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CREATIVITY * PROSPERITY* ACHIEVEMENT

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HIGHER SECONDARY SECOND YEAR * ACCOUNTANCY THEORY - QUESTION & ANSWER.

UNIT – 1

1. ACCOUNTS FROM INCOMPLETE RECORDS

VERY SHORT ANSWER QUESTIONS

1) What is meant by incomplete records?

- When accounting records are not strictly maintained according to double entry system, these records are called incomplete accounting records.
- It was called single entry system of book keeping.

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 fully and other accounts are maintained based on necessity

3) What is a statement of affairs?

- A statement of affairs is a statement showing the balances of assets and liabilities on a particular date.
- Capital = Assets – Liabilities

SHORT QUESTIONS- ANSWERS

1) What 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:**
- There is no uniformity in recording the transactions among different organisations.
- Different organisations record their transactions according to their needs and conveniences.
- **Mixing up of personal and business transactions:**
- Generally, personal transactions of the owners are mixed up with the business transactions.

2) What are the limitations of incomplete records?

Lack of proper maintenance of records:

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

Difficulty in preparing trial balance:

- As accounts are not maintained for all items, the accounting records are incomplete.

Difficulty in ascertaining true profitability of the business:

- Profit is found out based on available information and estimates.

Difficulty in ascertaining financial position:

- In general, only the estimated values of assets and liabilities are available from incomplete records.

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.

Unacceptable to government and other authorities:

- As accounts maintained are incomplete, these may not comply with the legal requirements.
- Hence, government, tax authorities and other legal authorities do not accept accounts prepared from incomplete records.

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

Basis of distinction	Double entry system	Incomplete records
Suitability	It is suitable for all types of organisations	It may be suitable for small sized sole traders and partnership firms
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.
Acceptability	Accounting records are acceptable to all users including tax authorities and financial institutions.	Accounting records may not be acceptable to all users.
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.
Determination of true profit or loss	Trading and profit and loss account can be prepared to find out the true profit or loss	Trading and profit and loss account cannot be prepared with accuracy as complete information is not available and hence profit or loss found out may not be accurate.
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

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

- 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.
- Take the closing capital as the base.
- Drawings made during the year should be added with the closing capital.
- This is because drawings would have reduced the closing capital.
- Additional capital introduced during the year should be subtracted.
- This is because the additional capital introduced would have increased the closing capital.
- This will give the adjusted closing capital.

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- Adjusted closing capital = Closing capital + Drawings – Additional capital By comparing adjusted closing capital with the opening capital the profit or loss can be ascertained.
- If the difference is a positive figure it is profit and if it is negative it is loss.
  Closing Capital + Drawings – Additional Capital – Opening Capital = Profit/ Loss

5) Differentiate 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. Where ever possible ledger balances are taken. .	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 system
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?

- By preparing total debtors account to ascertained the credit sales.

Format of total debtors account

Dr. Total debtors account Cr.

Particulars	Rs.	Particulars	Rs.
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 (cheques dishonored)	xxx	By Discount allowed A/c	xxx
To Bills receivable A/c (bills dishonored)	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
	XXXX		XXXX

7) How do find out the profit or loss by preparing statement of affairs?

- ✓ Following are the steps to be followed to find out the profit or loss when a statement of affairs is prepared:
- ✓ Ascertain the opening capital by preparing a statement of affairs at the beginning of the year by taking the opening balances of assets and liabilities.

- ✓ Ascertain the closing capital by preparing a statement of affairs at the end of the accounting period after making all adjustments such as depreciation, bad debts, outstanding and prepaid expenses, outstanding income, interest on capital, interest on drawings, etc.
- ✓ Add the amount of drawings (both in cash and/in kind) to the closing capital.
- ✓ Deduct the amount of additional capital introduced, to get adjusted closing capital.
- ✓ Ascertain profit or loss by subtracting opening capital from the adjusted closing capital.
- ✓ (a)If adjusted closing capital is more than the opening capital, it denotes profit
- ✓ (b)If adjusted closing capital is lesser than the opening capital, it denotes loss
- ✓ Following format is used to find out the profit or loss: Statement of profit or loss for the year ended …….

PARTICULARS	Rs.
Capital at the end of the year	xxx
Add: Drawings during the year	xxx
Less: Additional capital introduced during the year	xxx
Adjusted closing capital	xxx
Less: Opening Capital	xxx
Profit or loss for the year	xxx

8) How do preparation of final accounts from incomplete records?

- ➢ When books of accounts are incomplete, information regarding revenues, expenses assets and liabilities is not known fully.
- ➢ Hence, it becomes difficult to prepare trading and profit and loss account and balance sheet.
- ➢ But with the available data, the missing figures can be found out and then the final accounts can be prepared.
- ➢ Steps to be followed to prepare final accounts from incomplete records
- ➢ Opening statement of affairs is to be prepared, to ascertain the opening capital.
- ➢ Missing figures must be found out with the available data.
- ➢ This can be done by preparing memorandum accounts or by making necessary adjustments to the existing figures.

UNIT - II

2. ACCOUNTS OF NOT-FOR-PROFIT ORGANISATION

VERY SHORT ANSWER QUESTIONS.

1) State the 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, sports, etc. These organisations are called not–for–profit organisation.

Examples :

- ➔ Charitable institutions, educational institutions, cultural societies, sports and recreation clubs, hospitals, libraries and literary associations are some of the examples of not–for–profit organisations.

2) What are receipts and payments account?

- 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?

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

4) Write a short note on life membership fees.

- Amount received towards life membership fee from members.
- It is a capital receipt as it is nonrecurring in nature.

5) Give four examples for capital receipts of not–for–profit organisation.

- Life membership fee
- Legacies
- Specific donations
- Sale of fixed assets
- Special funds
- Tournament fund
- Prize fund

6) Give four examples for revenue receipts of not–for–profit organisation

- Subscription
- Interest on investment
- Interest on fixed deposit
- Sale of (old) sports materials
- Sale of (old) newspapers
- Collection or receipts relating to
  - Tournament
  - Sports
  - Matches
  - Entertainments
  - Dinner.

SHORT QUESTIONS- ANSWERS.

7) What is income and expenditure account?

- 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.

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

Basis	Receipts and Payments Account	Income and Expenditure Account
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.

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Basis	Receipts and Payments Account	Income and Expenditure Account
Nature of account	It is a real account. It is a summary of cash account. Cash receipts are recorded on the debit side and cash payments are recorded on the credit side	It is a nominal account. It is similar to profit and loss 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 items are not recorded	It is based on accrual system of accounting. Non-cash items like 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 surplus or deficit
Nature	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
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 during the current year is given that total subscriptions received during the current year will be shown on the credit side of Income and Expenditure Account after making the following adjustments:

- ➔ Subscription outstanding in the previous year which is received in the current year will be subtracted. Subscription outstanding for the current year is added.
- ➔ Subscriptions received in advance in the previous year which is meant for the current year, is added and subscriptions received in advance in the current year which is meant for the subsequent year must be subtracted.

(B) Treatment in Balance Sheet

- ➔ Subscriptions outstanding for the current year and still outstanding for the previous year will be shown on the assets 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?

a) Sale of sports materials :

- ➔ Sale of old sports materials the sale proceeds of old sports materials like balls, bats, etc.
- ➔ It's a revenue receipts:

b) Life membership fees:

- ➔ Amount received towards life membership fee from members is a capital receipt as it is nonrecurring in nature.

c) Tournament fund:

- ➔ If there are any specific funds such as tournament fund, prize fund, etc., these funds should be shown on the liabilities side of the balance sheet separately.
- ➔ Any income to the fund should be added to the fund account and expenses relating to the fund should be subtracted from the fund account in the balance sheet.

UNIT - III

3.ACCOUNTS OF PARTNERSHIP FIRMS– FUNDAMENTALS

VERY SHORT ANSWER QUESTIONS

1) Define partnership.

"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". -Section 4 of the Indian Partnership Act, 1932,

2) What is a partnership deed?

- ❖ Partnership deed is a document in writing that contains the terms of the agreement among the partners.
- ❖ It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932.

3) What is meant by fixed capital method?

- ❖ Under fixed capital method, the capital of the partners is not altered and it remains generally fixed.
- ❖ Two accounts are maintained for each partner namely (a) Capital account and (b) 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?

Interest on capital is the interest allowed on capital of the partners.

(a) For providing interest on capital.

DATE	PARTICULARS	LF	DEBIT(Rs)	CREDIT(Rs)
	Interest on capital A/c Dr To Partner's capital / current A/c		xxx	xxx

(b) For closing interest on capital account

DATE	PARTICULARS	LF	DEBIT(Rs)	CREDIT(Rs)
	Profit and loss appropriation A/c Dr To Interest on capital A/c		xxx	xxx

5) Why is Profit and loss appropriation account prepared?

- The profit and loss appropriation account is an extension of profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners.
- It is 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.

SHORT ANSWER QUESTIONS

6) State the features of partnership.

- 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.

7) State any six contents of a partnership deed.(Any 6)

- Name of the firm and nature and place of business
- Date of commencement and duration of business
- Names and addresses of all partners
- Capital contributed by each partner
- 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
- Settlement of accounts on dissolution of the firm.

8) State the differences between fixed capital method and fluctuating capital method.

Basis of distinction	Fixed capital method	Fluctuating capital method
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.

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
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
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

UNIT - 4

4. GOODWILL IN PARTNERSHIP ACCOUNTS

VERY SHORT ANSWER QUESTIONS

1) What is goodwill?

- Goodwill is the good name or reputation of the business which brings benefit to the business.
- It is the present value of a firm' s future excess earnings.
- It is an intangible asset as it has no physical existence.

2) What is acquired 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.
- The excess of purchase consideration over the value of net assets acquired is treated as acquired goodwill.

3) What is super profit?.

- Under these methods, super profit is the base for calculation of the value of goodwill.
- 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 = 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.

- 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.

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SHORT ANSWER:

1) State any six factors determining goodwill.

- **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.
- **FAVORABLE LOCATION OF THE BUSINESS ENTERPRISE:**
  - If the firm is located in a prominent place which is easily accessible to the customers, it can attract more customers. Its sales and profit will be higher when compared to a firm which is not located in a prominent place. Hence, it will have high value of goodwill
- **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.
- **TENURE OF THE BUSINESS ENTERPRISE :**
  - A firm which has carried on business for several years will have higher reputation among its customers as it is better known to the customers. Such a firm will have higher earnings and higher value of goodwill when compared to a new firm.
- **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.
- **DEGREE OF COMPETITION:**
  - In the case of business enterprises having no competition or negligible competition, the value of goodwill will be high.
- **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.

2) How is goodwill calculated under the super profits method?

- Super profit methods Under these methods, super profit is the base for calculation of the value of goodwill.
- Super profit is the excess of average profit over the normal profit of a business.
- Super profit = Average profit – Normal profit
- Normal profit = Capital employed × Normal rate of return
- Capital employed = Fixed assets + Current assets – Current liabilities
- Normal rate of return = It is the rate at which profit is earned by similar Business entities in the industry under normal circumstances.

3) How is the value of goodwill calculated under the capitalisation method?

- Under this 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
- Capitalised value of the business = $\frac{\text{Average profit}}{\text{Normal rate of return}} \times 100$
- Actual capital employed = Fixed assets (excluding goodwill) + Current assets – Current liabilities.

UNIT - V

5. PARTNERSHIP ADMISSION

VERY SHORT ANSWER QUESTIONS.

1) What is meant by revaluation of assets and liabilities?.

- When a partner is admitted into the partnership, the assets and liabilities are revalued 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.
- The reasons for revaluation of assets and liabilities are as follows:
  - To give a true and fair view of the state of affairs of the firm and
  - To share the gain arising from the revaluation of assets and liabilities as it is due to the old partners.
- There are two ways in which the revaluation of assets and liabilities may be dealt with in the accounts.

(a) Revised value of assets and liabilities are shown in the books

(b) Revised value of assets and liabilities are not shown in the books

2) How are accumulated profits and losses distributed among the partners at the time of admission of a new partner?

Distribution of Accumulated Profits & Losses.

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

DATE	PARTICULARS	L.F	DEBIT(Rs)	CREDIT(Rs)
	Profit and loss appropriation A/c Dr		xxxxx	
	To Old partners' capital / current A/c (in the old ratio)			xxxxx

3) What is sacrificing ratio?

- The old partners may sacrifice a portion of the share of profit to the new partner.
- The sacrifice may be made by all the partners or some of the partners.
- The share sacrificed is calculated by deducting the new share from the old share.

Share sacrificed = Old share - New share

Sacrificing ratio = Ratio of share sacrificed by the old partners

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

DATE	PARTICULARS	L.F	DEBIT(Rs)	CREDIT(Rs)
	Old partners' capital / current A/c Dr (in old ratio)		xxxxx	

	To Goodwill A/c (Being Existing goodwill written off)			xxxxx

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

(a) Depreciation on assets - REVALUATION - DEBIT

(b) Unrecorded liability - REVALUATION - DEBIT

(c) Provision for outstanding expenses - REVALUATION - DEBIT

(d) Appreciation of assets - REVALUATION - CREDIT

SHORT ANSWER:

1) What are the adjustments required at the time of admission of a partner?

- ✓ Distribution of accumulated profits, reserves and losses
- ✓ Revaluation of assets and liabilities
- ✓ Determination of new profit-sharing ratio and sacrificing ratio
- ✓ Adjustment for goodwill
- ✓ Adjustment of capital on the basis of new profit sharing ratio(if so agreed)

2) What are the journal entries to be passed on revaluation of assets and liabilities?

DATE	PARTICULARS	L.F	DEBIT (Rs)	CREDIT (Rs)
	1. FOR INCREASE IN THE VALUE OF ASSET Concerned\assetA/c Dr To Revaluation A/c		xxx	 xxx
	2.FOR DECREASE IN THE VALUE OF ASSET RevaluationA/c Dr To Concerned asset A/c		xxx	 xxx
	3.FOR INCREASE IN THE AMOUNT OFLIABILITIES RevaluationA/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			

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	5. FOR RECORDING AN UNRECORDED ASSET		xxx	
	Concerned asset A/c Dr			xxx
	To Revaluation A/c			
	6. FOR RECORDING AN UNRECORDED LIABILITY			
	RevaluationA/c Dr		xxx	
	To Concerned liability A/c			xxx
	7. FOR TRANSFERRING THE BALANCE IN REVALUATION A/C			
	(a) **IF THERE IS PROFIT ON REVALUATION**			
	RevaluationA/c Dr		xxx	
	To Old partners' capital A/c (individually in old ratio)			Xxx
	(B) IF THERE IS LOSS ON REVALUATION			
	Old partners' capital A/c (individually in old ratio) Dr		xxx	
	To Revaluation A/c			xxx

3) Write a short note on accounting treatment of goodwill.

- When new partner brings cash towards goodwill
- When the new partner does not bring goodwill in cash or in kind
- When the new partner brings only a part of the goodwill in cash or in kind
- Existing goodwill.
- **WHEN NEW PARTNER BRINGS CASH TOWARDS GOODWILL:**
- When the new partner brings cash towards goodwill in addition to the amount of capital, it is distributed to the existing partners in the sacrificing ratio
- **WHEN THE NEW PARTNER DOES NOT BRING GOODWILL IN CASH OR IN KIND**
- If the new partner does not bring goodwill in cash or in kind, his share of goodwill must be adjusted through the capital accounts of the partners.
- **WHEN THE NEW PARTNER BRINGS ONLY A PART OF THE GOODWILL IN CASH OR IN KIND**
- Sometimes the new partner may bring only a part of the goodwill in cash or assets.
- In such a case, for the cash or the assets brought, the respective account is debited and for the amount not brought in cash or kind, the new partner's capital account is debited.
- **EXISTING GOODWILL**
- If goodwill already appears in the books of accounts, at the time of admission if the partners decide, it can be written off by transferring it to the existing partners' capital account / current account in the old profit sharing ratio.

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CHAPTER 06.

6 .RETIREMENT AND DEATH OF A PARTNER

VERY SHORT ANSWER QUESTIONS

1. **What is meant by retirement of a partner? (OR) outgoing partner.**
   - When a partner leaves from a partnership firm, it is known as retirement.
   - The reasons for the retirement of a partner may be illness, old age, better opportunity elsewhere, disagreement with other partners, etc.
   - A partner who retires from the firm is called an outgoing partner or a retiring partner
2. **What is gaining ratio?.**
   - The continuing partners may gain a portion of the share of profit of the retiring partner.
   - The gain may be shared by all the partners or some of the partners.
   - Share gained = New share – Old share
   - Gaining ratio = Ratio of share gained by the continuing partners
3. **What is the purpose of calculating gaining ratio? .**
   - The continuing partners may gain a portion of the share of profit of the retiring partner.
   - The purpose of finding the gaining ratio is to bear the goodwill to be paid to the retiring partner.
     - ✓ Share gained = New share – Old share
     - ✓ Gaining ratio = Ratio of share gained by the continuing partners.
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?**
   - When a partner dies the amount due from the firm is paid to the executor or legal representative of the deceased partner.

Date	Particulars	L.F.	Debit(Rs)	Credit(Rs)
	Deceased partner's capital A/c Dr.		xxxxx	
	To Deceased partner's executor A/c			xxxxx

SHORT ANSWER:

1) **List out the adjustments made at the time of retirement of a partner in a partnership firm.**
   The following adjustments are necessary at the time of retirement of a partner:
- Distribution of accumulated profits, reserves and losses
- Revaluation of assets and liabilities
- Determination of new profit sharing ratio and gaining ratio
- Adjustment for goodwill
- Adjustment for current year's profit or loss upto the date of retirement
- Settlement of the amount due to the retiring partner .

2) Distinguish between sacrificing ratio and gaining ratio.

Basis	Sacrificing ratio	Gaining ratio
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
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.	Gaining ratio = New profit sharing ratio - Old profit sharing ratio.
Formula	Sacrificing ratio = Old profit sharing ratio – New profit sharing ratio	Gaining ratio = New profit sharing ratio - Old profit sharing ratio

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

- The settlement is to be done in the manner prescribed in the partnership deed.
- The amount due to the retiring partner may be settled in one of the following ways:
- Paying the entire amount due immediately in cash.
- Transfer the entire amount due, to the loan account of the partner.
- Paying part of the amount immediately in cash and transferring the balance to the loan account of the partner.

(a) When the amount due is paid in cash immediately:

Date	Particulars	L.F.	Debit(Rs)	Credit(Rs)
	Retiring partner's capital A/c Dr		xxxxx	
	To Cash / Bank A/c			xxxxx

(b) When the amount due is not paid immediately in cash.

Date	Particulars	L.F.	Debit(Rs)	Credit(Rs)
	Retiring partner's capital A/c Dr		xxxxx	
	To Retiring partner's A/c			xxxxx

(c) When the amount due is partly paid in cash immediately

Date	Particulars	L.F.	Debit(Rs)	Credit(Rs)
	Retiring partner's capital A/c Dr		xxxxx	
	To Retiring partner's A/c To Cash / Bank A/c (amount paid)			xxxxx xxxxx

CHAPTER - VII

7 . COMPANY ACCOUNTS

VERY SHORT ANSWER QUESTIONS

1) What is a share?

- The capital of a company is divided into small units of fixed amount.
- These units are called shares.
- A company are of two types
  - ✓ preference shares and
  - ✓ Equity shares.

2) 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..

3) What is meant by calls in arrear?

- 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.

4) Why are the shares forfeited?

- When a shareholder defaults in making payment of allotment and/or call money, the shares may be forfeited.
- On forfeiture, the share allotment is cancelled and to that extent, share capital is reduced.
- Forfeited shares account is shown under share capital as a separate head in the Note to Accounts to the balance sheet.

SHORT ANSWER:

5) State the differences between preference shares and equity shares.

BASIS	PREFERENCE SHARES	EQUITY SHARES
Meaning	Preference shares Preference shares are the shares which have the two preferential rights over the equity shares	Equity shares are those shares which are not preference shares. These shares do not enjoy any preferential rights
Rights about dividend	Preference towards the payment of dividend at a fixed rate during the life time of the company	Rate of dividend is not fixed on equity shares and it depends upon the profits earned by the company

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Return on share capital	Preference towards the repayment of capital on winding up of the company	In case of winding up of a company equity shareholders are paid after the payments are made to preference shareholders.
Types of shares	Preference share have many types	Equity shares are also known as ordinary shares.

6) Write a 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 amount can be returned or adjusted towards future payment.

7) What is reissue of forfeited shares?

- Shares forfeited can be reissued by the company.
- The shares can be reissued at any price.
- But, the reissue price cannot be less than the amount unpaid on forfeited shares.
- When forfeited shares are reissued at a loss, such loss is to be debited to forfeited shares account.

8) Write a short note on (a) Authorised capital (b) Reserve capital.

- AUTHORISED CAPITAL :
  - ✓ It means such capital as is authorised 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.
- 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.

9) What is meant by issue of shares for consideration other than cash?

- Issue of 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 and buildings, machinery, etc

10) What is the difference between under subscription and over subscription?

BASIS	UNDER SUBSCRIPTION	OVER SUBSCRIPTION
meaning	All the shares offered to the public may not be subscribed in full. When the number of shares subscribed is less than the number of shares offered, it is known as under 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
Shares taken by public	In under subscription, all the shares offered may not be taken up by the public.	In over subscription all the shares offered are taken up by the public
Shares allotment status	The shares cannot be allotted, if the minimum subscription is not received	Here all the shares are subscribed, So there is minimum subscription received.

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BASIS	UNDER SUBSCRIPTION	OVER SUBSCRIPTION
Special journal Entry	Under subscription does not require any special treatments in journal entries	In over subscription additional journal entries are required for rejection and adjustment of application Money.

CHAPTER-VIII

8.FINANCIAL STATEMENT ANALYSIS

VERY SHORT ANSWER QUESTIONS

1. **What are financial statements?**
   - 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.
2. **List the tools of financial statement analysis.**
   - ✓ Comparative statement
   - ✓ Common-size statements
   - ✓ Trend analysis
   - ✓ Funds Flow analysis
   - ✓ Cash Flow analysis
3. **What is working capital?**
   - The term 'fund' refers to working capital.
   - Working capital refers to the excess of current assets over current liabilities.
4. **When is trend analysis preferred to other tools?**
   - When data for more than two years are to be analysed, it may be difficult to use comparative statement. For this purpose, trend analysis may be used.
   - Trend refers to the tendency of movement.
   - Trend analysis refers to the study of movement of figures over a period.
   - The trend may be increasing trend or decreasing trend or irregular.
   - One year, generally, the first year is taken as the base year. The figures of the base year are taken as 100.
   - The figures for the other years are expressed as a percentage to the base year and the trend is determined

SHORT ANSWER:

1. **Financial statements are prepared based on the past data. Explain how this is a limitation.**

- **Record of historical data:**
  - Financial statements are prepared based on historical data.
  - They may not reflect the current position.
  - Financial statements are prepared at the end of every accounting period.
  - But, the actual position of the business can be known only when the business is closed. Hence, financial statements may not reveal the exact position of the business concern.

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2. Write a short note on cash flow analysis.

- Cash flow analysis is 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 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.

3. Briefly explain any three limitations of financial statements. .

- **RECORD OF HISTORICAL DATA:**
  - Financial statements are prepared based on historical data. They may not reflect the current position.
- **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.
- **LACK OF CONSISTENCY:**
  - Different business concerns may use different accounting methods. Hence, comparison between two business concerns becomes difficult.
- **LIMITED ACCESS TO EXTERNAL USERS:**
  - The external users do not have detailed and frequent information of financial results as they have limited access.
- **INFLUENCED BY PERSONAL JUDGEMENT:**
  - Preparation of financial statements may be influenced by personal judgements and therefore these are not free from bias.

4. Explain the steps involved in preparing comparative statement.

Preparation of comparative statements A comparative statement has five columns. Following are the steps to be followed in preparation of the comparative statement:

- ✓ **Column 1:** In this column, particulars of items of income statement or balance sheet are written.
- ✓ **Column 2:** Enter absolute amount of year 1.
- ✓ **Column 3:** Enter absolute amount of year 2.
- ✓ **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 if there is decrease put minus sign.
- ✓ **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). That is,
- ✓ Percentage increase or decrease = $\frac{\text{Absolute amount of increase or decrease}}{\text{Year 1 amount}} \times 100$

Particulars	Year-1 (Rs)	Year-2 (Rs)	Absolute amount of increase (+) or decrease (-)	Percentage increase (+) or decrease (-)

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5. **Explain the procedure for preparing 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.
- ✓ **Format of common-size statement.**

Particulars	Absolute amount	Percentage

UNIT - IX

9. RATIO ANALYSIS

VERY SHORT ANSWER QUESTIONS

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

2) **What is quick ratio?**
- ❖ Quick ratio gives the proportion of quick assets to current liabilities.
- ❖ Quick assets are current assets excluding inventories and prepaid expenses.
- ❖ It is otherwise called liquid ratio or acid test ratio.
- ❖ $\text{Quick ratio} = \dfrac{\text{Current Assets}}{\text{current liabilities}}$
- ❖ Quick assets = Current assets – Inventories – Prepaid expenses Higher the quick ratio, better is the short-term financial position of an enterprise.

3) **What is meant by debt equity ratio?**
- ❖ Debt equity ratio is calculated to assess the long term solvency position of a business concern.
- ❖ Debt equity ratio expresses the relationship between long term debt and shareholders' funds.
- ❖ $\text{Debt equity ratio} = \dfrac{\text{Long term debt}}{\text{Shareholders' funds}}$

1. **What does return on investment ratio indicate?**
   - ❖ Return on Investment (ROI) shows the proportion of net profit before interest and tax to capital employed (shareholders' funds and long term debts).
   - ❖ This ratio measures how efficiently the capital employed is used in the business.
   - ❖ It is an overall measure of profitability of a business concern.
   - ❖ $\text{Return on Investment (ROI)} = \dfrac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$

Capital employed = Shareholders' funds + Non-current liabilities Greater the return on investment better is the profitability of a business and vice versa.

2. State any two limitations of ratio analysis.

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.

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.

Change in price level: .

- Ratio analysis may not reflect price level changes and current values as they are calculated based on historical data given in financial statements.

SHORT ANSWER QUESTIONS

4) Explain the objectives of ratio analysis.

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

5) What is inventory conversion period? How is it calculated?

- Inventory conversion period is the time taken to sell the inventory.
- A shorter inventory conversion period indicates more efficiency in the management of inventory. t
- Number of days in a year
  - Inventory conversion period (in days) = $\frac{\text{Number of days in a year}}{\text{Inventory turnover ratio}}$
  - Inventory conversion period (in Months) = $\frac{\text{Number of months in a year}}{\text{Inventory turnover ratio}}$

6) How is operating profit ascertained?

- Operating profit ratio gives the proportion of operating profit to revenue from operations.
- Operating profit ratio is an indicator of operational efficiency of an organisation.

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

Operating profit = Revenue from operations – Operating cost A higher ratio indicates better profitability.

Greater the operating ratio, higher is the margin available for paying non-operating expenses.

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1.State the advantages of ratio analysis.

- **Measuring financial solvency:**
  - ✓ Ratio analysis helps to ascertain the liquidity or short term solvency and long term solvency of a business concern.
- **Facilitating investment decisions:**
  - ✓ Ratio analysis helps the management in making effective decisions regarding profitable avenues of investment
- **Analysing the profitability:**
  - ✓ Ratio analysis helps to analyse the profitability of a business in terms of sales and investments
- **Intra firm comparison:**
  - ✓ Comparison of efficiency of different divisions of an organisation is possible by comparing the relevant ratios.
- **Inter firm comparison:**
  - ✓ Ratio analysis helps the firm to compare its performance with other firms.

2.State the limitations of ratio analysis.

- **Ratios are only means:**
  - ✓ Ratios are not end in themselves but they are 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.
- **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.
- **Non-availability of standards or norms:**
  - ✓ Ratios will be meaningful only if they are compared with accepted standards or norms.
  - ✓ Only few financial ratios have universally recognized standards.
  - ✓ For other ratios, comparison with standards is not possible.
- **Change in price level:**
  - ✓ Ratio analysis may not reflect price level changes and current values as they are calculated based on historical data given in financial statements.

UNIT – 10

10. COMPUTERISED ACCOUNTING SYSTEM - TALLY

VERY SHORT ANSWER QUESTIONS.

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1. What is automated accounting system?

- Automated accounting is an approach to maintain up-to-date accounting records with the aid of accounting software.
- manual accounting system entries are made in different books of accounts while accounting software packages allow manual entry in one field or one place.

2.What are accounting reports?

- 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.

Routine accounting reports include

- Day books / Journal
- Ledger
- Trial balance
- Income statement
- Balance sheet
- Cash flow statement

4.What is Accounting Information System (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.
- Similarly, other information systems require data from AIS in order to provide information.

5.What is a 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.
- It follows the principle of double entry system of book keeping.
- In 2017, it was updated to comply with the Indian Goods and Services Tax (GST) requirements.

SHORT ANSWER QUESTIONS

1. Write a brief note on accounting vouchers.

- Following are some of the major accounting vouchers used in an organisation
  - Receipt Voucher
  - Payment Voucher
  - Contra Voucher
  - Purchase Voucher
  - Sales Voucher
  - Journal Voucher

Receipt Voucher(F6:Receipt)

- All transactions related to receipt either in cash or through bank are recorded using receipt voucher.

- **In this voucher, cash or bank account is debited and other ledger account is credited.**
- **To record receipt: Gateway of Tally > Transactions > Accounting Vouchers > F6:Receipt**

Payment Voucher:(F5:Payment)

- **All transactions related to payments either in cash or through bank are recorded using payment voucher.**
- **In this voucher, cash or bank account is credited and other ledger account is debited.**
- **To record payment way of Tally > Transactions > Accounting Vouchers > F5: Payment.**

Contra Voucher :(F4:Contra)

- **A transaction involving both cash account and bank account is recorded using contra voucher.**
- **The transaction may be for deposit of cash into bank account or withdrawal of cash from bank account.**
- **To record contra: Gateway of Tally > Transactions > Accounting Vouchers > F4:Contra**

Purchase Voucher: (F9:Purchase)

- **Purchase vouchers are used for recording both cash and credit purchases of goods.**
- **To record purchases: Gateway of Tally > Transactions > Accounting Vouchers > F9:Purchase**

Sales Voucher: (F8:Sales)

- **Sales vouchers are used for recording both cash and credit sales of goods.**
- **To record sales: Gateway of Tally > Transactions > Accounting Vouchers > F8:Sales**

Journal Voucher(F7:Journal)

- **Journal vouchers are used for recording transactions involving other than cash, bank, purchases and sales such as depreciation, provision for bad debts. .**
- **To record journal: Gateway of Tally > Transactions > Accounting Vouchers > F7:Journal**
- **To record transactions using voucher, Accounting Voucher Creation has to be used.**

2. What are the pre-defined ledgers available in Tally.ERP 9?

- **In Tally, to record transactions, the transactions are to be identified with the related ledger accounts.**
- **Tally has two predefined ledgers, Cash and Profit & Loss A/c.**
- **The user has to create various other ledgers based on their requirements.**

3. Mention the commonly used voucher types in Tally.ERP 9.

- **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**

4. Explain how to view profit and loss statement in Tally.ERP 9.

- **To view Profit and Loss Account F10: A/c Reports > Profit & Loss A/c > AltF1 (detailed)**

(or)

- **Gateway of Tally > Reports > Profit & Loss A/c > AltF1 (detailed)**

5. Explain any five applications of computerized 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.

Pay roll preparation:

- Pay roll involves the calculation of amount due to an employee.
- Pay of an employee may be calculated based on hours/days worked or units produced.
- CAS records the attendance of employees, computes the amount of salary, makes deductions such as provident fund, income tax, etc.

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 organisation as well as outside the organisation.

Taxation:

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

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