

Madras Christian College Matric. Hr. Sec. School XII Accountancy

Chap 1 to 10

Complete Study Material 2024 -25

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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?

Ans.:

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

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

Ans.:

- Cash account and the personal accounts of customers and creditors are maintained fully
- And other accounts are maintained based on necessity.

3. What is a statement of affairs?

Ans.:

- A statement of affairs is a statement showing the balances of assets and liabilities on a particular date.
- It is prepared from incomplete records to find out the capital of a business unit on a particular date.
- This statement resembles balance sheet.
- The difference between the total of assets and total of liabilities is taken as capital.
- Capital = Assets – Liabilities.

III. Short Answer Questions

1. What are the features of incomplete records?

Ans.:

Following are the features of incomplete records:

(i) Nature: It is an unscientific and unsystematic way of recording transactions. Accounting principles and accounting standards are not followed properly.

(ii) Type of accounts maintained: In general, only cash and personal accounts are maintained fully. Real accounts and nominal accounts are not maintained properly. Some transactions are completely omitted.

(iii) Lack of uniformity: There is no uniformity in recording the transactions among different organisations. Different organisations record their transactions according to their needs and conveniences.

2. What are the limitations of incomplete records?

Ans.:

(i) Lack of proper maintenance of records: It is an unscientific and unsystematic way of maintaining records. Real and Nominal accounts are not maintained properly.

(ii) Difficulty in preparing trial balance: As accounts are not maintained for all items, the accounting records are incomplete. Hence, it is difficult to prepare trial balance to check the arithmetical accuracy of the accounts.

(iii) Difficulty in ascertaining true profitability of the business: Profit is found out based on available information and estimates. Hence, it is difficult to ascertain true profit as the trading and profit and loss account cannot be prepared with accuracy.

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

Ans.:

Basis of Distinction	Double entry system	Incomplete records
1. Recording of transactions	Both debit and credit aspects of all the transactions are recorded.	Debit and credit aspects of all the transactions are not recorded completely. For some transactions both aspects are entered, some transactions are partially recorded and some

		transactions are omitted to be entered.
2. Type of accounts maintained	Personal, Real and Nominal accounts are maintained fully.	In general, only personal and cash accounts are maintained fully. Real and Nominal accounts are not maintained fully.
3. Preparation of trial balance.	Trial balance can be prepared to check the arithmetical accuracy of the entries made in the books of accounts.	It is difficult to prepare the trial balance to check arithmetic accuracy of entries made in the books of accounts as the accounts are incomplete.
4. Suitability	It is suitable for all types of organisations	It may be suitable for small size, sole traders and partnerships.

5. Acceptability	Accounting Records are acceptable to all users including Tax Authorities and Financial Institutions	Accounting Records may not be acceptable to all users.
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4. State the procedure for calculating profit or loss through statement of affairs.

Ans.:

- Ascertain the opening capital by preparing a statement of affairs at the beginning of the year by taking the opening balances of assets and liabilities.
- Ascertain the closing capital by preparing a statement of affairs at the end of the accounting period after making all adjustments such as depreciation, bad debts, etc.
- Add the amount of drawings both in cash and in kind to the closing capital.
- Deduct the amount of additional capital introduced, to get adjusted closing capital.
- Ascertain profit or loss by subtracting opening capital from the adjusted closing capital.
- If adjusted closing capital is more than the opening capital, it denotes profit.
- If adjusted closing capital is lesser than the opening capital, it denotes loss.

$$\text{Closing Capital} + \text{Drawings} - \text{Additional Capital} - \text{Opening Capital} = \text{Profit / Loss}$$

5. Differentiate between Statement of Affairs and Balance Sheet.

Ans.:

		By Bad Debts A/c.	xxx
		By Bills receivable A/c. (bills received)	xxx
		By Balance c/d	Xxx
	xxx		xxx

Chapter 2 - ACCOUNTS OF NOT-FOR-PROFIT ORGANISATION

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 newspapers (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

- (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.

Ans.:

- Some organisations are created for the promotion of Art, Culture, Education, etc. these organisations are called not-for-profit organisation.
- They may be created for the promotion of art, culture, education, sports, etc.
- These organisations are called not for profit organisation.
- Charitable institutions, Educational Institutions, Cultural Societies, Sports and Recreational Clubs, Library are some of the examples of not-for-profit organisation.

2. What is receipts and payments account?

Ans.:

- It is a summary of cash and bank transaction of not-for-profit organisation, prepared at the end of each financial year.
- It is a real account in nature.
- All cash receipts are shown on the debit side and all cash payments shown on the credit side of this account.

3. What is legacy?

Ans. :

- It is a gift made to a not-for-profit organisation by a will, is called Legacy.
- It is a Capital Receipt.

4. Write a short note on life membership fees.

Ans.:

- Amount received towards life membership fees from member is a capital receipt.
- It is non-recurring in nature.

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

Ans.:

- Life Membership Fees
- Legacy
- Specific Donation
- Special Fund
- Sale of Fixed Assets
- Tournament Fund, Prize Fund, etc.

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

Ans.:

- Subscription
- Interest on Investment
- Interest on Fixed Deposit
- Sale of Old Sports Materials
- Sale of Newspapers, etc.

III Short answer questions

1. What is income and expenditure account?

Ans.:

- It is a summary of income and expenditure of a not-for-profit organisation, prepared at the end of an accounting year.
- It is prepared to find out the surplus or deficit for a particular year.
- It is a nominal account in nature.
- Items of Revenue Receipt and Revenue Expenditure relating to the current year alone are recorded.
- It is prepared following the accrual basis of accounting.

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

Basis	Receipts and Payments Account	Income and Expenditure Account
1. Purpose	It is prepared to know the cash receipts and cash payments.	It is prepared to know whether there is an excess of income over expenditure (surplus) or an excess of expenditure over income (deficit) during the current period.
2. Nature of account	It is a real account. It is a summary of cash account. Cash receipts are recorded on the debit side and cash payments are recorded on the credit side.	It is a nominal account. It is similar to profit and loss account. Expenses are recorded on the debit side and incomes are recorded on the credit side.
3. Basis of accounting	It is based on cash system of accounting. Non-cash items are not recorded.	It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation, etc. are also recorded.
4. Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
5. Nature of items	It contains actual receipts and payments irrespective of revenue or capital items in nature.	It contains only revenue items, that is, only revenue expenses and revenue incomes.

3. How the annual subscription dealt within the final accounts of not for profit organisation?

Ans.: A) Treatment in income and expenditure account

- Subscription received for the current year, previous year and subsequent period are given separately, subscription received, for the current year will be shown on the credit side of the income and expenditure account after making the adjustments given below:
 - i) Subscription outstanding for the current year is to be added.
 - ii) Subscription received in advance in the previous year which is meant for the current year is to be added.
- When total subscription received during the current year is given, the total subscription received during the current year will be shown on the credit side of the income and expenditure account after making the following adjustments:
 - i) Subscription outstanding in the previous year which is received in the current year will be subtracted. Subscription for the current year is added.
 - ii) Subscription received in the previous year which is meant for the current year is added and subscription received in advance in the current year which is meant for the subsequent year must be subtracted.

B) Treatment in Balance Sheet

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

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

a) Sale of sports materials b) Life membership fees c) Tournament fund

Ans.:

a) Sale of sports materials – being revenue receipts, will be shown on the credit side of Income & Expenditure A/C.

b) Life membership fees – being a capital receipt, will be shown on the Liabilities side of the Balance Sheet.

c) Tournament fund – being capital receipt, will be shown on the Liabilities side of the Balance Sheet.

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.**Ans.:**

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

2. What is a partnership deed?**Ans.:**

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

3. What is meant by Fixed Capital Method?**Ans.:**

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

4. What is the Journal entry to be passed for providing interest on capital to a partner?**Ans. :**

<u>Date</u>	<u>Particulars</u>	<u>LF</u>	<u>Debit (Rs.)</u>	<u>Credit (Rs.)</u>
	Interest on Capital A/c Dr To Partner's Capital A/c (Being Interest on Capital provided)		<u>xxx</u>	xxx
	Profit & Loss Appropriation A/c Dr To Interest on Capital A/c (Interest on capital account closed)		<u>xxx</u>	xxx

5. Why is Profit and Loss Appropriation Account prepared?**Ans.:**

- The profit and loss appropriation account is an extension of profit and loss account

- It is prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners.
- It is a nominal account in nature.

III Short answer questions

1. State the features of partnership.

Ans.:

- It is an association of two or more persons.
- Minimum 2 and maximum number of members is 50.
- There should be an agreement among the partner to share the profit or loss of the business. The agreement may be oral or written.
- Business may be carried on by all or any of them acting for all.

2. State any six contents of a Partnership Deed.

Ans.:

A Partnership Deed contains the following:

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

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

Ans. :

Following are the differences between fixed capital method and fluctuating capital method of maintaining capital accounts of partners:

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

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

Ans.:

If there is no partnership deed or when there is no express statement in the partnership deed, then the following provisions of the Act will apply:

- (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 by the partners equally. [Section 13(b)]
- (iii) **Interest on capital** No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [Section 13(c)]
- (iv) **Interest on loans** advanced by partners to the firm Interest on loan is to be allowed at the rate of 6 per cent per annum. [Section 13(d)]
- (v) **Interest on drawings** No interest is charged on the drawings of the partners.

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 - Weighted average profit × Number of years of profit method 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?****Ans.:**

- (i) It is the good name or reputation of the business.
 (ii) It enables the business to earn more profit.
 (iii) It is the present value of a firm's future excess earnings.
 (iv) It is intangible assets.
 (v) It has no physical existence.

2. What is acquired goodwill?**Ans.:**

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

(iii) The excess of purchase consideration over the value of net assets acquired, is treated as acquired good will.

(iv) This is also called purchased goodwill.

3. What is super profit?

Ans.:

(i) It is the excess of average profit over the normal profit of a business.

(ii) Super Profit = Average Profit - Normal Profit

4. What is normal rate of return?

Ans.:

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.

Ans.:

(i) When there is a change in the profit-sharing ratio.

(ii) When a new partner is admitted into a firm

(iii) When an existing partner retires from firm or when a partner dies

(iv) When a partnership firm is dissolved.

III SHORT ANSWER QUESTIONS

1. State any six factors determining goodwill.

Ans.:

(i) Profitability of the firm.

The profit earning capacity of the firm determines the value of its good will.

(ii) Favourable location of the business enterprises.

If the firm is located in a prominent place, which is easily accessible to the customers, it can attract more customers.

(iii) Good quality of goods or service offered.

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

(iv) Efficiency of management.

A firm having efficient management will earn more profit and the value of its goodwill will be higher.

(v) Degree of competition

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

(vi) 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 value of good will.

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

- i). Average Profit = Total Profits / Number of Years.
- ii). Normal Profit = Capital Employed x Normal Rate of Return.
- iii). Super Profit = Average Profit - Normal Profit.
- iv). Goodwill = Super Profit x Number of Years Purchase.

3. How is the value of goodwill calculated under the Capitalisation method?**Ans.:**

- Under this method goodwill is the excess of Capitalised value of average profit of the business over the actual capital employed in the business.
- Goodwill = Total capitalised value of the business – actual capital employed
- The Total capitalised value of the business is calculated as follows:
- Capitalised value of Business = Average Profit / Normal Rate of Return x 100
- Actual Capital Employed = Fixed Assets (excluding goodwill) + current assets – current liabilities

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 of

- (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**

- (i) Sacrificing ratio
- (ii) Old profit-sharing ratio
- (iii) Revaluation Account
- (iv) Capital Account

List II

- 1. Investment fluctuation fund
- 2. Accumulated profit
- 3. Goodwill
- 4. Unrecorded liability

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 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?

Ans.:

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

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

Ans.:

- Profits and losses of previous years which are not distributed to the partners are called accumulated profits and losses.
- Any reserve and accumulated profits and losses belong to the old partners and hence these should be distributed to the old partners in the old profit-sharing ratio.
- Reserves include general reserve, reserve fund, workmen compensation fund and investment fluctuation fund.
- In case of workmen compensation fund, the excess amount after providing for anticipated claim is the accumulated profit to be transferred

3. What is sacrificing ratio?

Ans.:

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

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

Ans.:

Journal Entry

Date	Particulars	LF	Debit	Credit
	Old Partners' Capital/Current A/c Dr		xxx	

To Goodwill A/c (existing goodwill written off)			XXX
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5. State whether the following will be debited or credited in the revaluation account.

Ans.:

- Depreciation on assets - **Debited to Revaluation A/c.**
- Unrecorded liability – **Debited to Revaluation A/c.**
- Provision for outstanding expenses – **Debited to Revaluation A/c.**
- Appreciation of assets – **Credited to Revaluation A/c.**

III. SHORT ANSWER QUESTIONS

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

Ans.:

The following adjustments are necessary at the time of admission of a partner:

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

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

Ans. :

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

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

3. Write a short note on Accounting Treatment of Goodwill.

Ans.:

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 a 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 in kind.
- In such a case for the cash or kind brought the respective account is debited and for the amount not brought in cash or kind, the new partners' 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 old partner's capital account or
- Current account in the old profit-sharing ratio.

Chapter 6: Retirement of Partner

I Multiple choice questions

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 account

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 1st April 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

II. Very short answer questions

1. What is meant by retirement of a partner?

Ans.:

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

2. What is gaining ratio?

Ans.:

- Gaining Ratio is the proportion of the profit, gained by the continuing partners. The share gained is calculated as follows:
- Share gained = New Share – Old Share

3. What is the purpose of calculating gaining ratio?

Ans.:

- The purpose of finding the gaining ratio is to bear the good will to be paid to the retiring partner.
- The share gained is calculated as follows:
- Share gained = New Share – Old Share

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?

Ans.:

Date	Particulars	LF	Debit	Credit
	Deceased Partner's Capital A/c Dr To Deceased Partner's Executor A/c (Amount due to the deceased partner transferred to deceased partner's executor A/c)		xxx	xxx

III Short answer questions

1. List out the adjustments made at the time of retirement of a partner in a partnership firm.

Ans.:

The following adjustments are necessary at the time of retirement of a partner:

- Distribution of accumulated profits, reserves and losses
- Revaluation of Assets and Liabilities
- Determination of New Profit Ratio and Gaining Ratio
- Adjustment for Good Will
- Adjustment for current year's profit or loss up to the date of retirement.
- Settlement of the Amount due to the retiring partner.

2. Distinguish between sacrificing ratio and gaining ratio.

6.5.3 Differences between the sacrificing ratio and the gaining ratio

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

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

Ans.:

- The amount due to the retiring partner will be settled in one of the following ways:
 - Paying the entire amount due immediately in cash.
 - Transfer the entire amount due, to the loan account of the partner.
 - Paying the part of the amount immediately in cash and transferring the balance to the loan account of the partner.

(i) Paying the entire amount due immediately in cash.

Date	Particulars	LF	Debit	Credit
	Retiring Partner's Capital A/c. Dr To Cash or Bank A/c. (Paid the entire amount in cash)		Xxx	Xxx

(ii) Transfer the entire amount due, to the Loan Account of the Partner.

Date	Particulars	LF	Debit	Credit
	Retiring Partner's Capital A/c. Dr To Retiring Partner's Loan A/c (Transferred the entire amount to Partners' loan A/c)		Xxx	Xxx

(iii) Paying part of the amount immediately in cash and transferring the balance to the Loan Account of the partner.

Date	Particulars	LF	Debit	Credit
	Retiring Partner's Capital A/c Dr To Cash/Bank A/c To Retiring Partner's Loan A/c (Part payment paid in Cash and remaining amount transferred to Loan A/c)		Xxx	xxx xxx

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 re-issued, 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 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 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 Limited forfeited 100 shares of Rs. 10 each for non-payment of final call of Rs. 2 per share. All these shares were reissued 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. 1000

II VERY SHORT ANSWER QUESTION

1. What is a share?

Ans.:

- (i) The capital of a company is divided into small units of fixed amount.
 (ii) These units are called shares.
 (iii) The shares are of two types
 a) Preference Shares and
 b) Equity Shares

2. What is over-subscription?

Ans.:

- (i) When the number of shares applied for is more than the number of shares offered for subscription.
 (ii) It is said to be over subscription.
 (iii) This situation can be dealt with any of the following three alternatives

- a) Some applications are accepted in full and others are totally rejected and application money is returned
- b) All applications are allotted in proportion of shares applied for. This is called Pro-rata allotment.
- c) A combination of the above two may be applied

3. What is meant by Calls in Arrear?

Ans.:

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

4. Write a short note on Securities Premium Account.

Ans.:

- (i) When a company, issues shares at a price more than the face value, the shares are said to be issued at premium.
- (ii) The excess is called as premium amount and is transferred to securities premium account.

5. Why are Shares forfeited?

Ans.

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

III. SHORT ANSWER QUESTIONS:

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

S.No.	Basis	Preference Share	Equity Share
1	Meaning	Preference Shares are the shares which have two preferential rights over the equity shares	Equity Shares are those shares which are not preference shares
2	Rights on Dividends	Preference towards payment of dividend at a fixed rate during the lifetime of the company	Right on Dividend is not fixed and it depends upon the profits earned by the company
3	Return on Share Capital	Preference towards the repayment of capital on winding up of the company	Repayment of capital is made after payments are made to preference share holders

2. Write a brief note on Calls in Advance.

Ans.:

- The excess amount paid over the called-up value of a share is known as calls in advance.
- Such excess amount can be returned or adjusted towards future payment.
- If the company decides to adjust such amount towards future payments, the excess amount may also be transferred to a separate account called Calls in Advance Account.
- No dividend is payable on such amount.
- In the Balance Sheet it should be shown under current liabilities.

3. What is reissue of forfeited shares?

Ans.:

- 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.
- Example: If a share of Rs.10 on which Rs.4 paid as application money is forfeited and reissued as fully paid up, then a minimum of Rs.6 must be fixed as the new price ($10-4=6$).
- When forfeited shares are reissued at a loss, such loss is to be debited to forfeited shares account.
- When forfeited shares are reissued at a premium, the amount of such premium will be credited to securities premium account.

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

- (a) It means such capital as is authorized by the memorandum of association.
- (b) It is the maximum amount which can be raised as capital.
- (c) It is also known as Registered capital or Nominal capital

ii). Reserve Capital:

- (a) The company can reserve a part of its subscribed capital to be called up only at the time of winding up.
- (b) It is called Reserve Capital.

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

- (i) A company may issue equity shares either for cash or for consideration other than cash when the company acquires fixed assets such as land and buildings, machinery, etc.
- (ii) A company may also issue shares as consideration for the purchase of business, to promoters for their services and to brokers and underwriters for their commission.
- (iii) When a Company purchase any fixed asset, instead of paying cash, the company can issue shares.
- (iv) When a company issues shares, the share capital will be credited.

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 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 analysing the financial statements.

(d) Interpretation of the analysed data involves personal judgement.

8) A limited company's sales has increased from Rs. 1,25,000 to 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?

Ans.:

- Financial Statements are the statements which are 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.

Ans.:

The tools of Financial Statement Analysis are:

- i) Comparative Statement
- ii) Common-size Statement
- iii) Trend Analysis
- iv) Fund Flow Analysis
- v) Cash Flow Analysis

3. What is Working Capital?

Ans.:

- The term fund refers to working capital.
- Working Capital refers to the excess of Current Asset over Current Liabilities.
- Working capital = Current assets - Current liabilities.

4. When is trend analysis preferred to other tools?

Ans.:

- When data for more than two years to be analysed, it may be difficult to use comparative statement.
- For this purpose, trend analysis may be used.
- Trend refers to the tendency of movement.
- Trend analysis refers to the study of movement of figures over a period.
- The trend may be increasing trend or decreasing trend or irregular.

III. Short Answer Questions

1. 'Financial Statements are prepared based on the Past Data'. Explain How this is a Limitation?

Ans.:

- Financial Statements are prepared based on historical data.
- They may not reflect the 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

Ans.:

- Cash flow analysis is concerned with preparation of cash flow statement which shows the inflow and outflow of cash and cash equivalents in a given period of time.
- Cash includes cash-in-hand and demand deposits with banks.
- Cash Equivalents denote short-term investments which can be realised easily within a short period of time.
- It helps in assessing the liquidity and solvency of a business concern.

3. Briefly explain any three limitations of financial statements.

Ans.:

i) Lack of qualitative information: Qualitative information i.e. non-monetary information. For e.g. the efficiency of the employees, efficiency of the management, etc. are ignored in financial statement.

ii) Record of Historical Data: Financial Statements are prepared based on historical data. They may not reflect 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.**Ans.:**

A Comparative Statement has five columns.

Following are the steps to be followed in preparation of the comparative statement.: i)Column 1: In this column, particulars of items of Income Statement or Balance Sheet are written.

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.

If there is an increase in Year 2, Put Plus Sign and if there is decrease put Minus Sign.

v)Column 5: Show percentage increase or decrease of the difference amount, shown in column 4 by dividing the amount shown in Column 4 (absolute amount of increase or decrease) by Column 2 (year 1 amount) that is

Percentage Increase or Decrease = Absolute amount of Increase or decrease / Year 1 Amount x 100

Format of Comparative Statement

Particulars	Year 1	Year 2	Absolute amount of increase(+) or decrease(-)	Percentage of increase(+) or decrease(-)
1	2	3	4	5

5.Explain the Procedure for preparing Common Size Statement.**Ans.:**

Common size statement can be prepared with 3 columns.

Following are the steps to be followed in preparation of common size statement.: i)Column 1 : In this Column, particulars of Items of Income Statement or Balance Sheet are written.

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. Work out the percentage for all the items of Column 2 in terms of the common base and enter them in Column 3.

Format Of Common Size Statement

Particulars	Absolute amount	Percentage
1	2	3

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	List II
(i) current ratio	1. Liquidity
(ii) Net Profit ratio	2. Efficiency
(iii) Debt-Equity ratio	3. Long term solvency
(iv) Inventory turnover ratio	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) & (ii) (b) **(i) & (iv)** (c) (ii) & (iii) (d) (ii) & (iv)

7. Proportion of Shareholder'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) Two Times (b) Three Times (c) Six Times (d) Eight Times

II. Very Short Answer Questions

1. What is meant by Accounting Ratios?

Ans.:

- When Ratios are calculated on the basis of accounting information, these are called Accounting Ratios.
- It is the mathematical expression of relationship between two items.
- It is expressed as proportion, percentage and times.

2. What is Quick Ratio?

Ans.:

- Quick Ratio gives the proportion of Quick Assets to Current Liabilities
 - It indicates whether the business concern is in a position to pay its current liabilities as and when they become due out of its quick assets
- It is otherwise called Liquid Ratio or Acid Test Ratio

Quick Ratio = Quick Assets / Current Liabilities.

3. What is meant by Debt Equity Ratio?

Ans.:

- Debt Equity Ratio is calculated to assess the long-term solvency position of a business concern.
- It expresses the relationship between long term debt and shareholders' funds.
- Debt-equity Ratio = Long term debt / Shareholders' fund

4. What does Return on Investment Ratio Indicate?

Ans.:

- It shows the proportion of net profit before interest and tax to capital employed.
- This ratio measures how efficiently the capital employed is used in the business.
- It is an overall measure of profitability of a business concern.
- Return On Investment (ROI) = Net profit before interest and tax / capital employed x 100

5. State any two limitations of ratio analysis.

Ans.:

- **Ratios are only means:**
Ratios are not end in themselves. But they are only means to achieve a particular purpose
- **Accuracy of Financial Information:**
The accuracy of a ratio depends on the accuracy of information taken from financial statements. If the statements are inaccurate, ratios will also be inaccurate.

III.SHORT ANSWER QUESTIONS

1. Explain the objectives of Ratio Analysis.

Ans.:

- (i) To simplify accounting figures
- (ii) To analyse the efficiency of a business
- (iii) To help in Budgeting and Forecasting
- (iv) To facilitate analysis of financial statements

2. What is Inventory Conversion Period? How is it calculated?

Ans.:

- 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:

$$\text{(i) Inventory Conversion Period (in Days)} = \frac{\text{Number of Days in a year}}{\text{Inventory Turnover Ratio}}$$

$$\text{(ii) Inventory Conversion Period (in month)} = \frac{\text{Number of Months in a year}}{\text{Inventory Turnover Ratio}}$$

3.How is Operating Profit Ascertained?

Ans.:

- It gives the proportion of operating profit to revenue from operations.
- Operating profit ratio is an indicator of operational efficiency of an organization
- It may be computed as follows:
Operating Profit Ratio = Operating Profit/Revenue from operations x 100

Alternatively, it is calculated as under:

a) Operating Profit Ratio = 100 – Operating Cost Ratio

b) Operating Profit = Revenue from Operations – Operating Cost

c) Operating Profit=Gross Profit – Operating Expenses

4. State any three advantages of Ratio Analysis.

Ans.:

- **Measuring Financial Solvency**
Ratio analysis helps to ascertain the liquidity or short-term solvency or long-term solvency of a business concern
- **Analysing the Profitability**
Ratio analysis helps to analyse the profitability of a business in terms of sales and investments
- **Inter firm comparison**
Ratio analysis helps the firm to compare its performance with other firm

5. Bring out the Limitations of Ratio Analysis.

Ans.:

- **Ratios are only means:**
Ratios are not end in themselves. But they are only means to achieve a particular purpose
- **Accuracy of Financial Information:**
The accuracy of a ratio depends on the accuracy of information taken from financial statements. If the statements are inaccurate, ratios will also be inaccurate.
- **Non-Availability of standards or norms:**
Ratios will be meaningful only if they are compared with accepted standards or norms. Only few financial ratios have universally recognised standards.
- **Consistency in preparation of Financial Statements:**
Inter firm comparisons with the help of ratio analysis will be meaningful only if the firms follow uniform accounting procedures consistently.
- **Change in Price Level:**
Ratio Analysis may not reflect price level changes and current values as they are calculated based on historical data, given in financial statements.

Chapter 10 – Computerised Accounting System-Tally

I. Choose the Correct Answer:

1.Accounting Report prepared according to the requirement 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?**

Ans.:

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

2. What are Accounting Reports?

Ans.:

- It is a compilation of accounting information that are derived from the accounting records of a business concern.
- Accounting Reports may be classified as
i) Routine Reports and ii) Special Purpose Reports

3. State any five accounting reports.

Ans.:

Routine Accounting Reports include:

- a) Daybook / Journal
- b) Ledger
- c) Trial Balance
- d) Income Statement
- e) Balance Sheet
- f) Cash Flow Statement

4. What is Accounting Information System (AIS)?

Ans.:

- i) Accounting Information System (AIS) collects Financial Data, Process them and provides information to the various users.
- ii) 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?

Ans.:

- In Tally, a Group is a collection of ledgers of the same nature.
 - There are pre-defined groups of accounts, which are widely used in accounts of many organisations.
 - These pre-defined groups comply with basic accounting principles of classifying various Account Heads into Assets, Liabilities, Income and Expenses

Groups are categorised as Primary Groups and Sub-Groups.

- Primary Group includes Capital Account, Current Liabilities, Fixed Assets, Current Assets, etc.
- Sub Group includes Reserves and Surplus, Sundry Creditors, Sundry Debtors, etc.

III. Short Answer Questions

1. Write a brief note on accounting vouchers.

Ans.:

- i) Voucher is a document which contains details of transactions
- ii) Transactions are to be recorded through voucher entry.
- iii) Tally has a set of pre-defined vouchers such as purchase, sales, payment, receipt and contra.

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

Ans.:

- In Tally, to record transactions, the transactions are to be identified with a related ledger accounts.
- Tally has two pre-defined ledgers.
- Cash and Profit & Loss Account.
- 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.

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

Ans.:

The following are some of the commonly used voucher types:

- (a) Receipt Voucher
- (b) Payment Voucher
- (c) Contra Voucher
- (d) Purchase Voucher
- (e) Sales Voucher
- (f) Journal Voucher

4. Explain how to view Profit and Loss Statement?

Ans. :

To view Profit and Loss Statement in Tally .ERP 9

Press F10 (A/c Reports) > Profit & Loss A/c > AltF1 (detailed) (or)

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

Report For 1-Apr-2018		Report For 1-Apr-2018	
Particulars		Particulars	
Accounting Accounts		Sales Accounts	
Purchase A/c	25,000.00	Sales A/c	60,000.00
Direct Expenses	3,000.00		
Wages A/c	18,000.00		
Indirect Expenses	6,000.00		
Stationery A/c	4,000.00		
Net Profit	24,000.00		
Total	60,000.00	Total	60,000.00

5.Explain any Five Applications of Computerised Accounting System?

Ans.:

(i)Maintaining Accounting Records:

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

(ii)Inventory Management:

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

(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 as well as outside the organisation.

(v)Taxation:

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

(VI) Pay Roll Preparation:

- Pay roll involves the calculation of amount due to an employee.
- Pay of an employee may be calculated based on hours / days worked or units produced.

- CAS records the attendance of employees, computes the amount of salary, makes deductions such as provident fund, income tax, etc.

“Victory comes from the LORD.” Proverbs 21:31

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