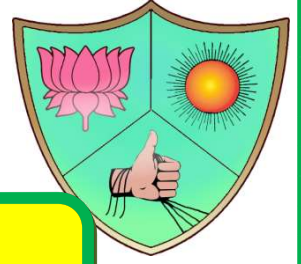


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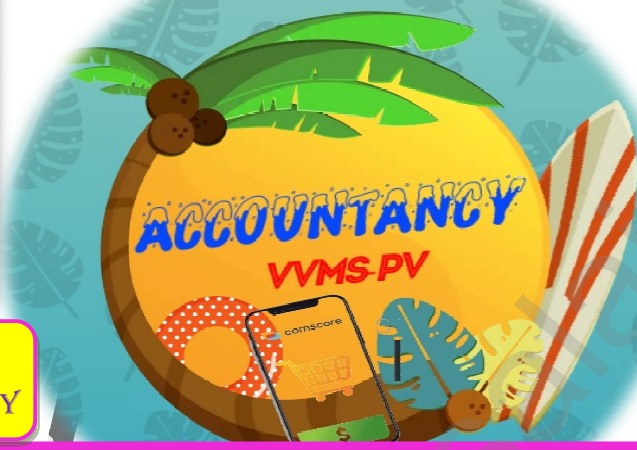
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முகவுரை

மாணவ நண்பர்களுக்கு,

கணக்குப்பதிவியல் பாடத்தில் நல்ல மதிப்பெண்களை பெற வேண்டும் என்ற நோக்கத்தில் எளிமையான முறையில் படிப்பதற்கு வசதியாக எனது 10 வருட பணி அனுபவத்தை கொண்டு இந்த **material** - யை தொகுத்துள்ளேன். எனது பாணியில் எனது மாணவர்களுக்கு ஏற்றவாறு தயார் செய்த இந்த தொகுப்பை அனைத்து மாணவர்களும் பயன்பெற வேண்டும் என்ற நோக்கத்திலேயே வெளியிட்டுள்ளேன். எனது இந்த தொகுப்பில் ஏதேனும் பிழைகள் குறைகள் இருந்தால் சரிசெய்து கொள்ளவும். பின் தங்கிய மாணவர்களும் நல்ல மதிப்பெண்களை பெற வேண்டும் என்ற நோக்கத்திலேயே இதை தொகுத்துள்ளேன்.

தற்பொழுது அரசு வெளியிட்டுள்ள புதிய பாடத் திட்ட தொகுப்பின் அடிப்படையில் இந்த வினா விடை தொகுப்பை மட்டும் என்னால் இயன்ற அளவிடக்கு மிக எளிமையாக உருவாக்கியுள்ளேன். முழு மதிப்பெண்கள் பெற இதுவே போதுமானது. மேலும் பொதுத்தேர்வில் பின்தங்கிய மாணவர்களும் நல்ல மதிப்பெண்களை பெற வைக்க முடிந்தது. எனவே இதை உபயோகப்படுத்தி நல்ல மதிப்பெண்களை பெறவும்.

மாணவ நண்பர்களே!! நேரத்தை சரியாக பயன்படுத்தி கொள்ளுங்கள். சரியான நேரத்தில் சரியான முறையில் படித்து வெற்றி பெற்று அடுத்த கட்ட நிலைக்கு செல்ல வேண்டிய இறுதி நிலையில் உள்ளாய். நேரத்தை வீணாக்காதே! அடுத்து என்ன செய்ய போகிறாய் என்பதை முதலில் தீர்மானி. மதிப்பெண்களை பெறுவதிலேயே கவனத்தை வை. முயன்றால் முடியாதது எதுவுமில்லை. கடினமாக தான் இருக்கும். கஷ்டப்பட்டு படித்தால் நல்ல முன்னேற்றத்தை அடைவாய்.

பள்ளி பருவத்தில் நீ பெறும் வெற்றியே உன் வாழ்க்கை முழுவதையும் தீர்மானிக்க போகிறது என்பதை நன்றாக கவனம் கொள். தினமும் காலையில் படிப்பதற்கு முன் உன் இலக்கு என்ன என்பதை இரு நிமிடம் யோசித்து பார். நீ செல்வது சரியான பாதையா என்று சிந்தி!!!! நல்ல பாதையே நல்ல முடிவை தரும். நல்ல மதிப்பெண்களை பெறுவதே உன் நோக்கமாக இருக்கட்டும். அதுவே உன் வாழ்க்கை என்னும் பாதைக்கு நல்லவழிகாட்டும். பள்ளி வாழ்க்கையின் கடைசி நிலையில் உள்ளாய்!!!! இங்கு நீ பெறும் மதிப்பெண்களே உன் அடுத்த கட்ட பாதையை உருவாக்க போகின்றன என்பதை நினைவில் எப்பொழுதும் வை.

உன் பெற்றோரின் உழைப்பையும் சிந்தித்துப் பார். பிறகு படிக்க ஆரம்பி. கவனம் சிதறாமல் படிப்பில் கவனத்தை செலுத்துவாய். பிறகு நீயாகவே முயற்சி செய்து நல்ல மதிப்பெண்களையும் பெறுவாய்.

உங்களுக்காக நாங்கள்!!!!

உன் வெற்றியே எங்கள் வெற்றி!!!!

உங்கள் வெற்றியில் பெருமைப்பாட நாங்களும் காத்திருக்கிறோம்!!!!!!

WISH YOU ALL THE BEST FOR YOUR EXAMINATION


ஆசிரியர்

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CHAPTER – 1**ACCOUNTS FROM INCOMPLETE RECORDS****I. CHOOSE THE CORRECT ANSWER:**

1. Incomplete records are generally maintained by

- (a) A company (b) Government
(c) Small sized sole trader business (d) Multinational enterprises

2. Statement of affairs is a

- (a) Statement of income and expenditure (b) **Statement of assets and liabilities**
(c) Summary of cash transactions (d) Summary of credit transactions

3. Opening statement of affairs is usually prepared to find out the

- (a) **Capital in the beginning of the year** (b) Capital at the end of the year
(c) Profit made during the year (d) Loss occurred during the year

4. The excess of assets over liabilities is

- (a) Loss (b) Cash (c) **Capital** (d) Profit

5. Which of the following items relating to bills payable is transferred to total creditors account?

- (a) Opening balance of bills payable (b) Closing balance of bills payable
(c) **Bills payable accepted during the year** (d) Cash paid for bills payable

6. The amount of credit sales can be computed from

- (a) **Total debtors account** (b) Total creditors account
(c) Bills receivable account (d) Bills payable account

7. Which one of the following statements is not true in relation to incomplete records?

- (a) It is an unscientific method of recording transactions
(b) Records are maintained only for cash and personal accounts
(c) **It is suitable for all types of organisations**
(d) Tax authorities do not accept

8. What is the amount of capital of the proprietor, if his assets are Rs. 85,000 and liabilities are Rs. 21,000?

- (a) Rs.85,000 (b) Rs.1,06,000 (c) Rs. 21,000 (d) **Rs.64,000**

9. When capital in the beginning is Rs. 10,000, drawings during the year is Rs. 6,000, profit made during the year is Rs. 2,000 and the additional capital introduced is Rs.3,000, find out the amount of capital at the end.

- (a) **Rs. 9,000** (b) Rs. 11,000 (c) Rs. 21,000 (d) Rs. 3,000

10. Opening balance of debtors: Rs. 30,000, cash received: Rs. 1,00,000, credit sales: Rs. 90,000; closing balance of debtors is

- (a) Rs. 30,000 (b) Rs. 1,30,000 (c) Rs. 40,000 (d) **Rs. 20,000**

II 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 records.

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

- ✿ Generally cash and personal accounts are maintained fully.
- ✿ Real and Nominal accounts are not maintained.

3. What is a statement of affairs?

- ★ It is a statement showing the balances of assets and liabilities on a particular date.
- ★ It is prepared under single entry system to find out capital.
- ★ $\text{Capital} = \text{Assets} - \text{Liabilities}$

III SHORT ANSWER QUESTIONS:

1. What are the features of incomplete records?

(i) Nature:

- ★ It is an unscientific way of recording transactions.
- ★ Accounting principles are not followed properly.

(ii) Type of accounts maintained:

- ✿ Only cash and personal accounts are maintained fully.
- ✿ Real and nominal accounts are not maintained properly.

(iii) Lack of uniformity:

- Different organisations record their transactions according to their needs and conveniences.

2. What are the limitations of incomplete records?

i). Lack of proper maintenance of records:

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

(ii) Difficulty in preparing trial balance:

- ★ The accounting records are incompleting.
- ★ Hence, it is difficult to prepare trial balance.

(iii) Errors and Frauds:

- Errors and frauds cannot be easily detected from partial records.

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

S. no	Basic	Double Entry System	Incomplete Records
1	Accounts	All accounts are maintained	Only personal and cash accounts are maintained.
2	Trial balance	It can be prepared easily.	It is difficult to prepare it.
3	Reliability	It is reliable.	It is not reliable.

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

- The difference between the closing and opening capital are taken as profit or loss of the business.
- Due adjustments are to be made for Drawings (+) and Additional capital (-).

Statement of Profit or Loss for the year ended _____

	Particulars	Rs.
	Closing Capital	xxx
+	Drawings	xxx
		xxx
-	Additional Capital	xxx
	Adjusted Closing Capital	xxx
-	Opening Capital	xxx
	Profit or Loss	xxx

- If adjusted closing capital is more than the opening capital – **Profit**.
- If adjusted closing capital is lesser than the opening capital – **Loss**.

5. Differentiate between statement of affairs and balance sheet.

S. no	Basic	Statement of Affairs	Balance Sheet
1	Reliable	It is not reliable.	It is reliable.
2	Accounting System	It is prepared form single entry system	It is prepared by double entry system
3	Missing items	It is very difficult to trace it.	It trace very easily

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

By preparing total debtors accounts credit sale can be prepared.

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

5 MARKS:

1. State the differences between double entry system and incomplete records.

S. no	Basic	Double Entry System	Incomplete Records
1	Accounts	All accounts are maintained	Only personal and cash accounts are maintained.
2	Suitable	It is suitable for all accounts	It is only suitable for sole trading and partnership Firms.
3	Trial balance	It can be prepared easily.	It is difficult to prepare it.
4	Reliability	It is reliable.	It is not reliable.
5	Acceptability	Accounting records are acceptable to all users	Accounting records may not be acceptable to all users

2. Differentiate between statement of affairs and balance sheet.

S. no	Basic	Statement of Affairs	Balance Sheet
1	Objective	It is generally prepared to find out the capital of the business	It is prepared to ascertain the financial position of the business.
2	Accounting System	It is prepared form single entry system	It is prepared by double entry system
3	Basis	It is not fully based ledger	It is based fully ledger.
4	Reliable	It is not reliable.	It is reliable.
5	Missing items	It is very difficult to trace it.	It trace very easily

INTERIOR QUESTIONS

Points to Remember:

- ♣ Opening capital + Additional capital + Profit/ - Loss - Drawings = Closing capital
- ♣ Profit/Loss = Closing capital + Drawings - Additional capital - Opening capital
- ♣ When accounting records are not strictly maintained according to double entry system they are called incomplete accounting records.
- ♣ In general, only cash and personal accounts are maintained fully.
- ♣ Any increase in capital is taken as profit while a decrease is regarded as loss.
- ♣ Closing Capital + Drawings - Additional Capital - Opening Capital = Profit/ Loss
- ♣ A statement of affairs is prepared to find out capital on a particular day by showing the balances of assets on the right side and the balances of liabilities on the left side.
- ♣ From the information available from incomplete records, and from other documents, the missing figures can be found out and then the final accounts can be prepared.

Student Activity

1. **Visit nearby petty shops. Observe for an hour. Do they record sale immediately after it takes place? Find out from the seller about how does he / she keep a track of the sales, expenses and profit.**
 - ♣ To track sales, expenses and profit Cash a/c, Debtors a/c will be prepared.
2. **Think: An additional capital of ` 45,000 has been introduced during the year. Observe the details given in the question. Think of any two reasons for the need for additional capital.**

Two reasons for the need of additional capital

 - ♣ For the expansion of business
 - ♣ To acquire additional capital assets
3. **Is it possible to calculate gross profit when sales data are available but stock records are not kept in detail?**
 - ♣ Yes, it is possible to calculate gross profit even if detailed stock records are not kept, but it might be less precise.

CHAPTER – 2 ACCOUNTS OF NOT-PROFIT ORGANIZATIONS

I. CHOOSE THE CORRECT ANSWER:

1. Receipts and payments account is a

- (a) Nominal A/c (b) **Real A/c** (c) Personal A/c (d) Representative personal account

2. Receipts and payments account records receipts and payments of

- (a) Revenue nature only (b) Capital nature only
(c) **Both revenue and capital nature** (d) None of the above

3. Balance of receipts and payments account indicates the

- (a) Loss incurred during the period (b) Excess of income over expenditure of the period
(c) Total cash payments during the period (d) **Cash and bank balance as on the date**

4. Income and expenditure account is a

- (a) **Nominal A/c** (b) Real A/c (c) Personal A/c (d) Representative personal account

5. Income and Expenditure Account is prepared to find out

- (a) Profit or loss (b) Cash and bank balance
(c) **Surplus or deficit** (d) Financial position

6. Which of the following should not be recorded in the income and expenditure account?

- (a) Sale of old news papers (b) Loss on sale of asset
(c) Honorarium paid to the secretary (d) **Sale proceeds of furniture**

7. Subscription due but not received for the current year is

- (a) **An asset** (b) A liability (c) An expense (d) An item to be ignored

8. Legacy is a

- (a) Revenue expenditure (b) Capital expenditure
(c) Revenue receipt (d) **Capital receipt**

9. Donations received for a specific purpose is

- (a) Revenue receipt (b) **Capital receipt**
(c) Revenue expenditure (d) Capital expenditure

10. There are 500 members in a club each paying Rs. 100 as annual subscription. Subscription due but not received for the current year is Rs. 200; Subscription received in advance is Rs. 300. Find out the amount of subscription to be shown in the income and expenditure account.

- a) **Rs. 50,000** b) Rs. 50,200 c) Rs. 49,900 d) Rs. 49,800

II 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.

- * These organisations are called not-for-profit organization.
- * Examples: Art, Culture, Education, Sports, etc.

2. What is receipts and payments account?

- ⊙ It 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.
- ⊙ It begins with the opening of cash and bank balances.

3. What is legacy?

- ◆ A gift made to a not-for-profit organization 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.
- * It is non-recurring in nature.

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

- ➔ Sale of fixed assets
- ➔ Legacy
- ➔ Life member fees
- ➔ Endowment fund

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

- ➔ Interest on fixed deposit
- ➔ Sale of old sports material
- ➔ Interest on investment
- ➔ Subscription

III SHORT ANSWER QUESTIONS:

1. What is income and expenditure account?

- ♣ It is nominal account.
- ♣ It is prepared to find out Surplus or Deficit relating to a particular year.
- ♣ It is just like preparing profit and loss account.
- ♣ Only revenue income and expenditure items are recorded.
- ♣ Depreciation and Outstanding expenses are also recorded.

2. State the differences between Receipts and Payments Account and Income and Expenditure Account.

S. no	Basic	Receipt and Payment Account	Income and Expenditure Account
1	Nature of account	It is real account	It is nominal account
2	Basis	It is based on cash system	It is based on accrual system
3	Opening and Closing balance	It commence opening and closing balance.	There is no opening and closing balance

3. How annual subscription is dealt with in the final accounts of not-for-profit organization?

The annual subscription is dealt with in the final accounts of following as:

- ☛ Treatment in Income and Expenditure Account
- ☛ Treatment in Balance Sheet

i).

	Dr.	Income and Expenditure Account for the year ended...	₹	Cr.
	Expenditure	Income	₹	₹
		By Subscription	xxx	
		Less: Subscription for the previous year	xxx	
			xxx	
		Less: Subscription for the subsequent year	xxx	
			xxx	
		Add: Outstanding subscription for the current year	xxx	
			xxx	
		Add: Received in advance during the previous year for the current year	xxx	xxx

ii).

Balance sheet as on ...

Liabilities	₹	Assets	₹
Subscription received in advance for the subsequent year	xxx	Outstanding subscription for the: current year previous year	xxx xxx

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

a) Sale of sports materials

b) Life membership fees

c) Tournament fund

a) Sale of sports materials:

- ☛ Consumable items such as sports material, stationary medicines etc., consumed during the year.
- ☛ Consumption = opening stock + Purchase - Closing Stock

b) Life membership fees:

- * Amount received towards life membership fee from members.
- * It is a capital receipt.
- * It is non-recurring in nature.

c) Tournament fund

- ☉ If there are any specific funds such as tournament fund, prize fund etc....

5 MARKS:

1. State the differences between Receipts and Payments A/c and Income and Expenditure A/c.

S. no	Basic	Receipt and Payment Account	Income and Expenditure Account
1	Nature of account	It is real account	It is nominal account
2	Basis	It is based on cash system	It is based on accrual system
3	Opening and Closing balance	It commence opening and closing balance.	There is no opening and closing balance
4	Nature of items	It contains actual receipt and payment.	It contains only revenue expenses and incomes.
5	Period	It contains only the items relating to past, current and subsequent period items	It contains only the items relating to current period.

INTERIOR QUESTIONS**Points to Remember:**

- ** In this unit, entrance fees or admission fees, donations, special fees and grants from government and other organisations have been treated as revenue receipts even though these may also be treated as capital receipts.
- ** If capital fund of the organization is not given in the problem, the opening balance sheet should be prepared to ascertain the opening capital fund. The difference between the total of assets and the total of liabilities as at the beginning of the year is the opening capital fund.
- ** Opening capital fund = Assets at the beginning– Liabilities at the beginning
- ** New assets purchased or assets sold are to be found out by referring to the receipts and payments account.
- ** A trial balance can also be prepared for a not-for-profit organization by taking various ledger balances available. The total of debit balances will be equal to the total of credit balances. Expenses, losses and assets will have debit balances. Revenues, gains and liabilities will have credit balances.
- ** Not-for-profit entities exist to provide services to the members or to the society at large.
- ** The three principal accounting statements of a not-for-profit organization include Receipts and Payments Account, Income and Expenditure Account and Balance Sheet.
- ** The Receipts and Payments Account is a summarized cash book which records all cash receipts and cash payments effected during an accounting year irrespective of the nature as to capital

or revenue, irrespective of the period to which it belongs, that is, whether it relates to the previous or current year or subsequent year.

- * Income and Expenditure Account is prepared to ascertain the excess of revenue income over revenue expenditure (surplus) or excess of revenue expenditure over revenue income (deficit) for a particular accounting year, which is the result of the entity's over all activities for the accounting year.
- * Opening capital is found out by comparing the opening balances of assets and liabilities.
- ** The Balance sheet is prepared at the end of the accounting year to show the financial position on that date. It includes the capital fund or accumulated fund, special purpose funds, long term liabilities and current liabilities on the liabilities side and fixed assets and current assets on the assets side.

Do you know:

- ♣ A trial balance can also be prepared for a not-for-profit organisation by taking various ledger balances available.
- ♣ The total of debit balances will be equal to the total of credit balances.
- ♣ Expenses, losses and assets will have debit balances. Revenues, gains and liabilities will have credit balances.

Student Activity:

1. Assume you want to start a drama club. What is the procedure to start the club? Give a name and design the logo for your club.

- Procedure to start drama club
- An adult is needed to mentor the club.
- Defining visions and goals for a drama club.
- Recruiting the members
- Establishing leadership
- Creating a budget
- Developing a schedule
- Holding auditions
- Rehearsal and preparation
- Promoting the club

2. Visit a nearby not-for-profit organisation and interact with the accountants to know about the various books maintained by them.

The various books maintained by not for profit organisation.

- ♠ Cash book – To keep track of the receipts and payments.

- ♣ Ledger Accounts – all the assets, incomes, expenses and liabilities are duly recorded which would help in preparing the financial statements at the year end.
- ♣ Stock Register – This records the stock received and issued during the year.
- ♣ Fixed Asset Register – This records the fixed assets available with the organisation.

3. Recall the distinction between capital and revenue items.

Capital	Revenue Items
It gives benefit for more than one accounting period	Its' benefits expires in the same accounting period
It is non-recurring in nature	It's recurring in nature

4. List down any five expenses relevant for a music club.

Expenses relevant for a Music Club

- ♣ Purchasing Music Instruments
- ♣ Transport Expenses
- ♣ Musical Dress
- ♣ Dance Accessories
- ♣ Rent (Music Club)

5. A music club has many members. It finds it difficult to maintain the records of all the members. Sometimes, it loses the track of membership fee. Is there possible way for the club to record the data efficiently?

- ☉ Yes, By using Membership Software
- ☉ Membership Software is a Computer Software which provides Association Clubs and other Membership Organisation with a functionality they require to provide their services to their
- ☉ members. There are free management software system available.

CHAPTER – 3 ACCOUNTS OF PARTNERSHIP FIRM - FUNDAMENTALS

I. CHOOSE THE CORRECT ANSWER:

1. In the absence of a partnership deed, profits of the firm will be shared by the partners in
 (a) Equal ratio (b) Capital ratio (c) Both (a) and (b) (d) None of these
2. In the absence of an agreement among the partners, interest on capital is
 (a) Not allowed (b) Allowed at bank rate
 (c) Allowed @ 5% per annum (d) Allowed @ 6% per annum
3. As per the Indian Partnership Act, 1932, the rate of interest allowed on loans advanced by partners is
 (a) 8% per annum (b) 12% per annum (c) 5% per annum (d) 6% per annum
4. Which of the following is shown in Profit and loss appropriation account?
 (a) Office expenses (b) Salary of staff (c) Partners' salary (d) Interest on bank loan
5. When fixed capital method is adopted by a partnership firm, which of the following items will appear in capital account?
 (a) Additional capital introduced (b) Interest on capital
 (c) Interest on drawings (d) Share of profit
6. When a partner withdraws regularly a fixed sum of money at the middle of every month, period for which interest is to be calculated on the drawings on an average is
 (a) 5.5 months (b) 6 months (c) 12 months (d) 6.5 months
7. Which of the following is the incorrect pair?
 (a) Interest on drawings – Debited to capital account
 (b) Interest on capital – Credited to capital account
 (c) Interest on loan – Debited to capital account
 (d) Share of profit – Credited to capital account
8. In the absence of an agreement, partners are entitled to
 (a) Salary (b) Commission (c) Interest on loan (d) Interest on capital
9. Pick the odd one out
 (a) Partners share profits and losses equally
 (b) Interest on partners' capital is allowed at 7% per annum
 (c) No salary or remuneration is allowed
 (d) Interest on loan from partners is allowed at 6% per annum.
10. Profit after interest on drawings, interest on capital and remuneration is Rs. 10,500. Geetha, a partner, is entitled to receive commission @ 5% on profits after charging such commission. Find out commission.
 (a) Rs. 50 (b) Rs. 150 (c) Rs. 550 (d) Rs. 500

II 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.

- *Indian Partnership Act, 1932*

2. What is a partnership deed?

- ♣ It is a document in writing that contains the terms of the agreement among the partners.
- ♣ It is also called Articles of Partnership.

3. What is meant by fixed capital method?

- ❖ The capital of the partners is not altered and remains generally fixed.
- ❖ Two accounts are maintained for each partner
 - ➡ Capital account
 - ➡ Current account

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

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Interest in capital a/c Dr To Partners capital a/c (Being interest on capital provided)		xxx	xxx

5. Why is Profit and loss appropriation account prepared?

It is prepared for the purpose of adjusting the transaction relating to the amount due to and amount due from partners.

III SHORT ANSWER QUESTIONS:**1. State the features of partnership.**

- ✱ It is an association two or more person.
- ✱ Minimum 2 and Maximum number of members 50 limited.
- ✱ Their agreement may be oral or written.
- ✱ It's carried on by all or any of them acting for all.

2. State any six contents of a partnership deed.

- ✱ 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

3. State the differences between fixed capital method and fluctuating capital method.

S. no	Basic	Fixed Capital Method	Fluctuating Method
1	Number of Accounts	Two accounts are maintained i). capital account ii). current account	Only one account capital account maintained.
2	Closing Balance	It always show the credit balance	It always show the debit or credit balance
3	Adjustments	All adjustments done in current account	All adjustments done in capital account

4. Write a brief note on the applications of the provisions of the Indian Partnership Act, 1932 in the absence of partnership deed.

(i) Remuneration to partners:

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

(ii) Profit sharing ratio:

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

(iii) Interest on capital:

No interest is allowed on the capital. [Section 13(c)]

(iv) Interest on loans advanced by partners to the firm:

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

(v) Interest on drawings:

No interest is charged on the drawings of the partners.

5 MARKS:

1. State the differences between fixed capital method and fluctuating capital method.

S. no	Basic	Fixed Capital Method	Fluctuating Method
1	Meaning	The capital of the partners is not altered and it remains generally fixed.	All the transactions between the partner and the firm are recorded in the capital account.
2	Number of Accounts	Two accounts are maintained i). capital account ii). current account	Only one account capital account maintained.
3	Change in Capital	The amount of capital not changes from period to period	The amount of capital changes from period to period
4	Closing Balance	It always show the credit balance	It always show the debit or credit balance
5	Adjustments	All adjustments done in current account	All adjustments done in capital account

INTERIOR QUESTIONS

IMPORTANT NOTES:

- The maximum number of partners is not specified/ prescribed in the Indian Partnership Act, 1932. But, the Indian Companies Act, 2013 specifies the maximum number of partners.
- As per Section 464(1) of the Indian Companies Act, 2013, no association or partnership consisting of more than such number of persons as may be prescribed shall be formed for the purpose of carrying on any business, provided that the number of persons which may be prescribed under this sub-section shall not exceed one hundred.
- Rule 10 of Companies (Miscellaneous) Rules 2014 specifies the limit as 50. Thus, the maximum number of partners in a partnership firm is 50.
- **The following provisions of the Act will apply:**
 - (i) **Remuneration to partners** [Section 13(a)]
 - (ii) **Profit sharing ratio** [Section 13(b)]
 - (iii) **Interest on capital** [Section 13(c)]
 - (iv) **Interest on loans advanced by partners to the firm** [Section 13(d)]
- **The final accounts prepared by partnership firms are:**
 - {a). Manufacturing account – if manufacturing activity is carried on
 - (b) Trading and profit and loss account – to ascertain profitability
 - (c) Profit and loss appropriation account – to show the disposal of profits and surplus
 - (d) Balance sheet – to ascertain the financial status.

Do you know:

- Product method is based on the principle that interest on the amount for a number of days/months is the same as interest for one day/month on the sum of the products of amount withdrawn and the period of interest.
- **Limited Liability Partnership (LLP):**
 - ➔ LLP is a type of partnership in which the liability of the partners is limited to the extent of their capital contribution.
 - ➔ It is a legal entity separate from that of its partners. It is formed as per the provisions of The Limited Liability Partnership Act, 2008.
 - ➔ It has perpetual succession. Any change in the partners of LLP shall not affect the existence, rights or liabilities of LLP.
 - ➔ Provisions of the Partnership Act, 1932 will not apply to a Limited Liability Partnership.
 - ➔ An individual or a body corporate can become a partner.

→ Partners are not personally liable for the obligations of the partnership unless the obligations arise due to their own wrongful acts or omissions.

Points to Remember:

- ☉ Profits and losses are shared among the partners of a firm in the profit sharing ratio. In the absence of agreed ratio, the profits and losses are to be shared by the partners equally.
- ☉ In the absence of agreement, no interest is allowed on capital, no interest is charged on drawings and no salary or other remuneration is given to the partners.
- ☉ Partners are entitled to interest on the loans advanced by them to the firm at a rate agreed by them. If the rate of interest on partners' loan is not agreed, the partners are entitled to interest on loans at 6% per annum.
- ☉ When fixed capital method is adopted by a firm, current accounts are opened for each partner apart from the capital account of each partner.
- ☉ When fluctuating capital method is followed, all the adjustments regarding additional capital introduced, share of profit, interest on capital, interest on drawings, etc. are done in the capital account.
- ☉ In Profit and loss appropriation account, adjustments are made for interest on capital, interest on drawings and partners' remuneration, the resultant profit is shared by the partners in their profit sharing ratio.

Student Activity:

1. Think: Ramu is a successful sole trader. His business has been progressing steadily for the past 10 years. Now, he finds it difficult to manage the business all alone. His friend wants to join his business and likes to have equal status as Ramu has. But, Ramu does not want to give up his ownership and control over the business. Is it possible for Ramu to accept his friend's willingness to join him without losing his ownership and control over his business?

- ☉ Yes it is possible the sole trader could form a partnership with his friend where both the parties share ownership and control of the business.
- ☉ In this scenario, they would need to draft a partnership agreement outlining each partner's right, responsibilities, and the division of profits and losses.

2. Raja and Ravi entered into a partnership. They orally agreed to share profits and losses in the ratio of 2:1. At the end of the year, Raja demands 3/4 of the profit as he worked more than Ravi. Ravi does not agree to this. How can this situation be dealt with?

- ☉ Raja and Ravi should talk and try to find a solution.
- ☉ If that does not work, they can get the mediator to help or they can consult a lawyer for advice.
- ☉ In the future they should write down their partnership agreement to avoid such issues.

3. A business has gained good reputation. Can this be valued in terms of money and be recorded in the books of accounts?

- Ⓐ Good will is the value of a firm's reputation and its good brandname in the market.
- Ⓑ It is valued in terms of Money.
- Ⓒ Good will is considered as an intangible asset of a business.

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CHAPTER – 4**GOODWILL IN PARTNERSHIP ACCOUNTS****I. CHOOSE THE CORRECT ANSWER:****1. Which of the following statements is true?**

- (a) Goodwill is an intangible asset (b) Goodwill is a current asset
(c) Goodwill is a fictitious asset (d) Goodwill cannot be acquired

2. Super profit is the difference between

- (a) Capital employed and average profit (b) Assets and liabilities
(c) Average profit and normal profit (d) Current year's profit and average profit

3. The average rate of return of similar concerns is considered as

- (a) Average profit (b) Normal rate of return (c) Expected rate of return (d) None of these

4. Which of the following is true?

- (a) Super profit = Total profit / number of years
(b) Super profit = Weighted profit / number of years
(c) Super profit = Average profit - Normal profit
(d) Super profit = Average profit × Years of purchase

5. Identify the incorrect pair

- (a) Goodwill under Average profit method - Average profit × Number of years of purchase
(b) Goodwill under Super profit method - Super profit × Number of years of purchase
(c) Goodwill under Annuity method - Average profit × Present value annuity factor
(d) Goodwill under Weighted average profit Method } - Weighted average profit × Number of years of purchase

6. When the average profit is Rs. 25,000 and the normal profit is Rs. 15,000, super profit is

- (a) Rs. 25,000 (b) Rs. 5,000 (c) Rs. 10,000 (d) Rs. 15,000

7. Book profit of 2017 is Rs. 35,000; non-recurring income included in the profit is Rs. 1,000 and abnormal loss charged in the year 2017 was Rs. 2,000, then the adjusted profit is

- (a) Rs. 36,000 (b) Rs. 35,000 (c) Rs. 38,000 (d) Rs. 34,000

8. The total capitalised value of a business is Rs. 1,00,000; assets are Rs. 1,50,000 and liabilities are Rs. 80,000. The value of goodwill as per the capitalisation method will be

- (a) Rs. 40,000 (b) Rs. 70,000 (c) Rs. 1,00,000 (d) Rs. 30,000

II VERY SHORT ANSWER QUESTIONS:**1. What is goodwill?**

- It is the good name of the business.
- It is an intangible assets
- It has no physical existence

2. What is acquired goodwill?

- ☛ Goodwill acquired by making payment in cash or kind is called acquired goodwill.
- ☛ It is also called purchased goodwill.

3. What is super profit?

- * It 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?

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.

- ☒ Change in profit sharing ratio
- ☒ Retirement or death of a partner
- ☒ Admission of a partner
- ☒ Dissolution of partnership firm

III SHORT ANSWER QUESTIONS:**1. State any six factors determining goodwill.**

- ☛ Profitability of the firm.
- ☛ Favorable location of the business enterprises.
- ☛ Good quality of goods or service offered.
- ☛ Efficiency of management.
- ☛ Degree of competition
- ☛ Tenure of the business enterprise

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

- i). Average Profit =
$$\frac{\text{Total Profits}}{\text{Number of Years}}$$
- ii). Normal Profit = Capital Employed x NRR
- iii). Super Profit = Average Profit - Normal Profit
- iv). Goodwill = Super Profit x No. Year of Purchase

3. How is the value of goodwill calculated under the capitalization method?

- i). Capitalized Value of the business =
$$\frac{\text{Average Profits} \times 100}{\text{Number of Years}}$$
- ii). Capital Employed = Fixed Asset + Current Asset - Current Liabilities
- iii). Goodwill = Capitalized Value of business - Capital Employed

5 MARKS:**1. State any six factors determining goodwill.****(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). Favourable 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.

(iii). 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.

(iv). 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.

(v). 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.

INTERIOR QUESTIONS**Case study :**

1. Ravi has a fruit shop for 10 years in a busy area. The shop is a rented property. He has gained loyal customers for his shop. The business has been consistently performing well and making good profit. Now, Ravi considers moving to a different city to open a big supermarket. He has cleared all his debts to outsiders. His friend, Raja is planning to buy Ravi's business by taking over all the unsold fruits, to continue the business. Ravi is asking for ` 1,00,000 to sell his business. But, Raja thinks the cost of inventory that Ravi holds now may be worth only ` 5,000. So, he is hesitant to buy the business. What is your advice to Raja. Why do you think that Ravi quotes more than the worth of the asset he holds?

Ravi is charging for good will of the business. Along with inventory he is also transferring

good will to his friend Raja. Ravi's Business has earned reputation.

2. **A partnership firm wants to expand, but it needs two more people with managerial skills to run the business competently. Also, the business needs more finance to expand. What can be done in such a situation?**

The partnership firm can expand its business while addressing the need for additional managerial skills and finance.

By collaborating with skilled managers and securing external financing can provide the firm with resources and expertise needed to capitalize on growth opportunities and achieve its expansion goals.

Important Notes:

- ❁ Goodwill may be classified into acquired goodwill and self-generated goodwill.
- ❁ **Acquired or purchased goodwill**
 - ❁ Goodwill acquired by making payment in cash or kind is called acquired or purchased goodwill.
- ❁ **Self-generated goodwill**
 - ❁ It is the goodwill which is self generated by a firm based on features of the business such as favourable location, loyal customers, etc.
 - ❁ Such self-generated goodwill cannot be recorded in the books of accounts.

Do you know:

- ❁ Annuity refers to series of uniform cash flows at regular intervals. The table value gives the present value of annuity of rupee one received at the end of every year for a specified number of years. The following formula is used to compute annuity factor:

$$\text{Annuity factor} = \frac{(1 + i)^n - 1}{i(1 + i)^n}$$

where, i = interest rate n = estimated number of years

- ❁ Goodwill based on capitalization of average profit method and capitalization of super profit method will give the same amount of goodwill.

Points to remember:

- ❁ Goodwill is the good name or reputation of the business which brings benefit to the business.
- ❁ It is an intangible fixed asset. Following are the circumstances that require valuation of goodwill of partnership firms in order to protect the rights of the partners:
- ❁ When the profit sharing ratio is changed, when a new partner is admitted into a firm, when an existing partner retires from the firm or when a partner dies and when a partnership firm is dissolved.

- Goodwill may be classified into acquired goodwill and self-generated goodwill.
- Following are the methods generally followed to value goodwill:
- Average profits methods, super profit methods and capitalization method

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CHAPTER – 5 ADMISSION OF A PARTNER

I. CHOOSE THE CORRECT ANSWER:

1. Revaluation A/c is a

- (a) Real A/c (b) **Nominal A/c** (c) Personal A/c (d) Impersonal A/c

2. On revaluation, the increase in the value of assets leads to

- (a) **Gain** (b) Loss (c) Expense (d) None of these

3. The profit or loss on revaluation of assets and liabilities is transferred to the capital account of

- (a) **The old partners** (b) The new partner
(c) All the partners (d) The Sacrificing partners

4. If the old profit sharing ratio is more than the new profit sharing ratio of a partner, the difference is called

- (a) Capital ratio (b) **Sacrificing ratio** (c) Gaining ratio (d) None of these

5. At the time of admission, the goodwill brought by the new partner may be credited to the capital accounts

- (a) all the partners (b) the old partners (c) the new partner (d) **the sacrificing partners**

6. Which of the following statements is not true in relation to admission of a partner

- (a) Generally mutual rights of the partners change
(b) The profits and losses of the previous years are distributed to the old partners
(c) The firm is reconstituted under a new agreement
(d) **The existing agreement does not come to an end**

7. Match List I with List II and select the correct answer using the codes given below:

List I

List II

- | | |
|---|---|
| <p>(i) Sacrificing ratio
(ii) Old profit sharing ratio
(iii) Revaluation Account
(iv) Capital Account</p> | <p>1. Investment fluctuation fund
2. Accumulated profit
3. Goodwill
4. Unrecorded liability</p> |
|---|---|

Codes:

- | | | | | |
|------------|----------|----------|----------|----------|
| | (i) | (ii) | (iii) | (iv) |
| (a) | 1 | 2 | 3 | 4 |
| (b) | 3 | 2 | 4 | 1 |
| (c) | 4 | 3 | 2 | 1 |
| (d) | 3 | 1 | 4 | 2 |

8. Select the odd one out

- (a) Revaluation profit (b) Accumulated loss
(c) **Goodwill brought by new partner** (d) Investment fluctuation fund

9. James and Kamal are sharing profits and losses in the ratio of 5:3. They admit Sunil as a partner giving him $\frac{1}{5}$ share of profits. Find out the sacrificing ratio.

- (a) 1:3 (b) 3:1 (c) 5:3 (d) 3:5

10. Balaji and Kamalesh are partners sharing profits and losses in the ratio of 2:1. They admit Yogesh into partnership. The new profit sharing ratio between Balaji, Kamalesh and Yogesh is agreed to 3:1:1. Find the sacrificing ratio between Balaji and Kamalesh.

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

II. 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 book value.
- Determination of current value 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?

Any reserve fund, accumulated profit and loss 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?

- ♣ It is ratio of share sacrificed by the old partners.
- ♣ Share of the new partner is the sum 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	LF	Debit Rs.	Credit Rs.
	Old partner capital a/c Dr		xxx	
	To Goodwill a/c			xxx
	(Being Existing goodwill is written off)			

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

- (a) Depreciation on assets (b) Unrecorded liability
(c) Provision for outstanding expenses (d) Appreciation of assets

- (a) Depreciation on assets - Debited
(b) Unrecorded liability - Debited
(c) Outstanding expenses - Debited
(d) Appreciation of assets - Credited

III SHORT ANSWER QUESTIONS:

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

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

i). For increase in the value of asset

ii). For decrease in the amount of liability

iii). For recording unrecorded asset

JOURNAL ENTRY

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Concerned Asset a/c Dr		xxx	
	Concerned liability a/c Dr		xxx	
	To Revaluation a/c			xxx
	(Assets and Liabilities are recorded)			

i). For decrease in the value of asset

ii). For increase in the amount of liability

iii). For recording unrecorded liability

JOURNAL ENTRY

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Revaluation a/c Dr		xxx	
	To Concerned Asset a/c			xxx
	To Concerned liability a/c			xxx
	(Assets and Liabilities are recorded)			

iii). For Profit on Revaluation

JOURNAL ENTRY				
Date	Particulars	LF	Debit Rs.	Credit Rs.
	Revaluation a/c Dr To Old Partners Capital a/c (Revaluation of profit transferred to capital a/c)		xxx	xxx

iv). For Loss on Revaluation

JOURNAL ENTRY				
Date	Particulars	LF	Debit Rs.	Credit Rs.
	Old Partners Capital a/c Dr To Revaluation a/c (Revaluation of profit transferred to capital a/c)		xxx	xxx

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

ii). 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.

iii). 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.

iv). 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.

INTERIOR QUESTIONS

Case study :

1. Assume you are a partner in a firm. You are going to admit a new partner into your firm. Think of any five agreements that you may want to include in your partnership deed.
 - ❖ The consent is put in writing by signing an agreement which is called as 'Deed of Admission'.
 - ❖ The deed of admission must contain the terms regularly contained in Partnership Deed along with the terms of Introduction on new partner.
 - ❖ It may specifically contain the details of capital, introduced by new partner, the new profit and loss sharing ratio, new terms of payment of remuneration to the partners and other terms and conditions laying down rights and duties of partners, etc.
2. Is it compulsory for the partners to continue in the business forever? What will happen if any one of the partners leaves the firm? Will the partnership cease to operate?
 - ❖ It is not compulsory for a partner to continue in the business forever.
 - ❖ If the partnership is formed at will, by giving notice, in writing to all the other partners of the firm, of his intention to leave.
 - ❖ The remaining partners can still carry on the business as before but the old partnership is dissolved and a new one has to be formed.

Do you know:

● Investment fluctuation fund:

- ★ Investment fluctuation fund is created out of profit to adjust the reduction in the market value of the investments. If the market value of the investments is greater than or equal to the book value, then, the entire investment fluctuation fund is transferred to the old partners' capital account in old profit sharing ratio.
 - ★ If the market value of the investments is less than the book value, then the difference is to be subtracted from the investment fluctuation fund and the balance of investment fluctuation fund is to be transferred to the old partners' capital account in old profit sharing ratio.
- Sometimes an existing partner may also gain in share of profit on admission of a partner when the new share is greater than the old share. In this case, the gaining partner has to compensate the sacrificing partners to the extent of his share in the total goodwill of the firm.
 - When goodwill is paid by the new partner to the old partners privately, no entry is made in the books of the partnership firm.

Points to remember:

- ★ On admission of a new partner, the firm is reconstituted with a new agreement and the existing agreement comes to an end.
- ★ On admission of a partner, generally there is a change in the mutual rights of the partners. The new partner acquires the right to share the future profits and share the assets of the firm.
- ★ The new partner becomes liable for all the acts which are carried out by the firm from the date of his / her admission into the firm.
- ★ On admission of a partner, the accumulated profits, accumulated losses and reserves before admission are to be distributed to the existing partners in the old ratio.
- ★ When a partner is admitted into the firm, assets and liabilities are to be revalued and the profit or loss on revaluation is to be distributed to the existing partners in the old ratio.
- ★ At the time of admission of a partner it is necessary to determine the new profit sharing ratio because the new partner is entitled to share the future profits of the firm.
- ★ If the new profit sharing ratio is not agreed, the partners will share the profits and losses equally.
- ★ The existing partners sacrifice part of their share of profit in favour of the new partner. To compensate the sacrifice made by the existing partners, goodwill brought by the new partner is distributed in the sacrificing ratio to the old partners who sacrifice.
- ★ Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.

Student Activity 5.3:(Book Page no: 181)

S.No.	Assets/Liabilities	Increase	Decrease	Debit Revaluation A/c	Credit Revaluation A/c
1	Asset	√			√
2	Asset		√	√	
3	Liability		√		√
4	Asset		√	√	
5	Liability	√		√	
6	Asset	√			√
7	Liability	√		√	
8	Liability	√		√	
9	Asset	√			√
10	Asset	√			√

Write Increase or Decrease in the appropriate box

Revaluation A/c	Debit	Credit
Asset	Decrease	Increase
Liability	Increase	Decrease

CHAPTER – 6 RETIREMENT AND DEATH OF A PARTNER

I. CHOOSE THE CORRECT ANSWER:

1. A partner retires from the partnership firm on 30th June. He is liable for all the acts of the firm up to the

(a) End of the current accounting period	(b) End of the previous accounting period
(c) Date of his retirement	(d) Date of his final settlement
2. On retirement of a partner from a partnership firm, accumulated profits and losses. Are distributed to the partners in the

(a) New profit sharing ratio	(b) Old profit sharing ratio
(c) Gaining ratio	(d) Sacrificing ratio
3. On retirement of a partner, general reserve is transferred to the

(a) Capital account of all the partners	(b) Revaluation account
(c) Capital account of the continuing partners	(d) Memorandum revaluation a/c
4. On revaluation, the increase in liabilities leads to

(a) Gain	(b) Loss	(c) Profit	(d) None of these
----------	----------	------------	-------------------
5. At the time of retirement of a partner, determination of gaining ratio is required

(a) To transfer revaluation profit or loss	(b) To distribute accumulated profits and losses
(c) To adjust goodwill	(d) None of these
6. If the final amount due to a retiring partner is not paid immediately, it is transferred to

(a) Bank A/c	(b) Retiring partner's capital A/c
(c) Retiring partner's loan A/c	(d) Other partners' capital A/c
7. 'A' was a partner in a partnership firm. He died on 31st March 2019. The final Amount Due to him is Rs.25,000 which is not paid immediately. It will be transferred to

(a) A's capital account	(b) A's current account
(c) A's Executor account	(d) A's Executor loan account
8. A, B and C are partners sharing profits in the ratio of 2:2:1. On retirement of B, Goodwill of the firm was valued as Rs. 30,000. Find the contribution of A and C to compensate B:

(a) Rs.20,000 and Rs.10,000	(b) Rs. 8,000 and Rs.4,000
(c) Rs.10,000 and Rs. 20,000	(d) Rs.15,000 and Rs. 15,000
9. A, B and C are partners sharing profits in the ratio of 4:2:3. C retires. The new Profit sharing ratio between A and B will be

(a) 4:3	(b) 3:4	(c) 2:1	(d) 1:2
---------	---------	---------	---------
10. X, Y and Z were partners sharing profits and losses equally. X died on 1.4. 2019. Find out the share of X in the profit of 2019 based on the profit of 2018 which showed Rs. 36,000.

a). Rs. 1,000	(b) Rs. 3,000	(c) Rs.12,000	(d) Rs.36,000
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II. VERY SHORT ANSWER QUESTIONS:**1. What is meant by retirement of a partner?**

- ★ When a partner leaves from a partnership firm, it is known as retirement.
- ★ It is also called outgoing or retirement partner.

2. What is gaining ratio?

- ★ The continuing partners may gain a portion of the share of profit of the retiring partner.
- ★ Gaining Ratio = New share - Old share

3. What is the 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?

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Deceased partner capital a/c Dr		xxx	
	To Deceased partner executor a/c			xxx
	(Being Deceased partner amount transferred to capital account)			

III SHORT ANSWER QUESTIONS:**1. List out the adjustments made at the time of retirement of a partner in a partnership firm.**

- 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.

S.No	Basic	Sacrificing ratio	Gaining ratio
1	Meaning	A share of profit sacrificed by the old partner to new partner.	A share of profit gained by existing partner from retiring partner.
2	Time	Admission of a partner	Retirement of a partner
3	Formula	Sacrificing Ratio = old ratio - new ratio	Gaining Ratio = New ratio - Old ratio

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

i). Cash due paid immediately

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Retiring partner capital a/c Dr To Cash/Bank a/c (Being cash due paid immediately recorded)		xxx	xxx

ii). Cash due not paid immediately

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Retiring partner capital a/c Dr To Retiring partners loan a/c (Being cash due not paid immediately recorded)		xxx	xxx

iii). Cash due paid partly immediately

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Retiring partner capital a/c Dr To Cash/Bank a/c To Retiring partners loan a/c (Being cash due paid partly immediately recorded)		xxx	xxx xxx

5 MARKS:

1. Distinguish between sacrificing ratio and gaining ratio.

S.No	Basic	Sacrificing Ratio	Gaining Ratio
1	Meaning	A share of profit sacrificed by the old partner to new partner.	A share of profit gained by existing partner from retiring partner.
2	Time	Admission of a partner	Retirement of a partner
3	Formula	Sacrificing Ratio = old ratio – new ratio	Gaining Ratio = New ratio – Old ratio
4	Purpose	Its calculated to determine the amount to be adjusted towards goodwill for the sacrificing partners.	Its calculated to determine the amount to be adjusted towards goodwill for the gaining partners.

INTERIOR QUESTIONS

Case study :

1. Think of any three reasons for a partner for leaving a partnership firm

- Reasons for a partner for leaving a partnership firm.
- Maybe illness, old age, better opportunity elsewhere.

2. Write any four transactions that may increase the profit on revaluation .

- The value of Land increased by Rs. 50,000/-
- Creditors revalue from Rs. 2000 to 1800 as discount can be availed from creditors.
- The value of inventory increased by Rs. 500
- Investment of Rs. 25,000 not recorded in the books, is to be recorded now.

3. A partner retires from a partnership firm. The final amount due to him on his retirement from the partnership firm is 25,000. He receives 15,000 immediately and the balance is left with the firm. What impact will it have in the books of accounts after his retirement?

- It will have in the books of accounts as 'retired partners loan a/c'

4. After a partner's death, if the remaining partners agreed to close down the partnership firm, what should be done?

- Once the partners decide to close down the partnership firm, all the debts and payables need to be cleared.
- If the firm holds any assets, they can be sold and the sale can be divided among the partners.
- Bank Accounts of the firm need to be closed.

Do you know:

- ◎ Profit and loss suspense account is a temporary account opened to transfer the share of retiring or deceased partner's share in current year's profit or loss upto the date of retirement or death.
- ◎ If the amount due to the retiring/deceased partner is not paid in cash immediately and if there is no contract entered into concerning settlement of account, then provisions of Section 37 of the Indian Partnership Act, 1932 will apply.
 - As per section 37, the retiring partner or the representatives of the retiring or deceased partner is entitled to choose any of the following options:
 - Share of profits attributable to the use of his share of property of the firm or
 - Interest at the rate of 6 per cent per annum on the amount of his share on the property of the firm.

- ⊙ Life policies may be taken on the life of the partners in a partnership firm. The life policy may be individual policy or joint life policy.
- ⊙ In case of individual policy, if a partner dies, his policy alone matures and the policy amount is received from the insurance company.
 - In case of joint life policy, one policy is taken on the lives of all partners. When any one of the partners dies, the policy matures and the policy amount is received.
 - In both types of policies, the insurance premium is paid by the partnership firm.
 - The policy amount received from the insurance company is used to settle the amount due to the deceased partner.

Points to remember:

- ⊙ On retirement of a partner, existing agreement comes to an end. The firm is reconstituted and other partners continue the partnership firm with a new agreement.
- ⊙ The retiring partner is liable for all the acts which are carried out by the firm until the date of his retirement from the firm.
- ⊙ At the time of retirement of a partner the accumulated profits and losses and reserves upto the date of retirement is to be distributed to all the partners in the old profit sharing ratio.
- ⊙ When a partner retires from the partnership firm, the assets and liabilities are to be revalued and the profit or loss on revaluation is to be distributed to all the partners in the old profit sharing ratio.
- ⊙ At the time of retirement of a partner, the continuing partners gain part of retiring partner's share of profit. Hence the retiring partner's share of goodwill is to be valued and adjusted through the capital accounts of the gaining partners.
- ⊙ Gaining ratio is the proportion of the profit which is gained by the continuing partners. The share gained is new share minus old share.
- ⊙ The amount due to the retiring partner may be settled by paying the entire amount due immediately in cash, or transfer the entire amount due to the loan account of the partner or by paying part of the amount immediately in cash and transferring the balance to the loan account of the partner.
- ⊙ When a partner dies the amount due from the firm is paid to the executor or legal representative of the deceased partner.

Important notes:

- ⊙ All these adjustments are similar to the adjustments to be done on admission of a partner except determination of profit sharing ratio and settlement of the amount due to the retiring partner.

- ⊙ There are two ways in which the revaluation of assets and liabilities may be dealt with in the accounts.
- ⊙ Revised value of assets and liabilities are shown in the books
- ⊙ Revised value of assets and liabilities are not shown in the books
- ⊙ When the new profit sharing ratio is not given in the problem, it is to be calculated based on the information given in the problem.

a*a*a*a*a*a*a

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CHAPTER – 7**COMPANY ACCOUNTS****I. CHOOSE THE CORRECT ANSWER:**

1. A preference share is one

- (i) which carries preferential right with respect to payment of dividend at fixed rate
 (ii) which carries preferential right with respect to repayment of capital on winding up

- (a) Only (i) is correct (b) Only (ii) is correct
 (c) Both (i) and (ii) are correct (d) Both (i) and (ii) are incorrect

2. That part of share capital which can be called up only on the winding up of a company is called:

- (a) Authorised capital (b) Called up capital (c) Capital reserve (d) Reserve capital

3. At the time of forfeiture, share capital account is debited with

- (a) Face value (b) Nominal value (c) Paid up amount (d) Called up amount

4. After the forfeited shares are reissued, the balance in the forfeited shares account should be transferred to

- (a) General reserve account (b) Capital reserve account
 (c) Securities premium account (d) Surplus account

5. The amount received over and above the par value is credited to

- (a) Securities premium account (b) Calls in advance account
 (c) Share capital account (d) Forfeited shares account

6. Which of the following statement is false?

- (a) Issued capital can never be more than the authorised capital
 (b) In case of under subscription, issued capital will be less than the subscribed capital
 (c) Reserve capital can be called at the time of winding up
 (d) Paid up capital is part of called up capital

7. When shares are issued for purchase of assets, the amount should be credited to

- (a) Vendor's A/c (b) Sundry assets A/c (c) Share capital A/c (d) Bank A/c

8. Match the pair and identify the correct option

- (1) Under subscription - (i) Amount prepaid for calls
 (2) Over subscription - (ii) Subscription above the offered shares
 (3) Calls in arrear - (iii) Subscription below the offered shares
 (4) Calls in advance - (iv) Amount unpaid on calls

- | | | | | |
|-----|-------|-------|-------|------|
| | (1) | (2) | (3) | (4) |
| (a) | (i) | (ii) | (iii) | (iv) |
| (b) | (iv) | (iii) | (ii) | (i) |
| (c) | (iii) | (ii) | (iv) | (i) |
| (d) | (iii) | (iv) | (i) | (ii) |

9. If a share of Rs. 10 on which Rs. 8 has been paid up is forfeited. Minimum reissue price is
 (a) Rs. 10 per share (b) Rs. 8 per share (c) Rs. 5 per share (d) Rs. 2 per share
10. Supreme Ltd. forfeited 100 shares of Rs. 10 each for non-payment of final call of Rs. 2 per share. All these Shares were re-issued at Rs. 9 per share. What amount will be transferred to capital reserve account?
 (a) Rs. 700 (b) Rs. 800 (c) Rs. 900 (d) Rs. 1,000

II 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.

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?

- Sometimes shareholders may fail to pay the amount due on calls.
- The amount called up but not paid is called calls in arrears.

4. Write a short note on securities premium account.

- When a company issues shares at a price more than the face value, the shares are said to be issued at premium.
- The excess is called as premium.

5. Why are the shares forfeited?

- ⊛ If the shareholders fail to pay the amount due on calls, shares will be forfeited.

III SHORT ANSWER QUESTIONS:

1. State the differences between preference shares and equity shares.

S.no	Basic	Preference share	Equity Shares
1	Meaning	It's are those shares which have preferential rights regarding dividend and return of capital	It's are those which have no preferential rights. So they are called ordinary shares.
2	Rate of dividend	Fixed	Changed
3	Voting power	They do not have any voting rights	They have dividend changes according to profit earned by company.

2. 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.

3. 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.

4. Write a short note on (a) Authorised capital (b) Reserve capital**i). Authorized 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

ii). 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.

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

- ★ A company may issue equity shares either for cash or for consideration other than cash.
- ★ When shares are issued for cash, the cash may be received
 - In Installments
 - At One Time

5 MARKS:**1. State the differences between preference shares and equity shares.**

S.no	Basic	Preference share	Equity Shares
1	Meaning	It's are those shares which have preferential rights regarding dividend and return of capital	It's are those which have no preferential rights. So they are called ordinary shares.
2	Rate of dividend	Fixed	Changed
3	Voting power	They do not have any voting rights	They have dividend changes according to profit earned by company.
4	Affairs of company	They do not have any rights to appoint board of directors.	They have to appoint the board of directors
5	Payment of dividend	Dividend is distributed first.	After paying dividend is distributed

INTERIOR QUESTIONS

Case study :

1. Read the following. What do you find in common? What do they mean to you?

- Tamil Nadu Newsprint and Papers Limited (TNPL)
- Bharath Heavy Electricals Limited (BHEL)
- Infosys Limited
- Indian Oil Corporation Limited

- The Word Limited is found in common.
- The Word Limited means the amount of liability undertaken by the company shareholders are limited to their share in the company, by way of investments or commitments.

2. Identify the company's registered capital, issued capital, subscribed capital and called up capital. Also find out the number of shares, the company had issued.

- 5,00,000
- 2,00,000
- 3,00,000
- 3,50,000

Authorized Capital : Rs. 5,00,000

Issued Capital : Rs. 3,50,000

Subscribed Capital : Rs. 3,00,000

Called up Capital : Rs. 2,00,000

Number of Shares Issued : 35,000

3. Before investing in any company, the shareholders or any potential investors may want to know the performance of the company. From where do they get such information?

- Financial statements are the medium by which a company discloses information concerning its financial performance, financial position, cash flows and changes in equity.
- So the investors can make decisions by reviewing the financial statements of the company.

Do you know:

- ★ As per Section 39 of the Indian Companies Act, 2013, application money must be at least 5 per cent of the nominal value of shares or such other percentage or amount as may be specified by the Securities Exchange Board by making regulations. As per SEBI guidelines, the minimum application money shall not be less than 25 per cent of the issue price.
- ★ Calls are to be made as provided in the Articles of Association of a company. In the absence of the required provisions in the Articles, Table F, Schedule I of the Indian Companies Act, 2013 will be applicable which has the following provisions:
- ★ Period of one month must elapse between two calls.
- ★ The amount of one call should not be more than 25% of the face value of the share.

Points to remember:

- ★ Authorised capital is the maximum amount that can be raised as capital as is authorised by the memorandum of association

- * Reserve capital is part of subscribed capital to be called up at the time of winding up of the company.
- * Issue of equity shares to public through prospectus by a public company is called public issue.
- * When the share capital is received through instalments, first instalment is called application money.
- * When the number of shares subscribed is less than the number of shares offered, it is known as under subscription.
- * When the minimum subscription stated in the prospectus has been subscribed for by the public, a company can allot shares.
- * When applications are allotted in proportion of shares applied for it is called pro-rata allotment.
- * The excess amount paid over the called up value of a share is known as calls in advance.
- * When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears.
- * When a company issues shares at a price more than the face value (nominal value), the shares are said to be issued at premium.

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CHAPTER – 8 FINANCIAL STATEMENT ANALYSIS

I. CHOOSE THE CORRECT ANSWER

1. Which of the following statements is not true?

- a) Notes and schedules also form part of financial statements.
- b) The tools of financial statement analysis include common-size statement
- c) Trend analysis refers to the study of movement of figures for one year**
- d) The common-size statements show the relationship of various items with some common base, expressed as percentage of the common base

2. Balance sheet provides information about the financial position of a business concern

- a) Over a period of time
- b) As on a particular date**
- c) For a period of time
- d) For the accounting period

3. Which of the following tools of financial statement analysis is suitable when data relating to several years are to be analysed?

- a) Cash flow statement
- b) Common size statement
- c) Comparative statement
- d) Trend analysis**

4. The financial statements do not exhibit

- a) Non-monetary data**
- b) Past data
- c) Short term data
- d) Long term data

5. Which of the following is not a tool of financial statement analysis?

- a) Trend analysis
- b) Common size statement
- c) Comparative statement
- d) Standard costing**

6. The term 'fund' refers to

- a) Current liabilities
- b) Working capital**
- c) Fixed assets
- d) Non-current assets

7. Which of the following statements is not true?

- a) All the limitations of financial statements are applicable to financial statement analysis also.
- b) Financial statement analysis is only the means and not an end.
- c) Expert knowledge is not required in analyzing the financial statements.**
- d) Interpretation of the analyzed data involves personal judgment.

8. A limited company's sales has increased from Rs. 1,25,000 to Rs. 1,50,000. How does this appear in comparative income statement?

- a) + 20 %**
- b) + 120 %
- c) - 120 %
- d) - 20 %

9. In a common-size balance sheet, if the percentage of non-current assets is 75, what would be the percentage of current assets?

- a) 175
- b) 125
- c) 25**
- d) 100

10. Expenses for a business for the first year were Rs. 80,000. In the second year, it was

increased to Rs. 88,000. What is the trend percentage in the second year?

a) 10 %

b) 110 %

c) 90 %

d) 11%

II 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.

2. List the tools of financial statement analysis.

- * Comparative statement
- * Common size statement
- * Trend analysis
- * Fund flow analysis
- * Cash flow analysis

3. What is working capital?

- ♣ The capital of a business which is used in its day-to-day trading operation.
- ♣ Working Capital = Current Asset – Current Liabilities

4. When is trend analysis preferred to other tools?

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

III SHORT ANSWER QUESTIONS:

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

- ◆ Financial statements are prepared based on historical data.
- ◆ They may not reflect current position.
- ◆ The previous data does not reveal the operating results and financial position of the business concern.
- ◆ So it is a limitation.

2. Write a short note on cash flow analysis.

- ☆ It 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.

3. Briefly explain any three limitations of financial statements.

i). Record of historical data:

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

ii). 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.

iii). Lack of consistency:

- ✿ Different business concerns may use different accounting methods.
- ✿ Hence, comparison between two business concerns becomes difficult.

4. Explain the steps involved in preparing comparative statement.**(i) Column 1:** Particulars of items**(ii) Column 2:** Enter absolute amount of year 1.**(iii) Column 3:** Enter absolute amount of year 2.**(iv) Column 4:** Show the difference in amounts between year 1 and year 2. (Increase (+) or Decrease (-))**(v) Column 5:** Show percentage increase or decrease.

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

5. Explain the procedure for preparing common-size statement.*Common-size statement can be prepared with three columns.***(i). Column 1:** Particulars of items of income statement or balance sheet**(ii) Column 2:** Enter absolute amount.**(iii) 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.

INTERIOR QUESTIONS**Case study :****1. Invite an auditor to your class to discuss about the preparation of financial statements of different forms of business.**

- Financial Statements preparation include the balance sheet, income statement, statement of cash flow and statement of stock holders equity.
- Statement of Profit and Loss (Part ii of schedule III) and Balance sheet (Part i of schedule III)

2. While comparing the current year's income statement with that of the previous year, it is found that profit before tax has increased by 70%. Think of any three possible reasons for this increase.

- Increase in Sales
- Improving gross profit by either increasing price or reducing input costs

- Reducing overhead expenses by improving efficiency

3. Is it possible to combine the numerous figures in the financial statements under common heads and analyze financial statements?

- Yes it is possible and often beneficial to combine numerous figures in financial statements under common heads for analysis purposes.
- This process, known as Financial Statement Analysis, involves organizing and aggregating data to gain insights into company's financial performance, positions and potentials.

Do you know:

- ☆ Where the financial statements of a company do not comply with the Accounting Standards referred to in Section 129 (1) of the Companies Act, 2013, the company shall disclose in its financial statements, the deviation from the Accounting Standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.
- ☆ As per Schedule III of the Companies Act, 2013, depending upon the turnover of the company, the figures appearing in the financial statements may be rounded off as given below:

Turnover	Rounding off
(a) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(b) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

- ☆ Intra-firm comparison is comparison within the organisation among different departments, divisions, etc.
- ☆ Inter-firm comparison is comparison of one firm with other firm or firms in the industry.

Horizontal analysis

- ☆ When figures relating to several years are considered for the purpose of analysis, the analysis is called horizontal analysis.
- ☆ Generally, one year is taken as the base year and the figures relating to the other years are compared with that of the base year. Comparative statements and trend percentages are examples of horizontal analysis.

Vertical analysis

- ☆ When figures relating to one accounting year alone are considered for the purpose of analysis, the analysis is called vertical analysis.
- ☆ Here, relationship is established among items from various financial statements relating to the same accounting period.

- ☆ Preparation of common size statements and computation of ratios are examples of vertical analysis.

Points to remember:

- ☆ The term financial statements generally refer to two basic statements, income statement and balance sheet.
- ☆ Notes and schedules also form part of financial statements.
- ☆ The tools of financial statement analysis include Comparative statement, Common size statement, Trend analysis, Funds flow analysis and Cash flow analysis.
- ☆ A statement giving comparison of net increase or decrease in the individual items of financial statements of two or more years of a business concern is called comparative statement.
- ☆ The common-size statements show the relationship of various items with some common base, expressed as percentage of the common base.
- ☆ Trend analysis refers to the study of movement of figures over a period.

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CHAPTER - 9**RATIO ANALYSIS****I. CHOOSE THE CORRECT ANSWER:**

1. The mathematical expression that provides a measure of the relationship between two figures is called

- (a) Conclusion **(b) Ratio** (c) Model (d) Decision

2. Current ratio indicates

- (a) Ability to meet short term obligations** (b) Efficiency of management
(c) Profitability (d) Long term solvency

3. Current assets excluding inventory and prepaid expenses is called

- (a) Reserves (b) Tangible assets (c) Funds **(d) Quick assets**

4. Debt equity ratio is a measure of

- (a) Short term solvency **(b) Long term solvency** (c) Profitability (d) Efficiency

5. Match List I with List II and select the correct answer using the codes given below:

List I

- (i) Current ratio**
(ii) Net profit ratio
(iii) Debt-equity ratio
(iv) Inventory turnover ratio

List II

- 1. Liquidity**
2. Efficiency
3. Long term solvency
4. Profitability

Codes :

- | (i) | (ii) | (iii) | (iv) |
|-------------|------|-------|------|
| (a) 1 4 3 2 | | | |
| (b) 3 2 4 1 | | | |
| (c) 4 3 2 1 | | | |
| (d) 1 2 3 4 | | | |

6. To test the liquidity of a concern, which of the following ratios are useful?

- (i) Quick ratio** **(ii) Net profit ratio**
(iii) Debt-equity ratio **(iv) Current ratio**

Select the correct answer using the codes given below:

- (a) (i) and (ii) **(b) (i) and (iv)** (c) (ii) and (iii) (d) (ii) and (iv)

7. Proportion of share holder's funds to total assets is called

- (a) Proprietary ratio** (b) Capital gearing ratio
(c) Debt equity ratio (d) Current ratio

8. Which one of the following is not correctly matched?

- (a) Liquid ratio - Proportion
(b) Gross profit ratio - Percentage
(c) Fixed assets turnover ratio - Percentage
(d) Debt-equity ratio - Proportion

9. Current liabilities Rs. 40,000 Current assets Rs. 1,00,000; Inventory Rs. 20,000. Quick ratio is

(a) 1:1

(b) 2.5:1

(c) 2:1

(d) 1:2

10. Cost of revenue from operations Rs. 3,00,000; Inventory in the beginning of the year Rs. 60,000; Inventory at the close of the year Rs. 40,000. Inventory turnover ratio is

(a) 2 times

(b) 3 times

(c) 6 times

(d) 8 times

II VERY SHORT ANSWER QUESTIONS:

1. What is meant by accounting ratios?

- ✪ When ratios are calculated on the basis of accounting information, these are called 'accounting ratios'.
- ✪ It is the numerical relationship between two items.

2. What is quick ratio?

- Quick ratio gives the proportion of quick assets to current liabilities.
- It is otherwise called liquid ratio or acid test ratio.
- It is calculated as follows:

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

3. What is meant by debt equity ratio?

- ★ It is calculated to assess the long term solvency position.
- ★ It expresses the relationship between long term debt and shareholders' funds.
- ★ It is computed as follows:

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

4. What does return on investment ratio indicate?

- It shows the proportion of net profit before interest and tax to capital employed.
- It is an overall measure of profitability of a business concern.
- It is computed as below:

$$\text{Return on Investment (ROI)} = \frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$$

5. State any two limitations of ratio analysis.

(i) Ratios are only means:

Ratios are not end in themselves but they are only means to achieve a particular purpose.

(ii). Accuracy of financial information:

- Its depends on the accuracy of information taken from financial statements.

III SHORT ANSWER QUESTIONS:

1. Explain 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

2. 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.
- ♣ It is computed as follows:

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

(in days)

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

(in months)

3. How is operating profit ascertained?

- ⊗ Operating Profit = Gross Profit - Operating Expenses
- ⊗ Gross Profit = Sales - Cost of Goods sold

(Or)

- ⊗ Gross Profit = Revenue from Operation - Cost of Revenue from Operation
- ⊗ Operating Expenses = Selling + Office + Distribution + Administration Expenses

4. State any three advantages of ratio analysis.

(i) Measuring financial solvency:

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

(ii) Facilitating investment decisions:

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

(iii) Analysing the profitability:

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

5. Bring out the limitations of ratio analysis.

(i) Ratios are only means:

- ✪ Ratios are not end in themselves but they are only means to achieve a particular purpose.

(ii). Accuracy of financial information:

- It's depends on the accuracy of information taken from financial statements.
- If the statements are inaccurate, ratios are also be inaccurate.

(iii). 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.

INTERIOR QUESTIONS

Case study :

1. Read the following statement. A sole trader earns 1,00,000 per annum from business.

- Is this a high profit? State the reasons.
- Do you think the above information is enough to say that it is high profit or not?
- What more information, do you need to decide that the trader's business' performance is good? Think on the above points and discuss in the class.
- ❖ It is difficult to determine if this is high profit.
- ❖ For some small businesses, this might considered a decent profit.
- ❖ More information about expenses, industry, benchmarks and the individuals' goals would be needed to make a correct comprehensive assessment.

2. Whole class activity: Discuss the possible causes and consequences for the following situation

- A departmental store's net profit margin has decreased compared to last year's margin.
- A trader has been allowed 30 days to pay to his suppliers, but he takes 45 days.
- Debt collection period has been increasing.
 - It could lead to Financial Difficulties for the stores, affecting its ability to pay bills, invest growth opportunities or even meet debt obligations.
 - Delaying payments can strain relationship with the suppliers, potentially leading to distrust even refusal to extend credit in the future.
 - The longer debt collection period can hinder the company's ability to meet its own financial obligations.
 - The higher the risk of non-payment can result in bad debts that negatively impact the company's profitability and financial help.

3. Calculation of ratios may become difficult when more data are to be used. Is there any solution available for this?

- When dealing with large amounts of data, calculating ratios manually can indeed become challenging and time consuming.
- So Accounting or Financial Software that can automatically calculate ratio based on the data inputted can be used.

Do you know:

- Operating cycle is the time between the acquisition of an asset for processing and its realization into cash and cash equivalents.
- Inventory is not considered as liquid asset because it takes some time to sell the inventory and to convert into cash. Similarly, prepaid expenses are not considered as liquid assets because these are expenses paid in advance. These cannot be converted into cash and only the benefit can be derived and are thus excluded from liquid assets.
- Normally, 2:1 is considered as ideal current ratio; 1:1 is considered as ideal quick ratio. However, it is subject to change from business to business and industry to industry.
- Debit balance in the statement of profit and loss is shown as a negative figure under the head Reserves and surplus.
- Shareholders' funds can also be computed as follows:
- Shareholders' funds = Total assets - Non-current liabilities - Current liabilities.
- In general, a debt equity ratio of 1:1 may be considered satisfactory. However, it is subject to change from business to business and industry to industry.
- Fixed assets turnover ratio can also be calculated by substituting cost of revenue from operations instead of revenue from operations.

Points to remember:

- An accounting ratio is a mathematical expression of the relationship between two items or group of items shown in the financial statements.
- Under the functional classification, the ratios are classified as liquidity ratios, solvency ratios, profitability ratios and turnover ratios.
- Liquidity ratios help to assess the ability of a business concern to meet its short term financial obligations.
- Long term solvency ratios help to determine the ability of the business to repay its debts in the long run.
- Profitability ratios are calculated to analyse the earning capacity of the business and is generally expressed as a percentage.

- Turnover ratios show how efficiently assets or other items have been used to generate revenue from operations.

Important notes:

- Accounting ratios can be expressed in any of the following forms:
 - **Pure:** It is expressed as a quotient. Example: 2 or 2:1.
 - **Percentage:** It is expressed in percentage. Example: 25%.
 - **Times:** It is expressed as certain number of times of a particular figure. Example: 4 times.

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CHAPTER – 10**COMPUTERIZED
ACCOUNTING SYSTEM - TALLY****I. CHOOSE THE CORRECT ANSWER:**

1. Accounting report prepared according to the requirements of the user is

- (a) Routine accounting report (b) **Special purpose report**
(c) Trial balance (d) Balance sheet

2. Function key F11 is used for

- (a) **Company Features** (b) Accounting vouchers
(c) Company Configuration (d) None of these

3. Which submenu displays groups, ledgers and voucher types in Tally?

- (a) Inventory vouchers (b) Accounting vouchers
(c) Company Info (d) **Account Info**

4. What are the predefined Ledger(s) in Tally?

- (i) **Cash** (ii) **Profit & Loss A/c** (iii) **Capital A/c**
(a) Only (i) (b) Only (ii) (c) **Both (i) and (ii)** (d) Both (ii) and (iii)

5. Contra voucher is used for

- (a) Master entry (b) **Withdrawal of cash from bank for office use**
(c) Reports (d) Credit purchase of assets

6. Which is not the default group in Tally?

- (a) Suspense account (b) **Outstanding expense** (c) Sales account (d) Investments

7. Salary account comes under which of the following head?

- (a) Direct Incomes (b) Direct Expenses (c) Indirect Incomes (d) **Indirect Expenses**

8. Rs. 25,000 withdrawn from bank for office use. In which voucher type, this transaction will be recorded

- (a) **Contra Voucher** (b) Receipt Voucher (c) Payment Voucher (d) Sales Voucher

9. In which voucher type credit purchase of furniture is recorded in Tally

- (a) Receipt voucher (b) **Journal voucher** (c) Purchase voucher (d) Payment voucher

10. Which of the following options is used to view Trial Balance from Gateway of Tally?

- (a) Gateway of Tally -> Reports -> Trial Balance (b) Gateway of Tally -> Trial Balance
(c) **Gateway of Tally -> Reports -> Display -> Trial Balance** (d) None of these

II VERY SHORT ANSWER QUESTIONS

1. What is 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?

It is a compilation of accounting information that is derived from the accounting records of a business concern.

- ★ Routine Reports
- ★ Special Purpose Reports.

3. State any five accounting reports.

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

4. What is Accounting Information System (AIS)?

- ★ AIS collects financial data, process 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.

5. What is a group in Tally.ERP 9?

- ☉ Groups are categorized as Primary Groups and Sub-Groups.
- ☉ Primary group includes Capital Account, Current Liabilities, Fixed Assets, Current Assets, etc.
- ☉ Sub-Group includes Reserves & Surplus, Sundry Creditors, Sundry Debtors, etc.
- ☉ Gateway of Tally > Masters > Accounts Info > Groups > Single Group > Display.

III SHORT ANSWER QUESTIONS

1. Write a 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

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

- ☼ Tally has two predefined ledgers,
 - Cash and
 - Profit & Loss A/c.

☼ The user has to create various other ledgers based on their requirements.

❁ To create ledger:

Gateway of Tally > Masters > Accounts Info > Ledgers > Single Ledger > Create.

- ★ Cash a/c
- ★ Profit and Loss a/c
- ★ Purchase a/c
- ★ Sales a/c
- ★ Bank a/c
- ★ Capital a/c

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

- ★ Receipt Voucher F6
- ★ Payment Voucher F5
- ★ Contra Voucher F4
- ★ Purchase Voucher F9
- ★ Sales Voucher F8
- ★ Journal Voucher F7

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

(ii) 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)

Robot For 1-Apr-2018		Robot For 1-Apr-2018	
Particulars		Particulars	
Purchase Accounts	22,800.00	Sales Accounts	80,000.00
Purchase A/c	22,800.00	Sales A/c	80,000.00
Direct Expenses	1,800.00		
Wages A/c	1,800.00		
Indirect Expenses	18,000.00		
Stationery A/c	4,800.00		
Stationery A/c	4,800.00		
Net Profit	26,800.00		
Total	80,000.00	Total	80,000.00

Figure 10.37 Profit and Loss Account

5. Explain any five applications of computerized accounting system.

i). Maintaining accounting records:

- ✕ It can be maintained easily and efficiently for long time period.
- ✕ It facilitates fast and accurate retrieval of data and information.

ii). Inventory management:

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

iii). Report generation:

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

iv). Data import/export:

- ☞ Accounting data and information can be imported from or exported to other users within the organisation.

v). Taxation:

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

5 MARKS:**1. State any five accounting reports.**

- ♣ Accounting report is a compilation of accounting information that are derived from the accounting records of a business concern.
- ♣ It may be classified as routine reports and special purpose reports.
- ♣ Routine accounting reports include:
 - ★ Day books / Journal
 - ★ Ledger
 - ★ Trial balance
 - ★ Income statement
 - ★ Balance sheet
 - ★ Cash flow statement
- ♣ Special purpose report is a report other than the routine accounting reports which is prepared according to the requirements of the user.

Following are the steps involved in designing accounting reports:

- ☉ Define the objective of generating report
- ☉ Specify the structure of the report
- ☉ Creating database queries to interact with the database to retrieve, modify, add or delete data from the records.

2. Explain any five applications of computerized accounting system.**i). Maintaining accounting records:**

- ✕ It can be maintained easily and efficiently for long time period.
- ✕ It facilitates fast and accurate retrieval of data and information.

ii). Inventory management:

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

iii). Report generation:

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

iv). Data import/export:

- ☞ Accounting data and information can be imported from or exported to other users within the organization.

v). Taxation:

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

INTERIOR QUESTIONS**Case study :****1. Interview an accountant of a big organization to know, how far automated accounting system is beneficial for maintaining accounting records.**

- Automated Accounting Systems offer big businesses a powerful tool for managing financial operation, more efficiently, accurately and effectively.

Do you know:

- ◆ Tally.ERP 9 can be used without a licence. But, for the date of the transactions only 1, 2 and 31 can be recorded.
- ◆ To delete or alter a transaction:
 - ◆ Gateway of Tally > Reports > Display > Day Book > Delete or make changes and Accept > Yes.

◆ How to view the following reports:**(i) To view Trial Balance**

- Gateway of Tally > Reports > Display > Trial Balance > AltF1 (detailed)

(ii) 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)

(iii) To view Balance Sheet

- F10: A/c Reports > Balance Sheet > AltF1 (detailed)

(or)

- Gateway of Tally > Reports > Balance Sheet > AltF1 (detailed)

(iv) To view Ratio Analysis

- F10: A/c Reports > Ratio Analysis
(or)
- Gateway of Tally > Reports > Ratio Analysis

(v) To view Day Book

- F10: A/c Reports > Day Book > AltF1 (detailed)
(or)
- Gateway of Tally > Reports > Display > Day Book > AltF1 (detailed)

Points to remember:

- ◆ Automated accounting system is an approach to maintain up-to-date accounting records with the aid of accounting software.
- ◆ Gateway of tally is the opening screen of tally. It is shown on the right pane which contains menu options such as transactions and reports.
- ◆ Accounting group is a collection of ledger accounts of same nature.
- ◆ Tally has two predefined ledgers, Cash and Profit & Loss A/c.
- ◆ Different types of vouchers such as receipt, payment, sales, purchases, etc. can be used for recording transactions in Tally.
- ◆ Deposit of cash into bank account and withdrawal of cash from bank account are recorded in contra voucher.
- ◆ Journal vouchers are used for recording transactions such as depreciation, provision for bad debts, rectification entries, etc.

PREVIOUS PUBLIC EXAM INTERIOR AND CUMPULOSRY QUESTION ANSWER

1. Which accounting system may be suitable for small size sole trader and partnership firm?

Explain?

- ☛ Incomplete records system is suitable for small size sole trader and partnership firm.
- ☛ Only the business concerns which have no legal obligation to maintain books of accounts under double entry system may maintain incomplete records.
- ☛ Hence, it may be maintained by small sized sole traders and partnership firms.

2. Give four examples of Not profit organization?

- ❖ Charitable institutions
- ❖ Educational institutions
- ❖ Cultural societies
- ❖ Sports and recreation clubs
- ❖ Hospitals
- ❖ Libraries and literary associations

3. What are the Non cash items?

- ☹ Depreciation, outstanding expenses and accrued income are not shown in receipts and payments account.

4. Classify the following items or capital or revenue? (Book page no: 49)

- i). Honorarium ii). Purchase of Sports Equipment iii). Purchase of book for library**
- i). Revenue Expenditure
 - ii). Capital Expenditure
 - iii). Capital Expenditure

5. How to the final accounts prepared by partnership firm?

- ♣ Manufacturing account
- ♣ Trading and profit and loss account
- ♣ Profit and loss appropriation account
- ♣ Balance sheet

6. Value of goodwill of Arul Enterprises is Rs. 120000. Average Profit 40000. Calculate No of years Purchase?

$$\begin{aligned}
 \text{No of year purchase} &= \frac{\text{Goodwill}}{\text{Average profit}} \\
 &= \frac{120000}{40000} \\
 &= 3 \text{ years}
 \end{aligned}$$

7. What is shares and mention it types?

- ♣ The capital of a company is divided into small units of fixed amount.
- ♣ These units are called shares.
- ♣ The shares which can be issued by a company are of two types
- ♣ (i) Preference shares (ii) Equity shares.

8. Inventory and Prepaid expenses are not considered as Liquid asset- State reasons?

- ★ Inventory is not considered as liquid asset because it takes some time to sell the inventory and to convert into cash.
- ★ Similarly, prepaid expenses are not considered as liquid assets because these are expenses paid in advance.
- ★ These cannot be converted into cash and only the benefit can be derived and are thus excluded from liquid assets.

9. What is Liquidity and types of Liquidity?

- ⊙ Liquidity means capability of being converted into cash with ease.
- ⊙ It helps to assess the ability of a business concern to meet its short term financial obligations.
- ⊙ It's also called as short term solvency ratios.
- ⊙ Liquidity ratios include: (i) Current ratio and (ii) Quick ratio.

10. Name the profitability ratios. How these are expressed?

- ★ **Pure:** It is expressed as a quotient. Example: 2 or 2:1.
- ★ **Percentage:** It is expressed in percentage. Example: 25%.
- ★ **Times:** It is expressed as certain number of times. Example: 4 times.
