

CUET Accountancy Solution Set B

1. Libraries run by charitable trusts are an example of

- (1) Partnership
- (2) Not for profit organisation
- (3) Companies
- (4) Cooperatives

Ans. (2) Not for profit organisation

2. The main source of revenue for not for profit organisation is

- (1) Sale of goods
- (2) Sale of periodicals
- (3) Subscription from members
- (4) Sale of assets

Ans. (3)

Explanation: Non-profit organizations don't focus on generating profit

3. Match List-I with List-II

List-I	List-II
(A) Share capital	(I) Will be called at the time of winding up
(B) Reserves and surplus	(II) Calls in advance

(C) Reserve capital	(III) Subscribed but not fully paid
(D) Current liabilities	(IV) Sinking fund

Choose the correct answer from the options given below:

- (1) (A)-(I). (B)-(II). (C) - (III), (D) - (IV)
- (2) (A) - (I), (B) - (III). (C) - (II). (D) - (IV)
- (3) (A)-(I), (B)-(II). (C) - (IV). (D) - (III)
- (4) (A) - (III). (B) - (IV), (C) - (I). (D) - (II)

Ans. (4) (A) - (III). (B) - (IV), (C) - (I). (D) - (II)

4. Which of the following would affect the Revaluation Account at the time of reconstitution of a partner firm?

- (1) Increase in assets
- (2) Drawings against capital
- (3) Interest on capital
- (4) Parntner's salary

Ans. (1)

Explanation: Increase in assets: The Revaluation Account is credited in cases where the assets of the business are revalued upwards and this entails the business recording an increase in their value in their books. This increases the work's value by adding into the firm, as a unit of product.

5. Identify the correct sequence to be followed while preparing of final account of a partnership firm:

- (A) Profit and Loss Appropriation Account
- (B) Profit and Loss Account
- (C) Trading Account
- (D) Balance Sheet

Choose the correct answer from the options given below:

(1) (C), (B), (A), (D)

(2) (A), (C), (B), (D)

(3) (B), (A), (D), (C)

(4) (C), (B), (D), (A)

Ans. (1) (C), (B), (A), (D)

Explanation: The correct sequence is-

- **Trading Account:** Based on this account, one is able to arrive at the gross profit earned by the firm.
- **Profit and Loss Account:** This account establishes the net profit or net loss from the business after all the expenses have been incurred.
- **Profit and Loss Appropriation Account:** This account shows the net profit apportioned to the partners or the loss absorbed by them in accordance with the ratio agreed between them.
- **Balance Sheet:** This statement is a representation of the financial strength of the firm at the end of the accounting period.

6. Window dressing is a practice

(1) to manipulate the accounts to show a better picture of the financial position than the actual one

(2) to show excessive depreciaton.

(3) to avoid tax

(4) to reduce tax.

Ans. (1)

Explanation: The term 'window dressing' means manipulation of accounts so as to present the financial statements in a way to show better position than the actual.

7. Match List-I with List-II

List-I	List-II
(A) Salary to partner	(I) Credit side of Partner's Capital Account
(B) Interest on partner's loan	(II) Debit side of Partner's Current Account
(C) Interest on partner's drawings	(III) Debit side of Profit and Loss Account
(D) Additional capital introduced	(IV) Credit side of Partner's Current Account

Choose the correct answer from the options given below:

- (1) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
- (2) (A)-(I), (B)-(III), (C) - (II), (D) - (IV)
- (3) (A)-(IV), (B)-(III), (C) - (II), (D) - (I)
- (4) (A)-(III), (B) - (IV), (C) - (I), (D) - (II)

Ans. (1)

Explanation: Salary to partner (A): This is an outgoing which goes to the credit of the partner's capital account (I).

Interest on partner's loan (B): This is an expense for the business and is recorded in the profit and loss account (II).

Interest on partner's drawings (C): Like interest on partner's loan, it is an expense and is charged to the profit and loss account (III).

Additional capital introduced (D): This results in an increase in the partner's investment and is posted to the capital account (IV).

8. Which of the following would affect the Revaluation Account at the time of admission of a partner?

- (A) Increase in assets**
- (B) Drawings against capital**
- (C) Recording of unrecorded assets**
- (D) Decrease in liabilities**

Choose the correct answer from the options given below:

- (1) (A), (B) and (C) only**
- (2) (A), (B) and (D) only**
- (3) (A), (C) and (D) only**
- (4) (B), (C) and (D) only**

Ans. (3)

Explanation: Here's why:

- Increase in assets (A): If an asset is revalued upwards it means that there is an improvement on the value of the firm. This is revealed in the revaluation account.
- Recording of unrecorded assets (C): If an asset was not recognized earlier but is recognized now, then it will be credited to the revaluation account on the assumption of having value.
- Decrease in liabilities (D): If a liability is decreased then it can be taken that the firm is getting benefit out of it. This is credited to the revaluation account.

However, drawings against capital (B) do not take into account the revaluation account. Drawings on the other hand are a partner's reduction of his capital in a business that does not alter the value of the firm's assets and liabilities.

9. Match List-I with List-II

List-I (Items of cash flow)	List-II (Type of activity)
(A) Purchase of tangible assets	(I) Operating activity
(B) Issue of shares	(II) Cash and cash equivalents
(C) Increase in current assets	(III) Investing activity
(D) Marketable securities	(IV) Financing activity

Choose the correct answer from the options given below:

- (1) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
- (2) (A) - (I), (B) - (III), (C) - (II), (D) - (IV)
- (3) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)
- (4) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Ans. (4)

Explanation: Here's why:

- Purchase of tangible assets (A): This activity means using cash to acquire long-term assets that benefit the company in the long run and is therefore classified under investing cash flow from investing activities (III).
- Issue of shares (B): As you rightly mentioned, issuance of shares provides funds to the business and is, therefore, an activity that falls under the category of investing activity (IV).
- Increase in current assets (C): Even though current assets must correspond to the operating cycle, the phrase from the prompt is the "cash flow" from the increase. The flow of cash from an increase in

the current asset such as inventory which is sold for cash is considered a flow from operating activity (I).

- Marketable securities (D): These are very liquid investments and can be easily converted into cash within short period of time; they are known as cash and cash equivalents (II).

10. Which one of the following are correct in connection with the Common Size Statement?

- (A) Expressed as a percentage on revenue from operation
- (B) Horizontal analysis
- (C) Vertical analysis
- (D) Expressed as a percentage on total assets

Choose the correct answer from the options given below:

- (1) (A), (B) and (D) only
- (2) (A), (B) and (C) only
- (3) (A), (C) and (D) only
- (4) (B), (C) and (D) only

Ans. (4)

Explanation: Here's why:

- Expressed as a percentage on revenue from operation (A): Not quite accurate. That being the case, while revenue is typically measured as the base for a common size income statement, total assets can also be used for a balance sheet statement.
- Horizontal analysis (B): This is often the process of comparing balance sheets from two or more periods of the same company. Common size analysis is a type of vertical analysis (C), wherein stress is placed on determining relative proportions within one particular statement.

- Expressed as a percentage on total assets (D): This is quite accurate. The balance sheet prepared on common size is prepared in the format that each item in the balance sheet is shown as a percentage of total assets.

11. Calculate the resulting cash flow and state the nature of cash flow from the following information Acquired machinery for 3,50,000 by issuing cheque.

- (1) Investing activity and outflow 3,50,000
- (2) Investing activity and inflow 3,50,000
- (3) Investing activity and no flow
- (4) Operating activity and outflow 3,50,000

Ans. (1) Investing activity and outflow 3,50,000

12. Arrange the following in proper sequence while preparing Cash Flow Statement

- (A) Net cash flow from operating activities
- (B) Cash flow from financing activities
- (C) Cash flow from investing activities
- (D) Calculate net profit before tax and extraordinary items in working note

Choose the correct answer from the options given below:

- (1) (A), (B), (C), (D)
- (2) (D), (A), (C), (B)
- (3) (B), (A), (D), (C)
- (4) (C), (B), (D), (A)

Ans. (4) (C), (B), (D), (A)

13. The adjustment required for overvaluation of closing stock, while calculating adjusted profit for calculating goodwill is

- (A) reduction from concerned year's profit.
- (B) reduction from next year's profit.
- (C) addition to next year's profit.
- (D) addition to previous year's profit.

Choose the correct answer from the options given below:

- (1) (A), (B) and (D) only
- (2) (A) and (C) only
- (3) (A) and (D) only
- (4) (B), (C) and (D) only

Ans. (3)

14. Oversubscription is a situation where the

- (1) number of shares applied for is equal to the number of shares issued.
- (2) number of shares applied for is more than the number of shares issued.
- (3) number of shares applied for is less than the number of shares issued.
- (4) face value of the share is less than the issue price of the share

Ans. (2)

Explanation: In other terms, it means that there are more people willing to have an ownership of a share in that company than the number of shares available for sale. : This is considered as the positive signal for the firm's future growth and development.

15. Match List-I with List-II.

List-1 (Name of account to be debited or credited, when shares are forfeited)	List-II (Amount to be debited or credited)
(A) Share Capital Account	(I) Debited with amount not received
(B) Share Forfeited Account	(II) Credited with amount not received
(C) Calls-in-arrears Account	(III) Credited with amount received towards share
(D) Securities Premium Account	(IV) Debited with amount called up

Choose the correct answer from the options given below:

- (1) (A)-(I), (B)-(II), (C) -(III), (D) - (IV)
- (2) (A)-(IV), (B)-(III), (C) - (II), (D)-(I)
- (3) (A)-(I), (B)-(II), (C) - (IV), (D) - (III)
- (4) (A)-(III), (B)-(IV), (C)-(I), (D)-(II)

Ans. (1)

16. Arrange the following in the correct sequence in the context of debenture

- (A) Payment to debenture-holders
- (B) Creation of ORR
- (C) Issue of debbentures
- (D) Redemption becomes due

Choose the correct answer from the options given below

- (1) (A), (B), (C), (D)
- (2) (A), (C), (B), (D)
- (3) (B), (A), (D), (C)

(4) (C), (B), (D), (A)

Ans. (4)

Explanation:

- (C) Issue of debentures: The following is the first form: the company floats debentures to generate capital. Debentures can be said to be the borrowed fund from the debenture holders for financing the companies' operations with the promise of paying back the face value along with interest charges.
- (B) Creation of Debenture Redemption Reserve (ORR): The Debenture Redemption Reserve (ORR) is something many companies are need to establish over the life of a debenture. This reserve is built up by saving a proportion of annual profits. The major function of the ORR is to ensure that the firm is in a position to make adequate provision to redeem the debentures at the contractual rate.
- (D) Redemption becomes due: The final part of the debenture process is the redemption date, which is the time when the debenture is due to come to an end. This is an indication that the company has a legal liability to transfer the face amount to the debenture holders.
- (A) Payment to debenture-holders: Last of all, the company pays the amount to the holders of the debentures as its responsibility. This entails paying back the original amount of borrowed money together with any interest charged on the amount borrowed.

17. If a delay occurs beyond 8 days in refunding the subscription amount, failing to gather the minimum subscription, from the date of closure of the subscription list, the company shall be liable for interest at the rate of

- (1) 15%
- (2) 120
- (3) 6%

(4) Prevailing in State Bank of India

Ans. (4)

18. A company can accept calls in advance, if authorised by:

- (1) Shareholders
- (2) Board of Directors
- (3) Articles of Association
- (4) Memorandum of Association

Ans. (3)

Explanation: Section 50 of the Companies Act, 2013 says that the company can accept the amount of Calls in Advance only when it is authorised by its Articles of Association.

19. A, B and C are partners sharing profits in the ratio of 3: 2: 1. C died on 1st July, 2023. On this date, final accounts were prepared to ascertain profits for the period. It resulted in a profit of 1,75,000 to the firm. To give effect to the above:

- (1) Profit and Loss Account will be debited.
- (2) Profit and Loss Appropriation Account will be debited.
- (3) Profit and Loss Account will be credited.
- (4) Profit and Loss Appropriation Account will be credited

Ans. (4)

Explanation:

- Profit and Loss Account will be debited : Charging to the P&L account would not be the right approach in this case. This account includes all operating costs and income, and we do not have to make any changes for profit sharing.

- Profit and Loss Appropriation Account will be debited : It is against the principle of the P&L Appropriation account to debit it. This account is used to record the distributable profit, not the debit of it.
- Profit and Loss Account will be credited : The P&L account is often the first account credited when it comes to profit distribution. It indicates the net profit that is available for distribution.
- Profit and Loss Appropriation Account will be credited. (CORRECT): This is the most appropriate option. Crediting the P&L Appropriation account with Rs 1,75,000. The figure 1,75,000 shows the total amount of profit which is to be shared out from the remaining ratio of partnership among the members.

20. Dividend received is

- (1) Operating activity
- (2) Financing activity
- (3) Investing activity
- (4) Cash and cash equivalents

Ans. (1) Operating activity

Explanation: Dividend received will be in the cash flow from operating activities of a non-financing company.

21. A partnership can have maximum 50 partners. This limit has been set by the:

- (1) Indian Partnership Act, 1932
- (2) State Government
- (3) Indian Contract Act, 1872
- (4) Central Government

Ans. (1)

Explanation: The legal framework regulating formation and operations of partnership in India is provided by the Indian Partnership Act, 1932.

However the Act itself does not prohibit the partners and it only mentions that companies Act specify the rule based on the Partnership Act and the Companies (Miscellaneous) Rules, 2014 of the partner's limit is 50 in a partnership firm.

