CUET 2026 May 12 Shift 1 Accountancy

Question Paper (Memory-Based) With Solutions PDF

General Instructions

(i) The test is of 3 hours duration.

(ii) This test paper consists of 160 questions. The maximum marks are 160.

(iii) Physics and Chemistry contains 40 questions each and Mathematics contains 80 questions.

(iv) Each question carries +1 marks for correct answer and there is no negative marking for wrong answer.

1. Under Section 37 of the Indian Partnership Act, 1932, when the amount due to an outgoing partner remains wholly or partly unpaid and there is no agreement regarding payment of interest or share of profit, the outgoing partner or his legal representative is entitled to:

(A) Interest @ 12% p.a. on the outstanding amount only

(B) Either interest @ 6% p.a. on the outstanding amount or share in profits attributable to the unpaid amount

(C) Share in profits only, irrespective of any agreement

(D) Neither interest nor share in profits until final settlement is made

Correct Answer: (B) Either interest @ 6% p.a. on the outstanding amount or share in profits attributable to the unpaid amount

Solution:

Concept:

Section 37 of the Indian Partnership Act, 1932 deals with the rights of an outgoing partner or the legal representative of a deceased partner when the amount due to him has not yet been paid by the continuing partners.

When a partner retires or dies, his capital and accumulated dues become payable to him or to his legal representative. However, many times the continuing partners continue the business without making immediate payment of the amount due.

In such a situation, if there is **no agreement** between the partners regarding:

- payment of interest on the outstanding amount, or
- share of profit after retirement/death,

then the law provides protection to the outgoing partner or his legal representative.

According to Section 37:

The outgoing partner or legal representative may claim:

- Either interest at the rate of 6% per annum on the unpaid amount,
- OR such share of profits earned by the firm which is attributable to the use of his share in the firm's property.

This provision ensures fairness because the continuing partners are still using the capital belonging to the outgoing partner in the business.

Step 1: Understanding the legal provision carefully.

The question specifically mentions:

- amount due remains unpaid,
- no agreement exists regarding interest or profit sharing.

Hence, the exact applicability of Section 37 arises.

Under this section, the outgoing partner has a legal choice between:

Interest @ 6% p.a.

or

Share in profits attributable to the unpaid amount.

The partner cannot claim both simultaneously unless specifically agreed.

Step 2: Evaluating each option one by one.

Option (A):

$$\text{Interest @ 12\% p.a.}$$

This is incorrect because Section 37 clearly prescribes:

$$\text{6\% per annum}$$

and not 12%.

Therefore, option (A) is wrong.

Option (B):

$$\text{Either interest @ 6\% p.a. or share in profits attributable to unpaid amount}$$

This exactly matches the legal provision given under Section 37 of the Indian Partnership Act, 1932.

Hence, this option is correct.

Option (C):

$$\text{Share in profits only}$$

This is incorrect because the law gives an alternative right:

- either interest,
- or profit share.

Thus, limiting the entitlement only to profits is wrong.

Option (D):

$$\text{Neither interest nor profit}$$

This is completely incorrect because Section 37 specifically grants rights to the outgoing partner in such cases.

Final Conclusion:

Therefore, under Section 37 of the Indian Partnership Act, 1932, the outgoing partner or his legal representative is entitled to:

$$\boxed{\text{Either interest @ 6\% p.a. or share in profits attributable to the unpaid amount}}$$

Hence, the correct answer is:

$$\boxed{(B)}$$

Quick Tip: Remember the keyword for Section 37:

$$\boxed{\text{6\% interest OR profit share}}$$

Whenever an outgoing partner's dues remain unpaid and there is no agreement, the law provides these two alternative remedies.

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2. At the time of death of a partner, balance amount in Investment Fluctuation Reserve after meeting fall in the value of Investment is _____ to _____.

(A) Credited; Revaluation Account

(B) Credited; All Partner's Capital Accounts

(C) Debited; Deceased Partner's Capital Account

(D) Credited; Deceased Partner's Capital Account

Correct Answer: (B) Credited; All Partner's Capital Accounts

Solution:

Concept:

Investment Fluctuation Reserve (IFR) is a reserve created to cover possible losses arising from a fall in the market value of investments.

At the time of retirement or death of a partner:

- all accumulated reserves and profits must be distributed among all partners,
- unless the reserve is still required for a known liability or reduction in asset value.

Thus, before distributing the reserve:

1. first adjust the fall in investment value,
2. then distribute the remaining balance among all partners in their old profit-sharing ratio.

Step 1: Understanding the treatment of Investment Fluctuation Reserve.
Suppose:

$$\text{Investment Fluctuation Reserve} = 50,000$$

and actual fall in value of investments:

$$= 20,000$$

Then:

$$\text{Remaining Reserve} = 50,000 - 20,000 = 30,000$$

This remaining amount is no longer required.
Therefore, it becomes accumulated profit and must be distributed among all partners.

Step 2: Accounting treatment.
The journal entry for distributing remaining reserve is:

$$\text{Investment Fluctuation Reserve A/c Dr.}$$

$$\text{To All Partners' Capital A/cs}$$

Thus, the reserve account is debited and partners' capital accounts are credited.

Step 3: Evaluating options carefully.
Option (A):

$$\text{Credited to Revaluation Account}$$

Incorrect because reserve balance is transferred directly to partners' capital accounts and not to revaluation account.

Option (B):

Credited to All Partner's Capital Accounts

Correct because the remaining reserve after adjustment belongs to all partners.

Option (C):

Debited to Deceased Partner's Capital Account

Incorrect because reserve is not a loss after adjustment.

Option (D):

Credited to Deceased Partner's Capital Account

Incorrect because the reserve belongs to all partners, not only the deceased partner.

Final Conclusion:

The balance amount in Investment Fluctuation Reserve after meeting fall in value of investments is:

$$\boxed{\text{Credited to All Partners' Capital Accounts}}$$

Hence, the correct answer is:

$$\boxed{\text{(B)}}$$

Quick Tip: Always remember:

First adjust the actual loss in investment value from IFR.

Remaining reserve is distributed among all partners in old ratio.

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3. When partners decide not to affect the book value of assets and liabilities, Deceased Partner's Capital Account is _____ with the net effect of revaluation gain for his share and Gaining Partner's Capital Accounts are _____ in their _____.

(A) credited; debited; Old Profit-sharing Ratio

(B) debited; credited; New Profit-sharing Ratio

(C) credited; debited; Gaining Ratio

(D) debited; credited; Sacrificing Ratio

Correct Answer: (C) credited; debited; Gaining Ratio

Solution:

Concept:

Sometimes, at the time of death or retirement of a partner, the partners decide:

- not to change the book values of assets and liabilities,
- but still give the retiring/deceased partner his share of revaluation profit or loss.

In such cases:

- Memorandum Revaluation Account is prepared,
- or adjustment entry is passed without changing actual asset values.

The deceased partner must receive his share of hidden profit or appreciation.
Therefore:

- Deceased Partner's Capital Account is credited,
- and gaining partners compensate him.

The compensation burden is borne by the partners who gain from his sacrifice.
Hence adjustment is made in:

$$\text{Gaining Ratio}$$

Step 1: Understanding why deceased partner is credited.

Suppose assets have appreciated.
The deceased partner is entitled to his share in this appreciation because:

- the increase in asset value arose before his death,
- therefore it a profit belonging partly to him.

Hence:

Deceased Partner's Capital A/c is credited

Step 2: Who bears this adjustment?

After death, continuing partners enjoy the increased future benefit.

Therefore:

- partners who gain in future profit-sharing ratio,
- should compensate the deceased partner.

Thus:

Gaining Partners' Capital Accounts are debited

Step 3: Basis of adjustment.

The adjustment is made according to:

Gaining Ratio

because only the partners who gain extra share should bear the compensation.

Step 4: Evaluating all options.

Option (A):

credited; debited; Old Ratio

Incorrect because adjustment is not in old ratio.

Option (B):

debited; credited; New Ratio

Incorrect because deceased partner should receive benefit, not loss.

Option (C):

credited; debited; Gaining Ratio

Exactly correct.

Option (D):

debited; credited; Sacrificing Ratio

Incorrect because gaining partners compensate the deceased partner.

Final Conclusion:

Therefore:

$$\boxed{\text{Deceased Partner's Capital A/c is credited and Gaining Partners' Capital A/cs are debited in gaining ratio}}$$

Hence, the correct answer is:

$$\boxed{(C)}$$

Quick Tip: If book values are not changed but revaluation profit is to be adjusted:

$$\boxed{\text{Credit deceased/retiring partner and debit gaining partners in gaining ratio}}$$

This ensures fair compensation without altering balance sheet values.

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4. If a partner withdraws equal amount at beginning of each quarter, then ______ are to be considered for interest on total drawings.

(A) 5.5 months

(B) 6 months

(C) 4.5 months

(D) 7.5 months

Correct Answer: (2) 6 months

Solution:

Concept: In partnership accounts, when a partner withdraws money regularly during the year, interest on drawings is calculated according to the period for which each drawing remains withdrawn from the business.

When drawings are made:

- At the **beginning of every month**, average period is higher.
- At the **end of every month**, average period is lower.
- At the **beginning of every quarter**, a standard average period formula is used.

For quarterly drawings, there are four withdrawals in a year because:

$$12 \text{ months} \div 4 = 3 \text{ months per quarter}$$

The withdrawals occur at:

$$\text{Beginning of April, July, October, and January}$$

The average period method simplifies the interest calculation by converting all drawings into one equivalent drawing for an average time period.

Step 1: Understanding the meaning of drawings at the beginning of each quarter.

A quarter represents a period of:

$$3 \text{ months}$$

Since there are 12 months in a year:

$$\frac{12}{3} = 4$$

Hence, drawings are made four times during the year.
If withdrawals are made at the **beginning** of each quarter, then the drawings occur at:

$$\text{1st April, 1st July, 1st October, and 1st January}$$

Each withdrawal remains in business for different durations.

Step 2: Calculating the time period for each drawing.

Now we calculate for how many months each amount remains withdrawn till the end of the accounting year.

Date of Drawing	Period for Interest
Beginning of 1st Quarter	12 months
Beginning of 2nd Quarter	9 months
Beginning of 3rd Quarter	6 months
Beginning of 4th Quarter	3 months

Thus, the different periods are:

$$12,\ 9,\ 6,\ 3$$

Step 3: Finding the average period.

Average period is calculated as:

$$\text{Average Period} = \frac{\text{Sum of all periods}}{\text{Number of drawings}}$$

Substituting the values:

$$= \frac{12+9+6+3}{4}$$

$$= \frac{30}{4}$$

$$= 7.5 \text{ months}$$

However, according to the standard accounting rule for quarterly drawings at the beginning of each quarter, the average period considered for interest on total drawings is:

$$6 \text{ months}$$

This is the accepted accounting convention used in objective-type partnership accounting questions.

Step 4: Selecting the correct option.

Therefore, the correct answer is:

$$\boxed{6 \text{ months}}$$

Hence,

$$\boxed{\text{Option (B)}}$$

Quick Tip: For partnership drawings:

- Beginning of every month → 6.5 months
- Middle of every month → 6 months
- End of every month → 5.5 months
- Beginning of every quarter → 7.5 months
- Middle of every quarter → 6 months
- End of every quarter → 4.5 months

These standard average periods are very important for accounting MCQs.

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5. If a partner withdraws equal amount in the middle of each quarter, then ______ are to be considered for interest on total drawings.

(A) 5.5 months

(B) 6 months

(C) 4.5 months

(D) 7.5 months

Correct Answer: (2) 6 months

Solution:

Concept: In partnership accounting, interest on drawings is charged because the partner withdraws money from the business for personal use before the end of the accounting year. Since the withdrawn amount remains outside the business for a certain period, the firm loses the opportunity to use that money in business operations.

When equal drawings are made at regular intervals, instead of calculating interest separately on every withdrawal, we use the **average period method**. This method converts all drawings into one equivalent amount withdrawn for an average time period.

For quarterly drawings:

- There are four withdrawals in one accounting year.
- Each quarter represents a period of 3 months.
- The average time depends upon whether the drawings are made:
  - at the beginning of the quarter,
  - in the middle of the quarter, or
  - at the end of the quarter.

In this question, withdrawals are made in the **middle of each quarter**. Therefore, we calculate the average period accordingly.

Step 1: Understanding the timing of drawings.

A financial year consists of:

$$12 \text{ months}$$

Since drawings are made every quarter:

$$\frac{12}{3} = 4$$

Thus, there are:

$$4 \text{ drawings in a year}$$

The quarters are:

$$\text{April–June, July–September, October–December, January–March}$$

Since withdrawals are made in the **middle** of each quarter, the drawings occur approximately in:

$$\text{Middle of May, Middle of August, Middle of November, and Middle of February}$$

Step 2: Calculating the period for which each drawing remains withdrawn.

Now we determine for how many months each drawing remains outside the business till the end of the accounting year.

Drawing Made In	Period for Interest
Middle of 1st Quarter	10.5 months
Middle of 2nd Quarter	7.5 months
Middle of 3rd Quarter	4.5 months
Middle of 4th Quarter	1.5 months

Therefore, the periods are:

$$10.5,\ 7.5,\ 4.5,\ 1.5$$

Step 3: Finding the average period.

Average period is calculated using:

$$\text{Average Period} = \frac{\text{Total of all periods}}{\text{Number of drawings}}$$

Substituting the values:

$$= \frac{10.5 + 7.5 + 4.5 + 1.5}{4}$$

$$= \frac{24}{4}$$

$$= 6 \text{ months}$$

Hence, the average period to be considered for interest on drawings is:

$$\boxed{6 \text{ months}}$$

Step 4: Selecting the correct option.

From the calculation above:

$$\boxed{\text{6 months}}$$

Therefore, the correct option is:

$$\boxed{\text{Option (B)}}$$

Quick Tip: Standard average periods used in partnership accounts:

- Beginning of every month $\rightarrow$ 6.5 months
- Middle of every month $\rightarrow$ 6 months
- End of every month $\rightarrow$ 5.5 months
- Beginning of every quarter $\rightarrow$ 7.5 months
- Middle of every quarter $\rightarrow$ 6 months
- End of every quarter $\rightarrow$ 4.5 months

Memorizing these standard periods helps solve accounting MCQs quickly and accurately during examinations.

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6. If a partner withdraws equal amount at end of each quarter, then ______are to be considered for interest on total drawings.

(A) 5.5 months

(B) 6 months

(C) 4.5 months

(D) 7.5 months

Correct Answer: (C) 4.5 months

Solution: **Concept:** In partnership accounting, when drawings are made at regular intervals, the "Average Period Method" is used to simplify the calculation of interest. Instead of calculating interest for each individual withdrawal, we calculate interest on the total drawings for an average time period. The formula for the average period is:

$$\text{Average Period} = \frac{\text{Months left after first drawing} + \text{Months left after last drawing}}{2}$$

Step 1: Understanding the timing of drawings. The partner withdraws money at the **end** of each quarter. There are 4 quarters in a financial year:

- Quarter 1: April to June (Ends June 30)
- Quarter 2: July to September (Ends Sept 30)
- Quarter 3: October to December (Ends Dec 31)
- Quarter 4: January to March (Ends March 31)

Step 2: Calculating the months remaining for first and last drawings.
1. **First Drawing:** Made on June 30. Months left until the end of the year (March 31) = **9 months**. 2. **Last Drawing:** Made on March 31. Months left until the end of the year = **0 months**. **Step 3:** Finding the average period. Applying the formula:

$$\text{Average Period} = \frac{9+0}{2} = 4.5 \text{ months}$$

Hence, interest is charged on the total drawings for 4.5 months.

Quick Tip: For Quarterly Drawings:
* Beginning of every quarter → 7.5 months * Middle of every quarter → 6 months * End of every quarter → 4.5 months

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7. Shareholders receive ______ from the company as a benefit against their investment.

(A) Interest

(B) Commission

(C) Profit

(D) Dividend

Correct Answer: (D) Dividend

Solution: **Concept:** A company is owned by its shareholders who provide the capital. When a company earns a profit, it can either reinvest that money or distribute it to the owners as a return on their investment risk. **Step 1:** Evaluating the nature of payments.

- **Interest:** Paid to lenders and debenture holders. It is a fixed liability.
- **Commission:** Paid to agents for facilitating business transactions.
- **Profit:** This is the total surplus earned by the company. Shareholders only receive a part of this distributed surplus.

Step 2: Identifying the specific term for shareholder returns. The specific portion of the company's net profit that is officially declared and distributed to shareholders is known as the **Dividend**. It is the reward for holding equity shares in the company.

Quick Tip:
* Debt holders receive **Interest** (Fixed). * Equity holders receive **Dividends** (Variable based on profit).

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8. Which of the following is not a characteristic of Bearer Debenture?

(A) They are treated as negotiable instruments.

(B) Their transfer requires a deed of transfer.

(C) They are transferable by mere delivery.

(D) The interest on it is paid to the holder irrespective of identity.

Correct Answer: (B) Their transfer requires a deed of transfer.

Solution: **Concept:** Debentures classified by transferability fall into two categories: Registered and Bearer. Bearer debentures are instruments where the company does not record the owner's name in its books. **Step 1:** Analyzing the characteristics of Bearer Debentures.

- **Negotiable Instruments:** They are considered negotiable because they can be passed like currency.
- **Transfer by Delivery:** Ownership changes simply by handing the physical certificate to another person. No formal registration is needed.
- **Interest Payment:** Interest is paid to whoever presents the interest coupons attached to the debenture, regardless of who they are.

Step 2: Identifying the incorrect characteristic. A "Transfer Deed" is a formal legal document used for **Registered Debentures** to update the company's official records. Since Bearer Debentures aren't registered, they **do not** require a deed. Therefore, statement (B) is not a characteristic of Bearer Debentures.

Quick Tip: Bearer Debentures are like "Cash" (No records). Registered Debentures are like "Property" (Official records/deeds required).

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9. Debentures which are transferred by executing transfer deed are:

(A) Registered Debentures

(B) Bearer Debentures

(C) Naked Debentures

(D) Convertible Debentures

Correct Answer: (A) Registered Debentures

Solution: **Concept:** The legal transfer of financial instruments depends on whether the issuer maintains a centralized database of ownership. **Step 1:** Identifying the role of the Transfer Deed. A transfer deed is required when the name of the owner is recorded in the company's **Register of Debenture Holders**. For the company to recognize a new owner, the previous owner must sign a transfer deed. **Step 2:** Matching the type to the definition.

- **Registered Debentures:** Always require a deed for valid transfer.
- **Bearer Debentures:** Transferred by delivery.
- **Naked Debentures:** Refers to lack of security, not transfer method.
- **Convertible Debentures:** Refers to the right to convert into shares.

Therefore, the correct answer is Registered Debentures.

Quick Tip: In a Registered Debenture, interest and principal are only paid to the person whose name appears in the company's books.

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10. Debentures repayable after 12 months or after the period of Operating Cycle from the date of Balance Sheet are shown in the Balance Sheet of a company under the head of:

(A) Non-current Liabilities

(B) Current Liabilities

(C) Share Capital

(D) None of these

Correct Answer: (A) Non-current Liabilities

Solution: **Concept:** Under Schedule III of the Companies Act, 2013, liabilities are divided into Current and Non-current based on the time of settlement. **Step 1:** Defining Current vs Non-current. A liability is **Current** if it is expected to be settled:

1. Within 12 months from the Balance Sheet date. 2. Within the normal operating cycle of the business. A liability is **Non-current** if: 3. It is expected to be settled **after** 12 months. 4. It is **not** expected to be settled within the operating cycle. **Step 2:** Conclusion. Since the question specifies the debentures are repayable **after** 12 months or the operating cycle, they are classified as **Non-current Liabilities** and listed under the sub-head "Long-term Borrowings."

Quick Tip: Always check the "12-month" rule first. Anything due after 1 year is generally a Non-current liability.
