

12th ACCOUNTANCY

THEORY GUIDE

2022 - 23



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12th ACCOUNTANCY – 2022-23**TWO MARKS****UNIT – 1****ACCOUNTS FROM INCOMPLETE RECORDS****1. What is meant by incomplete records?****Incomplete Records – Meaning:**

- 1) When accounting records are not strictly maintained according to double entry system, these records are called incomplete accounting records.
- 2) Generally, cash accounts and the personal accounts of customers and creditors are maintained fully and other accounts are maintained based on necessity.

2. State the accounts generally maintained by small sized sole trader when double entry accounting system is not followed.

- Generally cash account and the personal accounts of customers and creditors are maintained by small sized sole trader.
- When double entry accounting system is not followed.

3. What is a statement of affairs?**Statement of Affairs – Meaning:**

- 1) A statement of affairs is a statement showing the balances of assets and liabilities on a particular date.
- 2) The balance of assets are shown on the right side and the balance of liabilities on the left side.
- 3) This statement resembles a balance sheet.
- 4) The difference between the total of assets and total of liabilities is taken as capital.
Capital = Assets – Liabilities.

UNIT – 2**ACCOUNTS OF NOT-FOR-PROFIT ORGANISATION****1. State the meaning of not-for-profit organisation.****Meaning of not-for-profit organisation**

- Some organisations are established for the purpose of rendering services to the public without any profit motive.
- They may be created for the promotion of art, culture, education and sports, etc.
- These organisations are called not-for-profit organisation.

2. What is receipts and payments account?**Receipts and Payments Account – Meaning:**

- Receipts and Payments account is a summary of cash and bank transactions of not-for-profit organisations prepared at the end of each financial year.
- It is a real account in nature.

3. What is legacy?**Legacy – Meaning:**

- a. It is the amount given to a non-trading concern as per the will.
- b. It is like a donation.
- c. It appears on the debit side of receipts and payments account, but is not treated as income because it is not of recurring nature.
- d. It is a capital receipt.

4. Write a short note on life membership fees.**Short note on Life Membership Fees:**

- Life membership fee is accounted as a capital receipt and added to capital fund on the liabilities side of Balance sheet.
- It is non – recurring in nature.

5. Give four examples for capital receipts of not-for-profit organisation.**Four examples for capital receipts of not-for-profit organisation**

- 1) Life membership fees
- 2) Legacies
- 3) Specific donation
- 4) Sale of fixed assets

6. Give four examples for revenue receipts of not-for-profit organisation:**Four examples for revenue receipts of not-for-profit organisation**

- 1) Subscription
- 2) Interest on investment
- 3) Interest on fixed deposit
- 4) Sale of old sports material

UNIT – 3**ACCOUNTS OF PARTNERSHIP FIRMS - FUNDAMENTALS****1. Define partnership.****Partnership – Definition:**

According to Section 4 of the Indian Partnership Act, 1932, partnership is defined as, “**the relation between person who have agreed to share the profits of a business carried on by all or any of them acting for all**”.

2. What is a partnership deed?**Partnership Deed – Meaning:**

- 1) Partnership deed is a document in writing that contains the terms of the agreement among the partners.
- 2) It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932. But, it is desirable to have a partnership deed as it serves as an evidence of the terms of the agreement among the partners.

3. What is meant by the fixed capital method?**Fixed Capital Method – Meaning:**

- ♣ Under the fixed capital method, the capital of the partners is not altered and it remains generally fixed.
- ♣ Two accounts are maintained for each partner namely
 - ♣ Capital account
 - ♣ Current account.
- ♣ The transactions relating to initial capital introduced, additional capital introduced, and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

4. What is the journal entry to be passed for providing interest on capital to a partner?**(a) For providing interest on capital**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Interest on Capital A/c Dr. To Partner's Capital current A/c		xxx	xxx

(b) For closing interest on capital account

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and Loss appropriation A/c Dr. To Interest on Capital A/c		xxx	xxx

5. Why is the Profit and loss appropriation account prepared?**The following reasons Profit and Loss Appropriation Account Prepared:**

- ✎ The profit and loss appropriation account is an extension of the profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners.
- ✎ It is a nominal account in nature.
- ✎ It is credited with net profit, interest on drawings and it is debited with interest on capital, salary, and other remuneration to the partners.
- ✎ The balance being the profit or loss is transferred to the partners' capital or current account in the profit-sharing ratio.

UNIT – 4**GOODWILL IN PARTNERSHIP ACCOUNTS****1. What is goodwill?****Goodwill – Meaning:**

- Goodwill is the good name or reputation of the business which brings benefit to the business.
- It enables the business to earn more profit.
- It is the present value of a firm's future excess earnings.

2. What is Acquired Goodwill or Purchased Goodwill?**Acquired Goodwill or Purchased Goodwill**

- Goodwill acquired by making payment in cash or kind is called acquired or purchased goodwill.
- When a firm purchases an existing business, the price paid for purchase of such business may exceed the net assets (Assets – Liabilities) of the business acquired.

3. What is super profit?**Super Profit – Meaning:**

- Super profit is the excess of average profit over the normal profit of a business.
- Super profit = Average profit – Normal profit.

4. What is normal rate of return?**Normal Rate of Return – Meaning:**

- It is the rate at which profit is earned by similar business entities in the industry under normal circumstances.

5. State any two circumstances under which goodwill of a partnership firm is valued?**The following circumstances under which goodwill of a partnership firm is valued**

- When there is a change in the profit sharing ratio.
- When a new partner is admitted into a firm.
- When an existing partner retires from the firm or when a partner dies.
- When a partnership firm is dissolved.

UNIT – 5
ADMISSION OF A PARTNER

1. What is meant by revaluation of assets and liabilities?**Revaluation of Assets and Liabilities**

- ♣ When a partner is admitted into the partnership the assets and liabilities are revealed as the current value may differ from the book value.
- ♣ Determination of current values of assets and liabilities is called revaluation of assets and liabilities.

2. How are accumulated profits and losses distributed among the partners at the time of admission of a new partner?**Accumulated profits and losses distributed among the partners at the time of admission of a new partner:**

- ♣ Profits and losses of previous years which are not distributed to the partners are called accumulated profit and losses.
- ♣ This belong to the old partners and hence these should be distributed to the old partners in the old profit sharing ratio.

3. What is sacrificing ratio?**Sacrificing Ratio – Meaning:**

- ♣ Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.
- ♣ The purpose of finding the sacrificing ratio is to share the goodwill brought in by the new partner.
- ♣ Sacrifice Ratio = Old share – New share

4. Give the journal entry for writing off existing goodwill at the time of admission of a new partner.**Journal entry**

Date	Particulars	L.F.	Debit ,	Credit ,
	Old partners' capital / current A/c (in old ratio) Dr. To Goodwill A/c (Existing goodwill written off)		XXX	XXX

5. State whether the following will be debited or credited in the revaluation account.

- 1) Depreciation on assets
- 2) Unrecorded liability
- 3) Provision for outstanding expenses
- 4) Appreciation of assets

Answer

1. Depreciation on assets – **Debited**
2. Unrecorded liability – **Debited**
3. Provision for outstanding expenses – **Debited**
4. Appreciation of assets – **Debited**

UNIT – 6
RETIREMENT AND DEATH OF A PARTNER
1. What is meant by retirement of a partner?**Retirement of a Partner:**

- When a partner leaves from partnership firm it is known as retirement.
- The reasons for the retirement of a partner may be illness, old age and disagreement with other partners, etc.

2. What is gaining ratio?**Gaining Ratio – Meaning:**

- a) Gaining ratio is the proportion of the profit which is gained by the continuing partner.
- b) Gaining ratio = Ratio of share gained by the continuing partners.
- c) Share gained = New share – Old share

3. What is the purpose of calculating gaining ratio?**The following purpose of calculating gaining ratio:**

- The purpose of finding the gaining ratio is to bear the goodwill to be paid to the retiring partner.

4. What is the journal entry to be passed to transfer the amount due to the deceased partner to the executor of the deceased partner?

To transfer the amount due to the deceased partner to the executor or legal representative of the deceased partner.

Date	Particulars	L.F.	Debit	Credit
	Deceased partner's capital A/c Dr. To Deceased partner's executor A/c (Amount Transferred to deceased partner's account)		xxx	xxx

UNIT – 7
COMPANY ACCOUNTS
1. What is a share?**Share – Meaning:**

- ✘ The capital of a company is divided into small units of fixed amount.
- ✘ These units are called shares.
- ✘ There are two types : **1)** Preference shares and **2)** Equity shares.

2. What is over – subscription?**Over – Subscription – Meaning:**

- ✎ When the number of shares applied for is more than the number of shares offered for subscription it is said to be over subscription.

3. What is meant by calls in arrear?**Calls in arrear – Meaning:**

- When a shareholder fails to pay the amount due on the allotment or on calls, the amount remaining unpaid is known as calls in arrears.

4. Write a short note on securities premium account.**Short note on securities premium account:**

- ✎ When a company issues shares at a price more than face value, the shares are said to be issued at premium.
- ✎ The excess is called as premium amount and is transferred to securities premium account.
- ✎ It is shown under "reserves and surplus" as a separate head in the note to accounts to the balance sheet.

5. Why are the shares forfeited?**Shares Forfeited – Meaning:**

- When a shareholder defaults in making payment of allotment and/or call money, the shares may be forfeited.

UNIT – 8
FINANCIAL STATEMENT ANALYSIS

1. What are financial statements?**Financial Statements – Meaning:**

- ♣ Financial statements are the statements prepared by the business concerns at the end of the accounting period to ascertain the operating results and the financial position.

2. List the tools of financial statement analysis.**Tools of financial statement analysis**

- Comparative Statement.
- Common Size Statement.
- Trend Analysis.
- Funds Flow Analysis.
- Cash Flow Analysis.

3. What is working capital?**Working Capital – Meaning:**

- ♣ Working capital statement or schedule of changes in working is prepared to disclose net changes in working capitals on two specific dates (generally two balance sheet dates).
- ♣ It is prepared from current assets and current liabilities.
- ♣ Working Capital = Current Assets – Current Liabilities

4. When is trend analysis preferred to other tools?**Trend analysis preferred to other tools:**

- Trend refers to the tendency of movement.
- Trend analysis refers to the study of the movement of figures over a period.
- The trend may be an increasing trend or a decreasing trend or irregular.

- When data for more than two years are to be analyzed, it may be difficult to use a comparative statement.
- For this purpose, the trend analysis may be used.

UNIT – 9 - RATIO ANALYSIS

1. What is meant by accounting ratios?

Accounting Ratios – Meaning:

- a) Ratio is a mathematical expression of relationship between two related or interdependent items.
- b) It is the numerical or quantitative relationship between two items.
- c) It is calculated by dividing one item by the other related item.
- d) When ratios are calculated on the basis of accounting information, these are called 'accounting ratios'.

2. What is quick ratio?

Quick Ratio – Meaning:

- * Quick ratio gives the proportion of quick assets to current liabilities.
- * It indicates whether the business concern is in a position to pay its current liabilities as and when they become due, out of its quick assets.
- * It is otherwise called "liquid ratio" or "acid test ratio".
- * **Quick ratio = Quick assets - Current liabilities**

3. What is meant by debt equity ratio?

Debt Equity Ratio – Meaning:

- * It is calculated to assess the long term solvency position of a business concern.
- * Debt equity ratio expresses the relationship between long term debt and shareholder's funds.
- * $\text{Debt equity ratio} = \frac{\text{Long term debt}}{\text{Shareholders funds}}$
- * $\text{Capital employed} = \text{Shareholder's funds} + \text{Non current liabilities}$
- * Greater the return on investment better is the profitability of a business and vice versa.

4. What does return on investment ratio indicate?

Return on investment ratio indicate:

- * It shows the proportion of net profit before interest and tax to capital employed (shareholder's fund and long term debts).
- * It is an overall measure of profitability of a business concern.

$$\frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$$

- * $\text{Capital employed} = \text{Shareholder's funds} + \text{Non-current liabilities}$
- * Greater the return on investment better is the profitability of a business and vice versa.

5. State any two limitations of ratio analysis.

Limitations of ratio analysis

Ratios are only means:

- ✗ Ratios are not ended in themselves but they are the only means to achieve a particular purpose.
- ✗ Analysis of related items must be done by the management or experts with the help of ratios.

Accuracy of financial information:

- ✗ The accuracy of a ratio depends on the accuracy of information taken from financial statements.
- ✗ If the statements are inaccurate, ratios computed based on that will also be inaccurate.

UNIT – 10
COMPUTERISED ACCOUNTING SYSTEM - TALLY

1. What is automated accounting system?

Automated Accounting System:

- ✎ Automated accounting is an approach to maintain up-to-date accounting records with the aid of accounting software.

2. What are accounting reports?

Accounting Reports – Meaning:

- ✎ Accounting report is a compilation of accounting information that are derived from the accounting records of a business concern.
- ✎ Accounting reports may be classified as routine reports and special purpose reports.

3. State any five accounting reports.

Five Accounting Reports

- a) Day books/Journal
- b) Ledger
- c) Trial Balance
- d) Income statement
- e) Balance sheet

4. What is Accounting Information system (AIS)?

Accounting Information system (AIS):

- ✎ Accounting Information (AIS) system is one of the system in MIS.
- ✎ It collects financial data (AIS) processes them and provides information to the various users.

5. What is a group in Tally. ERP9?

Group in Tally. ERP9

- ✎ Group is a collection of ledgers of the same nature.
- ✎ There are predefined groups of accounts which are widely used in accounts of many organisation.
- ✎ Groups are categorised as primary groups and sub – groups.

THREE / FIVE MARKS

UNIT – 1

ACCOUNTS FROM INCOMPLETE RECORDS

1. What are the features of incomplete records?

Following are the features of incomplete records:

- **Nature:**
 - ✘ It is an unscientific and unsystematic way of recording transactions.
 - ✘ Accounting principles and accounting standards are not followed properly.
- **Type of accounts maintained:**
 - ✘ In general, only cash and personal accounts are maintained fully. Real accounts and nominal accounts are not maintained properly.
 - ✘ Some transactions are completely omitted.
- **Lack of uniformity:**
 1. There is no uniformity in recording the transactions among different organizations.
 2. Different organizations record their transactions according to their needs and conveniences.

2. What are the limitations of incomplete records?

Limitations of Incomplete records:

1. Lack of proper maintenance of records:

- ✘ It is an unscientific and unsystematic way of maintaining records.
- ✘ Real and nominal accounts are not maintained properly.

2. Difficulty in preparing trial balance:

- ✘ As accounts are not maintained for all items, the accounting records are incomplete.
- ✘ Hence, it is difficult to prepare trial balance to check the arithmetical accuracy of accounts.

3. Errors and frauds cannot be detected easily:

- ✘ As only partial records are available, it may not be possible to have internal checks in maintaining accounts to detect errors and frauds.

3. State the differences between double-entry system and incomplete records.

Differences between double entry system and incomplete records

Basis of distinction	Double entry system	Incomplete records
1. Type of accounts maintained	Personal, real and nominal accounts are maintained fully.	In general, only personal and cash accounts are maintained fully. Real and nominal accounts are not maintained fully.
2. Determination of financial position	Balance sheet can be prepared to know the true financial position.	Balance sheet cannot be prepared with accuracy and true financial position cannot be ascertained, as the assets and liabilities are just estimates and incomplete.
3. Suitability	It is suitable for all types of organisations.	It may be suitable for small sized sole traders and partnership firms.
4. Reliability	It is reliable since it is a scientific system of accounting and is based on certain accounting principles.	It is not reliable since it is unscientific.
5. Acceptability	Accounting records are acceptable to all users including tax authorities and financial institutions.	Accounting records may not be acceptable to all users.

4. State the procedure for calculating profit or loss through the statement of affairs.

Procedure for calculating profit or loss through the statement of affairs

- * Under this method, by comparing the capital (net worth) at the beginning and at the end of a specified period profit or loss is found out.
- * Any increase in capital (net worth) is taken as profit while a decrease in capital is regarded as a loss.
- * Capital at the beginning and at the end can be found out by preparing the statement of affairs at the beginning and at the end of an accounting year respectively.
- * The difference between the closing capital and the opening capital is taken as profit or loss of the business.
- * Due adjustments are to be made for any withdrawal of capital from the business and for the additional capital introduced in the business.
- * **Closing Capital + Drawings – Additional Capital – Opening Capital = Profit / Loss**

5. Differentiate between the statement of affairs and the balance sheet.

Differences between the statement of affairs and the balance sheet

Basis of distinction	Statement of Affairs	Balance sheet
1. Objective	Statement of affairs is generally prepared to find out the capital of the business.	Balance sheet is prepared to ascertain the financial position of the business.
2. Accounting system	Statement of affairs is prepared when double entry system is not strictly followed.	Balance sheet is prepared when accounts are maintained under double entry system.
3. Basis of preparation	It is not fully based on ledger balances. Wherever possible ledger balances are taken. Some items are taken from some source documents and some items are mere estimates.	It is prepared exclusively on the basis of ledger balances.
4. Reliability	It is not reliable as it is based on incomplete records.	It is reliable as it is prepared under double entry system.
5. Missing items	It is difficult to trace the items omitted as complete records are not maintained.	Since both the aspects of all transactions are duly recorded, items omitted can be traced easily.

6. How is the amount of credit sale ascertained from incomplete records?

Amount of credit sale ascertained from incomplete records in the following method:

Dr.	Total debtors account		Cr.
Particulars	₹	Particulars	₹
To Balance b/d (opening balance)	xxx	By Cash A/c (received)	xxx
To Sales A/c (credit sales)	xxx	By Bank A/c (cheques received)	xxx
To Bank A/c (cheque dishonoured)	xxx	By Discount allowed A/c	xxx
To Bills receivable A/c (bills dishonoured)	xxx	By Sales returns A/c	xxx
		By Bad debts A/c	xxx
		By Bills receivable A/c (bills received)	xxx
		By Balance c/d (closing balance)	xxx
	xxx		xxx

UNIT – 2
ACCOUNTS OF NOT-FOR-PROFIT ORGANISATION

7. Wh**Income and Expenditure Account – Meaning:**

- ✎ Income and expenditure account is a summary of income and expenditure of a not-for-profit organisation prepared at the end of an accounting year.
- ✎ It is prepared to find out the surplus or deficit pertaining to a particular year.
- ✎ It is a nominal account in nature in which items of revenue receipts and revenue expenditure relating to the current year alone are recorded.

8. State the differences between Receipts and Payments Account and Income and Expenditure Account.**Differences between Receipts and Payments Account and Income and Expenditure Account**

Basis	Receipts and Payments Account	Income and Expenditure Account
1. Purpose	It is prepared to know the cash receipts and cash payments.	It is prepared to know whether there is an excess of income over expenditure (surplus) or an excess of expenditure over income (deficit) during the current period.
2. Basis of accounting	It is based on cash system of accounting. Non-cash items are not recorded.	It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation, etc. are also recorded.
3. Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
4. Nature of items	It contains actual receipts and payments irrespective of revenue or capital items in nature.	It contains only revenue items, that is, only revenue expenses and revenue incomes.
5. Period	All cash receipts and payments made during the year pertaining to the past period, current period and subsequent period are recorded.	It contains only the items relating to the current period.

9. How annual subscription is dealt with in the final accounts of not-for-profit organisation?**(A) Treatment in income and expenditure account:**

When subscription received for the current year, previous years and subsequent period are given separately, subscription received for the current year will be shown on the credit side of income and expenditure account after making the adjustments given below:

- Subscription outstanding for the current year is to be added.
- Subscription received in advance in the previous year which is meant for the current year is to be added.

When total subscription received in current year is given:

- Subscription outstanding in the previous year which is received in the current year will be subtracted.
- Subscription received in advance in the previous year which is meant for the current year is added and subscription received in advance must be subtracted.

(B) Treatment in Balance sheet:

- Subscription outstanding for the current year and still outstanding for the previous year will be shown on the asset side of the Balance sheet.
- Subscriptions received in advance in the current year will be shown on the liabilities side of the Balance sheet.

10. How the following items are dealt with in the final accounts of not-for-profit organisation?

Following items are dealt with in the final accounts of not-for-profit organisation

1. Sale of sports materials
2. Life membership fees
3. Tournament fund

1. Sale of sports materials:

- ✎ The sale proceeds of old sports materials like balls and bats, etc., are revenue receipts.

2. Life membership fees:

- ✎ Amount received like membership fee from members is a capital receipt as it is non – recurring in nature.

3. Tournament fund:

- ✎ It is recurring in nature.
- ✎ It is revenue receipt. It is shown on liabilities side of balance sheet. Opening balance added donations and subtracted expenses incurred.

UNIT – 3

ACCOUNTS OF PARTNERSHIP FIRMS - FUNDAMENTALS

11. State the features of a partnership.

Features of a Partnership

- ✎ A partnership is an association of two or more persons. The maximum number of partners is limited to 50.
- ✎ There should be an agreement among the persons to share the profit or loss of the business. The agreement may be oral or written or implied.
- ✎ The agreement must be to carry on a business and to share the profits of the business.
- ✎ The business may be carried on by all the partners or any of them acting for all.

12. State any six contents of a partnership deed.

The contents of the partnership deed are:

1. The name of the firm and nature and place of business.
2. Date of commencement and duration of business.
3. Names and addresses of all partners.
4. Capital contributed by each partner.
5. Profit-sharing ratio.
6. Amount of drawings allowed to each partner.

13. State the differences between the fixed capital method and the fluctuating capital method.**Differences between the fixed capital method and the fluctuating capital method.**

Basis of distinction	Fixed capital method	Fluctuating capital method
1. Number of accounts	Two accounts are maintained for each partner, that is, capital account and current account.	Only one account, that is, capital account is maintained for each partner.
2. Change in capital	The amount of capital normally remains unchanged except when additional capital is introduced or capital is withdrawn permanently.	The amount of capital changes from period to period.
3. Closing balance	Capital account always shows a credit balance. But, current account may show either debit or credit balance.	Capital account generally shows credit balance. It may also show a debit balance.
4. Adjustments	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in current account.	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in the capital account.

14. Write a brief note on the applications of the provisions of the Indian Partnership Act, 1932 in the absence of a partnership deed.**Applications of the provisions of the Indian Partnership Act, 1932 in the absence of a partnership deed****a) Remuneration to partners:**

No salary or remuneration is allowed to any partner; op [Section 13 (a)]

b) Profit-sharing ratio:

Profits and losses are to be shared by the partners equally. [Section 13 (b)]

c) Interest on capital:

No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [Section 13 (c)]

d) Interest on loans advanced by partners to the firm:

Interest on the loan is to be allowed at the rate of 6 percent per annum. [Section 13 (d)]

e) Interest on drawings:

No interest is charged on the drawings of the partners.

15. Jayaraman is a partner who withdrew Rs.10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December 2018.

Jayaraman Interest on drawings: $10,000 \times 12 = 1,20,000$

Interest on Drawings = Total Drawings x Rate of interest x Average periods

$$= 1,20,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs. 3600}$$

UNIT – 4

GOODWILL IN PARTNERSHIP ACCOUNTS

16. State any five factors determining goodwill.

Factors determining the value of goodwill of a partnership firm

(i) Profitability of the firm

- ♣ The profit earning capacity of the firm determines the value of its goodwill.
- ♣ A firm earning higher profits and having potential to generate higher profits in future will have higher value of goodwill.

(ii) Good quality of goods or services offered

- ♣ If a firm enjoys good reputation among the customers and general public for the good quality of its products or services, the value of goodwill for the firm will be high.

(iii) Efficiency of management

- ♣ A firm having efficient management will earn more profits and the value of its goodwill will be higher compared to a firm with less efficient managerial personnel.

(iv) Degree of competition

- ♣ In the case of business enterprises having no competition or negligible competition, the value of goodwill will be high.

(v) Other factors

- ♣ There are other factors which add to the value of goodwill of a business such as popularity of the proprietor, impressive advertisements and publicity, good relations with customers, etc.

17. How is goodwill calculated under the super-profits method?

Goodwill calculated under the super-profits method

1. Purchase of super profit method:

- ✎ Goodwill is calculated by multiplying the super profit by a certain number of years of purchase.
- ✎ **Goodwill = super profit x No. of years of purchase**

2. Annuity method:

- ✎ The value of goodwill is calculated by multiplying the super profit with the present value of the annuity.
- ✎ **Goodwill = Super profit x Present value annuity factor**

3. Capitalisation of super profit method:

- ✎
$$\text{Goodwill} = \frac{\text{Super profit}}{\text{Normal rate of return}} \times 100$$

18. How is the value of goodwill calculated under the capitalisation method?**Capitalisation method:**

- Under Capitalisation method, goodwill is the excess of capitalised value of average profit of the business over the actual capital employed in the business.
- Goodwill = Total capitalised value of the business – Actual capital employed.
- The total capitalised value of the business is calculated by capitalising the average profits on the basis of the normal rate of return.
- Capitalised value of the business = $\frac{\text{Average profit}}{\text{Normal rate of return}} \times 100$

$$\frac{\text{Average profit}}{\text{Normal rate of return}} \times 100$$

- Actual capital employed = Fixed assets (excluding goodwill) + Current assets – Current liabilities

19. Compute average profit from the following information.**2016 – Rs. 8,000; 2017 – Rs. 10,000; 2018 – Rs. 9,000**

Calculation of Average profit:	2016 –	₹ 8,000
	2017 –	₹ 10,000
	2018 –	₹ 9,000
	Total profit	<u>27,000</u>

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{27,000}{3} = ₹ 9,000$$

20. Calculate the value of goodwill at 2 years purchase of average profit when the average profit is Rs.15,000.

$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{Number of years purchases} \\ &= 15,000 \times 2 = \text{Rs. 30,000} \end{aligned}$$

UNIT – 5
ADMISSION OF A PARTNER

21. What are the adjustments required at the time of admission of a partner?**The following adjustment is necessary at the time of admission of a partner:**

1. Distribution of accumulated profits, reserves, and losses
2. Revaluation of assets and liabilities
3. Determination of new profit-sharing ration and sacrificing ratio
4. Adjustment for goodwill
5. Adjustment of capital on the basis of new profit sharing ratio (if so agreed)

22. What are the journal entries to be passed on revaluation of assets and liabilities?

Following are the journal entries to be passed to record the revaluation of assets and liabilities:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	1. For increase in the value of asset Concerned asset A/c Dr. To Revaluation A/c		xxx	xxx
	2. For decrease in the value of asset Revaluation A/c Dr. To Concerned asset A/c		xxx	xxx
	3. For increase in the amount of liabilities Revaluation A/c Dr. To Concerned liability A/c		xxx	xxx
	4. For decrease in the amount of liability Concerned liability A/c Dr. To Revaluation A/c		xxx	xxx
	5. For recording an unrecorded asset Concerned asset A/c Dr. To Revaluation A/c		xxx	xxx
	6. For recording an unrecorded liability Revaluation A/c Dr. To Concerned liability A/c		xxx	xxx
	7. For transferring the balance in revaluation A/c (a) If there is profit on revaluation Revaluation A/c Dr. To Old partners' capital A/c (individually in old ratio)		xxx	xxx
	(b) If there is loss on revaluation Old partners' capital A/c (individually in old ratio) Dr. To Revaluation A/c		xxx	xxx

23. Write a short note on the accounting treatment of goodwill.**Short note on the accounting treatment of goodwill****(i) For the goodwill brought in cash credited to old partners' capital account**

Date	Particulars	L.F.	Debit ,	Credit ,
	Cash / Bank A/c Dr. To Old partners' capital / current A/c (in sacrificing ratio)		xxx	xxx

(ii) For the goodwill brought in kind (in the form of assets) credited to old partners' capital account

Date	Particulars	L.F.	Debit ,	Credit ,
	Respective Asset A/c Dr.		xxx	

	To Old partners' capital / current A/c (in sacrificing ratio)			xxx
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(iii) For withdrawal of cash received for goodwill by the old partners

Date	Particulars	L.F.	Debit	Credit
	Old partners' capital / current A/c Dr. To Cash / Bank A/c		xxx	xxx

UNIT – 6
RETIREMENT AND DEATH OF A PARTNER

24. List out the adjustments made at the time of retirement.

Adjustments made at the time of retirement

- 1) Distribution of accumulated profits, reserves, and losses
- 2) Revaluation of assets and liabilities
- 3) Determination of new profit sharing ratio and gaining ratio
- 4) Adjustment for goodwill
- 5) Adjustment for current year profit or loss up to the date of retirement
- 6) Settlement of the amount due to the retiring partner

25. Distinguish between sacrificing ratio and gaining ratio.

Differences between the sacrificing ratio and the gaining ratio

Basis	Sacrificing ratio	Gaining ratio
1. Meaning	It is the proportion of the profit which is sacrificed by the old partners in favour of a new partner.	It is the proportion of the profit which is gained by the continuing partners from the retiring partner.
2. Purpose	It is calculated to determine the amount to be adjusted towards goodwill for the sacrificing partners.	It is calculated to determine the amount to be adjusted towards goodwill for the gaining partners.
3. Time of calculation	It is calculated at the time of admission of a new partner.	It is calculated at the time of retirement of a partner.
4. Method of calculation	It is the difference between the old ratio and the new ratio	It is the difference between the new ratio and the old ratio.
	Sacrificing ratio = Old profit sharing ratio – New profit sharing ratio	Gaining ratio = New profit sharing ratio – Old profit sharing ratio

26. What are the ways in which the final amount due to an outgoing partner can be settled?

The amount due to the retiring partner may be settled in one of the following ways:

1. Paying the entire amount due immediately in cash

2. Transfer the entire amount due to the loan account of the partner
3. Transfer the entire amount immediately in cash and transferring the balance to the loan account of the partner

UNIT – 7
COMPANY ACCOUNTS

27. State the differences between preference shares and equity shares

Differences between Preference Shares and Equity Shares

BASIS	EQUITY SHARES	PREFERENCE SHARES
Payment of dividend	The dividend is paid after the payment of all liabilities.	Priority in payment of dividend over equity shareholders.
Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
Rate of dividend	Fluctuating	Fixed
Redemption	No	Yes
Convertibility	Equity shares can never be converted.	Preference shares can be converted into equity shares.

28. Write a brief note on calls – in – advance.

Brief note on calls – in – advance:

- The excess amount paid over the called up value of a share is known as calls in advance.
- It is the excess money paid on application or allotment or calls.
- Such excess amounts can be returned or adjusted towards future payments.
- If the company decides to adjust such amount towards future payment, the excess amount is transferred to a separate account called calls in the advance account.
- Calls in advance do not form part of the company's share capital and no dividend is payable on such amount.
- As per Table F of the Indian Companies Act, 2013, interest may be paid on calls in advance if Articles of Association so provide not exceeding 12% per annum.

29. What is a reissue of forfeited shares?

Reissue of forfeited shares – Meaning:

- The directors of a company have the authority to reissue shares once forfeited by them due to non – payment of calls.
- They can reissue the forfeited shares at par, at a premium, or a discount.

- When forfeited shares are reissued at a premium, the amount of such premium will be credited to securities premium.
- If the reissue price is more than the amount unpaid of forfeited shares it results in profit and is transferred to the capital reserve account.

30. Write a short note as:

- 1) Authorized Capital
- 2) Reserve Capital

1. Authorised capital:

- ✎ It means such capital as is authorized by the memorandum of association.
- ✎ It is the maximum amount which can be raised as capital.
- ✎ It is also known as registered capital or nominal capital.

2. Reserve capital:

- ✎ The company can reserve a part of its subscribed capital to be called up only at the time of winding up.
- ✎ It is called reserve capital.

31. What is meant by the issue of shares for consideration other than cash?

Shares for consideration other than cash:

- ♣ A company may issue shares for consideration other than cash when the company acquires fixed assets such as land, building, and machinery, etc.
- ♣ A company may also issue shares as consideration for the purchase of a business, to promoters for their services, and to brokers and underwriters for their commission.

UNIT – 8 FINANCIAL STATEMENT ANALYSIS

32. 'Financial statements are prepared based on past data'. Explain how this is a limitation?

'Financial statements are prepared based on past data', this is a limitation because.

- Financial statements are prepared based on historical data.
- They may not reflect the current position.
- The balance sheet is prepared on the historical record of the value of assets.
- It is just possible that assets may not have the same value.
- Financial statements are prepared according to certain conventions at a point in time, whereas the investor is concerned with the present & future of the company.
- Which is not reflected in the financial statements.
- It is a major limitation for the users of financial statements.

33. Write a short note on cash flow analysis.

Short note on cash flow analysis:

- ✦ Cash flow analysis concerned with the preparation of cash flow statement which shows the inflow and outflow of cash and cash equivalents in a given period of time.

- * Cash includes cash in hand and demand deposit with banks.
- * Cash equivalents denotes short term investments which can be realised easily within a short period of time without much loss in value.
- * Cash flow analysis helps in assessing the liquidity and solvency of a business concern.

34. Briefly explain any three limitations of financial statements.

Limitations of Financial Statements:

1. Lack of qualitative information:

- Qualitative information that is non-monetary information is also important for business decisions.
- For example, the efficiency of the employees, the efficiency of the management, etc.
- But, this is ignored in financial statements.

2. Record of historical data:

- Financial statements are prepared based on historical data.
- They may not reflect the current position.

3. Ignore price level changes:

- Adjustments for price level changes are not made in the financial statements, hence, financial statements may not reveal the current position.

35. Explain the steps involved in preparing comparative statements.

Following are the steps to be followed in preparation of comparative statement.

1. **Column 1** : In this column, particulars of items of income statements or balance sheet are written.
2. **Column 2** : Enter absolute amount of year 1.
3. **Column 3** : Enter absolute amount of year 2.
4. **Column 4** : Show the difference in amounts between year 1 and year 2. If there is an increase in year 2, put plus sign and there is a decrease put minus sign.
5. **Column 5** : Show percentage increase or decrease of the difference amount shown in column 4 by dividing the amount shown in column 4 (absolute amount of increase or decrease) by column 2 (year 1 amount)

$$\text{Percentage increase (or) decrease} = \frac{\text{Absolute amount of Increase/decrease}}{\text{Year 1 amount}} \times 100$$

36. Explain the procedure for preparing common – size statement.

Following are the steps to be followed in preparation of common-size statement:

- **Column 1**: In this column, particulars of items of income statement or balance sheet are written.
- **Column 2**: Enter absolute amount.
- **Column 3**: Choose a common base as 100.

For example, revenue from operations can be taken as the base for income statement and total of balance sheet can be taken as the base for balance sheet. Work out the percentage for all the items of column 2 in terms of the common base and enter them in column 3.

UNIT – 9 - RATIO ANALYSIS

37. Explain the objectives of ratio analysis.

The objectives of ratio analysis:

- To simplify accounting figures
- To facilitate analysis of financial statements
- To analyze the operational efficiency of a business
- To help in budgeting and forecasting.
- To facilitate intra firm and inter-firm comparison of performance.

38. What is the inventory conversion period? How is it calculated?

Inventory conversion period – Meaning:

It is the time taken to sell the inventory. A shorter inventory conversion period indicates more efficiency in the management of inventory.

It is computed as follows:

(in days)

$$\frac{\text{Number of days in a year}}{\text{Inventory turnover ratio}}$$

(in months)

$$\frac{\text{Number of months in a year}}{\text{Inventory turnover ratio}}$$

39. How is operating profit ascertained?

Operating Profit Ascertained

- It gives the proportion of operating profit to revenue from operations.
- Operating profit ratio is an indicator of the operational efficiency of an organisation.
- It may be computed as follows:

$$\frac{\text{Operating profit}}{\text{Revenue from operations}} \times 100$$

Alternatively, it is calculated as under:

Operating profit ratio = 100 – Operating cost ratio

Operating profit = Revenue from operations – Operating cost

40. State any three advantages of ratio analysis.

Advantages of ratio analysis

1. Measuring financial solvency:

- Ratio analysis helps to ascertain the liquidity or short term solvency and long term solvency of a business concern.

2. Facilitating investment decisions:

- Ratio analysis helps the management in making effective decisions regarding profitable avenues of investment.

3. Analysing the profitability:

- Ratio analysis helps to analyse the profitability of a business in terms of sales and investments.

41. Bring out the limitations of ratio analysis.

Following are the limitations of ratio analysis:

1. Ratios are only means:

- Ratios are not ended in themselves but they are only meant to achieve a particular purpose.
- Analysis of related items must be done by the management or experts with the help of ratios.

2. Accuracy of financial information:

- The accuracy of a ratio depends on the accuracy of information taken from financial statements.
- If the statements are inaccurate, ratios computed based on that will also be inaccurate.

3. Consistency in preparation of financial statements:

- Inter-firm comparisons with the help of ratio analysis will be meaningful only if the firms follow uniform accounting procedures consistently.

UNIT – 10
COMPUTERISED ACCOUNTING SYSTEM - TALLY

42. Write a brief note on accounting vouchers?**Brief note on accounting vouchers**

- Voucher is a document which contains details of transactions.
- Transactions are to be recorded through voucher entries.
- Tally has a set of predefined vouchers such as Purchase, Sales, Payment, Receipt and Contra.
- To view the list of voucher types:
Gateway of Tally > Masters > Accounts Info > Voucher Types > Display
- As per the requirements of users, additional voucher type can be created.
- **Following are some of the major accounting vouchers used in an organisation:**
 - i) Receipt Voucher
 - ii) Payment Voucher
 - iii) Contra Voucher
 - iv) Purchase Voucher
 - v) Sales Voucher
 - vi) Journal Voucher

43. What are the predefined ledgers available in Tally.ERP9?**Predefined ledgers available in Tally.ERP9**

- In Tally, to record transactions, the transactions are to be identified with the related ledger accounts.

- Tally has two predefined ledgers, (1) Cash and (2) Profit & Loss A/c.

44. Mention the commonly used voucher types in Tally.ERP9?

Commonly used voucher types in Tally.ERP9.

- Voucher is a document which contains details of a transaction.
- Transactions are to be recorded through voucher entries.
- Tally has a set of predefined vouchers such as purchase, sales, payment, receipt and contra.
- To view the list of voucher type
Gateway of Tally > Masters > Accounts Info > Voucher Types > Display
- As per the requirement of users, an additional voucher type can be created.

45. Explain how to view the profit and loss statement in Tally.ERP9?

To View the profit and loss statement in Tally.ERP9

- F10: A/c Reports > Profit and Loss A/c > Alt FI (detailed)
(or)
- Gateway of Tally > Reports > Profit and Loss A/c > Alt FI (detailed)

46. Explain any five applications of the computerized accounting system (CAS).

The applications of CAS are as follows:

1. Maintaining accounting records:

- ✓ In CAS, accounting records can be maintained easily and efficiently for long time period.
- ✓ It does not require a large amount of physical space.
- ✓ It facilitates fast and accurate retrieval of data and information.

2. Inventory management:

- ✓ CAS facilitates efficient management of inventory.
- ✓ Fast moving, slow moving and obsolete inventory can be identified.

3. Report generation:

- ✓ CAS helps to generate various routine and special purpose reports.

4. Data import/export:

- ✓ Accounting data and information can be imported from or exported to other users within the organisation as well as outside the organisation.

5. Taxation:

- ✓ CAS helps to compute various taxes and to deduct these and deposit the same to the Government account.

***** All the Best Children *****