2 Marks

1) Define partnership:

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

2) Write any 2 non - cash items.

As outstanding salary and depreciation are non cash items.

3) Give 4 examples of revenue receipts of not for profit organization.

Interest on investments

Interest on fixed deposits

Sale of (old) sports materials

Sale of (old) newspapers

4) What is super profit?

Super profit is the excess of average profit over the normal profit of a business. Goddwill under the super profit method is calculated by multiplying the super profit by a certain number of years of purchase.

Super profit = Average profit - Normal profit

5) What is sacrificing ratio?

Sacrificing ration is the proportion of the profit which is sacrificed or foregone by the old partners in favaour of the new partner. The purpose of finding the sacrificing ratio is to share the goodwill brought in by the new partner.

Share sacrificed = Old share - New share

Sacrificing ratio = Ratio of share sacrificed by the old partners

6) What is working capital?

The term 'fund' refers to working capital. Working capital refers to the excess of current assets over current liabilities.

7) What is the group in tally ERP.9?

In 2009, Tally solutions introduced the software Tally.ERP 9. The software offers comprehensive business management solution. It maintains all books of accounts. Different types of vouchers such as vouchers for receipt, payment, sales, purchases, etc..., can be used for recording transactions.

8) What is legacy?

A gift made to a not - for- profit organization by a will, is called legacy. It is a capital receipt.

9) What is goodwill?

Goodwill is the goodname 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. It is an intangible asset as it has no physical existence.

10) What is mean by retirement of a partner?

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

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11)List out the tools of financial statement analysis.

The tools of financial statement analysis include.
Comparative income statement
Common size statement
Trend analysis
Funds flow analysis
Cash flow analysis

12) What is AIS?

Accounting Information System (AIS) collects financial data, processes them and provides information to the various users. To provide information AIS requires data from other information system that is manufacturing, marketing and human resources.

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

Incomplete accounting records.

14) What is meant by fluctuating capital method?

Under the fluctuating capital method, only one account, that is capital account is maintained for each partner. The amount of capital changes from period to period.

15) What are the financial statement?

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. The basic financial statements prepared by business concerns are income statement and balance sheet.

16) What is meant by debt equity ratio?

Dept equity ratio is calculated to assess the long term solvency position of a business concern. Dept equity ratio express the relationship between long term debt and shareholder's funds.

$$\text{Debt equity ratio} = \frac{\text{Long term debt}}{\text{Shareholder's funds}}$$

17) Write a brief note on call 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 amount can be returned or adjusted towards future payments. If the company decides to adjust such amount towards future payments, the excess amount may also be transferred to a separate account called calls in advance account.

18) Write a brief note on calls in arrears.

When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears. In other words the amount called up but not paid is calls in arrears.

19) What is Quick ratio?

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.

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

20) Why are the shares forfeited?

When a shareholder defaults in making paying of allotment and /or call money, the shares may be forfeited on forfeiture, share allotment is cancelled and to that extent, share capital is reduced the person ceases to be a shareholder of the company after the shares are forfeited.

21) What is over subscription?

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

22) What is statement of affairs?

A statement of affairs is a statement showing the balances of assets and liabilities on a particular data. This method of ascertaining profit is also called as statement of affairs method or networth method or capital comparison method.

23) Give four examples for capital receipts of not -for profit organization.

- Life membership fee
- Endowment fund
- Sale of fixed assets
- Specific donations

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3 Marks

1) Write any 6 revenue expenditure.

- Honorarium
- Charity
- Audit fees
- Purchase of sports materials
- Printing and stationery
- Postage and courier charges
- Express relating to

  a) Tournament b) Sports c) Matches d) Entertainments e) Dinner

2) What are the limitations of incomplete records and explain? (any 3)

LIMITATIONS OF INCOMPLETE RECORDS:

1) **Lack of proper maintenance of records:** It is an unscientific and unsystematic way maintaining records. Real and nominal accounts are 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 the accounts.

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3) Differentiate fixed and fluctuating capital method.

Basics 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.	Capital account generally shows credit balance. It may also show a debit balance.
4. Adjustment	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.

4) Write all the contents of partnership deed.

- Name of firm and nature and place of business.
- Date of commencement and duration of business.
- Names and addresses of all partners.
- Capital contributed by all partners.
- Profit sharing ratio.
- Amount of drawings allowed to each partner.
- Rate of interest to be allowed on capital
- Rate of interest on drawings of partners
- Rate of interest on loans provided by partners.
- Amount of salary to be allowed to any partner.
- Maintenance of accounts and audit procedures.
- Procedure for admission of a new partner.
- Procedure for retirement of a partner and settlement of dues to the retired partner.
- Method of valuation of goodwill and valuation of assets and liabilities at the time of admission or retirement or death of a partner.
- Settlement of accounts on dissolution of the firm.

5) State the differences between Receipts and payments Accounts and Income and Expenditure Account.

BASIC	RECEIPTS AND PAYMENTS A/C	INCOME AND EXPENDITURE A/C
Nature of account	It is a real account. Cash receipt is recorded on the debit side and cash payments are recorded on the credit side.	It is a nominal account Expenses are recorded on the debit side and incomes are recorded on the credit side
Basis of accounting	It is based on cash system of accounting. Non - cash are not recorded.	It is based on accrual system of accounting. Non - cash items outstanding expenses depreciation, etc. are also recorded.
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 surplices or deficit.
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 income.
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.

6) Difference between statement of affairs and Balance sheet.

Basis of distinction	Statement of affairs	Balance sheet
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.
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.
Basis of preparation	It is not fully based on ledger balances. Whenever possible ledger balances are taken. Some items are taken from some source documents and some items are more estimates.	It is prepared exclusively on the basis of ledger balances.
Reliability	It is not reliable as it is based on incomplete records.	It is reliable as it is prepared under double entry.
Missing items	It is difficult to trace the items omitted as complete records are not maintained.	Since both the aspects of all transaction are duly recorded, items omitted can be traced .

7) Differentiate double entry system and incomplete records.

Basis of Transactions	Double entry system	Incomplete records
Recording of Transactions	Both debit and credit aspects of all the transaction are recorded	Debit and credit aspects of all the transactions are not recorded completely.
Type of accounts maintained	Personal, read and nominal accounts are maintained fully	In general, only personal and cash accounts are maintained fully. Real and nominal accounts are not maintained fully.
Preparation of Trial Balance	Trial balance can be prepared to check the arithmetical accuracy of the entries made in the books of accounts	It is difficult to prepare the trial balance to check arithmetic accuracy of entries made in the books of accounts.
Suitability	It is suitable for all types of organizations	It may be suitable for small sized sole traders and partnership firms
Reliability	It is reliable	It is not reliable

8) State any 3 advantages of ratio analysis.

<u>ADVATAGES OF RATIO ANALYSIS:</u>

<u>Measuring financial solvency:</u> Ratio analysis helps to ascertain the liquidity or short term solvency and long term solvency of a business concern.

<u>Facilitating investment decisions:</u> Ratio analysis helps the management in making effective decisions regarding profitable avenues of investment.

<u>Inter firm comparison:</u> Ratio analysis helps the firm to compare its performance with other firms.

9) Write a short note on cash flow analysis.

<u>CASH FLOW ANALYSIS:</u>

- Cash flow analysis concerned with 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 deposits with banks.
- Cash equivalents denote short term investments which can be realized 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.

10) Explain the objectives of ratio analysis.

<u>OBJECTIVES OF RATIO ANALYSIS</u>

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

11) Explain any 5 application of computerized Accounting system.

APPLICATIONS OF COMPUTERISED ACCOUNTING SYSTEM

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.

Inventory management: CAS facilitates efficient management of inventory. Fast moving, slow moving and obsolete inventory can be identified. Updated information about availability of inventory, level of inventory, etc., can be obtained instantly.

Report generation: CAS helps to generate various routine and special purpose reports.
Data import/export: Accounting data and information can be imported from or exported to other users within the organization as well as outside the organization.

Taxation: CAS helps to compute various taxes and to deduct these and deposit the same to the Government account.

12) Mention the commonly used voucher types in Tally. ERP 9.

Following are some of the major accounting vouchers used in an organization:

- Receipt voucher
- Payment voucher
- Contra voucher
- Purchase voucher
- Sales voucher
- Journal voucher

13) Differentiate sacrificing and gaining ratio.

Basis	Sacrificing ratio	Gaining ratio
Meaning	It is the proportion of the profit which is sacrificed by 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.
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
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.
Method of calculation	It is the difference between the old ratio and the new ratio. Sacrificing ratio =Old profit sharing ratio - New profit sharing ratio.	It is the difference between the new ratio and the old ratio. Gaining ratio = New profit sharing ratio - Old profit sharing ratio.

14) State the difference between preference share and equity shares.

Basis	Equity shares	Preference shares
Meaning	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company.	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital
Payment of dividend	The dividend is paid after the payment of all liabilities.	priority in payment of dividend over equity shareholders
Rate of dividend	Fluctuating	Fixed
Voting rights	Equity shares carry voting rights	Normally, preference shares do not carry voting rights.
Convertibility	equity shares can never be converted	Preference shares can be converted into equity shares.

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ACCOUNTANCY

UNIT - 01

ACCOUNTS FROM INCOMPLETE RECORDS

Identification of missing information (or) Statement of profit or loss

Particulars	₹
Capital at the end of the year (closing capital)	XXX
Add: Drawings during the year	(+) XXX
	= XXX
Less: Additional capital	(-) XXX
	= XXX
Less: Opening capital	(-) XXX
Profit or Loss	(=) XXX

Total Sales = Cash sales + Credit sales

Total purchase = Cash purchase + Credit purchase

STATEMENT OF AFFAIRS

Liabilities	₹	Assets	₹
S. Creditors	XXX	Cash in hand	XXX
Bills payable	XXX	Cash at bank	XXX
Outstanding expenses	XXX	S. Debtors	XXX
Bank overdraft	XXX	Bills receivables	XXX
Capital (Balancing fig)	XXX	Stock in trade	XXX
		Prepaid expenses	XXX
		Fixed assets	XXX
	XXXX		XXXX

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TOTAL DEBTORS ACCOUNT

Particulars	₹	Particulars	₹
Balance b/d (Opening balance)	XXX	Cash received	XXX
Sales a/c (credit)**	XXX	Cheque received	XXX
Bank a/c (cheque dishono)	XXX	Discount allowed	XXX
Bills receivables a/c (bills dishonored)	XXX	Sales return	XXX
		Bad debts	XXX
		Bills receivables	XXX
		balance c/d	XXX
	XXXX		XXXX

Bills payables a/c

Particulars	₹	Particulars	₹
Balance b/d	XXX	Bill receivable	XXX
Sundry debtors a/c (Bills receivable received)	XXX	Bills receivables dishonoured	XXX
		balance c/d	XXX
	XXXX		XXXX

Total creditors account

Particulars	₹	Particulars	₹
Cash paid a/c	XXX	balance b/d	XXX
Cheque paid a/c	XXX	Credit purchase **	XXX
Bills payable a/c	XXX	Cheques dishonoured	XXX
discount received a/c	XXX	Bills payable (dishonor)	XXX
Purchase returns a/c	XXX		
balance c/d	XXX		
	XXXX		XXXX

Bill payable account

Particulars	₹	Particulars	₹
Bills payable paid S. Creditors (bills payable dishonoured) balance c/d	XXX XXX XXX	balance b/d Sundry creditiors	XXX XXX
	XXXX		XXXX

UNIT - 02

ACCOUNTS FOR NOT FOR PROFIT ORGANISATION

Revenue receipts	Revenue expenditure
Subscription Interest on investments Interest on fixed deposits Sale of old sports materials Sale of old newspapers Collection (or) receipts releating to a) Tournament b) Sports c) Matches d) Entertainment e) Dinner	Honorarium Charity Audit fees Purchase of sports materials Printing and stationary Postage and courier charges Expenses releating to a) Tournament b) Sports c) Matches d) Entertainment e) Dinner
Capital receipts	**Capital expenditure**
Life membership fees Legacies Specific donations Special funds Tournament fund Prize fund Sport fund	Purchase of sports equipment Purchase of books for Library

Sales of fixed assets

UNIT - 03

ACCOUNTS OF PARTINERSHIP FIRMS - FONDAMENTALS

FIXED CAPITAL METHOD

Partner's capital account

Particulars	A	B	Particulars	A	B
Cash /bank a/c (drawings)	XXX	XXX	balance b/d	XXX	XXX
			Cash /bank a/c (additional capital)	XXX	XXX
balance c/d	XXX	XXX			
	XXXX	XXXX		XXXX	XXXX

Partner's current account

Particulars	A	B	Particulars	A	B
balance b/d.*(Dr)	xxx	xxx	balance b/d*(Cr)	xxx	xxx
drawings a/c	xxx	xxx	Interest on capital	xxx	xxx
Interest on drawings	xxx	xxx	Salary	xxx	xxx
P*L appropriation (Loss)	xxx	xxx	Commission	xxx	xxx
balance c/d (Dr)	xxx	xxx	P*L appropriation (Profit)	xxx	xxx
			balance b/d (Cr)		
	XXXX	XXXX		XXXX	XXXX

Fluctuating method

Partner's capital a/c

Particulars	A	B	Particulars	A	B
Cash /bank a/c	xxx	xxx	balance b/d	xxx	xxx
(Capital without)			Cash / bank a/c	xxx	xxx
Drawings	xxx	xxx	(additional capital)		
Interest on drawings	xxx	xxx	Interest on capital	xxx	xxx
P * L appropriation (Loss)	xxx	xxx	Salary	xxx	xxx
balance c/d	xxx	xxx	Commission	xxx	xxx
			Profit & Loss appropriation (Profit	xxx	xxx
	XXXX	XXXX		XXXX	XXXX

Interest on capital = Capital X Rate of interest X period in month

Interest on drawings

01. Direct method

Interest on drawings = Amount of drawings X Rate of interest X period of interest

ii) Product method

Date of drawings	Amount ₹ withdrawn	Period up to Dec (31)	Product ₹
xxx	xxx	xxx	xxx
xxx	xxx	xxx	xxx
xxx	xxx	xxx	xxx
		Sum of product	xxxx

Interest on drawings = Sum of product X Rate of interest p.a x 1/12

iii) Average period method:

Frequency of withdrawn	At the beginning	In the middle	At the end
Monthly	13/24	12/24	11/24
Quarterly	15/24	12/24	9/24
Half - Yearly	9/12	6/12	3/12

Commission:

i) Commission % of net profit before charging = Net profit before commission x $\frac{\text{\% of commission}}{100}$

ii) Commission % of net profit after charging = Net profit before commission x $\frac{\text{\% of commission}}{100 + \text{\% of commission}}$

UNIT - 04 GOODWILL IN PARTNERSHIP ACCOUNTS

a) Simple average profit method:

Average profit = $\frac{\text{Total profit}}{\text{No. of years}}$

Goodwill = Average profit x no. of years of purchase.

b) Weighted average profit method:

Weighted average profit = $\frac{\text{Total of weighted profits}}{\text{Total of weights}}$

Goodwill = Weighted average profit x No. of years of purchase

SUPER PROFIT METHODS:

a) Purchase of super profit method:

Super profit = Average profit - Normal profit

Normal profit = Capital employed x Normal rate of return

Capital employed = Fixed assets + Current assets - current liabilities

Normal rate of return = It is the rate at which the business gains years.

Goodwill = Super Profit x years of purchase

b) Annuity Method:

Goodwill = Super profit x present value of annuity factor

c) Capitalisation of super profit method:

Goodwill = $\frac{\text{Super profit}}{\text{Normal rate of return}}$ x 100

CAPITALISATION METHOD

Goodwill = Total capitalized value of the business - Actual capital employed

Capitalised value of business = $\frac{\text{Average Profit}}{\text{Normal rate of return}} \times 100$

Actual capital employed = Fixed assets (excluding goodwill) + Current Assets - Current Liablities

UNIT - 05

ADMISSION OF A NEW PARTNER

DISTRIBUTION OF ACCUMULATED PROFITS, RESERVES & LOSES

Particulars	Debit	Credit
Profit & loss appropriation	xxx	
General reserve a/c	xxx	
Reserve fund a/c	xxx	
Workmen compensation a/c	xxx	
Investment fluctuation fund a/c	xxx	
To old partner's capital /current		xxx

Sacrificing ratio = Ratio of share sacrificed by the old partners.
Share sacrificed = Old share - new share
New share ratio of old partners = Old share - Sacrificing ratio
Share sacrificed by = Old share x proposition of share sacrifice
New share of old partner = Old share - share sacrificed
Share of new partners = Sum of shares sacrificed by old partner.
New share of old partner = Old share - share sacrificed
Share sacrificed = New partner's share x proposition of share sacrificed

Share sacrificed = New partner's share x old share
New share of old partner = Old share - share sacrificed

LESSON: 06 RETIREMENT AND DEATH OF A PARTNER

01. When new profit sharing ratio is given.
    * Gaining ratio - Ratio of share gained by the continuing partners.
    * Share gained - New share - old partners.

02. When new profit sharing ratio is not given.
    * New share of continuing partner = Old share + share gained

03. Proportion of share gained on retiring partner's share is given.
    * New share of continuing partner = Old share + Share gained
    * Share gained = Retiring partner's share x proportion of share gained

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LESSON : 07 COMPANY ACCOUNTS

Date	Particulars	L.F	Debit ₹	Credit ₹
	01. On receipt of application money Bank a/c Dr To equity share application A/c		xxx	xxx
	02. On allotment of shares to transfer share application money Share application A/c Dr To Equity share Capital A/c		xxx	xxx
	03. On refund of application money for rejected applications Equity share application A/c Dr To Bank A/c		xxx	xxx
	04. **For allotment money due** Equity share allotment A/c Dr To equity share Capital A/c		xxx	xxx
	05. **On receipt of allotment money** Bank A/c Dr To Equity share allotment A/c		xxx	xxx
	06. **On making call for the call money due** Equity share call A/c Dr To equity share capital A/c		xxx	xxx
	07. On receipt of call money Bank A/c Dr To Equity share call A/c		xxx	xxx

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Date	Particulars	L.F	Debit ₹	Credit ₹
	01. Forfeiture of shares Equity share capital A/c (called up amount) To Equity share allotment A/c (amount unpaid) To Equity share call A/c (amount unpaid) To forfeiture share A/c (amount so far paid) [Forfeiture of share for non payment of allotment and call]		xxx	xxx xxx xxx
	02. When reissue is made at P & L Bank A/c Dr Forfeited shares A/c Dr To share capital A/c [Forfeited shares reissued]		xxx xxx	xxx
	03. Shares transferred to capital reserve account Forfeited shares A/c Dr To capital reserve A/c [Gain on reissue of forfeited shares transferred to capital reserve account]		xxx	xxx

LESSON : 08 FINANCIAL STATEMENT ANALYSIS

Computation of percentage increase for revenue from operations.

$$= \frac{\text{Absolute amount of increase or decrease}}{\text{Year 1 amount}} \times 100$$

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