

CUET-UG Accountancy Sample Paper-7

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. Explain the meaning and characteristics of partnership as per the Indian Partnership Act, 1932. Discuss its essential elements including agreement, lawful business, mutual agency, and sharing of profits.

- (A) Partnership is based on agreement and mutual agency
- (B) No agreement is required
- (C) Only one person forms partnership
- (D) No profit sharing is involved

Q2. Differentiate between partnership and sole proprietorship on the basis of ownership, risk bearing, decision-making, and continuity of business.

- (A) Both are same forms of business
- (B) Partnership involves shared ownership and risk
- (C) Sole proprietorship has multiple owners
- (D) Partnership has no agreement

Q3. Explain the contents and importance of a partnership deed. Discuss various clauses such as profit-sharing ratio, interest on capital, salary to partners, and rules for admission and retirement.

- (A) Partnership deed is not important
- (B) It defines rights and duties of partners



- (C) It is only for taxation
- (D) It has no legal value

Q4. What is Profit and Loss Appropriation Account? Explain its purpose and how net profit is distributed among partners after necessary adjustments.

- (A) Used for recording sales
- (B) Used for distribution of profit among partners
- (C) Same as trading account
- (D) Not required in partnership

Q5. Explain the concept of interest on capital and interest on drawings. Discuss their accounting treatment and significance in ensuring fairness among partners.

- (A) Not recorded in accounts
- (B) Ensures fair distribution among partners
- (C) Only capital is recorded
- (D) Only drawings are ignored

Q6. Define goodwill and explain its nature. Discuss its importance in partnership accounts during admission, retirement, or death of a partner.

- (A) Goodwill is a physical asset
- (B) It represents reputation and earning capacity
- (C) It is not considered in accounts
- (D) It is a liability

Q7. Explain the methods of valuation of goodwill such as average profit method, super profit method, and capitalization method.

- (A) Only one method exists
- (B) Different methods are used for valuation
- (C) Goodwill is not valued



(D) Only cash method is used

Q8. What is admission of a partner? Explain the accounting adjustments required at the time of admission including goodwill, revaluation, and capital adjustment.

(A) No change occurs in firm

(B) Adjustments are required in accounts

(C) Only profit changes

(D) Only name changes

Q9. Explain the concept of reconstitution of partnership. Discuss changes in profit-sharing ratio and treatment of accumulated profits and reserves.

(A) No changes occur

(B) Accounts are adjusted due to changes in structure

(C) Only cash is affected

(D) Only liabilities are ignored

Q10. What is revaluation of assets and liabilities? Explain the purpose and preparation of Revaluation Account in partnership.

(A) No revaluation is required

(B) Used to adjust asset and liability values

(C) Only capital is affected

(D) Only expenses are recorded

Q11. Explain retirement of a partner. Discuss the accounting treatment including settlement of dues, goodwill adjustment, and revaluation.

(A) Firm always closes

(B) Partner's share is settled properly

(C) No accounting is required

(D) Only profit is transferred



- Q12.** Explain the calculation of gaining ratio and its importance at the time of retirement or death of a partner.
- (A) Not required in partnership
 - (B) Used to distribute share among remaining partners
 - (C) Only for losses
 - (D) Only for capital
- Q13.** Describe the accounting treatment on the death of a partner. Explain calculation of profit, goodwill adjustment, and settlement to legal heirs.
- (A) No settlement is required
 - (B) Proper calculation and settlement is done
 - (C) Firm closes automatically
 - (D) Only capital is returned
- Q14.** Explain Joint Life Policy in partnership firms and its accounting treatment at the time of death or retirement of a partner.
- (A) Not related to partnership
 - (B) Used for settlement of partner's dues
 - (C) Only insurance policy
 - (D) No accounting treatment
- Q15.** Discuss fixed capital and fluctuating capital methods. Explain differences and preparation of partner's capital accounts under both methods.
- (A) Only one method exists
 - (B) Both methods are used in practice
 - (C) No capital accounts are prepared
 - (D) Only cash account is used
- Q16.** Explain the accounting treatment of accumulated profits and reserves at the time of admission, retirement, or death of a partner.



- (A) Ignored in accounts
- (B) Distributed among partners
- (C) Only kept in balance sheet
- (D) Treated as liabilities

Q17. Describe dissolution of partnership firm and distinguish it from dissolution of partnership. Explain various modes of dissolution with examples.

- (A) Both are same
- (B) Firm closure and partnership change are different
- (C) No dissolution concept exists
- (D) Only profit distribution occurs

Q18. Explain in detail the process of dissolution of a partnership firm. Discuss the legal provisions under the Indian Partnership Act, 1932, and describe the step-by-step accounting treatment including realization of assets, settlement of liabilities, and distribution of surplus or deficiency among partners.

- (A) Dissolution only changes partners
- (B) Firm ceases to exist and accounts are closed through realization
- (C) Only profit is distributed
- (D) No accounting entries are required

Q19. Discuss the preparation and significance of the Realisation Account at the time of dissolution. Explain how various items such as sale of assets, payment of liabilities, realization expenses, and unrecorded assets and liabilities are treated with suitable reasoning.

- (A) Realisation account is used for daily transactions
- (B) It records closure of assets and liabilities during dissolution
- (C) It shows only cash balance
- (D) It is not required in dissolution



- Q20.** Explain the treatment of partner's loan account, capital deficiency, and cash distribution in case of insolvency of one or more partners during dissolution. Discuss the application of Garner vs Murray rule in such situations.
- (A) Deficiency is ignored
 - (B) Solvent partners share deficiency in capital ratio
 - (C) Government pays deficiency
 - (D) Only profits are distributed
- Q21.** A partnership firm is dissolved under complex conditions involving realization loss, unrecorded liabilities, and insufficient cash balance. Explain the accounting treatment and preparation of final settlement accounts among partners with detailed reasoning.
- (A) No settlement is required
 - (B) All accounts are adjusted and final settlement is made
 - (C) Only capital accounts are closed
 - (D) Only cash book is prepared
- Q22.** Explain in detail the concept of share capital structure in a company. Discuss authorized, issued, subscribed, and paid-up capital along with their significance in financial reporting and compliance with the Companies Act, 2013.
- (A) Share capital has no classification
 - (B) It includes authorized, issued, subscribed, and paid-up capital
 - (C) Only paid-up capital is relevant
 - (D) Share capital is not disclosed
- Q23.** A company issues shares at premium and utilizes securities premium for different purposes. Explain the legal restrictions and permissible uses of securities premium account as per the Companies Act, 2013.
- (A) Securities premium can be used freely
 - (B) It is restricted and used only for specified purposes



- (C) It is treated as revenue profit
- (D) It is ignored in accounts

Q24. Explain in detail the concept of forfeiture and reissue of shares. Discuss the accounting treatment when shares are forfeited due to non-payment of calls and later reissued at discount or premium.

- (A) Shares cannot be forfeited
- (B) Forfeited shares can be reissued under conditions
- (C) No reissue is allowed
- (D) No accounting entries are required

Q25. Discuss the accounting treatment of issue of shares for consideration other than cash. Explain journal entries when shares are issued to vendors for purchase of assets or settlement of liabilities.

- (A) Shares are issued only for cash
- (B) Shares can be issued for assets or liabilities settlement
- (C) No accounting treatment is required
- (D) It is not permitted

Q26. Explain the concept of oversubscription of shares and pro-rata allotment. Discuss how excess application money is adjusted and how calls-in-arrears and calls-in-advance are treated.

- (A) All applicants always get full shares
- (B) Shares are allotted proportionately in oversubscription
- (C) Excess money is ignored
- (D) No adjustment is needed

Q27. Define debentures and explain their classification such as redeemable, irredeemable, convertible, and non-convertible debentures with accounting implications.



- (A) Debentures are ownership capital
- (B) Debentures are classified based on terms and convertibility
- (C) Debentures are always equity
- (D) No classification exists

Q28. Explain in detail the issue of debentures at par, premium, and discount. Discuss accounting entries and treatment of discount on issue of debentures over its life.

- (A) Debentures are issued only at par
- (B) They can be issued at par, premium, or discount
- (C) Discount is ignored
- (D) No accounting entry is required

Q29. Discuss the redemption of debentures using sinking fund method and draw of lots method. Explain accounting treatment and creation of Debenture Redemption Reserve (DRR).

- (A) Debentures are never redeemed
- (B) DRR ensures systematic redemption of debentures
- (C) Only cash payment is used
- (D) No reserve is created

Q30. Explain the concept of interest on debentures. Discuss its accounting treatment, tax implications, and presentation in financial statements of a company.

- (A) Interest is not paid
- (B) It is a charge against profits
- (C) It is treated as dividend
- (D) It is ignored

Q31. Discuss the concept of collateral security in debenture issue. Explain its accounting treatment and disclosure in the balance sheet when debentures are issued as security for a loan.



- (A) It is not recorded
- (B) It is disclosed as contingent liability
- (C) It is treated as equity
- (D) It is ignored

Q32. Explain the concept of financial statement analysis in detail. Discuss its objectives, tools, and techniques including horizontal analysis, vertical analysis, and trend analysis with limitations.

- (A) It is only bookkeeping
- (B) It helps in evaluating financial performance and position
- (C) It is not useful
- (D) It is unrelated to accounting

Q33. Discuss in detail the limitations of financial statements and how financial statement analysis overcomes these limitations. Explain the role of qualitative factors in decision-making.

- (A) Financial statements are fully sufficient
- (B) Analysis helps in better interpretation
- (C) No limitations exist
- (D) Only cash matters

Q34. Explain ratio analysis in detail. Discuss its advantages and limitations in evaluating liquidity, solvency, activity, and profitability of a company.

- (A) Ratios are not useful
- (B) They help in financial evaluation
- (C) Only used for taxation
- (D) No analysis is possible

Q35. Explain solvency ratios in detail such as debt-equity ratio and interest coverage ratio. Discuss their importance for long-term financial stability and risk assessment.



- (A) Measure only liquidity
- (B) Measure long-term solvency and risk
- (C) Not useful
- (D) Only for profit calculation

Q36. Explain liquidity ratios in detail such as current ratio and quick ratio. Discuss how they help in assessing short-term financial position and working capital management.

- (A) Measure long-term solvency
- (B) Measure short-term liquidity position
- (C) Not relevant
- (D) Only for expenses

Q37. Explain profitability ratios such as gross profit ratio, net profit ratio, and return on investment. Discuss their importance in evaluating operational efficiency and earning capacity.

- (A) Measure liquidity only
- (B) Measure profitability and efficiency
- (C) Not useful
- (D) Only for liabilities

Q38. Explain activity ratios such as inventory turnover ratio and debtor turnover ratio. Discuss how they help in measuring efficiency in utilization of resources.

- (A) Measure only capital structure
- (B) Measure operational efficiency
- (C) Not useful
- (D) Only for loans

Q39. Explain in detail the meaning and objectives of Cash Flow Statement. Discuss its importance in assessing liquidity, solvency, and financial flexibility. Also



explain why it is considered more reliable than accrual-based profit measurement for cash management decisions.

- (A) Shows only profit position
- (B) Shows inflows and outflows of cash and cash equivalents
- (C) Records only non-cash transactions
- (D) Not useful for decision making

Q40. Discuss the classification of cash flows into operating, investing, and financing activities. Explain with examples how each category reflects different aspects of business performance and financial structure.

- (A) Only operating activities are considered
- (B) Cash flows are classified into operating, investing, and financing activities
- (C) No classification is required
- (D) Only investing activities are recorded

Q41. Explain the preparation of Cash Flow Statement using the indirect method. Discuss adjustments made for depreciation, provision, non-operating income, and changes in working capital.

- (A) Direct method is always used
- (B) Net profit is adjusted for non-cash and working capital changes
- (C) No adjustments are required
- (D) Only cash transactions are recorded

Q42. Explain the treatment of extraordinary items, interest paid, interest received, dividend paid, and tax paid while preparing Cash Flow Statement as per Accounting Standard-3.

- (A) Not considered in cash flow
- (B) Properly classified under operating, investing, and financing activities
- (C) Always treated as investing activity
- (D) Ignored completely



- Q43.** Discuss the limitations of Cash Flow Statement. Explain situations where it fails to represent the true financial performance and why it should be used along with other financial statements.
- (A) It gives complete financial picture
 - (B) It ignores accrual-based performance and non-cash items
 - (C) It replaces balance sheet
 - (D) It is not required in accounting
- Q44.** Explain the difference between Cash Flow Statement and Fund Flow Statement in terms of scope, basis of preparation, and usefulness for financial analysis.
- (A) Both are identical
 - (B) Cash flow deals with cash; fund flow deals with working capital
 - (C) Fund flow shows only cash transactions
 - (D) Cash flow is not useful
- Q45.** Discuss the components of Computerised Accounting System including hardware, software, database, procedures, and human resources. Explain how integration of these components ensures efficient financial reporting.
- (A) Only software is required
 - (B) CAS includes hardware, software, database, procedures, and users
 - (C) No human role is required
 - (D) Only manual records are maintained
- Q46.** Explain the process of accounting cycle in Computerised Accounting System. Discuss how transactions are recorded, processed, stored, and transformed into financial statements using database management systems.
- (A) No processing is involved
 - (B) Transactions are automatically processed into financial reports
 - (C) Only paper records are used
 - (D) Reports cannot be generated



- Q47.** Explain the concept of share capital structure in a company. Discuss authorized, issued, subscribed, and paid-up capital along with their significance in financial reporting and compliance with company law.
- (A) Share capital has no classification
 - (B) It includes authorized, issued, subscribed, and paid-up capital
 - (C) Only paid-up capital is relevant
 - (D) Share capital is not disclosed
- Q48.** Discuss the accounting treatment of issue of shares at premium and at discount. Explain the role and restrictions of Securities Premium Account as per Companies Act, 2013.
- (A) Premium is treated as revenue income
 - (B) Securities premium is used only for specified legal purposes
 - (C) Discount is freely allowed
 - (D) No accounting entry is required
- Q49.** Explain the concept of debentures and their types. Discuss the accounting treatment of issue of debentures at par, premium, and discount along with disclosure requirements in financial statements.
- (A) Debentures are ownership capital
 - (B) Debentures are borrowed funds with fixed interest obligation
 - (C) No classification exists
 - (D) Debentures are always equity
- Q50.** Explain in detail the concept of financial statement analysis and its significance in modern business decision-making. Discuss various tools such as comparative statements, common-size statements, trend analysis, and ratio analysis. Critically evaluate how these tools help in interpreting liquidity, solvency, profitability, and efficiency, and also highlight their limitations in providing complete financial insight.



- (A) Financial statement analysis provides complete and final decision without limitations
- (B) It involves interpretation of financial data using tools like ratios and comparative analysis for decision-making
- (C) It is only used for taxation purposes
- (D) It is not useful in business analysis



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

Concept: Partnership is defined under the Indian Partnership Act, 1932 as a relationship between persons who agree to share profits of a business carried on by all or any of them acting for all. Its key features are agreement, lawful business, mutual agency, and profit sharing.

Solution: Partnership arises from a valid agreement among partners to carry on a lawful business with the objective of earning and sharing profits. Mutual agency is a key feature where each partner acts as both principal and agent of others. The business must be legal and conducted jointly or by any one partner on behalf of all. Profit sharing is essential, and absence of it may not constitute partnership. These elements distinguish partnership from other forms of organization.

Final Answer: Partnership is based on agreement and mutual agency

Answer: (A)

Q2.**Solution**

Concept: Partnership and sole proprietorship differ in ownership, risk bearing, decision-making, and continuity. Partnership involves multiple owners, while sole proprietorship has a single owner.

Solution: In sole proprietorship, ownership is with one person who bears all risks and makes all decisions. In partnership, ownership is shared among partners who also share risks and responsibilities. Decision-making is centralized in sole proprietorship, whereas in partnership it is mutual. Continuity is limited in sole proprietorship, but partnership continues even after changes in partners, subject to agreement. Thus, both forms differ significantly in structure and functioning.

Final Answer: Partnership involves shared ownership and risk

Answer: (B)



Q3.

Solution

Concept: A partnership deed is a written agreement that defines the rights, duties, and responsibilities of partners. It helps avoid disputes and ensures smooth functioning of the firm.

Solution: Partnership deed includes clauses like profit-sharing ratio, interest on capital, salary to partners, interest on drawings, and rules for admission, retirement, and dissolution. It serves as legal evidence in case of disputes and provides clarity in business operations. It ensures transparency and helps in smooth management of partnership affairs. In absence of deed, provisions of Partnership Act apply.

Final Answer: It defines rights and duties of partners

Answer: (B)

Q4.

Solution

Concept: Profit and Loss Appropriation Account is prepared after Profit and Loss Account to distribute net profit among partners after necessary adjustments.

Solution: This account shows distribution of net profit among partners after adjustments like interest on capital, salary, commission, and interest on drawings. It ensures that profit is distributed according to partnership agreement. It is not part of trading or profit and loss account but is an extension of it. This helps in fair allocation of profits among partners based on agreed terms.

Final Answer: Used for distribution of profit among partners

Answer: (B)

Q5.

Solution

Concept: Interest on capital and interest on drawings are adjustments made in partnership accounts to ensure fairness among partners based on their capital contribution and withdrawals.

Solution: Interest on capital is given to partners for using their invested capital, while interest on drawings is charged for withdrawals made by partners. These adjustments are recorded in Profit and Loss Appropriation Account. They ensure fair treatment among partners by compensating capital investment and discouraging excess withdrawals. This maintains balance and equity in partnership accounting.

Final Answer: Ensures fair distribution among partners

Answer: (B)



Q6.

Solution

Concept: Goodwill is an intangible asset representing the reputation, goodwill, and earning capacity of a business. It is important during admission, retirement, or death of a partner to ensure fair distribution of profits.

Solution: Goodwill is the value of a firm's reputation that enables it to earn higher profits compared to normal businesses. It is an intangible asset and is not physically visible. In partnership accounting, goodwill is important during admission, retirement, or death of a partner because profit-sharing rights change. The incoming partner compensates existing partners for sacrificing their share. Thus, goodwill ensures fairness in distribution of future profits and maintains equity among partners.

Final Answer: It represents reputation and earning capacity

Answer: (B)

Q7.

Solution

Concept: Goodwill can be valued using different methods such as average profit method, super profit method, and capitalization method based on the earning capacity of the business.

Solution: Under average profit method, goodwill is calculated by multiplying average profits with number of years' purchase. In super profit method, excess profit over normal profit is multiplied by years' purchase. In capitalization method, total capitalized value of business is compared with net assets to determine goodwill. Different methods are used depending on nature of business and available data. These methods help in fair valuation during changes in partnership structure.

Final Answer: Different methods are used for valuation

Answer: (B)

Q8.

Solution

Concept: Admission of a partner means entry of a new partner into an existing partnership, leading to reconstitution of the firm and requiring various accounting adjustments.

Solution: On admission, new partner is introduced into the firm with mutual agreement. Adjustments are required for goodwill, revaluation of assets and liabilities, and capital contributions. Goodwill is adjusted to compensate old partners. Revaluation ensures assets and liabilities are shown at fair value. Capital accounts are adjusted according to new profit-sharing ratio. These adjustments ensure fairness among all partners after admission.

Final Answer: Adjustments are required in accounts

Answer: (B)



Q9.

Solution

Concept: Reconstitution of partnership refers to change in existing partnership agreement due to admission, retirement, death, or change in profit-sharing ratio.

Solution: When reconstitution occurs, profit-sharing ratio among partners changes. Accumulated profits and reserves are distributed among existing partners in old ratio before change. These adjustments ensure fair treatment of partners. Reconstitution does not dissolve the firm but changes its structure and financial arrangement. Proper accounting ensures transparency and correct distribution of rights.

Final Answer: Accounts are adjusted due to changes in structure

Answer: (B)

Q10.

Solution

Concept: Revaluation of assets and liabilities is done to adjust their values at the time of admission, retirement, or death of a partner. Revaluation Account is prepared for this purpose.

Solution: Revaluation Account is prepared to record increase or decrease in value of assets and liabilities. Profit or loss arising from revaluation is transferred to partners' capital accounts in old ratio. The purpose is to show correct and fair value of assets and liabilities in the books. It ensures that incoming or outgoing partners share gains or losses appropriately.

Final Answer: Used to adjust asset and liability values

Answer: (B)

Q11.

Solution

Concept: Retirement of a partner occurs when a partner leaves the firm while the business continues with remaining partners. It leads to reconstitution and requires settlement of the retiring partner's dues along with adjustments of goodwill and revaluation.

Solution: When a partner retires, the firm does not close but continues with remaining partners. The retiring partner's capital account is settled after including share of profits, interest, goodwill adjustment, and revaluation gains or losses. Goodwill is adjusted in gaining ratio to compensate remaining partners. Assets and liabilities are revalued and profits or losses are shared among all partners. The final amount due is paid in cash or transferred to loan account, ensuring proper settlement of rights.

Final Answer: Partner's share is settled properly

Answer: (B)



Q12.

Solution

Concept: Gaining ratio is the ratio in which remaining partners gain the share of retiring or deceased partner. It is important for adjusting goodwill and distributing profit rights fairly.

Solution: Gaining ratio is calculated by subtracting old profit-sharing ratio from new ratio of continuing partners. It shows the share gained by remaining partners after retirement or death of a partner. This ratio is used to distribute goodwill and adjust profit rights. It ensures fairness in redistribution of profits among continuing partners and is essential in reconstitution of partnership.

Final Answer: Used to distribute share among remaining partners

Answer: (B)

Q13.

Solution

Concept: On death of a partner, accounts are settled by calculating share of profit, goodwill, revaluation adjustments, and payment to legal heirs.

Solution: When a partner dies, his legal representatives are entitled to his share of capital, profit up to date of death, goodwill share, and revaluation profit. Goodwill is adjusted in gaining ratio. The final amount is calculated in capital account and transferred to legal heirs. This ensures fair settlement and proper closure of deceased partner's account.

Final Answer: Proper calculation and settlement is done

Answer: (B)

Q14.

Solution

Concept: Joint Life Policy is an insurance policy taken on partners' lives to provide funds for settlement in case of death or retirement.

Solution: Joint Life Policy is taken by partnership firms to provide financial security against loss due to death or retirement of a partner. The policy amount received is used to settle the deceased or retiring partner's dues. It reduces financial burden on remaining partners and ensures smooth settlement. Premium paid is treated as business expense or asset depending on policy.

Final Answer: Used for settlement of partner's dues

Answer: (B)



Q15.

Solution

Concept: Partners' capital accounts can be maintained under fixed capital method or fluctuating capital method depending on partnership agreement.

Solution: Under fixed capital method, capital remains constant and separate accounts are maintained for drawings, interest, salary, and profit share. Under fluctuating capital method, all adjustments are made in capital account itself. Fixed method provides clarity and stability, while fluctuating method reflects all changes in one account. Both methods are used in practice depending on agreement among partners.

Final Answer: Both methods are used in practice

Answer: (B)

Q16.

Solution

Concept: Accumulated profits and reserves represent past undistributed earnings of a partnership firm. At the time of admission, retirement, or death, these are adjusted among partners in the old profit-sharing ratio.

Solution: Accumulated profits, reserves, and undistributed gains belong to all existing partners. At the time of admission, retirement, or death, these amounts are transferred to partners' capital accounts in the old ratio to ensure fair distribution. This adjustment ensures that new or outgoing partners do not gain or lose from past profits of the firm. Proper treatment maintains equity among partners and reflects correct financial position before reconstitution of the partnership.

Final Answer: Distributed among partners

Answer: (B)



Q17.

Solution

Concept: Dissolution of partnership means change in relationship among partners, while dissolution of firm means complete closure of business. Different modes include agreement, court order, and compulsory dissolution.

Solution: Dissolution of partnership occurs when a partner is admitted, retired, or dies, but business continues. Dissolution of firm means complete closure of business and settlement of all accounts. Modes of dissolution include mutual agreement, court order due to misconduct or incapacity, insolvency of partners, or completion of venture. These modes determine how and when partnership business ends or continues with new structure.

Final Answer: Firm closure and partnership change are different

Answer: (B)

Q18.

Solution

Concept: Dissolution of partnership firm involves legal closure of business and settlement of accounts under Indian Partnership Act, 1932 through realization of assets and payment of liabilities.

Solution: At dissolution, firm ceases its business activities. Assets are sold and converted into cash through Realisation Account. Liabilities are settled using available funds. Realisation profit or loss is distributed among partners in their profit-sharing ratio. Finally, remaining cash is distributed to partners as per capital balances. This ensures complete closure of books and fair settlement among partners according to legal provisions.

Final Answer: Firm ceases to exist and accounts are closed through realization

Answer: (B)

Q19.

Solution

Concept: Realisation Account is prepared during dissolution to record sale of assets, settlement of liabilities, and determination of profit or loss on realization.

Solution: Realisation Account records all assets and liabilities except cash. Assets are sold and proceeds are recorded. Liabilities are paid off and realization expenses are charged. Unrecorded assets are brought into account and sold, while unrecorded liabilities are recorded and settled. The final balance represents profit or loss, which is shared among partners. It ensures systematic closure of partnership books during dissolution.

Final Answer: It records closure of assets and liabilities during dissolution

Answer: (B)



Q20.

Solution

Concept: In case of insolvency of a partner, his capital account shows deficiency. Partner's loan is treated as external liability. Garner vs Murray rule applies for distribution of deficiency among solvent partners.

Solution: When a partner becomes insolvent, his capital account shows a deficiency which cannot be recovered. His partner's loan is treated as external liability and paid first. The deficiency is not borne by all partners in profit-sharing ratio; instead, under Garner vs Murray rule, solvent partners share the deficiency in their capital ratio. This ensures fair distribution of loss among capable partners during dissolution of firm with insolvency cases.

Final Answer: Solvent partners share deficiency in capital ratio

Answer: (B)

Q21.

Solution

Concept: During dissolution under complex conditions, all accounts are adjusted systematically to determine final settlement among partners.

Solution: In such cases, assets are realized and converted into cash. Unrecorded liabilities are identified and paid. Realization loss or profit is distributed among partners in their profit-sharing ratio. Cash is used to settle liabilities, including partner's loans and external creditors. Finally, remaining cash or deficiency is distributed among partners according to capital balances. This ensures proper closure of accounts and fair settlement even in complex situations.

Final Answer: All accounts are adjusted and final settlement is made

Answer: (B)

Q22.

Solution

Concept: Share capital structure defines different types of capital in a company including authorized, issued, subscribed, and paid-up capital as per Companies Act, 2013.

Solution: Authorized capital is maximum capital a company can issue. Issued capital is portion offered to public. Subscribed capital is part of issued capital taken by shareholders. Paid-up capital is actual money received. This classification ensures transparency in financial reporting and legal compliance. It helps investors and regulators understand capital structure and financial strength of a company.

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

Answer: (B)



Q23.

Solution

Concept: Securities Premium Account is created when shares are issued at premium and its use is restricted under Companies Act, 2013.

Solution: Securities premium can be used only for specific purposes such as issuing bonus shares, writing off preliminary expenses, or premium on redemption of shares or debentures. It cannot be treated as free revenue profit. Legal restrictions ensure proper utilization and protection of shareholder interests. It is shown separately in balance sheet under equity section.

Final Answer: It is restricted and used only for specified purposes

Answer: (B)

Q24.

Solution

Concept: Forfeiture of shares occurs when shareholders fail to pay calls. Reissue of forfeited shares is allowed under specific accounting rules.

Solution: When shareholders do not pay allotment or call money, their shares are forfeited. Forfeited shares can later be reissued at discount, par, or premium. The amount received on reissue is credited to share capital and forfeiture account is adjusted accordingly. Any balance in forfeiture account is transferred to capital reserve. This ensures proper accounting treatment of capital adjustments.

Final Answer: Forfeited shares can be reissued under conditions

Answer: (B)

Q25.

Solution

Concept: Shares issued for consideration other than cash occur when a company acquires assets or settles liabilities by issuing shares instead of paying cash.

Solution: When a company purchases assets or takes over liabilities from vendors, shares may be issued instead of cash payment. The assets are recorded at agreed value, and the vendor account is credited. In return, share capital account is credited. The difference, if any, is adjusted through securities premium or goodwill. This method is useful in mergers and acquisitions where cash is not used. Proper journal entries ensure accurate recording of asset acquisition and liability settlement through equity shares.

Final Answer: Shares can be issued for assets or liabilities settlement

Answer: (B)



Q26.

Solution

Concept: Oversubscription occurs when applications received for shares exceed shares offered. Pro-rata allotment ensures fair distribution among applicants.

Solution: In oversubscription, company cannot allot full shares to all applicants, so shares are allotted proportionately. Excess application money is adjusted towards allotment or refunded. Calls-in-arrears arise when shareholders fail to pay call money, while calls-in-advance are excess payments made by shareholders, which are adjusted in future calls. This system ensures fairness and proper management of share capital inflows.

Final Answer: Shares are allotted proportionately in oversubscription

Answer: (B)

Q27.

Solution

Concept: Debentures are long-term debt instruments issued by companies. They are classified based on redemption, convertibility, and security features.

Solution: Redeemable debentures are repaid after a fixed period, while irredeemable debentures are not repaid during lifetime of company. Convertible debentures can be converted into equity shares, while non-convertible debentures remain debt instruments. This classification affects accounting treatment, interest payment, and financial reporting. It helps investors understand risk and return structure.

Final Answer: Debentures are classified based on terms and convertibility

Answer: (B)

Q28.

Solution

Concept: Debentures can be issued at par, premium, or discount depending on market conditions. Discount on issue is amortized over the life of debentures.

Solution: At par, debentures are issued at face value. At premium, they are issued above face value, and premium is credited to securities premium account. At discount, they are issued below face value and discount is written off over the life of debentures. Proper journal entries ensure correct representation of liability and expenses in financial statements.

Final Answer: They can be issued at par, premium, or discount

Answer: (B)



Q29.

Solution

Concept: Redemption of debentures refers to repayment of borrowed funds. Methods include sinking fund and draw of lots, supported by Debenture Redemption Reserve.

Solution: In sinking fund method, profits are set aside annually to redeem debentures. In draw of lots method, debentures are selected randomly for redemption. Debenture Redemption Reserve (DRR) is created to ensure funds are available for repayment. It provides financial security to debenture holders and ensures systematic redemption. Accounting entries record transfer to DRR and repayment of debentures on maturity.

Final Answer: DRR ensures systematic redemption of debentures

Answer: (B)

Q30.

Solution

Concept: Interest on debentures is a fixed obligation paid by a company to debenture holders for using borrowed funds. It is treated as a charge against profits and shown in financial statements.

Solution: Interest on debentures is payable at a fixed rate on the face value of debentures. It is treated as an expense and charged against profits, reducing net profit of the company. Tax is deducted at source (TDS) before payment and deposited with government. In financial statements, it is shown in the profit and loss account as a financial expense. It is not an appropriation of profit but a compulsory charge regardless of profit level.

Final Answer: It is a charge against profits

Answer: (B)

Q31.

Solution

Concept: Collateral security refers to debentures issued as additional security for a loan. It is not a separate liability but a contingent obligation.

Solution: When a company takes a loan, it may issue debentures as collateral security. These debentures are not separately shown as liability but mentioned in notes to accounts. If loan is repaid, debentures are released. If default occurs, lender may exercise rights over debentures. Hence, it is disclosed as contingent liability to show potential obligation without affecting current liabilities.

Final Answer: It is disclosed as contingent liability

Answer: (B)



Q32.

Solution

Concept: Financial statement analysis involves examining financial data to evaluate performance, position, and efficiency of a business using various tools.

Solution: Financial statement analysis helps in understanding financial health of a company. Objectives include assessing profitability, liquidity, and solvency. Tools include comparative statements, common-size statements, and ratio analysis. Techniques such as horizontal analysis compare data over time, vertical analysis studies structure, and trend analysis shows growth patterns. However, it has limitations like reliance on historical data and lack of qualitative insight.

Final Answer: It helps in evaluating financial performance and position

Answer: (B)

Q33.

Solution

Concept: Financial statements have limitations as they provide only quantitative data and may not reflect true financial position. Financial analysis improves interpretation by adding meaningful insights.

Solution: Financial statements are based on historical data and may not reflect current market conditions. They ignore qualitative factors like management efficiency and market reputation. Financial statement analysis helps overcome these limitations by interpreting data using tools like ratios and trends. Qualitative factors such as customer satisfaction and management quality also play a key role in decision-making, providing a more complete financial evaluation.

Final Answer: Analysis helps in better interpretation

Answer: (B)

Q34.

Solution

Concept: Ratio analysis is a technique used to evaluate financial performance of a business by studying relationships between financial figures.

Solution: Ratio analysis helps in evaluating liquidity, solvency, activity, and profitability of a company. Advantages include simplicity, comparability, and effective decision-making. Limitations include dependence on historical data, ignoring qualitative factors, and possible manipulation of figures. Despite limitations, it is widely used by investors and management for financial evaluation and planning.

Final Answer: They help in financial evaluation

Answer: (B)



Q35.

Solution

Concept: Solvency ratios measure a firm's ability to meet long-term obligations and assess financial risk using capital structure and interest coverage indicators.

Solution: Solvency ratios such as debt-equity ratio and interest coverage ratio are used to evaluate long-term financial stability of a business. Debt-equity ratio shows the proportion of debt and equity in capital structure, indicating financial risk. Interest coverage ratio measures the ability of a company to pay interest on borrowed funds from operating profit. These ratios are important for creditors and investors as they assess risk, repayment capacity, and financial strength of the business in the long run.

Final Answer: Measure long-term solvency and risk

Answer: (B)

Q36.

Solution

Concept: Liquidity ratios evaluate a firm's ability to meet short-term obligations using current assets and liabilities.

Solution: Liquidity ratios include current ratio and quick ratio. Current ratio compares current assets with current liabilities, while quick ratio excludes inventory for stricter analysis. These ratios help assess short-term financial position and working capital management. A strong liquidity position ensures timely payment of short-term debts and smooth business operations. They are essential for creditors to evaluate repayment capacity in the short run.

Final Answer: Measure short-term liquidity position

Answer: (B)

Q37.

Solution

Concept: Profitability ratios measure the earning capacity and efficiency of a business using profit relative to sales, capital, or assets.

Solution: Profitability ratios include gross profit ratio, net profit ratio, and return on investment. Gross profit ratio shows efficiency of production and pricing, while net profit ratio reflects overall profitability after all expenses. Return on investment measures efficiency of capital usage. These ratios help management and investors evaluate earning capacity, operational efficiency, and overall financial performance of a business.

Final Answer: Measure profitability and efficiency

Answer: (B)



Q38.

Solution

Concept: Activity ratios measure how efficiently a business uses its assets and manages working capital through turnover rates.

Solution: Activity ratios such as inventory turnover ratio and debtor turnover ratio measure operational efficiency. Inventory turnover shows how quickly stock is sold, while debtor turnover shows efficiency in collecting receivables. Higher ratios indicate better utilization of resources and efficient working capital management. These ratios help management improve operational performance and reduce idle assets.

Final Answer: Measure operational efficiency

Answer: (B)

Q39.

Solution

Concept: Cash Flow Statement shows movement of cash and cash equivalents and is important for liquidity and financial decision-making.

Solution: Cash Flow Statement records inflows and outflows of cash from operating, investing, and financing activities. Its objectives include assessing liquidity, solvency, and financial flexibility. It is more reliable than accrual-based profit because it focuses on actual cash movement rather than accounting profits, which may include non-cash items. This helps in better cash management, planning, and ensuring business survival during financial stress.

Final Answer: Shows inflows and outflows of cash and cash equivalents

Answer: (B)

Q40.

Solution

Concept: Cash flows are classified into operating, investing, and financing activities to analyze business performance, investment decisions, and capital structure separately.

Solution: Cash flows are divided into operating, investing, and financing activities. Operating activities include cash from core business operations like sales and expenses. Investing activities include purchase or sale of fixed assets and investments, reflecting long-term decisions. Financing activities include issue of shares, borrowing, and repayment of loans, showing capital structure changes. This classification helps stakeholders understand how cash is generated and used, and evaluates profitability, investment efficiency, and financial stability of the business.

Final Answer: Operating, Investing, Financing Cash Flows

Answer: (B)



Q41.

Solution

Concept: Indirect method of cash flow statement starts with net profit and adjusts for non-cash and working capital changes.

Solution: Under the indirect method, cash flow from operating activities is calculated by adjusting net profit for non-cash items like depreciation, provisions, and non-operating income such as dividend received. It also includes adjustments for changes in working capital like increase or decrease in current assets and liabilities. This method converts accrual-based profit into actual cash flow, making it useful for analyzing real liquidity position of the business.

Final Answer: Net profit is adjusted for non-cash and working capital changes

Answer: (B)

Q42.

Solution

Concept: Cash flow statement classifies items as operating, investing, and financing activities as per AS-3 for proper financial reporting.

Solution: As per Accounting Standard-3, interest paid, interest received, dividend paid, dividend received, tax paid, and extraordinary items are classified under appropriate activities. Interest paid and tax are generally operating activities, while interest received and dividends may fall under investing activities depending on nature. Proper classification ensures accurate representation of cash movement and improves decision-making for investors and management.

Final Answer: Properly classified under operating, investing, and financing activities

Answer: (B)

Q43.

Solution

Concept: Cash Flow Statement has limitations as it does not fully reflect profitability or non-cash financial performance.

Solution: Cash Flow Statement focuses only on cash transactions and ignores accrual-based profits and non-cash items like depreciation. It may not show true profitability or financial position of a business. Therefore, it should be used along with Income Statement and Balance Sheet for complete analysis. In situations like credit analysis or profitability assessment, relying only on cash flow can give incomplete or misleading results.

Final Answer: It ignores accrual-based performance and non-cash items

Answer: (B)



Q44.

Solution

Concept: Cash Flow Statement and Fund Flow Statement differ in scope, basis, and usefulness for financial analysis.

Solution: Cash Flow Statement focuses on actual cash inflows and outflows, while Fund Flow Statement analyzes changes in working capital. Cash flow is prepared on cash basis, whereas fund flow is based on accrual concept. Cash flow is more useful for liquidity analysis, while fund flow helps in understanding financial structure and long-term planning. Both statements together provide a complete picture of financial performance and position of a business.

Final Answer: Cash flow deals with cash; fund flow deals with working capital

Answer: (B)

Q45.

Solution

Concept: Computerised Accounting System consists of interconnected components that work together to process and report financial data efficiently.

Solution: CAS includes hardware (computers and devices), software (accounting applications), database (data storage system), procedures (rules for processing data), and human resources (users and accountants). These components are integrated to ensure smooth recording, processing, and reporting of financial transactions. Hardware and software handle operations, the database stores information, procedures guide workflow, and humans operate the system. This integration ensures accurate, fast, and reliable financial reporting and improves overall efficiency of accounting operations.

Final Answer: CAS includes hardware, software, database, procedures, and users

Answer: (B)

Q46.

Solution

Concept: Accounting cycle in CAS involves automated recording, processing, and reporting of financial transactions using database systems.

Solution: In Computerised Accounting System, transactions are entered into the system, automatically recorded in journals, and posted to ledgers using software. The database management system processes and stores data securely. Financial statements such as profit and loss account and balance sheet are generated automatically from stored data. This process reduces manual work, increases accuracy, and ensures real-time availability of financial information for decision-making.

Final Answer: Transactions are automatically processed into financial reports

Answer: (B)



Q47.

Solution

Concept: Share capital structure refers to classification of a company's capital into different categories for legal compliance and financial reporting purposes.

Solution: Share capital structure includes authorized capital (maximum capital a company can issue), issued capital (portion offered to public), subscribed capital (shares accepted by investors), and paid-up capital (amount actually received by the company). This classification is important for legal compliance under company law and helps stakeholders understand the financial strength and capital utilization of the company. It ensures transparency in financial reporting and supports proper capital management and regulatory disclosure requirements.

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

Answer: (B)

Q48.

Solution

Concept: Securities Premium arises when shares are issued above face value and is governed by legal provisions under the Companies Act, 2013.

Solution: When shares are issued at premium, the excess amount is credited to Securities Premium Account. This account is not treated as revenue income but as a capital reserve. As per Companies Act, 2013, it can be used only for specified purposes such as issuing bonus shares, writing off preliminary expenses, or premium on redemption of securities. It cannot be used for dividend distribution. This ensures proper utilization and protection of capital funds.

Final Answer: Securities premium is used only for specified legal purposes

Answer: (B)



Q49.

Solution

Concept: Debentures are long-term debt instruments issued by companies with fixed interest obligations and various classifications.

Solution: Debentures are classified as redeemable, irredeemable, convertible, and non-convertible depending on repayment and conversion features. When issued at par, premium, or discount, proper accounting entries are passed to record liability and any difference is adjusted through securities premium or discount on issue of debentures. Debentures are disclosed under non-current liabilities in financial statements, along with interest obligations, ensuring transparency in financial reporting.

Final Answer: Debentures are borrowed funds with fixed interest obligation

Answer: (B)

Q50.

Solution

Concept: Financial statement analysis involves interpreting financial data using various tools to assess performance, position, and efficiency of a business.

Solution: Financial statement analysis uses tools like comparative statements, common-size statements, trend analysis, and ratio analysis to evaluate liquidity, solvency, profitability, and operational efficiency. These tools help identify financial strengths and weaknesses and support decision-making. However, they have limitations such as reliance on historical data, absence of qualitative factors, and possibility of manipulation. Therefore, they should be used along with other business information for effective financial decision-making.

Final Answer: Analysis of financial data using ratios and comparison

Answer: (B)



Answer Key

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

