

CUET-UG Accountancy Sample Paper-6

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. A and B are partners. B draws a fixed amount at the end of every month. Interest on drawings is charged @15% p.a. At the end of the year, interest on B's drawings amounted to 1,650. What was his monthly drawing?

- (A) 2,000
- (B) 3,000
- (C) 2,500
- (D) 4,000

Q2. If the Partner's Fixed Capital method is followed, where will the "Interest on Capital" be recorded?

- (A) Partner's Capital Account (Credit side)
- (B) Partner's Current Account (Credit side)
- (C) Partner's Current Account (Debit side)
- (D) Profit & Loss Account

Q3. X, Y, and Z are partners sharing in 5:3:2. Z retires and his share is taken by X and Y in the ratio of 2:1. The new ratio will be:

- (A) 19:11
- (B) 11:19
- (C) 3:2



(D) 7:3

Q4. When a new partner is admitted and cannot bring his share of premium for goodwill in cash, the amount is debited to:

- (A) Premium for Goodwill A/c
- (B) New Partner's Current A/c
- (C) Old Partners' Capital A/c
- (D) Revaluation A/c

Q5. At the time of retirement, the balance in 'Workmen Compensation Reserve' (after meeting a smaller claim) is transferred to:

- (A) All partners in the new ratio
- (B) Remaining partners in the gaining ratio
- (C) All partners in the old ratio
- (D) Revaluation Account

Q6. Goodwill of the firm is valued at 2,00,000. Super Profit is 40,000. If the Normal Rate of Return is 10%, what is the Average Profit?

- (A) 24,000
- (B) 60,000
- (C) 44,000
- (D) Cannot be determined

Q7. On the death of a partner, the "Share of Goodwill" of the deceased partner is borne by the remaining partners in their:

- (A) Sacrificing Ratio
- (B) Gaining Ratio
- (C) Old Profit Sharing Ratio
- (D) Capital Ratio



- Q8.** In the absence of a partnership deed, the profit/loss is shared:
- (A) In the ratio of Capital
 - (B) In the ratio of Time spent
 - (C) Equally
 - (D) At the discretion of the senior partner
- Q9.** Profit & Loss Appropriation account is prepared to:
- (A) Find out Net Profit
 - (B) Find out Operating Profit
 - (C) Show the distribution of profits among partners
 - (D) Rectify errors in the Balance Sheet
- Q10.** If a partner brings in "Furniture" as his capital contribution, which account is credited?
- (A) Furniture A/c
 - (B) Cash A/c
 - (C) Partner's Capital A/c
 - (D) Revaluation A/c
- Q11.** A and B are partners with capitals of 50,000 and 30,000 respectively. Interest on capital is agreed @ 10% p.a. The net profit for the year is 4,800. What will be the interest on capital for A?
- (A) 5,000
 - (B) 3,000
 - (C) 3,000
 - (D) 1,800
- Q12.** X, Y, and Z are partners. Y retires. After all adjustments, Y's capital account shows a credit balance of 80,000. Y agrees to take over a computer (unrecorded)



valued at 15,000 and the balance is paid by a cheque. The amount of cheque will be:

- (A) 80,000
- (B) 95,000
- (C) 65,000
- (D) 15,000

Q13. At the time of a partner's death, if the firm has a Joint Life Policy, the deceased partner's share in the policy is credited to his account at:

- (A) Surrender Value
- (B) Sum Assured
- (C) Policy value plus bonus
- (D) Nil

Q14. If a partner's capital is 1,00,000 and the firm's actual profit is 15,000 while the normal rate of return is 10%, the "Capitalized Value of the Firm" (based on average profit) is:

- (A) 1,00,000
- (B) 1,50,000
- (C) 50,000
- (D) 1,15,000

Q15. On the admission of a new partner, the old partners' capital accounts are credited with "Premium for Goodwill" in their:

- (A) Old Ratio
- (B) New Ratio
- (C) Sacrificing Ratio
- (D) Gaining Ratio



- Q16.** On dissolution, the "Investment Fluctuation Reserve" appearing on the liability side is transferred to:
- (A) Realization Account (Credit side)
 - (B) Partners' Capital Account (Credit side)
 - (C) Revaluation Account
 - (D) Realization Account (Debit side)
- Q17.** If an unrecorded asset is taken over by a creditor in full settlement of his debt:
- (A) Realization A/c is debited
 - (B) Realization A/c is credited
 - (C) No entry is passed
 - (D) Creditor's A/c is debited
- Q18.** Realization expenses paid by a partner on behalf of the firm are credited to:
- (A) Realization A/c
 - (B) Cash A/c
 - (C) Partner's Capital A/c
 - (D) P&L A/c
- Q19.** Deferred Revenue Expenditure (like Advertisement Suspense) is transferred to:
- (A) Realization A/c
 - (B) Partners' Capital A/c in old ratio
 - (C) Partners' Capital A/c in gaining ratio
 - (D) Cash A/c
- Q20.** Minimum subscription for a public issue as per SEBI guidelines is:
- (A) 100%
 - (B) 75%
 - (C) 90%



(D) 50%

Q21. A company forfeited 100 shares of 10 each, on which 7 was called and 5 was paid. If 80 of these shares are reissued at 9 per share as fully paid, the amount transferred to Capital Reserve is:

(A) 320

(B) 400

(C) 300

(D) 420

Q22. 'Reserve Capital' is a part of:

(A) Subscribed Capital

(B) Capital Reserve

(C) Uncalled Capital

(D) Issued Capital

Q23. Disclosure of 'Calls-in-Arrears' in the Balance Sheet is done by:

(A) Adding it to the Paid-up capital

(B) Deducting it from the Subscribed but not fully paid-up capital

(C) Showing it under Current Liabilities

(D) Showing it under Current Assets

Q24. Which of the following is not a 'Capital Profit'?

(A) Profit on sale of fixed assets

(B) Profit on forfeiture of shares

(C) Premium received on issue of shares

(D) Profit from regular sales of goods

Q25. Debentures that can be converted into equity shares are called:



- (A) Redeemable Debentures
- (B) Registered Debentures
- (C) Convertible Debentures
- (D) Specific Debentures

Q26. If debentures of 1,0,000 are issued to a creditor for purchase of machinery worth 90,000, the difference of 10,000 is:

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

Q27. A company issued 2,000, 12% Debentures of 100 each at a discount of 2%, redeemable at a premium of 5%. The "Loss on Issue of Debentures" total amount will be:

- (A) 10,000
- (B) 4,000
- (C) 14,000
- (D) 6,000

Q28. If Total Assets are 10,00,000 and Total External Liabilities are 6,00,000, the Debt-Equity Ratio will be:

- (A) 1.5 : 1
- (B) 0.6 : 1
- (C) 2 : 1
- (D) 0.5 : 1

Q29. Which of the following is an example of an "Investing Activity" in a Cash Flow Statement?

- (A) Repayment of Long-term Loan



- (B) Purchase of Patents
- (C) Proceeds from Sale of Goods
- (D) Interest paid on Debentures

Q30. When a company issues shares to promoters for their services, which account is debited?

- (A) Promotion Expenses A/c
- (B) Goodwill A/c (or Incorporation Cost)
- (C) Share Capital A/c
- (D) Asset A/c

Q31. Current Assets 4,00,000; Current Liabilities 2,00,000. If the company pays a creditor 50,000, the new Current Ratio will be:

- (A) 2 : 1
- (B) 2.33 : 1
- (C) 1.75 : 1
- (D) 2.5 : 1

Q32. Interest on Calls-in-Arrears is charged according to Table F of Companies Act 2013 at:

- (A) 5% p.a.
- (B) 10% p.a.
- (C) 12% p.a.
- (D) 6% p.a.

Q33. Dividend is usually paid as a percentage of:

- (A) Authorized Capital
- (B) Called-up Capital
- (C) Paid-up Capital



(D) Issued Capital

Q34. Profit on forfeiture of shares is a:

(A) Revenue Reserve

(B) Secret Reserve

(C) Capital Reserve

(D) General Reserve

Q35. If the Inventory Turnover Ratio is 8 times and Revenue from Operations is 4,00,000 with a Gross Profit of 25%, the Average Inventory is:

(A) 50,000

(B) 37,500

(C) 40,000

(D) 30,000

Q36. A very high Current Ratio indicates:

(A) High Liquidity

(B) Efficient use of cash

(C) Poor investment of idle funds

(D) High profitability

Q37. Comparative Financial Statements show:

(A) Financial position at a single point in time

(B) Trends over different periods

(C) Data for one company only

(D) Relationship between different items of the same year

Q38. Which of the following is a "Solvency Ratio"?

(A) Current Ratio



- (B) Debt to Equity Ratio
- (C) Working Capital Turnover Ratio
- (D) Operating Ratio

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

- (A) Encrypting sensitive financial data
- (B) Uniquely identifying a record in a table
- (C) Calculating liquidity ratios automatically
- (D) Printing the final Trial Balance

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

- (A) Formatting
- (B) Backup
- (C) Restoring
- (D) Data Processing

Q41. 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's Capital Account?

- (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. Which of the following is a 'Cash Inflow' from Investing Activity?

(A) Sale of Goods

(B) Sale of Investments

(C) Issue of Debentures

(D) Interest paid on bank overdraft

Q44. Under AS-3 (Revised), 'Cash' includes:

(A) Cash in hand and demand deposits with banks

(B) Inventory

(C) Fixed Assets

(D) Long-term investments

Q45. Payment of Dividend is always classified as:

(A) Operating Activity

(B) Investing Activity

(C) Financing Activity

(D) Cash Equivalent

Q46. Buyback of shares must be authorized by:

(A) The Statutory Auditor

(B) The Articles of Association (AOA)

(C) The Memorandum of Association (MOA)

(D) The Registrar of Companies (ROC)

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

(A) Current Liabilities (Short-term Provisions)



- (B) Non-Current Liabilities (Other Long-term Liabilities)
- (C) Shareholders' Funds (Reserves and Surplus)
- (D) Current Assets

Q48. In an Excel sheet, which symbol is used to start a formula?

- (A) \$
- (B) =
- (C) @
- (D) #

Q49. 'Data Validation' in CAS is used to:

- (A) Delete old data
- (B) Ensure the accuracy and quality of data entered
- (C) Calculate tax automatically
- (D) Design the Balance Sheet

Q50. Which of the following is an 'Accounting Software' package?

- (A) Tally
- (B) Photoshop
- (C) Chrome
- (D) Windows



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

Concept: When a partner withdraws a fixed amount at the **end of every month**, interest is calculated on the total drawings for an average period of **5.5 months**. The formula used is:

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{5.5}{12}$$

Solution: Let the monthly drawing be x .

- **Total Drawings** = $12 \times x$
- **Interest Amount** = 1,650
- **Rate of Interest** = 15% p.a.

Placing values in the formula:

$$1,650 = (12x) \times \frac{15}{100} \times \frac{5.5}{12}$$

Canceling 12 from the numerator and denominator:

$$1,650 = x \times \frac{15 \times 5.5}{100}$$

$$1,650 = x \times 0.825$$

$$x = \frac{1,650}{0.825}$$

$$x = 2,000$$

The monthly drawing of partner B is 2,000.

Final Answer: 2,000

Answer: (A)



Q2.

Solution

Concept: Under the **Fixed Capital Method**, two accounts are maintained for each partner:

- (a) **Partner's Capital Account:** Records only the original capital, additional capital, and permanent withdrawal of capital.
- (b) **Partner's Current Account:** Records all other adjustments such as interest on capital, partner's salary, commission, drawings, and share of profits/losses.

Solution: Interest on Capital is an **appropriation of profit** that increases the partner's claim against the firm.

- Since the Fixed Capital Method is followed, this adjustment cannot be made in the Capital Account.
- It must be recorded in the **Partner's Current Account**.
- Because it is an income/gain for the partner, it is **credited** to their account.

The journal entry is: *Profit & Loss Appropriation A/c ...Dr To Partner's Current A/c*

Final Answer: Partner's Current Account (Credit side)

Answer: (B)



Q3.

Solution

Concept: When a partner retires, their share of profit is acquired by the remaining partners. The **New Profit Sharing Ratio** is calculated by adding the acquired share (gaining share) to the old share of the remaining partners.

Solution:

- **Old Ratio:** $X : Y : Z = 5 : 3 : 2$. Z's share = $\frac{2}{10}$.
- **Gaining Ratio:** X and Y take Z's share in the ratio 2 : 1.

Calculation of Gaining Share:

- X gains = $\frac{2}{10} \times \frac{2}{3} = \frac{4}{30}$
- Y gains = $\frac{2}{10} \times \frac{1}{3} = \frac{2}{30}$

Calculation of New Share:

- X's New Share = Old Share + Gain = $\frac{5}{10} + \frac{4}{30} = \frac{15+4}{30} = \frac{19}{30}$
- Y's New Share = Old Share + Gain = $\frac{3}{10} + \frac{2}{30} = \frac{9+2}{30} = \frac{11}{30}$

The new ratio between X and Y is **19:11**.

Final Answer: 19:11

Answer: (A)

Q4.

Solution

Concept: According to accounting standards (specifically AS-26 regarding Intangible Assets), goodwill should only be recorded in the books when consideration in money or money's worth has been paid for it. When a partner cannot bring premium for goodwill in cash, his **Current Account** is adjusted to ensure the capital structure remains intact.

Solution: If the new partner is unable to bring their share of premium for goodwill in cash:

- The **New Partner's Current Account** is debited with their share of goodwill.
- The **Sacrificing Partners' Capital Accounts** are credited in their sacrificing ratio.

This method is preferred over debiting the Capital Account to avoid reducing the fixed or agreed capital of the new partner at the time of admission.

Journal Entry: *New Partner's Current A/c ...Dr To Sacrificing Partners' Capital A/cs*

Final Answer: New Partner's Current A/c

Answer: (B)



Q5.

Solution

Concept: The **Workmen Compensation Reserve (WCR)** is an accumulated profit set aside out of the firm's earnings to meet potential liabilities towards employees. At the time of retirement, any surplus in this reserve (after adjusting for actual claims) belongs to the partners who contributed to it.

Solution: The accounting treatment for WCR at the time of retirement is as follows:

- **Claim Adjustment:** If a claim exists, that portion is transferred to the 'Provisions for Workmen Compensation Claim' account.
- **Surplus Distribution:** The remaining balance (excess of reserve over claim) is a gain that was earned during the period when all partners were together.
- **Ratio:** This surplus must be distributed among **all partners** (including the retiring partner) in their **Old Profit Sharing Ratio**.

Final Answer: All partners in the old ratio

Answer: (C)

Q6.

Solution

Concept: Super Profit is the excess of actual average profit over the normal profit. The relationship is defined by the following formulas:

$$(a) \text{ Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate of Return (NRR)}}{100}$$

$$(b) \text{ Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$(c) \text{ Goodwill} = \frac{\text{Super Profit}}{\text{NRR}} \times 100 \text{ (under Capitalization of Super Profit)}$$

Solution: We are given: Goodwill = 2,00,000, Super Profit = 40,000, and NRR = 10%.

First, we find the **Capitalized Value of Super Profit** (which is the Goodwill):

$$2,00,000 = \frac{40,000}{10} \times 100$$

This matches the data. To find the **Average Profit**, we must first find **Normal Profit**. However, Normal Profit requires "Capital Employed" (Normal Profit = Capital Employed \times 10%).

Since the value of **Capital Employed** is not provided in the question, we cannot calculate the Normal Profit, and consequently, we cannot determine the Average Profit.

Final Answer: Cannot be determined

Answer: (D)



Q7.

Solution

Concept: Upon the death of a partner, the deceased partner loses their future share of profits, which is then acquired by the surviving (remaining) partners. To compensate the deceased partner for this loss, the surviving partners must pay for the deceased partner's share of goodwill.

Solution: The accounting treatment for goodwill on the death of a partner is as follows:

- The deceased partner's account is **credited** with their share of goodwill.
- The surviving partners' accounts are **debited** based on how much of the deceased partner's share they have individually acquired.
- This acquisition of share is represented by the **Gaining Ratio**.

Journal Entry: *Gaining Partners' Capital A/cs ...Dr (in Gaining Ratio) To Deceased Partner's Capital A/c*

Final Answer: Gaining Ratio

Answer: (B)

Q8.

Solution

Concept: The **Indian Partnership Act, 1932** provides specific rules that apply when a formal Partnership Deed is absent or silent on certain matters. These rules ensure a fair baseline for all partners regardless of their individual contributions.

Solution: According to the provisions of the Indian Partnership Act, 1932:

- **Profit Sharing:** Profits and losses must be shared **equally** among all partners, irrespective of their capital contribution or time spent.
- **Interest on Capital/Drawings:** No interest is allowed on capital or charged on drawings.
- **Remuneration:** No partner is entitled to any salary or commission.
- **Interest on Loan:** If a partner provides a loan to the firm, they are entitled to interest @6% p.a.

Final Answer: Equally

Answer: (C)



Q9.

Solution

Concept: The **Profit & Loss Appropriation Account** is an extension of the Profit & Loss Account. While the P&L Account determines the "Net Profit" (the result of business operations), the Appropriation Account determines how that Net Profit is divided.

Solution: The primary objectives and features of this account include:

- **Nature:** It is a nominal account prepared specifically by partnership firms.
- **Purpose:** To show how the Net Profit is **distributed** among partners in the form of Interest on Capital, Salary, Commission, and finally, the divisible profit.
- **Sequence:** It starts with the Net Profit transferred from the P&L Account and ends with the distribution of the remaining surplus.

Options A and B refer to the P&L Account and Trading Account respectively, while option D refers to the Rectification of Errors process.

Final Answer: Show the distribution of profits among partners

Answer: (C)

Q10.

Solution

Concept: Capital is the amount invested by a partner in the firm. This contribution can be in the form of cash, bank balance, or **assets** (like Machinery, Furniture, or Stock). According to the **Double Entry System**, when an asset is brought into the business, the Asset Account is debited, and the source of that asset (the Partner's Capital) is credited.

Solution: When a partner brings in Furniture as capital:

- **Furniture A/c is debited** because an asset is coming into the business (Real Account rule: Debit what comes in).
- **Partner's Capital A/c is credited** because the partner is the giver of the value (Personal Account rule: Credit the giver) and their stake in the firm increases.

Journal Entry: *Furniture A/c ...Dr To Partner's Capital A/c*

Final Answer: Partner's Capital A/c

Answer: (C)



Q11.

Solution

Concept: Interest on Capital is an **appropriation of profit**. If the available Net Profit is **less** than the total interest due to the partners, the profit is distributed in the **ratio of the interest** (or the ratio of appropriations) rather than the profit-sharing ratio.

Solution: 1. **Calculate Total Interest due:**

- Interest for A: $50,000 \times 10\% = 5,000$
- Interest for B: $30,000 \times 10\% = 3,000$
- **Total Interest needed:** $5,000 + 3,000 = 8,000$

2. **Compare with Net Profit:** Available Net Profit (4,800) is less than the required Interest (8,000).

3. **Determine the Ratio of Interest:** Ratio between A and B = $5,000 : 3,000 = 5 : 3$.

4. **Allocate Available Profit to A:** A's Interest = $4,800 \times \frac{5}{8} = 600 \times 5 = 3,000$.

Final Answer: 3,000

Answer: (C)

Q12.

Solution

Concept: Upon retirement, a partner's capital account balance represents the final amount due to them. If the partner takes over a firm's asset (whether recorded or unrecorded), the value of that asset is **debited** to their capital account. This act of receiving an asset reduces the final cash or cheque payment required for the total settlement.

Solution: The amount of the cheque is calculated as follows:

- **Adjusted Credit Balance in Y's Capital A/c:** 80,000
- **Value of Computer taken over by Y:** 15,000

Since Y is accepting an asset worth 15,000 as part of his payout, the firm's remaining liability to be settled via bank is:

$$\text{Amount of Cheque} = \text{Total Balance Due} - \text{Value of Asset Taken Over}$$

$$\text{Amount of Cheque} = 80,000 - 15,000 = 65,000$$

Journal Entry for Settlement:

<i>Y's Capital A/c ...Dr</i>	<i>80,000</i>
<i>To Computer A/c</i>	<i>15,000</i>
<i>To Bank A/c</i>	<i>65,000</i>

(Being the final settlement made to Y by transfer of computer and balance by cheque)

Final Answer: 65,000

Answer: (C)



Q13.

Solution

Concept: A **Joint Life Policy (JLP)** is an insurance policy taken out by the partnership firm on the lives of all partners jointly. The main objective is to provide funds to the firm to pay the legal heirs of a deceased partner or to settle retirement dues without affecting the firm's working capital.

Solution: In the event of the **death** of any partner:

- The insurance company pays the **full Sum Assured** (plus any accumulated bonus) to the firm because the event (death) for which the policy was taken has occurred.
- This amount is treated as a gain for the firm.
- The deceased partner's share in this total amount (Sum Assured + Bonus) is credited to their Capital Account in the **Old Profit Sharing Ratio**.

Note: In the case of retirement, only the Surrender Value is considered, but in the case of death, the full Sum Assured is realized.

Final Answer: Policy value plus bonus

Answer: (C)

Q14.

Solution

Concept: The **Capitalized Value of the Firm** (based on Average Profit) represents the total capital required to earn the current level of profits at the Normal Rate of Return (NRR). It is calculated using the formula:

$$\text{Capitalized Value} = \frac{\text{Average (Actual) Profit}}{\text{Normal Rate of Return}} \times 100$$

Solution: Given:

- **Actual Profit:** 15,000
- **Normal Rate of Return (NRR):** 10%
- **Partner's Capital:** 1,00,000 (Note: This is used to calculate Goodwill, but the question specifically asks for the Capitalized Value of the firm).

Calculation:

$$\text{Capitalized Value} = \frac{15,000}{10} \times 100$$

$$\text{Capitalized Value} = 1,50,000$$

Final Answer: 1,50,000

Answer: (B)



Q15.

Solution

Concept: Premium for Goodwill (or Share of Goodwill) is the amount brought in by the incoming partner to compensate the existing partners for the loss of their future share in profits. This compensation must be distributed among the old partners in the proportion in which they have given up their share in favor of the new partner.

Solution: When a new partner is admitted:

- The new partner acquires their share of profit from the old partners.
- The ratio in which the old partners surrender their individual shares is called the **Sacrificing Ratio**.
- Therefore, the Premium for Goodwill brought by the new partner is credited to the **Old Partners' Capital Accounts** specifically in their **Sacrificing Ratio**.

Journal Entry: *Premium for Goodwill A/c ...Dr To Old Partners' Capital A/cs (in Sacrificing Ratio)*

Final Answer: Sacrificing Ratio

Answer: (C)

Q16.

Solution

Concept: The **Investment Fluctuation Reserve (IFR)** is a reserve created out of profits to meet eventualities arising from changes in the market value of investments. On dissolution, the accounting treatment depends on whether the related asset (Investments) exists in the books.

Solution: When a firm is dissolved:

- If **Investments** appear in the Balance Sheet, they are transferred to the **Debit side** of the Realization Account.
- Consequently, the **Investment Fluctuation Reserve** (being a provision related to those investments) is transferred to the **Credit side** of the **Realization Account**.
- This is done to close the reserve account and treat it as a liability that does not require an actual cash payment.

Note: If no investments existed, the reserve would instead be distributed among partners in their profit-sharing ratio. However, in the standard dissolution process, it is treated as a provision against the asset.

Final Answer: Realization Account (Credit side)

Answer: (A)



Q17.

Solution

Concept: Dissolution accounting follows a specific rule for the settlement of liabilities through assets. When an asset (recorded or unrecorded) is used to settle a liability (recorded or unrecorded), the transaction is considered a "set-off" within the Realization Account.

Solution: When a creditor accepts an unrecorded asset in **full settlement** of his claim:

- The asset is already considered a part of the "potential" realization (even if unrecorded), and the liability is being extinguished.
- Since the liability is being settled without any cash outflow and the asset is being disposed of without any cash inflow, the two cancel each other out in the books.
- According to the rules of dissolution, **no entry** is required in the journal for such a "swap" or "set-off" transaction.

Final Answer: No entry is passed

Answer: (C)

Q18.

Solution

Concept: Realization expenses (or dissolution expenses) are the costs incurred during the process of winding up the firm. Normally, the firm is responsible for these expenses. If a partner pays them out of their personal pocket on behalf of the firm, the firm becomes liable to reimburse that partner.

Solution: When a partner pays realization expenses on behalf of the firm:

- **Realization A/c** is **debited** because it is an expense for the firm.
- **Partner's Capital A/c** is **credited** because the firm now owes this amount to the partner, effectively increasing their capital balance.

Journal Entry: *Realization A/c ...Dr To Partner's Capital A/c*

Note: If the firm had paid it directly, Cash/Bank A/c would have been credited instead.

Final Answer: Partner's Capital A/c

Answer: (C)



Q19.

Solution

Concept: Deferred Revenue Expenditure (such as Advertisement Suspense or Profit & Loss Debit balance) represents accumulated losses or expenses that have not yet been written off. On the dissolution of a firm, these "fictitious assets" cannot be realized for cash and therefore cannot be transferred to the Realization Account.

Solution: Since these items are essentially losses belonging to the existing partners:

- They must be closed by transferring them directly to the **Partners' Capital Accounts**.
- This transfer is made in the **Old Profit Sharing Ratio**.
- Because it is a loss, the Partners' Capital Accounts are **debited** to reduce their balance.

Journal Entry: *Partners' Capital A/cs ...Dr (in Old Ratio) To Advertisement Suspense A/c*

Final Answer: Partners' Capital A/c in old ratio

Answer: (B)

Q20.

Solution

Concept: The **Securities and Exchange Board of India (SEBI)** mandates a minimum subscription level to protect investors. This ensures that a company does not proceed with an allotment unless it has raised sufficient funds to carry out the objectives mentioned in the prospectus.

Solution: As per SEBI guidelines:

- A company must receive a minimum subscription of **90%** of the total issue size.
- If this amount is not received within the specified period, the entire amount received must be refunded to the applicants.

Final Answer: 90%

Answer: (C)



Q21.

Solution

Concept: Capital Reserve is the gain made on the reissue of forfeited shares. It is calculated by taking the amount originally forfeited on the reissued shares and subtracting any discount allowed on their reissue.

Solution:

- **Amount Forfeited per share:** 5 (the amount actually paid by the original holder).
- **Shares Reissued:** 80 shares.
- **Total Amount available on 80 shares:** $80 \times 5 = 400$.
- **Reissue Price:** 9 per share as "fully paid" (Face Value = 10).
- **Discount allowed on Reissue:** $10 - 9 = 1$ per share.
- **Total Discount on 80 shares:** $80 \times 1 = 80$.

Calculation of Capital Reserve:

Capital Reserve = Total Forfeited Amount on Reissued Shares – Discount on Reissue

$$\text{Capital Reserve} = 400 - 80 = 320$$

Final Answer: 320

Answer: (A)

Q22.

Solution

Concept: Reserve Capital refers to a specific portion of the **Uncalled Capital** that a company, by special resolution, decides shall not be called up except in the event of the company being wound up (liquidation). It is a reserve for the benefit of creditors in the event of insolvency.

Solution:

- **Uncalled Capital:** The part of the issued capital that hasn't been asked for payment yet.
- **Reserve Capital:** A subset of that uncalled capital earmarked specifically for liquidation.
- It is **not** "Capital Reserve," which represents profits earned from capital transactions.

Since Reserve Capital is capital that has been subscribed but not yet "called," it technically sits within the uncalled portion of the capital structure.

Final Answer: Uncalled Capital

Answer: (C)



Q23.

Solution

Concept: Calls-in-Arrears represents the amount called by the company but not yet paid by the shareholders. According to Schedule III of the Companies Act, 2013, the Balance Sheet must reflect the actual amount received by the company.

Solution: To show the true "Paid-up" value of the shares:

- Calls-in-Arrears is shown as a **deduction** in the **Notes to Accounts**.
- Specifically, it is subtracted from the **Subscribed but not fully paid-up capital**.
- This ensures that the final "Paid-up Capital" figure shown on the face of the Balance Sheet accurately reflects only the cash actually received by the company.

Final Answer: Deducting it from the Subscribed but not fully paid-up capital

Answer: (B)

Q24.

Solution

Concept: Capital Profit refers to profits earned from transactions that are not part of the normal day-to-day operations of the business (e.g., sale of fixed assets, issue of shares at a premium). **Revenue Profit**, on the other hand, is earned through the regular trading activities or core business operations.

Solution:

- **Option A:** Profit on sale of fixed assets is a capital profit as it arises from non-recurring capital transactions.
- **Option B:** Profit on forfeiture of shares is a capital profit and is eventually transferred to the Capital Reserve.
- **Option C:** Premium on issue of shares (Securities Premium) is a capital receipt/profit and is restricted for specific uses under the Companies Act.
- **Option D:** Profit from regular sales of goods is the core earning of the business, classified as **Revenue Profit**. It is transferred to the Profit & Loss Account to determine the Net Profit.

Final Answer: Profit from regular sales of goods

Answer: (D)



Q25.

Solution

Concept: Debentures are classified into various types based on their features. One such classification is based on the **Convertibility** of the instrument into equity shares after a specified period and at a predetermined price.

Solution:

- **Redeemable Debentures:** Those which are repayable by the company at the end of a specified period.
- **Registered Debentures:** Those recorded in the company's register; interest is paid only to the registered holder.
- **Convertible Debentures:** These give the holder the option to exchange their debentures for **Equity Shares** of the company. These can be "Fully Convertible" or "Partly Convertible."
- **Specific Debentures:** This is not a standard accounting classification for debentures.

Final Answer: Convertible Debentures

Answer: (C)

Q26.

Solution

Concept: When a company issues debentures for consideration other than cash (such as for the purchase of an asset), the Face Value of the debentures issued is compared with the Purchase Consideration (value of the asset).

Solution: Given:

- **Value of Machinery (Purchase Consideration):** 90,000
- **Face Value of Debentures issued:** 1,00,000

Since the company is giving away debentures worth 1,00,000 to settle a liability of only 90,000, it means the debentures are being issued at a price lower than their face value. The difference of 10,000 (1,00,000 – 90,000) represents the **Discount on Issue of Debentures**.

Journal Entry: Machinery A/c ...Dr 90,000

Discount on Issue of Deb. A/c ...Dr 10,000

To Vendor's A/c 1,00,000

Final Answer: Discount on Issue

Answer: (C)



Q27.

Solution

Concept: The account '**Loss on Issue of Debentures**' is a collective account used to record two types of losses incurred at the time of issuing debentures:

- (a) The **Discount** allowed on the issue of debentures.
- (b) The **Premium** payable on the redemption of debentures.

Solution: Given:

- **Number of Debentures:** 2,000
- **Face Value:** 100 per debenture
- **Discount on Issue:** 2% of 100 = 2 per debenture
- **Premium on Redemption:** 5% of 100 = 5 per debenture

Calculation:

- Total Discount = $2,000 \times 2 = 4,000$
- Total Premium on Redemption = $2,000 \times 5 = 10,000$
- **Total Loss on Issue** = $4,000 + 10,000 = 14,000$

Final Answer: 14,000

Answer: (C)



Q28.

Solution

Concept: The **Debt-Equity Ratio** measures the proportion of external long-term debt relative to the shareholders' funds (equity). It is calculated as:

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

Solution: 1. **Identify Debt:** Total External Liabilities = 6,00,000. 2. **Calculate Equity:** Using the Accounting Equation (Assets = Liabilities + Equity):

$$\text{Equity} = \text{Total Assets} - \text{Total External Liabilities}$$

$$\text{Equity} = 10,00,000 - 6,00,000 = 4,00,000$$

3. **Calculate Ratio:**

$$\text{Ratio} = \frac{6,00,000}{4,00,000} = \frac{6}{4} = 1.5 : 1$$

Final Answer: 1.5 : 1

Answer: (A)

Q29.

Solution

Concept: Investing Activities relate to the acquisition and disposal of long-term assets and other investments not included in cash equivalents. These typically involve Fixed Assets (Tangible and Intangible) and Non-current Investments.

Solution:

- **Option A:** Repayment of Long-term Loan is a **Financing Activity** (related to capital structure).
- **Option B:** Purchase of Patents is an **Investing Activity** because patents are intangible fixed assets. Cash outflow for their acquisition is recorded here.
- **Option C:** Proceeds from Sale of Goods is an **Operating Activity** (core business revenue).
- **Option D:** Interest paid on Debentures is a **Financing Activity** (cost of servicing debt).

Final Answer: Purchase of Patents

Answer: (B)



Q30.

Solution

Concept: Promoters are individuals who conceive the idea of a company and take the necessary steps to incorporate it. When the company issues shares to them as compensation for their efforts and services rendered during the pre-incorporation phase, it is treated as a cost of forming the company.

Solution: The accounting treatment for issuing shares to promoters is:

- The cost is treated as an **Incorporation Cost** or **Formation Expense**. In modern accounting practice, this is often debited to the **Goodwill Account** (representing the value of the "set-up" or "reputation" created) or **Incorporation Expenses Account**.
- **Share Capital Account** is credited because equity is being issued.

Journal Entry: *Goodwill A/c (or Incorporation Cost A/c) ...Dr To Share Capital A/c*

Final Answer: Goodwill A/c (or Incorporation Cost)

Answer: (B)

Q31.

Solution

Concept: The **Current Ratio** is a liquidity ratio that measures a company's ability to pay short-term obligations. When a creditor is paid in cash, both Current Assets (Cash/Bank) and Current Liabilities (Creditors) decrease by the same amount.

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

Solution: 1. **Initial Position:** CA = 4,00,000; CL = 2,00,000. 2. **Transaction:** Payment of 50,000 to a creditor.

- **New Current Assets:** 4,00,000 – 50,000 = 3,50,000
- **New Current Liabilities:** 2,00,000 – 50,000 = 1,50,000

3. **New Ratio Calculation:**

$$\text{New Ratio} = \frac{3,50,000}{1,50,000} = \frac{35}{15} = \frac{7}{3} \approx 2.333$$

Final Answer: 2.33 : 1

Answer: (B)



Q32.

Solution

Concept: If the Articles of Association are silent, **Table F** of the Companies Act, 2013, provides the maximum rates for interest on transactions between the company and its shareholders regarding share capital.

Solution: According to Table F:

- **Interest on Calls-in-Arrears** (amount due from shareholders): Maximum **10% p.a.**
- **Interest on Calls-in-Advance** (amount paid early by shareholders): Maximum **12% p.a.**

Final Answer: 10% p.a.

Answer: (B)

Q33.

Solution

Concept: Dividend is a distribution of a portion of a company's earnings to its shareholders. Legally and logically, a company pays dividends only on the amount it has actually received from the investors.

Solution:

- **Authorized Capital:** The maximum limit—no dividend is paid on unissued shares.
- **Issued/Called-up Capital:** Includes amounts that might still be in arrears.
- **Paid-up Capital:** This is the actual amount contributed by shareholders. Dividends are calculated as a percentage of this **Paid-up Capital** unless the Articles state otherwise.

Final Answer: Paid-up Capital

Answer: (C)



Q34.

Solution

Concept: When a company forfeits shares due to non-payment of calls, the amount already received from the defaulting shareholder is retained by the company. This gain does not arise from the regular business operations (trading) but from a transaction related to the company's capital structure.

Solution:

- **Nature of Profit:** Since this is a non-recurring gain from a capital transaction, it is a **Capital Profit**.
- **Accounting Treatment:** Upon the reissue of these forfeited shares, any surplus remaining in the 'Forfeited Shares Account' (after adjusting for any discount allowed on reissue) is transferred to the **Capital Reserve**.
- **Usage:** Unlike Revenue Reserves, a Capital Reserve cannot be used to distribute dividends to shareholders.

Final Answer: Capital Reserve

Answer: (C)

Q35.

Solution

Concept: The **Inventory Turnover Ratio (ITR)** indicates how many times a company has sold and replaced inventory during a specific period. It is calculated using the Cost of Revenue from Operations (COGS).

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

Solution: 1. **Calculate COGS:** Revenue from Operations (Sales) = 4,00,000 Gross Profit = 25% of Sales = 4,00,000 × 25% = 1,00,000

$$\text{COGS} = \text{Revenue} - \text{Gross Profit}$$

$$\text{COGS} = 4,00,000 - 1,00,000 = 3,00,000$$

2. **Calculate Average Inventory:** Given ITR = 8 times.

$$8 = \frac{3,00,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{3,00,000}{8} = 37,500$$

Final Answer: 37,500

Answer: (B)



Q36.

Solution

Concept: While a healthy Current Ratio (ideal is 2:1) indicates good liquidity, an **excessively high** ratio is not always a positive sign. It suggests that the firm's short-term assets are not being managed or invested productively.

Solution: A very high Current Ratio might be caused by:

- **Idle Cash:** Large amounts of cash lying in bank accounts earning little to no interest.
- **Slow-moving Stock:** Excessive inventory that isn't being sold.
- **Poor Debt Collection:** High levels of debtors (accounts receivable) who are not paying on time.

In all these cases, the firm is failing to "put its money to work." Thus, it indicates that the firm has **poorly invested its idle funds** or is managing its working capital inefficiently.

Final Answer: Poor investment of idle funds

Answer: (C)

Q37.

Solution

Concept: Comparative Financial Statements are tools of **Horizontal Analysis**. They present the financial data of a company for two or more accounting periods side-by-side to facilitate comparison.

Solution:

- **Trend Analysis:** By placing figures from different years together, these statements highlight the **trends**, growth, or decline in various financial items (like Revenue, Net Profit, or Fixed Assets).
- **Comparison:** They show the absolute change (increase/decrease) and percentage change over time.
- **Note on other options:** Option A describes a single Balance Sheet. Option D describes *Common Size Statements* (Vertical Analysis).

Final Answer: Trends over different periods

Answer: (B)



Q38.

Solution

Concept: Solvency Ratios (also known as Leverage Ratios) are used to assess a firm's ability to meet its **long-term** obligations. They measure the proportion of debt in the capital structure and the firm's capacity to pay interest and principal over a long period.

Solution:

- **Option A: Current Ratio** is a *Liquidity Ratio* (short-term).
- **Option B: Debt to Equity Ratio** is a *Solvency Ratio*. It compares the total long-term debt to the shareholders' funds.
- **Option C: Working Capital Turnover Ratio** is an *Activity (Efficiency) Ratio*.
- **Option D: Operating Ratio** is a *Profitability Ratio*.

Final Answer: Debt to Equity Ratio

Answer: (B)

Q39.

Solution

Concept: In Computerized Accounting and Database Management Systems (DBMS), data is stored in tables consisting of rows (records) and columns (fields). To ensure data integrity and facilitate efficient retrieval, each record must be distinguishable from others.

Solution: A **Primary Key** is a specific field (or combination of fields) in a database table that:

- Must contain **unique** values (no two rows can have the same primary key).
- Cannot contain **null** values.
- Is used to **uniquely identify** each record in the table.

Example: An 'Employee_ID' in a payroll database or 'Account_Number' in a banking database.

Final Answer: Uniquely identifying a record in a table

Answer: (B)



Q40.

Solution

Concept: In Computerized Accounting Systems (CAS), data integrity and security are paramount. Since electronic hardware and software are susceptible to crashes, viruses, or accidental deletion, maintaining a secondary copy of the data is a standard safety protocol.

Solution:

- **Backup:** This is the process of creating a **duplicate copy** of data on a separate storage medium (like an external drive or cloud storage). It is a preventive measure.
- **Restoring:** This is the process of bringing the data back *from* the backup into the system after a crash has occurred.
- **Formatting:** This involves preparing a storage device for use, which typically erases all existing data.
- **Data Processing:** This is the general act of converting raw data into meaningful information.

Final Answer: Backup

Answer: (B)

Q41.

Solution

Concept: When a new partner is admitted, they must compensate the old partners for the share of profit they surrender. This compensation (Premium for Goodwill) is distributed among the old partners in their **Sacrificing Ratio**. If a new ratio is not provided, the old partners sacrifice in their **Old Profit Sharing Ratio**.

Solution: 1. **Calculate Z's share of Goodwill:** Total Goodwill of the firm = 36,000
Z's share of profit = $\frac{1}{4}$

$$\text{Z's share of Goodwill} = 36,000 \times \frac{1}{4} = 9,000$$

2. **Determine Sacrificing Ratio:** Since no specific sacrifice is mentioned, X and Y sacrifice in their old ratio, which is 2 : 1.

3. **Calculate amount credited to X:**

$$\text{Credit to X} = \text{Z's Goodwill} \times \frac{2}{3}$$

$$\text{Credit to X} = 9,000 \times \frac{2}{3} = 6,000$$

Final Answer: 6,000

Answer: (B)



Q42.

Solution

Concept: The account '**Loss on Issue of Debentures**' is debited at the time of issue to record the **Premium on Redemption**. While a discount on issue is also typically recorded here, a "Premium on Issue" (Securities Premium) is a separate gain and does not reduce this loss account. Only the obligation to pay extra at the time of maturity (Redemption Premium) constitutes the loss to be recognized immediately.

Solution: Given:

- **Number of Debentures:** 10,000
- **Face Value:** 100 per debenture
- **Premium on Issue:** 5% (This is credited to Securities Premium A/c, not part of the Loss A/c).
- **Premium on Redemption:** 10% of 100 = 10 per debenture.

Calculation:

Loss on Issue = Total Premium on Redemption

Loss on Issue = 10,000 × 10 = 1,00,000

Journal Entry (Summary):

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

Final Answer: 1,00,000

Answer: (B)



Q43.

Solution

Concept: Investing Activities involve the purchase and sale of long-term assets (fixed assets) and investments (other than cash equivalents). A "**Cash Inflow**" occurs when these assets are sold or disposed of for cash.

Solution:

- **Option A:** Sale of Goods is an **Operating Activity** (revenue from core business).
- **Option B:** Sale of Investments is an **Investing Activity**. When investments are sold, cash comes into the business, creating an **Inflow**.
- **Option C:** Issue of Debentures is a **Financing Activity** (raising long-term funds).
- **Option D:** Interest paid on bank overdraft is an **Operating Activity** (for non-financial firms) or Financing Activity, but it is an *Outflow*.

Final Answer: Sale of Investments

Answer: (B)

Q44.

Solution

Concept: According to **Accounting Standard-3 (Revised)** issued by the ICAI, "Cash" has a specific, narrow definition. It is distinguished from "Cash Equivalents," which are short-term, highly liquid investments.

Solution: Under AS-3, the term '**Cash**' specifically comprises:

- **Cash in hand:** Physical currency held by the entity.
- **Demand deposits with banks:** Balances in current accounts or savings accounts that can be withdrawn or used by the entity at any time without prior notice or penalty.

Note: Inventory and Fixed Assets are non-monetary items, and Long-term investments do not qualify as cash due to their maturity period and risk of change in value.

Final Answer: Cash in hand and demand deposits with banks

Answer: (A)



Q45.

Solution

Concept: In a Cash Flow Statement, activities are classified based on their nature. **Financing Activities** are those that result in changes in the size and composition of the owners' capital (Equity) and borrowings of the enterprise.

Solution:

- Dividends (whether Interim or Final) are paid to the shareholders as a return on the capital they have provided to the company.
- Since the payment of dividend is directly related to the **Share Capital** (a component of the financing structure of the firm), it is always classified as a **Financing Activity**.
- This applies regardless of whether the company is a financial or non-financial enterprise.

Final Answer: Financing Activity

Answer: (C)

Q46.

Solution

Concept: Buyback of shares is the process where a company repurchases its own shares from the existing shareholders, which reduces the number of outstanding shares in the market. As per Section 68 of the Companies Act, 2013, several conditions must be met for a legal buyback.

Solution: According to the Companies Act, the primary requirement for a buyback is:

- **Authorization:** The buyback must be specifically **authorized by the Articles of Association (AOA)** of the company.
- If the AOA does not contain such a provision, the company must first amend its AOA to include it.
- **Note on other options:** The MOA defines the company's objectives and external powers, while the Auditor and ROC oversee compliance but do not "authorize" the corporate action itself.

Final Answer: The Articles of Association (AOA)

Answer: (B)



Q47.

Solution

Concept: Premium on Redemption of Debentures is the extra amount a company is contractually obligated to pay over the face value of the debentures at the time of their maturity. Since this is a liability that will be settled in the future, it is categorized based on its settlement timeframe.

Solution: According to Schedule III of the Companies Act, 2013:

- Since debentures are typically issued for a period exceeding 12 months, the premium payable at the time of their redemption is a **long-term liability**.
- It is shown under the main head **Non-Current Liabilities** and the sub-head **Other Long-term Liabilities**.
- **Note:** Once the debentures become due for redemption within the next 12 months, this amount is reclassified as a Current Liability.

Final Answer: Non-Current Liabilities (Other Long-term Liabilities)

Answer: (B)

Q48.

Solution

Concept: Electronic spreadsheets like Microsoft Excel or Google Sheets distinguish between "text/values" and "calculations." To tell the software to perform a calculation or execute a function, a specific trigger symbol is required.

Solution: In Excel:

- The **Equal to (=)** symbol is the mandatory starting character for every formula or function.
- **Example:** =SUM(A1:A10) or =5+2.
- **Note on other symbols:** \$ is used for absolute cell referencing, @ is often used in modern dynamic array formulas or older Lotus 1-2-3 syntax, and # usually indicates an error or a spill range.

Final Answer: =

Answer: (B)



Q49.

Solution

Concept: In Computerized Accounting Systems (CAS), "Garbage In, Garbage Out" (GIGO) is a major risk. To prevent errors during data entry, software provides tools to restrict what kind of data can be entered into a specific field.

Solution: Data Validation is a feature used to:

- Set rules and constraints for data entry (e.g., ensuring a date is within the current financial year or a value is not negative).
- **Ensure accuracy and quality:** It prevents accidental entry of incorrect data types, thereby maintaining the integrity of the accounting records.
- Provide drop-down lists to ensure consistency in ledger naming.

Final Answer: Ensure the accuracy and quality of data entered

Answer: (B)

Q50.

Solution

Concept: Software packages are categorized based on their functionality. Accounting software is specifically designed to record and process accounting transactions within functional modules such as accounts payable, accounts receivable, journal, general ledger, and trial balance.

Solution:

- **Tally:** A widely used **Accounting Software** package (ERP) specifically built for financial management, inventory, and taxation.
- **Photoshop:** An image editing and graphic design software.
- **Chrome:** A web browser used for accessing the internet.
- **Windows:** An Operating System (OS) that manages computer hardware and other software.

Final Answer: Tally

Answer: (A)



Answer Key

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

