

CUET 2025 May 13 Accountancy Question Paper with Solutions

Time Allowed :1 Hours	Maximum Marks :250	Total questions :50
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General Instructions

Read the following instructions very carefully and strictly follow them:

1. The test is of 1 hour duration.
2. The question paper consists of 50 questions. The maximum marks are 250.
3. 5 marks are awarded for every correct answer, and 1 mark is deducted for every wrong answer.

1. In the absence of a partnership deed, which of the following statements is correct?

- (a) Interest on partners' Capital will be allowed @ 6% p.a.
- (b) Interest on partners' Loan is to be given @ 6% p.a.
- (c) Profits are shared in the ratio of Capital
- (d) Interest on Drawing is to be charged @ 6% p.a.

Correct Answer: (b) Interest on partners' Loan is to be given @ 6

Solution:

Step 1: Default rules under Indian Partnership Act (1932)

In the absence of a partnership deed, the Indian Partnership Act governs the rights and duties of partners.

Step 2: Interest on partners' loan

According to Section 13 of the Act, partners are entitled to interest on loans given to the firm at 6% per annum if there is no agreement to the contrary. Thus, partners must be paid interest on their loans @ 6% p.a. by default.

Step 3: Interest on capital

Interest on partners' capital is not payable unless agreed upon. So (a) is incorrect.

Step 4: Profit sharing

Profits are shared equally among partners in absence of an agreement, not in ratio of capital. So (c) is incorrect.

Step 5: Interest on drawings

Charging interest on drawings requires an agreement. No default rule exists. Hence, (d) is incorrect.

Step 6: Conclusion

Therefore, statement (b) is correct under the default provisions.

Quick Tip

Without a partnership deed, interest on partners' loans is allowed at 6% p.a., but interest on capital and drawings is not payable unless agreed.

2. Match List I with List II:

LIST – I		LIST – II	
A.	Sacrificing Ratio	I.	New Ratio – Old Ratio
B.	New Ratio	II.	Old Ratio – New Ratio
C.	Gaining Ratio	III.	Old ratio + Gaining Ratio
D.	Value of goodwill	IV.	Average profit × No. of years purchase

Choose the correct answer from the options given below:

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

Correct Answer: (A) A-II, B-III, C-I, D-IV

Solution: Step 1: Understand the terms

Sacrificing Ratio is the loss in profit share, calculated as Old Ratio – New Ratio (matching with II).

New Ratio is the revised profit-sharing ratio after change (matching with III, since "Old Ratio + Gaining Ratio" relates to the new ratio).

Gaining Ratio is the increase in profit share, calculated as New Ratio – Old Ratio (matching with I).

Value of goodwill is calculated by multiplying average profit by the number of years' purchase (matching with IV).

Step 2: Match List I and List II accordingly

A matches II

B matches III

C matches I

D matches IV

Step 3: Conclusion

Therefore, option (A) is correct.

Quick Tip

Sacrificing ratio = Old Ratio – New Ratio; Gaining ratio = New Ratio – Old Ratio;
Goodwill = Average profit $\times$ years purchase.

3. A, B, C and D are partners in a firm sharing profits in the ratio of 3:2:1:4. A retired and his share is acquired by B and C in the ratio 3:2. Calculate the new profit sharing ratio of partners.

(a) 19 : 11 : 20

(b) 3 : 2 : 4

(c) 18 : 12 : 20

(d) 16 : 18 : 12

Correct Answer: (a) 19 : 11 : 20

Solution:

Step 1: Original profit sharing ratio

$$A : B : C : D = 3 : 2 : 1 : 4$$

Sum of shares = $3 + 2 + 1 + 4 = 10$ units.

Step 2: A retires and his share is $\frac{3}{10}$

A's share = $\frac{3}{10}$.

Step 3: B and C acquire A's share in the ratio 3:2

Total share acquired by B and C = $\frac{3}{10}$

B's additional share = $\frac{3}{5} \times \frac{3}{10} = \frac{9}{50}$

C's additional share = $\frac{2}{5} \times \frac{3}{10} = \frac{6}{50}$

Step 4: Calculate new shares

B's original share = $\frac{2}{10} = \frac{10}{50}$

B's new share = $\frac{10}{50} + \frac{9}{50} = \frac{19}{50}$

C's original share = $\frac{1}{10} = \frac{5}{50}$

C's new share = $\frac{5}{50} + \frac{6}{50} = \frac{11}{50}$

D's share remains = $\frac{4}{10} = \frac{20}{50}$

Step 5: New profit sharing ratio

$$B : C : D = 19 : 11 : 20$$

Quick Tip

When a partner retires, their share is redistributed among remaining partners in the given ratio, added to their original shares.

4. Match List – I with List – II:

	LIST – I		LIST - II
(A)	Purchase of Building	(I)	Financing activity
(B)	Change in inventory	(II)	Cash and cash equivalents
(C)	Cash credit	(III)	Investing activity
(D)	Dividend paid	(IV)	Operating activity

Choose the correct answer from the options given below:

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

Correct Answer: (A) (A)-(III), (B)-(IV), (C)-(II), (D)-(I)

Solution: Step 1: Understand each activity

Purchase of Building is a capital expenditure related to acquiring fixed assets, thus an *Investing activity* (III).

Change in Inventory relates to daily business operations, hence an *Operating activity* (IV).

Cash Credit is a short-term borrowing, reflecting cash or cash equivalents (II).

Dividend Paid is a return to shareholders, classified as a *Financing activity* (I).

Step 2: Match accordingly

- (A) with (III)
- (B) with (IV)
- (C) with (II)

(D) with (I)

Step 3: Conclusion Therefore, the correct matching is option (A).

Quick Tip

Operating activities relate to daily operations; investing activities involve asset purchases/sales; financing activities include borrowings and dividends; cash credit is part of cash/cash equivalents.

5. Balance of Share Forfeited Account on the forfeited share not yet re-issued is:

- (a) Shown in the Shareholder's Fund
- (b) Transferred to Capital Reserve
- (c) Transferred to Capital Redemption Reserve
- (d) Transferred to General reserve

Correct Answer: (a) Shown in the Shareholder's Fund

Solution:

Step 1: Understanding Share Forfeiture

When shares are forfeited due to non-payment of calls or allotment money, the amount received on those shares is credited to the Share Forfeited Account.

Step 2: Treatment of Share Forfeited Account balance

If forfeited shares are not yet re-issued, the balance in Share Forfeited Account is shown as a part of **Shareholders' Fund** under the heading "Capital Reserve" or sometimes separately disclosed.

Only when the forfeited shares are re-issued, the amount transferred to Capital Reserve is the profit (if any) on re-issue.

Step 3: Conclusion

Therefore, the balance on forfeited shares not yet re-issued remains shown in Shareholders' Fund.

Quick Tip

Balance in Share Forfeited Account before re-issue is shown as part of Shareholders' Fund, not immediately transferred to capital reserves.

6. What is the correct sequence at the time of death of a partner?

- (A) Amount paid to Executor
- (B) Preparation of Revaluation account
- (C) Calculation of Amount Payable to executor of Deceased partner
- (D) Calculation of Revaluation Gain/Loss
- (E) Balance of Executor's loan A/c

Choose the correct answer from the options given below:

- (a) (B), (D), (C), (A), (E)
- (b) (B), (D), (A), (C), (E)
- (c) (D), (B), (C), (A), (E)
- (d) (D), (B), (A), (C), (E)

Correct Answer: (a) (B), (D), (C), (A), (E)

Solution:

Step 1: Preparation of Revaluation Account

At the time of death of a partner, the first step is to revalue the assets and liabilities of the firm. This is done by preparing the Revaluation Account to calculate the gain or loss on revaluation.

Step 2: Calculation of Revaluation Gain/Loss

After preparing the Revaluation Account, the gain or loss is calculated and transferred to partners' capital accounts in their profit sharing ratio.

Step 3: Calculation of Amount Payable to Executor

Next, the amount due to the deceased partner's executor is calculated based on the deceased partner's capital account balance, share of profits, and adjustments for revaluation.

Step 4: Payment to Executor

After calculation, the firm pays the amount due to the executor.

Step 5: Balance of Executor's Loan Account

Finally, the balance in Executor's Loan Account (if any) is determined and recorded.

Step 6: Conclusion

Hence, the correct sequence is: (B), (D), (C), (A), (E).

Quick Tip

At partner's death: revalue assets → calculate gain/loss → compute amount payable → pay executor → adjust executor's loan account.

7. Match List I with List II:

LIST I		LIST II	
A.	Horizontal Analysis	I.	Common size statement
B.	Vertical Analysis	II.	Comparative statement
C.	External Analysis	III.	Access to all published and unpublished information
D.	Internal analysis	IV.	Access only to published information

Choose the correct answer from the options given below:

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

Correct Answer: (C) A-II, B-I, C-IV, D-III

Solution: Step 1: Understand each type of analysis

Horizontal Analysis: Comparison of financial data across periods, which corresponds to a *Comparative statement* (II).

Vertical Analysis: Expresses items as a percentage of a base figure, so it is a *Common size statement* (I).

External Analysis: Limited to access only to published information (III).

Internal Analysis: Has access to all published and unpublished information (IV).

Step 2: Match accordingly

A matches II

B matches I

C matches IV

D matches III

Step 3: Conclusion

Therefore, option (C) is correct.

Quick Tip

Horizontal analysis uses comparative statements; vertical uses common size; internal analysis has broader info access than external.

8. When realisation expenses are paid by a partner on behalf of the firm, what is the journal entry made?

	Particulars	Debit (₹)	Credit (₹)
(a)	Realisation A/c Dr.	xxxxx	
	To Partner's Capital A/c		xxxxx
	Particulars	Debit (₹)	Credit (₹)
(b)	Partner's Capital A/c Dr.	xxxxx	
	To Realisation A/c		xxxxx
	Particulars	Debit (₹)	Credit (₹)
(c)	Partner's Capital A/c Dr.	xxxxx	
	To Bank A/c		xxxxx
	Particulars	Debit (₹)	Credit (₹)
(d)	Bank A/c Dr.	xxxxx	
	To Realisation A/c		xxxxx

Correct Answer: (a) Shown in the Shareholder's Fund

Solution:

Step 1: Understanding the Transaction.

When a partnership firm undergoes dissolution, certain expenses are incurred to realize the assets and settle the liabilities. If a partner makes a payment for these expenses from their

personal funds on behalf of the firm, it signifies that the firm owes this amount to the partner.

Step 2: Identifying the Accounts and Their Treatment.

The two primary accounts affected are:

- **Realisation Account:** This account is used to record all transactions related to the disposal of assets and settlement of liabilities during the dissolution process. Realisation expenses are a cost incurred for this process, and therefore, the **Realisation Account is debited**.
- **Partner's Capital Account:** When the partner pays the expenses, it effectively increases the amount the firm owes to that partner. This increase in the firm's liability towards the partner is reflected by **crediting the Partner's Capital Account**.

Step 3: Formulating the Journal Entry.

Based on the principles of debit and credit, the journal entry would be:

Particulars	Debit (₹)	Credit (₹)
Realisation A/c Dr.	xxxxx	
To Partner's Capital A/c		xxxxx
(Being realisation expenses paid by the partner on behalf of the firm)		

Step 4: Conclusion.

Therefore, the correct journal entry when realisation expenses are paid by a partner on behalf of the firm is to debit the Realisation Account and credit the Partner's Capital Account. This corresponds to option (a).

Quick Tip

Think of the partner paying as providing a temporary loan to the firm for these expenses, hence their capital account is credited.

9. Which item is shown under "Long-term Borrowings" in the Balance Sheet?

- (A) Trade payables
- (B) Public deposits
- (C) Short-term loans
- (D) Unpaid dividends

Correct Answer: (B) Public deposits

Solution: Step 1: Understand classification of liabilities

Long-term borrowings include funds borrowed for more than one year.

Public deposits are deposits accepted by companies for a fixed tenure, usually longer than a year, classified as long-term borrowings.

Trade payables are current liabilities.

Short-term loans are current liabilities.

Unpaid dividends are also current liabilities.

Step 2: Conclusion Only **Public deposits** are shown under Long-term Borrowings.

Quick Tip

Long-term borrowings include loans and deposits repayable after 12 months or more.

10. If debentures are issued to a vendor for assets purchased and the vendor's account is credited by ₹1,10,000, what is the journal entry if the debentures are issued at a premium of 10%?

(A) Vendor's A/c Dr. ₹1,00,000; To Debentures A/c ₹90,000; To Securities Premium Reserve A/c ₹10,000

(B) Vendor's A/c Dr. ₹1,10,000; To Debentures A/c ₹1,00,000; To Securities Premium Reserve A/c ₹10,000

(C) Vendor's A/c Dr. ₹1,10,000; To Debentures A/c ₹1,10,000

(D) Vendor's A/c Dr. ₹1,20,000; To Debentures A/c ₹1,10,000; To Securities Premium Reserve A/c ₹10,000

Correct Answer: (B) Vendor's A/c Dr. ₹1,10,000; To Debentures A/c ₹1,00,000; To Securities Premium Reserve A/c ₹10,000

Solution: Step 1: Understand the transaction

Debentures issued at 10% premium means the face value is less than the credited amount.

Face value of debentures = ₹1,00,000

Premium = 10% of ₹1,00,000 = ₹10,000

Vendor's account is credited with the total amount (face value + premium) = ₹1,10,000

Step 2: Journal entry

Vendor's A/c Dr. |1, 10, 000;

To Debentures A/c |1, 00, 000;

To Securities Premium Reserve A/c |10, 000

Step 3: Conclusion

Option (B) correctly reflects this entry.

Quick Tip

Debentures issued at premium credited to Debentures A/c at face value and Securities Premium Reserve A/c for premium amount.

Direction (Q11 to Q15): Based on following information of a company as at 31 March, 2017, answer question.

Items	₹
Inventory	1,00,000
Total Current Assets	1,60,000
Shareholders Fund	4,00,000
13% Debentures	3,00,000
Current liabilities	1,00,000
Net Profit before Tax	3,51,000
Cost of Revenue from operations	5,00,000

11. Based on the following information of a company as at 31 March, 2017, what will be the Current Ratio of the company?

- (a) 16 times
- (b) 2.6 : 1
- (c) 2 : 1
- (d) 1.6 : 1

Correct Answer: (d) 1.6 : 1

Solution:

Step 1: Understanding Current Ratio

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

Step 2: Calculation

Given:

Current Assets = ₹1,60,000,

Current Liabilities = ₹1,00,000.

$$\text{Current Ratio} = \frac{1,60,000}{1,00,000} = 1.6 : 1.$$

Quick Tip

Current ratio shows liquidity position by comparing current assets to current liabilities.

12. Calculate Liquid Assets and Quick Ratio of the Company.

- (a) ₹60,000 ; 0.6 : 1
- (b) ₹1,00,000 ; 1 : 1
- (c) ₹1,60,000 ; 1.6 : 1
- (d) ₹2,60,000 ; 2.6 : 1

Correct Answer: (a) ₹60,000 ; 0.6 : 1

Solution:

Step 1: Calculate Liquid Assets

Liquid Assets = Current Assets – Inventory

$$= ₹1,60,000 - ₹1,00,000 = ₹60,000.$$

Step 2: Calculate Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{₹60,000}{₹1,00,000} = 0.6 : 1.$$

Quick Tip

Quick ratio measures immediate liquidity by excluding inventory from current assets.

13. Calculate Debt Equity Ratio of the company based on the given data:

- (a) 2 : 1
- (b) 1 : 1
- (c) 0.75 : 1
- (d) 0.50 : 1

Correct Answer: (c) 0.75 : 1

Solution:

Step 1: Understand the formula

$$\text{Debt Equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholders' Fund}}.$$

Step 2: Identify values

Long-term Debt (Debentures) = ₹3,00,000

Shareholders' Fund (Equity) = ₹4,00,000

Step 3: Perform the calculation

$$\text{Debt Equity Ratio} = \frac{3,00,000}{4,00,000} = 0.75 : 1.$$

Quick Tip

Debt Equity Ratio measures financial leverage and risk by comparing debt to equity.

14. Calculate the Interest Coverage Ratio of the company.

- (a) 12 times
- (b) 10 times
- (c) 30 times
- (d) 8 times

Correct Answer: (b) 10 times

Solution:

Step 1: Calculate Interest Expense

$$\text{Interest} = 13\% \times 3,00,000 = 39,000.$$

Step 2: Calculate Earnings Before Interest and Tax (EBIT)

Assuming Net Profit before Tax includes interest, add back interest to get EBIT:

$$\text{EBIT} = \text{NPBT} + \text{Interest} = 3,51,000 + 39,000 = \text{₹}3,90,000.$$

Step 3: Calculate Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expense}} = \frac{3,90,000}{39,000} = 10.$$

Step 4: Interpretation

The company earns 10 times its interest expense before interest and tax, indicating strong ability to cover interest.

Quick Tip

Interest Coverage Ratio indicates how comfortably a company can pay interest on its debt.

15. Calculate the Inventory Turnover Ratio of the company.

- (a) 4.5 times
- (b) 7 times
- (c) 6 times
- (d) 5 times

Correct Answer: (d) 5 times

Solution:

Step 1: Understand Inventory Turnover Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}.$$

Here, average inventory is assumed equal to closing inventory ₹1,00,000 (as no other data provided).

Step 2: Calculate the ratio

$$= \frac{₹5,00,000}{₹1,00,000} = 5 \text{ times.}$$

Step 3: Interpretation

This means the company's inventory is sold and replenished 5 times a year, indicating inventory management efficiency.

Quick Tip

Higher inventory turnover ratio reflects faster movement of inventory.

16. Which of the following is correct regarding difference between sacrificing and gaining ratio?

- (A) Gaining Ratio is a more suitable parameter to measure new profit sharing ratio than Sacrificing Ratio.
- (B) Sacrificing Ratio is calculated at the time of the admission of the partner while Gaining Ratio is calculated at the time of retirement or death of the partner.
- (C) New partner's share of goodwill is divided between the old partners in gaining ratio while Goodwill paid to retiring partner is paid by the remaining partners in their Sacrificing ratio.
- (D) Sacrificing Ratio = Old Ratio – New Ratio and Gaining Ratio = New Ratio – Old Ratio.

Choose the correct answer from the following options:

- (a) B and D only
- (b) A and C only
- (c) A, B and D only
- (d) Only B

Correct Answer: (a) B and D only

Solution: Step 1: Definitions

Sacrificing Ratio is the ratio in which old partners give up their shares, typically calculated when a new partner is admitted.

Gaining Ratio is the ratio in which old partners gain shares, typically calculated when a partner retires or dies.

Step 2: Goodwill treatment

New partner's share of goodwill is generally divided among old partners in sacrificing ratio, not gaining ratio.

Goodwill paid to retiring partner is shared by remaining partners in gaining ratio.

Step 3: Formulae

Sacrificing Ratio = Old Ratio – New Ratio

Gaining Ratio = New Ratio – Old Ratio

Step 4: Conclusion

Statements (B) and (D) are correct; (A) and (C) are incorrect.

Quick Tip

Sacrificing ratio applies at admission; gaining ratio applies at retirement/death; goodwill sharing corresponds accordingly.

17. Arrange the following in the context of Cash Flow Statement:

- (A) Calculation of cash flow from Operating Activities
- (B) Calculation of cash flow from Financing Activities
- (C) Calculation of net increase/decrease in cash and cash equivalent during the year
- (D) Calculation of cash flow from Investing Activities
- (E) Calculation of net profit before tax and extraordinary item

Choose the correct answer from the options given below:

- (A) D, A, B, E, C
- (B) C, D, B, A, E
- (C) A, E, B, D, C
- (D) E, A, D, B, C

Correct Answer: (D) E, A, D, B, C

Solution: Step 1: Understand sequence in Cash Flow Statement preparation

First, calculate net profit before tax and extraordinary items (E).

Then calculate cash flows from operating activities (A).

Followed by cash flows from investing activities (D).

Then cash flows from financing activities (B).

Finally, calculate net increase/decrease in cash and cash equivalents during the year (C).

Step 2: Conclusion

The correct sequence is: E, A, D, B, C (option D).

Quick Tip

Cash Flow Statement starts with net profit, then operating, investing, financing activities, and finally net cash change.

18. Match List I with List II:

LIST - I		LIST - II	
A.	Prepaid insurance	I.	Share Capital
B.	Unclaimed Dividend	II.	Intangible Assets
C.	Patent	III.	Other Current Assets
D.	Calls in Arrears	IV.	Other Current Liabilities

Choose the correct answer from the options given below:

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

Correct Answer: (D) A-III, B-IV, C-II, D-I

Solution: Step 1: Understand each term

Prepaid insurance is a payment made in advance for insurance and is classified under *Other Current Assets* (III).

Unclaimed Dividend is a liability representing dividend declared but not yet claimed by shareholders, classified under *Other Current Liabilities* (IV).

Patent is an intangible asset representing exclusive rights and classified under *Intangible Assets* (II).

Calls in Arrears refers to the amount not paid by shareholders on shares called up and is deducted from *Share Capital* (I).

Step 2: Match accordingly

- A matches III
- B matches IV
- C matches II

D matches I

Step 3: Conclusion Therefore, option (D) is correct.

Quick Tip

Prepaid expenses are current assets; unclaimed dividends are current liabilities; patents are intangible assets; calls in arrears reduce share capital.

19. At the time of admission of a partner, if goodwill exists in the books of accounts, it will be written off among:

- (a) Old partners in sacrificing ratio
- (b) All the partners in new ratio
- (c) New partners in gaining ratio
- (d) Old partners in old profit-sharing ratio

Correct Answer: (d) Old partners in old profit-sharing ratio

Solution:

Step 1: Understanding goodwill treatment at admission

When a new partner is admitted and goodwill already exists in the books, it is written off to adjust the existing goodwill among the old partners.

Step 2: Old profit-sharing ratio

The goodwill balance is written off among the old partners in their **old profit-sharing ratio** (the ratio before admission of the new partner).

Step 3: Reason

This adjustment ensures the new partner does not benefit from goodwill created prior to admission.

Step 4: Conclusion

Therefore, goodwill is written off among old partners in the **old profit-sharing ratio**.

Quick Tip

Existing goodwill is written off among old partners in their old profit-sharing ratio at admission of a new partner.

20. If the capital employed in a business is ₹5,00,000, the average profit is ₹60,000, and the normal rate of return is 6%, the goodwill by the Capitalisation of Average Profit Method will be:

- (a) ₹2,00,000
- (b) ₹1,00,000
- (c) ₹2,50,000
- (d) ₹5,00,000

Correct Answer: (d) ₹5,00,000

Solution:

Step 1: Calculate Normal Profit

Normal Profit = Capital Employed × Normal Rate of Return

$$= ₹5,00,000 \times 6\% = ₹30,000.$$

Step 2: Capitalise Average Profit

Capitalised Value of Average Profit

$$= \frac{\text{Average Profit}}{\text{Normal Rate of Return}} = \frac{₹60,000}{6\%} = ₹10,00,000.$$

Step 3: Calculate Goodwill

$$\text{Goodwill} = \text{Capitalised Value} - \text{Capital Employed} = ₹10,00,000 - ₹5,00,000 = ₹5,00,000.$$

Step 4: Interpretation

The goodwill of the business, based on the excess average profit over the normal return, is ₹5,00,000.

Quick Tip

Capitalisation of Average Profit Method values goodwill as the excess capitalised profit over actual capital employed.

21. Arrange the following in a sequence in which amount realised from Assets will be utilized to pay:

- A. Partner's Loan
- B. Partner's Capital
- C. Secured debts of the firm
- D. Unsecured debts of the firm
- E. Residue to partners

Choose the correct answer from the options given below:

- (A) C, D, E, A, B
- (B) C, D, E, B, A
- (C) C, D, A, B, E
- (D) C, D, A, E, B

Correct Answer: (C) C, D, A, B, E

Solution: Step 1: Order of payment

First, secured debts are paid (C) as they have a priority claim on assets.

Then unsecured debts are paid (D).

Then partner's loans (A) which are outside capital account but have priority over capital.

Then partner's capital (B).

Finally, any residue is distributed among partners (E).

Step 2: Conclusion

The correct order is: C, D, A, B, E.

Quick Tip

In liquidation, secured creditors paid first, then unsecured, then partners' loans and capital, residue to partners.

22. Which of the following will not be shown in Realisation Account?

- (A) Unrecorded Asset realised
- (B) Unrecorded Liabilities paid off

- (C) Partner's Loan to the firm
- (D) Realisation Expenses

Correct Answer: (C) Partner's Loan to the firm

Solution: Step 1: Understand Realisation Account

Realisation Account records assets and liabilities relating to dissolution of the firm.

Unrecorded assets realised (A) and unrecorded liabilities paid off (B) are recorded here.

Realisation expenses (D) are also recorded here as expenses incurred in the process.

Partner's loan to the firm (C) is a separate account and not recorded in Realisation Account.

Step 2: Conclusion

Hence, Partner's Loan to the firm is not shown in Realisation Account.

Quick Tip

Realisation Account records only assets, liabilities, and expenses related to dissolution, not partners' loans.

23. Arrange the following in correct sequence according to the form and content of statement of Profit and Loss:

- (A) Employee Benefit Expenses
- (B) Tax provided
- (C) Revenue from operations
- (D) Purchase of stock in Trade
- (E) Dividend Income

Choose the correct answer from the options given below:

- (A) (C), (E), (D), (A), (B)
- (B) (C), (D), (E), (B), (A)
- (C) (C), (D), (E), (A), (B)
- (D) (C), (A), (B), (D), (E)

Correct Answer: (A) (C), (E), (D), (A), (B)

Solution: Step 1: Order of items in Profit and Loss Statement

Revenue from operations (C) comes first as the main income item.

Dividend income (E) is other income, generally shown after revenue.

Purchase of stock in trade (D) is part of cost of goods sold, shown after income.

Employee benefit expenses (A) are operating expenses appearing next.

Tax provided (B) is shown at the end as a deduction from profit before tax.

Step 2: Conclusion

Correct sequence is: (C), (E), (D), (A), (B).

Quick Tip

Profit and Loss statement arranges main revenue, other income, cost items, expenses, and finally tax.

24. Securities Premium cannot be used:

- (a) to issue fully paid bonus shares
- (b) to write-off preliminary expenses of the company.
- (c) to pay premium on the redemption of preference shares or debentures of the company.
- (d) to pay dividend to the shareholders of the company

Correct Answer: (d) to pay dividend to the shareholders of the company

Solution: Step 1: Understanding Securities Premium Account usage.

Securities Premium Account is a capital reserve created when shares are issued at a premium. According to the Companies Act, the premium amount can be used only for specific purposes, such as:

Issuing fully paid bonus shares to shareholders,

Writing off preliminary expenses of the company,

Paying premium on the redemption of preference shares or debentures.

Step 2: Restrictions on Securities Premium.

It cannot be used for distributing dividends to shareholders, as dividends must be paid out of the company's profits, not capital reserves like the Securities Premium Account.

Therefore, option (d) is the correct answer.

Quick Tip

Remember, securities premium is a capital reserve and cannot be distributed as dividends; it is mainly used for issuing bonus shares, writing off expenses, or paying redemption premiums.

25. Match List I with List II:

LIST I		LIST II	
A.	Employee benefit expenses	II	Operating activity
B.	Dividend received	I	Investing activity
C.	Loan raised	I	Financing activity

Choose the correct answer from the options given below:

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

Correct Answer: (C) A-II, B-I, C-IV, D-III

Solution: Step 1: Understand each item

Employee benefit expenses relate to day-to-day operations, thus classified under *Operating activity* (II).

Dividend received is income from investments, considered as *Investing activity* (I).

Loan raised is related to raising funds, hence a *Financing activity* (IV).

Proceeds from earthquake disaster management is an unusual, non-recurring item, classified as an *Extraordinary item* (III).

Step 2: Match accordingly

- A matches II
- B matches I
- C matches IV

D matches III

Step 3: Conclusion

Therefore, option (C) is correct.

Quick Tip

Operating activities relate to routine expenses; investing activities involve returns from investments; financing activities involve raising funds; extraordinary items are unusual and infrequent.

26. During the financial year 2021-22, Surjeet withdrew ₹30,000 quarterly at the beginning of every quarter. If interest to be charged is 8% p.a., calculate the amount of interest on drawings:

- (a) ₹3,600
- (b) ₹4,800
- (c) ₹2,400
- (d) ₹6,000

Correct Answer: (d) ₹6,000

Solution:

Step 1: Understand the problem

Surjeet withdraws ₹30,000 at the beginning of each quarter, i.e., 4 withdrawals in a year.

Interest rate is 8

Step 2: Calculate interest on each withdrawal

Since withdrawals are at the beginning of each quarter, interest is calculated for:

1st withdrawal: 12 months

2nd withdrawal: 9 months

3rd withdrawal: 6 months

4th withdrawal: 3 months

Step 3: Calculate interest for each withdrawal

$$\text{Interest} = \text{Amount} \times \text{Rate} \times \frac{\text{Time}}{12}$$

For 1st withdrawal:

$$30,000 \times 8\% \times \frac{12}{12} = |2,400$$

For 2nd withdrawal:

$$30,000 \times 8\% \times \frac{9}{12} = |1,800$$

For 3rd withdrawal:

$$30,000 \times 8\% \times \frac{6}{12} = |1,200$$

For 4th withdrawal:

$$30,000 \times 8\% \times \frac{3}{12} = |600$$

Step 4: Total interest on drawings

$$|2,400 + |1,800 + |1,200 + |600 = |6,000.$$

Quick Tip

Calculate interest on each withdrawal separately considering the exact period each amount remains withdrawn.

27. A, B, and C were partners in a partnership firm sharing profits in the ratio 5:3:2. B retires and the new profit-sharing ratio between A and C is 3:2. Calculate the gaining ratio of A and C.

- (a) 3 : 8
- (b) 1 : 3
- (c) 7 : 2
- (d) 1 : 2

Correct Answer: (d) 1 : 2

Solution:

Step 1: Original profit-sharing ratio

$$A : B : C = 5 : 3 : 2.$$

Step 2: New profit-sharing ratio after B's retirement

$$A : C = 3 : 2.$$

Step 3: Calculate old shares of A and C

Since total share = $5 + 3 + 2 = 10$,

$$A's \text{ old share} = \frac{5}{10} = 0.5,$$

$$C's \text{ old share} = \frac{2}{10} = 0.2.$$

Step 4: Calculate new shares of A and C

Sum of new shares = $3 + 2 = 5$.

Normalize to 1:

$$A's \text{ new share} = \frac{3}{5} = 0.6,$$

$$C's \text{ new share} = \frac{2}{5} = 0.4.$$

Step 5: Calculate gaining ratio

Gaining ratio = New share – Old share

$$A : 0.6 - 0.5 = 0.1, \quad C : 0.4 - 0.2 = 0.2.$$

Step 6: Express gaining ratio as integers

$$0.1 : 0.2 = 1 : 2.$$

Step 7: Conclusion

Therefore, the gaining ratio of A and C is 1 : 2.

Quick Tip

Gaining ratio is calculated by subtracting old share from new share for each remaining partner.

28. Match List - I with List – II.

LIST - I		LIST - II	
(A)	No. of years purchase	(I)	Excess of average profit over normal profit
(B)	Super profit	(II)	Expected profit in the industry
(C)	Normal profit	(III)	Total profit divided by number of years
(D)	Average profit	(IV)	No. of years the firm continues to earn same profit

Choose the correct answer from the options given below:

- (a) (A)-(IV), (B)-(I), (C)-(II), (D)-(III)
- (b) (A)-(II), (B)-(I), (C)-(IV), (D)-(III)
- (c) (A)-(I), (B)-(IV), (C)-(II), (D)-(III)
- (d) (A)-(III), (B)-(IV), (C)-(II), (D)-(I)

Correct Answer: (a) (A)-(IV), (B)-(I), (C)-(II), (D)-(III)

Solution: Step 1: Understand each term in List - I and match it with its correct definition in List - II.

(A) *No. of years purchase* means the number of years the firm is expected to continue earning the same profit, which matches with (IV).

(B) *Super profit* is the excess of average profit over normal profit, matching with (I).

(C) *Normal profit* refers to the expected profit in the industry, matching with (II).

(D) *Average profit* is total profit divided by number of years, matching with (III).

Step 2: Verify the correctness of option (a) with these matches.

Option (a) correctly pairs all List - I items with their corresponding List - II definitions.

Quick Tip

For matching type questions, carefully understand the definitions or meanings of terms before matching. Focus on keywords like "excess," "expected," or "average" to find correct pairs.

29. Identify the other name by which Liquid ratio is known:

- (A) Current Ratio

- (B) Activity Ratio
- (C) Quick Ratio / Acid Test Ratio
- (D) Solvency Ratio

Correct Answer: (C) Quick Ratio / Acid Test Ratio

Solution: Step 1: Understand Liquid Ratio

Liquid ratio measures the company's ability to meet short-term obligations using liquid assets (excluding inventory).

It is also known as *Quick Ratio* or *Acid Test Ratio*.

Current ratio includes inventory and is different from liquid ratio.

Step 2: Conclusion

Hence, Liquid ratio is also called Quick Ratio or Acid Test Ratio.

Quick Tip

Liquid ratio = $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$, also called Quick or Acid Test Ratio.

30. The Debentures that are payable on the expiry of the specific period either in lumpsum or in instalments during life time of the company are called:

- (A) Secured Debentures
- (B) Redeemable Debentures
- (C) Perpetual Debentures
- (D) Specific Coupon Rate Debentures

Correct Answer: (B) Redeemable Debentures

Solution: Step 1: Understand types of debentures

Redeemable Debentures are repayable at the end of a fixed period or in installments during the company's lifetime.

Perpetual Debentures have no fixed maturity and are not repayable.

Secured Debentures are backed by assets but may be redeemable or perpetual.

Specific Coupon Rate Debentures refer to the interest rate, not repayment terms.

Step 2: Conclusion

Therefore, debentures payable after a specific period or in installments are Redeemable Debentures.

Quick Tip

Redeemable Debentures have fixed maturity and repayment terms, unlike perpetual debentures.

31. Aman and Riya share profits in the ratio 5:3. They admitted Kunal for $\frac{1}{4}$ share, which he took equally from both. Calculate the new ratio.

- (A) 3 : 2 : 1
- (B) 9 : 7 : 4
- (C) 10 : 6 : 3
- (D) 5 : 3 : 2

Correct Answer: (A) 2 : 1 : 1

Solution:

Step 1: Initial shares of Aman and Riya

The ratio of their profits is 5 : 3. Total parts = $5 + 3 = 8$.

So, Aman's share = $\frac{5}{8}$, Riya's share = $\frac{3}{8}$.

Step 2: Kunal's admitted share

Kunal is admitted for $\frac{1}{4}$ share of the profits. So, the remaining share left for Aman and Riya together is:

$$1 - \frac{1}{4} = \frac{3}{4}$$

Step 3: Kunal's share is taken equally from Aman and Riya

Kunal takes $\frac{1}{4}$ share equally from both, so each gives: $\frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$.

Step 4: New shares of Aman, Riya, and Kunal

$$\text{Aman's new share} = \frac{5}{8} - \frac{1}{8} = \frac{4}{8} = \frac{1}{2}$$

$$\text{Riya's new share} = \frac{3}{8} - \frac{1}{8} = \frac{2}{8} = \frac{1}{4}$$

$$\text{Kunal's share} = \frac{1}{4}$$

Step 5: Expressing the new shares in ratio form

$$\text{New ratio} = \frac{1}{2} : \frac{1}{4} : \frac{1}{4} = 2 : 1 : 1.$$

Quick Tip

When a new partner is admitted by taking equal shares from existing partners, subtract the shares equally and find the new ratio by expressing all shares as fractions of the total.

32. A machinery worth ₹75,000 was undervalued by 10%. What will be its new value in the Balance Sheet?

- (A) ₹67,500
- (B) ₹82,500
- (C) ₹75,000
- (D) ₹70,000

Correct Answer: (A) ₹67,500

Solution:**Step 1: Understand undervaluation**

Undervaluation means the machinery's value recorded is less than its actual value. Here, undervaluation is 10

Step 2: Calculate undervaluation amount

$$\text{Undervaluation} = 10\% \times 75,000 = \frac{10}{100} \times 75,000 = ₹7,500.$$

Step 3: Calculate the new (corrected) value

$$\begin{aligned} \text{New value} &= \text{Original value} - \text{Undervaluation} \\ &= ₹75,000 - ₹7,500 = ₹67,500. \end{aligned}$$

Quick Tip

To find the corrected value after undervaluation, subtract the percentage undervaluation from the original value.

33. A firm earned ₹90,000 profit. Mohit is guaranteed ₹40,000 for his $\frac{1}{4}$ share. How much deficiency will others bear in 3:1 ratio?

- (A) ₹5,000
- (B) ₹10,000
- (C) ₹15,000
- (D) ₹20,000

Correct Answer: (B) ₹10,000

Solution:

Step 1: Calculate Mohit's actual share from profit

$$\text{Mohit's share} = \frac{1}{4} \times 90,000 = ₹22,500.$$

Step 2: Guaranteed amount vs actual share

Mohit is guaranteed ₹40,000 but actually earned ₹22,500, so deficiency in Mohit's share = $₹40,000 - ₹22,500 = ₹17,500.$

Step 3: Remaining profit for others

Total profit = ₹90,000, Mohit gets ₹40,000 guaranteed, so remaining profit for others = $₹90,000 - ₹40,000 = ₹50,000.$

Step 4: Others' rightful share

Since Mohit's share is $\frac{1}{4}$, others' share is $\frac{3}{4}$

$$\text{Rightful share of others} = \frac{3}{4} \times 90,000 = ₹67,500.$$

Step 5: Deficiency borne by others

$$\text{Deficiency} = \text{Rightful share} - \text{actual share} = ₹67,500 - ₹50,000 = ₹17,500.$$

Step 6: Divide deficiency in ratio 3:1

$$\text{Sum of ratio parts} = 3 + 1 = 4$$

$$\text{Each part} = \frac{₹17,500}{4} = ₹4,375$$

So, the shares are:

$$\text{- Partner 1 bears} = 3 \times ₹4,375 = ₹13,125$$

$$\text{- Partner 2 bears} = 1 \times ₹4,375 = ₹4,375$$

Step 7: Answer for deficiency others bear

The question typically asks how much deficiency others bear in total or how much one of

them bears. The total deficiency is ₹17,500. However, sometimes, options correspond to a part. Checking options: none is ₹17,500, so likely question expects difference in Mohit's share |17,500 is split and the difference others bear in total = ₹17,500. If the question wants deficiency one partner bears in 3:1 ratio, the smaller part is ₹4,375 which does not match options, so possibly question options assume the difference Mohit has in share |17,500 and part of ₹10,000 is the closest.

If the question strictly asks "how much deficiency will others bear in 3:1 ratio?" and answer options are given as in multiples of ₹5,000, then the deficiency is the difference Mohit has, |17,500, split accordingly. Sometimes rounding or misinterpretation causes this. Based on standard calculation, total deficiency others bear = ₹17,500.

Quick Tip

When guaranteed amount is higher than actual share, deficiency is borne by other partners in their agreed ratio by subtracting the shortfall from their shares.

34. ABC & Co. had 3 partners: Alok, Bhavya, and Chirag, sharing profits in 4:3:3. The firm dissolved on 31 March 2024. Assets worth ₹9,00,000 were realized at 80%, creditors of ₹70,000 were paid, and an unrecorded liability of ₹20,000 was settled for ₹15,000. Realization expenses of ₹25,000 were borne by Alok.

Q1: Find the amount realized from assets.

Q2: What journal entry is made for realization expenses paid by Alok?

Q3: The unrecorded liability settled at a lesser value causes:

34(1). Find the amount realized from assets.

- (A) ₹7,20,000
- (B) ₹7,00,000
- (C) ₹8,00,000
- (D) ₹9,00,000

Correct Answer: (A) ₹7,20,000

Solution: Step 1: Calculate amount realized

Assets worth ₹9,00,000 realized at 80%.

$$\text{Amount realized} = 9,00,000 \times 80\% = 7,20,000$$

Quick Tip

Realized amount = Asset value $\times$ Realization percentage.

34(2). What journal entry is made for realization expenses paid by Alok?

- (A) Realisation Expenses A/c Dr. ₹25,000; To Alok's Capital A/c ₹25,000
- (B) Alok's Capital A/c Dr. ₹25,000; To Realisation Expenses A/c ₹25,000
- (C) Realisation Expenses A/c Dr. ₹25,000; To Cash A/c ₹25,000
- (D) Cash A/c Dr. ₹25,000; To Realisation Expenses A/c ₹25,000

Correct Answer: (A) Realisation Expenses A/c Dr. ₹25,000; To Alok's Capital A/c ₹25,000

Solution: Step 1: Understand realization expenses borne by partner

Since Alok paid ₹25,000 realization expenses personally, Realisation Expenses A/c is debited to recognize the expense.

Alok's Capital A/c is credited because the firm owes him reimbursement.

Step 2: Conclusion Journal entry:

Realisation Expenses A/c Dr. ₹25,000; To Alok's Capital A/c ₹25,000

Quick Tip

Expenses paid by partner personally are recorded as credit to that partner's capital account.

34(3). The unrecorded liability settled at a lesser value causes:

- (A) Profit on realization
- (B) Loss on realization
- (C) No effect on realization

(D) Profit sharing ratio change

Correct Answer: (A) Profit on realization

Solution: Step 1: Understand effect of settling unrecorded liability at less

Unrecorded liability of ₹20,000 was settled at ₹15,000 (less than liability).

This difference of ₹5,000 is a gain for the firm, recorded as profit on realization.

Step 2: Conclusion

Settling unrecorded liabilities at less causes profit on realization.

Quick Tip

If liability is settled for less than amount, the difference is treated as profit on realization.

35. A firm has current assets ₹2,50,000 and current liabilities ₹1,00,000. Find the current ratio.

(A) 1.5:1

(B) 2:1

(C) 2.5:1

(D) 3:1

Correct Answer: (C) 2.5:1

Solution: The current ratio is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2,50,000}{1,00,000} = 2.5$$

Thus, the current ratio is **2.5:1**.

Quick Tip

The current ratio helps assess a firm's liquidity by comparing its current assets to current liabilities. A higher ratio indicates better short-term financial health.

36. If a partner is given salary and commission, how are these shown in the accounts?

- (A) Credited to the partner's capital account
- (B) Debited to the Profit and Loss Account
- (C) Debited to the Profit and Loss Appropriation Account
- (D) Debited to the Realization Account

Correct Answer: (C) Debited to the Profit and Loss Appropriation Account

Solution: When a partner is given salary or commission, these are treated as part of the profit-sharing arrangement and are shown in the **Profit and Loss Appropriation Account**.

- The partner's salary and commission are debited to the Profit and Loss Appropriation Account. - The corresponding credit goes to the individual partner's capital account.

The journal entry will be:

Profit and Loss Appropriation Account Dr.

Salary and Commission to Partner

To Partner's Capital Account

Quick Tip

Salary and commission given to a partner are treated as expenses for the firm and are shown in the Profit and Loss Appropriation Account. These amounts are credited to the partner's capital account.

37. P and Q are partners sharing profits in a 5:3 ratio. They allow interest on capital at 6% p.a. If P's capital is ₹1,20,000, what is the interest credited to his capital account?

- (A) ₹7,000
- (B) ₹7,200
- (C) ₹7,500

(D) ₹8,000

Correct Answer: (B) ₹7,200

Solution: Interest on capital is calculated as a percentage of the partner's capital.

$$\text{Interest on P's Capital} = \frac{6}{100} \times 1,20,000 = ₹7,200$$

Thus, the interest credited to P's capital account is ₹7,200.

Quick Tip

Interest on capital is calculated at the agreed rate on the partner's capital. This interest is credited to the partner's capital account.

38. R and S are partners in a 4:1 ratio. T is admitted and gets 1/5 share, equally from both. Find the new ratio.

(A) 16:4:5

(B) 8:2:5

(C) 4:1:5

(D) 3:2:5

Correct Answer: (A) 16:4:5

Solution: R and S are currently sharing profits in a 4:1 ratio. When T is admitted, he gets 1/5 of the total share, and this share will be equally distributed between R and S.

- T's share = $\frac{1}{5}$

Thus, the remaining share is $1 - \frac{1}{5} = \frac{4}{5}$.

Since R and S share this remaining $\frac{4}{5}$ in the ratio of 4:1, we need to split the remaining share between R and S.

The total parts of the ratio = $4 + 1 = 5$.

Thus, the share for R is:

$$\frac{4}{5} \times \frac{4}{5} = \frac{16}{25}$$

The share for S is:

$$\frac{1}{5} \times \frac{4}{5} = \frac{4}{25}$$

Therefore, the new ratio of R, S, and T is:

$$R : S : T = \frac{16}{25} : \frac{4}{25} : \frac{1}{5} = 16 : 4 : 5$$

Thus, the new profit-sharing ratio is 16:4:5.

Quick Tip

When a new partner is admitted, the existing partners' shares are diluted to accommodate the new partner's share. The shares are adjusted based on the existing profit-sharing ratio.

39. On the death of a partner, his capital account is credited with:

- (A) Share of profit
- (B) Share of goodwill
- (C) Share of accumulated profits
- (D) All of the above

Correct Answer: (D) All of the above

Solution: On the death of a partner, the following amounts are credited to the deceased partner's capital account:

1. The balance of the capital account at the time of death.
2. His share of the accumulated profits or losses.
3. His share of goodwill, if applicable.
4. Any outstanding loan amount due from the firm to the deceased partner.

The journal entry for the death of a partner is:

To Deceased Partner's Capital Account Balance of capital and share of profits

Quick Tip

The deceased partner's capital account is credited with his share of capital, profits, good-will, and any loans owed by the firm.

40. If unrecorded assets are taken over by a partner, the entry will be:

- (A) To Unrecorded Assets Account
- (B) To Deceased Partner's Capital Account
- (C) To Realisation Account
- (D) To Partner's Capital Account

Correct Answer: (D) To Partner's Capital Account

Solution: If unrecorded assets are taken over by a partner, the journal entry is:

Unrecorded Assets Account *Dr.* To Partner's Capital Account

This entry reflects the transfer of unrecorded assets to the partner's capital account. The value of the unrecorded assets is credited to the partner who takes them over.

Quick Tip

When a partner takes over unrecorded assets, the value of those assets is credited to the partner's capital account.

41. 600 shares of ₹10 each were issued at 20% premium. Final call of ₹3 not received on 100 shares. What is the forfeiture amount?

- (A) ₹2000
- (B) ₹1800
- (C) ₹1500
- (D) ₹1000

Correct Answer: (C) ₹1500

Solution: - Face value of each share = ₹10 - Premium on each share = 20% of ₹10 = ₹2 -
Total amount due per share = ₹10 + ₹2 + ₹3 = ₹15
For 100 shares, the final call of ₹3 is not received, so the amount to be forfeited for each share is:

$$\text{Forfeited Amount per Share} = \text{Total Amount Due} - \text{Amount Received} = |15 - |12 = |3$$

Thus, the total forfeiture amount for 100 shares is:

$$\text{Forfeiture Amount} = 100 \times |3 = |300$$

Quick Tip

When shares are forfeited, the amount received is considered, and the difference is the forfeiture amount. Always remember to subtract the amount received from the total due.

42. Purchase of land using a cheque is classified as: (Cash Flow Statement question)

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

Correct Answer: (B) Investing Activity

Solution: The purchase of land is considered an investing activity. According to the cash flow statement classification, investing activities include the acquisition and disposal of long-term assets, such as land, buildings, and equipment. Since a cheque is being used, it is a cash outflow associated with an investment in long-term assets.

Thus, the purchase of land using a cheque is classified under **Investing Activity**.

Quick Tip

Investing activities involve the purchase and sale of long-term assets. Any payment for acquiring assets such as land is classified as an investing activity in the cash flow statement.
