer: (B)



Q22.

Solution

Concept: Debentures represent a loan taken by the company. The interest paid on this loan is a legal obligation and a business expense, regardless of whether the company is making a profit or suffering a loss.

Solution: In accounting terms, expenses that must be paid regardless of profit levels are called ****"Charges against Profit."****

- **Charge against Profit:** Items like interest on debentures, rent, and salaries are debited to the **Profit & Loss Account** before arriving at the Net Profit.
- **Appropriation of Profit:** Items like dividends or transfers to general reserves are only handled *after* net profit is calculated (in the P&L Appropriation Account).

Evaluating the options:

- **Option A:** Incorrect. This applies to dividends.
- **Option B:** Correct. Interest must be paid even if the company incurs a loss.
- **Option C:** Incorrect. This describes an appropriation, not a charge.

Final Answer: A charge against profit

Answer: (B)



Q23.

Solution

Concept: Reserves are generally classified into two categories: Revenue Reserves and Capital Reserves. While Revenue Reserves are created from the day-to-day trading profits of the business, **Capital Reserves** are created from profits that are non-recurring in nature and do not arise from the regular core operations of the company.

Solution: A Capital Reserve is created out of ****Capital Profits****. These profits are not available for distribution as dividends to shareholders under normal circumstances.

Examples of sources for Capital Reserve include:

- Profit on sale of fixed assets.
- Profit on revaluation of assets and liabilities.
- Profit on the purchase of an existing business (Capital Reserve on acquisition).
- Balance remaining in the **Share Forfeiture Account** after the reissue of forfeited shares.
- Profits earned prior to the incorporation of the company.

Evaluating the options:

- **Option A & D:** Incorrect. These represent revenue profits generated from regular trading/operations.
- **Option B:** Correct.
- **Option C:** Incorrect. While Securities Premium is a capital profit, it is maintained in its own specific account (Securities Premium Reserve) and has restricted uses under the Companies Act.

Final Answer: Capital profits

Answer: (B)



Q24.

Solution

Concept: A company's capital structure is hierarchical. At the very top is the **Authorised Capital** (also known as Nominal or Registered Capital). This amount is specified in the Capital Clause of the company's **Memorandum of Association (MoA)**.

Solution: Authorised Capital represents the **maximum amount** of share capital that a company is legally permitted to issue to its shareholders during its lifetime.

- If a company wishes to issue shares beyond this limit, it must follow a legal process to increase its authorised capital by amending the MoA.
- It is not necessary for a company to issue the entire authorised capital at once.

Evaluating the options:

- **Option A:** Incorrect. This refers to **Called-up Capital**.
- **Option B:** Correct. It is the legal ceiling for share issuance.
- **Option C:** Incorrect. This refers to **Paid-up Capital**.
- **Option D:** Incorrect. This refers to **Reserve Capital**.

Final Answer: Maximum amount of share capital a company is authorized to issue

Answer: (B)



Q25.

Solution

Concept: To understand the status of a debenture holder, one must distinguish between **Equity** (ownership) and **Debt** (loan). A debenture is an acknowledgment of debt issued by a company under its common seal.

Solution: Because debentures are a form of loan, the people who purchase them are lending money to the company. Therefore:

- Debenture holders are **Creditors** of the company.
- They receive a fixed rate of **interest**, which is a charge against profit.
- Unlike shareholders, they do not have **voting rights** and do not participate in the management of the company.

Evaluating the options:

- **Option A:** Incorrect. Shareholders are the owners.
- **Option B:** Correct. They are specifically long-term creditors.
- **Option C & D:** Incorrect. These are entirely different roles within or related to the business.

Final Answer: Creditors of the company

Answer: (B)

Q26.

Solution

Concept: The **Current Ratio** is a liquidity ratio that measures a company's ability to pay its short-term obligations (debts due within one year) with its short-term assets. It is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Solution: An ideal Current Ratio is considered to be **2:1**.

- This means for every ₹ 1 of current liability, the firm should have ₹ 2 in current assets.
- This "margin of safety" ensures that even if the value of current assets (like inventory) fluctuates or realization is delayed, the firm can still meet its immediate debts.
- A ratio much higher than 2:1 might indicate poor management of assets (e.g., idle cash or excessive stock), while a ratio below 2:1 suggests a potential liquidity risk.

Final Answer: 2:1

Answer: (B)



Q27.

Solution

Concept: The **Proprietary Ratio** is a solvency ratio that indicates the proportion of total assets funded by the owners (shareholders) of the company. It highlights the financial strength and the "cushion" available to creditors.

Solution: The ratio is expressed as:

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

- **Shareholders' Funds** (Equity) includes Share Capital and Reserves & Surplus.
- **Total Assets** includes both Non-Current and Current Assets.
- A high proprietary ratio indicates a strong financial position and less reliance on external debt.

Evaluating the options:

- **Option A:** Correct. It links ownership funds to total assets.
- **Option B:** Incorrect. This describes the **Debt-to-Equity Ratio**.
- **Option C:** Incorrect. This describes the **Current Ratio**.
- **Option D:** Incorrect. This describes **Fixed Asset Turnover**.

Final Answer: Shareholder's Funds and Total Assets

Answer: (A)



Q28.

Solution

Concept: The **Inventory Turnover Ratio (ITR)** measures how many times a company has sold and replaced its inventory during a specific period. It establishes a relationship between the cost of the goods sold and the average stock held.

Solution: The formula for Inventory Turnover Ratio is:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations (COGS)}}{\text{Average Inventory}}$$

Given:

- Inventory Turnover Ratio = 5 times
- Average Inventory = 40,000

To find the Cost of Revenue from Operations:

$$5 = \frac{\text{Cost of Revenue from Operations}}{40,000}$$

$$\text{Cost of Revenue from Operations} = 5 \times 40,000 = 2,00,000$$

- **Option A:** Correct. $5 \times 40,000 = 2,00,000$.
- **Option B, C & D:** Incorrect based on the mathematical relationship.

Final Answer: 2,00,000

Answer: (A)



Q29.

Solution

Concept: Liquidity Ratios measure the ability of a business to meet its short-term financial obligations (current liabilities) as they become due. They focus on the "cash-nearness" of assets.

Solution: The primary liquidity ratios are the **Current Ratio** and the **Quick Ratio** (also known as the Acid-Test Ratio).

- **Quick Ratio** = $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$. It is a more stringent measure of liquidity than the current ratio because it excludes inventory and prepaid expenses, which are less liquid.

Evaluating the options:

- **Option A:** Incorrect. This is a **Solvency Ratio** (long-term).
- **Option B:** Correct. It measures immediate liquidity.
- **Option C:** Incorrect. This is a **Profitability/Efficiency Ratio**.
- **Option D:** Incorrect. This is an **Activity/Turnover Ratio**.

Final Answer: Quick Ratio

Answer: (B)



Q30.

Solution

Concept: Analysis of financial statements involves identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the Balance Sheet and the Profit & Loss Account. Various stakeholders use this information to make informed decisions.

Solution: Different parties have different interests in the financial health of a company:

- **Investors:** They analyze statements to assess the **profitability** and **safety** of their investment. They want to know if the company will provide a good return through dividends and capital appreciation.
- **Creditors:** They are concerned with **liquidity** and **solvency**. They need to ensure the company can pay back the interest and the principal amount on time.
- **Management:** They use analysis for **internal control**, **planning**, and **decision-making**. It helps them evaluate the performance of different departments and plan for future growth.

Evaluating the options:

- **Option A, B & C:** All are key users of financial analysis.
- **Option D:** Correct. All the mentioned groups rely on these analyses for their respective purposes.

Final Answer: All of the above

Answer: (D)



Q31.

Solution

Concept: Accounting Standards (AS) are issued to standardize accounting practices. In India, the preparation and presentation of the Cash Flow Statement are governed by a specific mandatory standard issued by the Institute of Chartered Accountants of India (ICAI).

Solution: The Cash Flow Statement is prepared as per **AS-3** (Revised).

- This standard requires enterprises to report cash flows during the period classified by **Operating**, **Investing**, and **Financing** activities.
- Note: For companies following Ind AS, the corresponding standard is **Ind AS 7**.

Evaluating the options:

- **Option A:** AS-1 relates to the *Disclosure of Accounting Policies*.
- **Option B:** Correct.
- **Option C:** AS-10 relates to *Property, Plant and Equipment*.
- **Option D:** AS-26 relates to *Intangible Assets*.

Final Answer: AS-3

Answer: (B)



Q32.

Solution

Concept: Classification of cash flows depends on the ****nature of the business****.

- **Operating Activities** are the principal revenue-producing activities of the enterprise.
- **Investing Activities** involve the acquisition and disposal of long-term assets and other investments.

Solution: For a ****Finance Company****, its core business is lending money and dealing in financial instruments.

- Since lending is their "primary revenue-producing activity," the interest earned on those loans is considered an ****Operating Activity****.
- For a *non-financial* company (like a manufacturing firm), interest received would be an **Investing Activity** because it comes from surplus funds invested outside the main business.

Evaluating the options:

- **Option A:** Incorrect for a finance company (correct for manufacturing).
- **Option B:** Incorrect. Interest *paid* is financing for non-financial firms; interest *received* is never financing.
- **Option C:** Correct. It is part of their daily business operations.

Final Answer: Operating Activity

Answer: (C)



Q33.

Solution

Concept: Under the Cash Flow Statement (AS-3), only transactions that result in an actual movement of cash or cash equivalents are recorded. When a company acquires an asset (like machinery or a building) or purchases a business and pays the seller by issuing shares instead of cash, it is a non-cash transaction.

Solution: Issuing shares for consideration other than cash is a significant non-cash transaction.

- There is an increase in Fixed Assets and an increase in Share Capital.
- However, **no cash enters or leaves** the company's bank account.
- According to AS-3, such transactions should be excluded from the Cash Flow Statement, although they may be disclosed in the notes to accounts because of their significance.

Journal Entry:

Assets A/c Dr.
To Share Capital A/c

(Notice that neither 'Cash' nor 'Bank' is involved in the entry.)

Evaluating the options:

- **Option A & B:** Incorrect. There is no physical movement of money.
- **Option C:** Correct. It is a "No flow" transaction.
- **Option D:** Incorrect. This transaction affects the Balance Sheet, not the Operating Profit (P&L).

Final Answer: No flow of Cash

Answer: (C)



Q34.

Solution

Concept: Under **AS-3**, cash flows are classified into three categories based on the nature of the transaction. **Financing Activities** are those that result in changes in the size and composition of the owner's capital (Equity) and borrowings of the enterprise.

Solution: For a non-banking (non-financial) company:

- Payment of dividends is a cost of raising capital.
- Since the dividend is paid to shareholders (equity providers), it is directly related to the company's capital structure.
- Therefore, dividend paid—including Interim Dividend and Final Dividend—is always classified as a **Financing Activity**.

Evaluating the options:

- **Option A:** Incorrect. For a non-banking company, this is not a primary revenue-producing activity.
- **Option B:** Incorrect. Investing activities involve the purchase/sale of long-term assets. While dividend *received* is an investing activity, dividend *paid* is not.
- **Option C:** Correct. It is a distribution to the providers of finance.
- **Option D:** Incorrect. Dividends are a cash outflow, not a component of cash and cash equivalents.

Final Answer: Financing Activity

Answer: (C)



Q35.

Solution

Concept: Under the **Indirect Method** of preparing a Cash Flow Statement, we start with the Net Profit and adjust for non-cash items and changes in working capital to arrive at the "Cash Generated from Operations."

Solution: An increase in a current asset (like Debtors/Accounts Receivable) implies that more of the firm's revenue is "locked up" in credit rather than being received in cash.

- When Debtors increase, it means the credit sales for the period were higher than the cash collected from customers.
- Although these sales increased the Net Profit, they did not increase the Cash balance.
- Therefore, to find the actual cash flow, an **increase in Current Assets** must be **subtracted** from the operating profit.

Evaluating the options:

- **Option A:** Incorrect. An increase in assets (other than cash) consumes cash flow.
- **Option B:** Correct. It represents an outflow or a "tie-up" of cash in working capital.
- **Option C:** Incorrect. Debtors are current assets and do not fall under Investing Activities.

Final Answer: Decrease in Cash from Operations

Answer: (B)



Q36.

Solution

Concept: A computer requires specific instructions to perform tasks. While the physical parts are the hardware, the logic and instructions that tell the hardware what to do form a different category.

Solution: A sequence of instructions written in a programming language to perform a specific task is called a **Program** or **Software**.

- **Software** acts as the interface between the user and the computer hardware.
- It can be categorized into System Software (like Windows) or Application Software (like Tally or Excel).

Evaluating the options:

- **Option A:** Incorrect. Hardware refers to the physical components you can touch.
- **Option B:** Incorrect. Data refers to raw facts and figures, not instructions.
- **Option C:** Correct. A program is a set of instructions.
- **Option D:** Incorrect. RAM is a type of hardware memory.

Final Answer: Software/Program

Answer: (C)



Q37.

Solution

Concept: A **Computerized Accounting System (CAS)** is an information system that processes financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports.

Solution: A CAS consists of six essential components:

- (a) **Hardware:** The physical computer and peripheral devices.
- (b) **Software:** The accounting programs (e.g., Tally, SAP).
- (c) **People:** The users who operate the system.
- (d) **Procedures:** Rules for data entry and processing.
- (e) **Data:** The financial facts input into the system.
- (f) **Connectivity:** The network that allows data sharing.

Evaluating the options:

- **Option A, B & C:** These are core components of any computerized system.
- **Option D:** Correct. **Physical Inventory** (actual boxes of stock in a warehouse) is a tangible asset of the business, but it is not a component of the digital accounting **system** itself. The **record** of inventory is data, but the physical items are not.

Final Answer: Physical Inventory

Answer: (D)



Q38.

Solution

Concept: Modern accounting is not just about bookkeeping; it is a system designed to collect, store, and process financial and accounting data to produce informative reports for decision-makers.

Solution: AIS stands for **Accounting Information System**.

- It combines traditional accounting practices with modern information technology resources.
- The primary goal of an AIS is to transform raw financial data into meaningful information for stakeholders like management, investors, and regulatory authorities.

Evaluating the options:

- **Option A:** Correct.
- **Option B, C & D:** Incorrect. While these terms might sound professional, they are not the standard meaning of AIS in an accounting context.

Final Answer: Accounting Information System

Answer: (A)



Q39.

Solution

Concept: In a database (like the ones used in accounting software), data is stored in tables. To manage this data efficiently and avoid duplication, each row (record) must be distinct from the others.

Solution: A **Primary Key** is a specific field (or a combination of fields) in a table that **uniquely identifies** each record in that table.

- A Primary Key cannot contain **NULL** (empty) values.
- Every value in the Primary Key column must be **unique** (e.g., an Employee ID, a Voucher Number, or a Student Roll Number).
- It prevents duplicate entries and allows for the establishment of relationships between different tables (linked via Foreign Keys).

Evaluating the options:

- **Option A:** Incorrect. Encryption is a security process, not a key function.
- **Option B:** Correct. This is the fundamental purpose of a primary key.
- **Option C & D:** Incorrect. These are functions of application software or reporting tools, not the primary key itself.

Final Answer: Uniquely identifying a record

Answer: (B)



Q40.

Solution

Concept: In a Computerized Accounting System, data is the most valuable asset. Since hardware can fail, software can crash, or cyber-attacks can occur, businesses must have a strategy to protect their financial records from permanent loss.

Solution: The process of creating a duplicate copy of data and storing it in a separate physical or cloud location is called **Backup**.

- **Backup:** Acts as a safety net. If the original data is corrupted or lost, the backup can be used to recover the information.
- **Restoring:** This is the reverse process—taking the backup copy and putting it back into the system after a data loss event.

[Image of data backup and recovery process]

Evaluating the options:

- **Option A:** Incorrect. Formatting usually involves preparing a storage disk for use, which often erases existing data.
- **Option B:** Correct. It is the preventive measure of duplicating data.
- **Option C:** Incorrect. This is the act of using the backup *after* the data is already lost.
- **Option D:** Incorrect. Processing refers to the actual manipulation of data to generate reports.

Final Answer: Backup

Answer: (B)



Q41.

Solution

Concept: When a new partner is admitted, they must compensate the existing partners for the share of profit they give up. This compensation is called **Premium for Goodwill**. It is shared among the old partners in their **Sacrificing Ratio**.

Solution: Step 1: Calculate Z's share of Goodwill Total Goodwill of the firm = 36,000
Z's share = $\frac{1}{4}$ Z's Premium for Goodwill = $36,000 \times \frac{1}{4} = 9,000$

Step 2: Determine the Sacrificing Ratio Since the problem does not specify a new profit-sharing ratio or a specific sacrifice, we assume the old partners sacrifice in their old ratio. Sacrificing Ratio of X and Y = 2 : 1

Step 3: Distribute Goodwill to X Goodwill credited to X = Total Premium \times X's Sacrifice share
Goodwill credited to X = $9,000 \times \frac{2}{3} = 6,000$

Evaluating the options:

- **Option A:** Incorrect. This is the total premium brought by Z.
- **Option B:** Correct. ($9,000 \times \frac{2}{3} = 6,000$).
- **Option C:** Incorrect. This is the amount credited to Y ($9,000 \times \frac{1}{3}$).
- **Option D:** Incorrect.

Final Answer: 6,000

Answer: (B)



Q42.

Solution

Concept: When debentures are issued with a condition that they will be redeemed at a premium, that future premium is a loss recognized at the time of issue. This is based on the **Prudence (Conservatism) Principle**, which states that all anticipated losses should be recorded in the books of accounts.

Solution: The "Loss on Issue of Debentures" account is debited with the amount of **Premium on Redemption**.

- Note: If debentures are issued at a discount *and* are redeemable at a premium, the total loss (Discount + Premium on Redemption) is debited to this account.
- In this case, the debentures are issued at a **Premium** (which is a gain/reserve), so only the redemption premium constitutes the loss.

Calculation:

- Number of Debentures = 10,000
- Face Value = 100
- Premium on Redemption = 10% of 100 = 10 per debenture.
- Total Loss on Issue = $10,000 \times 10 = 1,00,000$.

Journal Entry (at the time of issue):

Bank A/c Dr.	10,50,000
Loss on Issue of Debentures A/c Dr.	1,00,000
To 10% Debentures A/c	10,00,000
To Securities Premium A/c	50,000
To Premium on Redemption A/c	1,00,000

Evaluating the options:

- **Option A:** Incorrect. This is the Securities Premium (gain) on issue.
- **Option B:** Correct. $(10,000 \times 10)$.
- **Option C:** Incorrect. This would be the total if issued at a discount and redeemed at a premium.

Final Answer: 1,00,000

Answer: (B)



Q43.

Solution

Concept: The **Debt-Equity Ratio** measures the proportion of long-term debt to shareholders' funds.

$$\text{Debt-Equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholders' Funds (Equity)}}$$

To decrease this ratio, we must either **decrease the numerator** (Debt) or **increase the denominator** (Equity).

Solution: Let's analyze the transactions:

- **A. Issue of new shares for cash:** This increases Shareholders' Funds (Equity). When the denominator increases, the ratio decreases.
- **B. Redemption of debentures:** This decreases Long-term Debt. When the numerator decreases, the ratio decreases.
- **C. Purchase of fixed assets on long-term credit:** This increases Long-term Debt (numerator), which would increase the ratio.

Since both A and B lead to a decrease in the ratio, Option D is the correct choice.

Final Answer: Both A and B

Answer: (D)

Q44.

Solution

Concept: In the Cash Flow Statement (Indirect Method), we adjust the Net Profit for non-cash and non-operating items to find the "Operating Profit before Working Capital Changes."

- **Add back:** Non-cash expenses (like Depreciation) and Non-operating losses.
- **Deduct:** Non-operating incomes (like Gain on sale of assets).

Solution:

Evaluating the options:

- **Option A:** Incorrect. It adds the gain instead of subtracting it.
- **Option B:** Correct. $(5,00,000 + 50,000 - 20,000 = 5,30,000)$.
- **Option C:** Incorrect. It subtracts depreciation.

Final Answer: 5,30,000

Answer: (B)



Q45.

Solution

Concept: According to **AS-3**, 'Cash Equivalents' are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Usually, only investments with a maturity of **three months or less** from the date of acquisition qualify.

Solution: Among the given options, **Marketable Securities** (Short-term) are the only items that fit this description.

- **Inventory:** While it can be sold, it is not "readily convertible" into a **known** amount of cash without significant risk of price change.
- **Furniture:** This is a fixed asset, not a liquid one.
- **Bills Receivable (9 months):** The maturity period exceeds the standard 3-month threshold for cash equivalents.

Evaluating the options:

- **Option A:** Incorrect.
- **Option B:** Correct. Marketable securities are designed for quick conversion to cash.
- **Option C & D:** Incorrect.

Final Answer: Marketable Securities (Short-term)

Answer: (B)



Q46.

Solution

Concept: Buyback of shares refers to a company purchasing its own shares from the market to reduce the number of shares outstanding. This is a significant corporate action that affects capital structure and must follow the provisions of the ****Companies Act****.

Solution: Under Section 68 of the Companies Act, a company can only buy back its shares if the action is specifically ****authorized by its Articles of Association (AoA)****.

- If the AoA does not contain such a provision, the company must first pass a special resolution to amend the Articles before proceeding.
- While the Memorandum (MoA) defines the company's external powers, the Articles (AoA) govern its internal administration, which includes the power to buy back shares.

Evaluating the options:

- **Option A:** Incorrect. The Auditor only verifies the accounts; they do not grant authorization.
- **Option B:** Correct. The AoA must contain the enabling provision.
- **Option C:** Incorrect. The MoA defines the objects of the company, not internal capital maneuvers.
- **Option D:** Incorrect. Banks have no authority over a company's internal share structure.

Final Answer: Articles of Association

Answer: (B)



Q47.

Solution

Concept: Premium on Redemption of Debentures represents a liability that the company is contractually obligated to pay at the time of redemption. Since debentures are typically long-term borrowings (maturing after 12 months), the premium associated with their repayment is also treated as a long-term obligation.

Solution: According to Schedule III of the Companies Act, **Premium on Redemption of Debentures** is shown under the head **Non-Current Liabilities**.

- Specifically, it is categorized under the sub-head **Other Long-term Liabilities** (though some practices classify it under Long-term Provisions depending on the specific nature of the issue).
- It is not a current liability unless the debentures themselves are due for redemption within the next 12 months.

Evaluating the options:

- **Option A:** Incorrect. It is only current if redemption is within 12 months.
- **Option B:** Correct. It is a long-term financial obligation.
- **Option C & D:** Incorrect. It is neither a part of ownership capital nor an asset.

Final Answer: Non-Current Liabilities (Long-term Provisions/Liabilities)

Answer: (B)



Q48.

Solution

Concept: Goodwill is the value of the reputation of a firm which enables it to earn higher profits in comparison to the normal profits earned by other firms in the same industry.

Solution: Goodwill is classified as an **Intangible Asset**.

- It is an **Asset** because it has a value and helps in generating future economic benefits.
- It is **Intangible** because it has no physical existence—you cannot see, touch, or feel it.
- It is NOT a **Fictitious Asset** because fictitious assets (like preliminary expenses) have no realizable value, whereas Goodwill can be sold along with the business.

Evaluating the options:

- **Option A:** Correct. It is a non-physical asset with real value.
- **Option B:** Incorrect. Fictitious assets are "fake" assets that are actually deferred losses.
- **Option C & D:** Incorrect. Goodwill is a fixed/non-current asset, not a liquid or current one.

Final Answer: Intangible Asset

Answer: (A)



Q49.

Solution

Concept: Upon the death of a partner, the partnership stands dissolved (unless the deed states otherwise), and the deceased partner's share in the firm—including capital, share of profit, and goodwill—must be settled. Since the partner is no longer alive to receive the payment, the law requires the firm to pay the dues to the person legally authorized to handle their estate.

Solution: The amount due to a deceased partner is transferred to ****His Legal Representative/Executor****.

- The total amount (including interest on the balance) is credited to the **Deceased Partner's Executor's Account**.
- While the wife may be a legal heir, the payment is technically made to the "Legal Representative" or "Executor" as recognized by law or the will.
- If the firm cannot pay immediately, the executor is entitled to interest at ****6% p.a.**** on the outstanding balance unless otherwise agreed.

Evaluating the options:

- **Option A:** Incorrect. While they may be a beneficiary, the "Executor" is the specific legal term.
- **Option B:** Correct.
- **Option C:** Incorrect. The remaining partners owe this money to the estate of the deceased.
- **Option D:** Incorrect.

Final Answer: His Legal Representative/Executor

Answer: (B)



Q50.

Solution

Concept: Financial Statement Analysis can be categorized based on the entities being compared or the timeframe involved.

Solution: Comparing the performance of two or more different companies within the same industry is known as ****Inter-firm analysis****.

- **Inter-firm analysis:** Cross-sectional analysis used to evaluate a company's performance against its competitors or industry benchmarks.
- **Intra-firm analysis:** Comparing the current year's performance of a single company with its own past performance (Trend analysis).

Evaluating the options:

- **Option A:** Incorrect. This is comparison within the same firm.
- **Option B:** Correct. "Inter" means between different entities.
- **Option C:** Incorrect. Vertical analysis looks at items within a single year's statement as a percentage of a base (like Net Sales).
- **Option D:** Incorrect. Internal analysis is conducted by the management using internal data.

Final Answer: Inter-firm analysis

Answer: (B)



Answer Key

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

