



12th ACCOUNTANCY

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தெய்வத்தான் ஆகா தெனிலும் முயற்சிதன்
மெய்வருத்தக் கூலி தரும்...

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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 organizations**
 - (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) 85,000
 - (b) 1,06,000
 - (c) 21,000
 - (d) **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) **9,000**
 - (b) 11,000
 - (c) 21,000
 - (d) 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) 30,000
 - (b) 1,30,000
 - (c) 40,000
 - (d) **20,000**

Very Short Answer Questions

1) What is meant by incomplete records?

- ✦ When accounting records are **not strictly maintained** according to double entry system, these records are called incomplete accounting records.

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

- ✦ **Cash and Personal accounts** are maintained fully.
- ✦ Real and Nominal accounts are **not** maintained.

3) What is a statement of affairs?

- ♣ Statement of affairs 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.
- ♣ **Capital = Assets – Liabilities**

Short Answer Questions**1) What are the features of incomplete records?****1. Nature:**

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

2. Type of accounts maintained:

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

3. Lack of uniformity:

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

2) What are the limitations of incomplete records?

1. Lack of proper maintenance of records
2. Difficulty in preparing trial balance
3. Difficulty in ascertaining true profitability of the business
4. Difficulty in ascertaining financial position
5. Errors and frauds cannot be detected easily

1. Lack of proper maintenance of records

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

2. Difficulty in preparing trial balance

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

3. 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.

4. Difficulty in ascertaining financial position

- ♣ In general, only the estimated values of assets and liabilities are available from incomplete records. Hence, it is difficult to ascertain true and fair view of state of affairs or financial position as on a particular date.

5. Errors and frauds cannot be detected easily

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

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

Basis	Double Entry System	Incomplete Records
Transactions	Both debit and credit aspects of all the transactions are recorded .	Debit and credit aspects of all the transactions are not recorded completely.

Accounts	Personal, Real and Nominal Accounts are maintained.	Only cash and personal accounts are maintained. Real and nominal accounts are not maintained fully.
Suitable	It's suitable for all types of organizations.	It's only suitable for sole trading and partnership firms.
Trail balance	It can be prepared easily .	It is difficult to prepare it.
Reliability	It is reliable since it is a scientific system of accounting	It is not reliable since it is unscientific.
Acceptability	Accounting records are acceptable to all users including tax authorities and financial institutions.	Accounting records may not be acceptable to all users.

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

1. 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.
2. Ascertain the closing capital by preparing a statement of affairs at the end of the accounting period after making all adjustments such as depreciation, bad debts, outstanding and prepaid expenses, outstanding income, interest on capital, interest on drawings, etc.
3. Add the amount of drawings (both in cash and/in kind) to the closing capital.
4. Deduct the amount of additional capital introduced, to get adjusted closing capital.
5. Ascertain profit or loss by subtracting opening capital from the adjusted closing capital.
 - (a) If adjusted closing capital is more than the opening capital, it denotes profit
 - (b) If adjusted closing capital is lesser than the opening capital, it denotes loss

Statement of profit or loss for the year ended

Particulars	₹
Capital at the end of the year	XXX
Add: Drawings during the year	XXX
	XXX
Less: Additional capital introduced during the year	XXX
Adjusted closing capital	XXX
Less: Opening Capital	XXX
Profit or loss for the year	XXX

5) Differentiate between statement of affairs and balance sheet.

Basis	Statement of Affairs	Balance Sheet
Accounting system	Statement of affairs is prepared when double entry system is not strictly followed.	Balance sheet is prepared when accounts are maintained under double entry system.
Reliable	It is not reliable.	It is reliable.
Basis of preparation	It is not fully based on ledger balances. Where ever possible ledger balances are taken.	It is prepared exclusively on the basis of ledger balances.
Missing items	It is difficult to trace the items omitted as complete records are not maintained.	Since both the aspects of all transactions are duly recorded, items omitted can be traced easily.
Objective	Statement of affairs is generally prepared to find out the capital of the business.	Balance sheet is prepared to ascertain the financial position of the business.

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

- The amount of credit sale ascertained by preparing total debtors accounts.

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

நமது பிறப்பு ஒரு சம்பவமாக இருக்கலாம்!

ஆனால் இறப்பு ஒரு சரித்திரமாக இருக்க வேண்டும்!!

CHAPTER 2 ACCOUNTS OF NOT-FOR-PROFIT ORGANIZATION**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 100 as annual subscription. Subscription due but not received for the current year is 200; Subscription received in advance is? 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

Very Short Answer Questions

1) State the meaning of not-for-profit organisation.

- Some organizations are established for the purpose of rendering services to the public without any profit motive.
- These organizations are called not for profit organization.
- **Examples:** Art, Culture, Education, Sport, etc.

2) What is receipts and payments account?

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

3) Give four examples of Non-profit organization.

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

4) What is legacy?

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

5) 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

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

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

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

- Subscription
- Interest on investment
- interest on fixed deposit
- Sale of (old) sports materials
- Sale of (old) newspapers

8) What is Subscription?

- Not-for-profit organisations usually collect subscriptions periodically from their members.
- These may be collected **monthly, quarterly, half-yearly or yearly**.
- All these subscriptions are **revenue receipts**.

Short Answer Questions**1. What is income and expenditure account?**

1. Income and expenditure account is a summary of income and expenditure of a not-for-profit organisation prepared at the end of an accounting year.
2. It is prepared to find out the surplus or deficit pertaining to a particular year. It is a **nominal account in nature**.

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

Basis	Receipts and Payment Account	Income and Expenditure Account
Purpose	Prepared to know the cash receipts and cash payments .	Prepared to know surplus or deficit during the current period.
Nature of Account	It is real account. It is a summary of cash account.	It is nominal account. It is similar to profit and loss account.
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 are recorded.
Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
Nature of items	It contains actual receipts and payments.	It contains only revenue items.
Period	Information relating to past, present and subsequent period are recorded.	Only current period items are recorded.

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

1. Treatment in Income and Expenditure Account

- When subscription received for the current year, previous years and subsequent period are given separately, subscription received for the current year will be shown on the credit side of income and expenditure account.
 - Subscription outstanding for the current year is to be added.
 - Subscription received in advance in the previous year which is meant for the current year, is to be added.

2. Treatment in Balance Sheet

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

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

- If there is any sale of old sports materials, etc. that will be shown on the credit side of income and expenditure account or can be subtracted from the respective items consumed on the debit side of income and expenditure account.

B) Life Membership Fees

- It is the amount received from members is a capital receipt and non recurring in nature.

C) Tournament Fund

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

5. Give Four example for Revenue Expenditure of not for profit organization.

- Honorarium
- Charity
- Audit Fees
- Purchases of Sports Materials
- Printing and Stationary
- Postage and courier Charges
- Expenses relating to (Tournament, Sports, Matches, Entertainments, Dinner)

6. Give Two example for Capital Expenditure of not for profit organization.

1. Purchase of sports equipment
2. Purchase of books for library

7. What are the features of not for profit organization?

1. Not for profit organizations are the organizations which function **without** any **profit motive**.
2. Their main aim is to provide services to a specific group or the public at large.
3. Generally they do not undertake business or trading activities.
4. Their main sources of income include subscription from members, donations, grant-in-aid and legacies.

மகையைப் பார்த்து மகைத்து விடாதே மகை மீதேறனால்
மகையும் உன் காலையில் முயற்சி உனதானால் வெற்றியும் உன் வசமே..

CHAPTER 3 ACCOUNTS OF PARTNERSHIP FIRMS-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) 50
 - (b) 150
 - (c) 550
 - (d) 500

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?

- ◇ Partnership deed is a document in writing that contains the terms of the **agreement** among the partners.
- ◇ It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932.
- ◇ 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 it remains **generally fixed**.
- ◇ Two accounts are maintained for each partner

(a) Capital account and (b) Current account**4) What is the journal entry to be passed for providing interest on capital to a partner?**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Interest on capital A/c Dr. To Partner's capital / current A/c (Being interest on capital provided)		XXX	XXX
	Profit and loss appropriation A/c Dr. To Interest on capital A/c (For closing interest on capital account)		XXX	XXX

5) Why is Profit and loss appropriation account prepared?

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

Short Answer Questions**1) State the features of partnership.**

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

2) State any six contents of a partnership deed.

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
7. Rate of interest to be allowed on capital
8. Rate of interest on drawings of partners
9. Rate of interest on loans provided by partners

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

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

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

1. Remuneration to partners

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

2. Profit sharing ratio

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

3. 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)]

4. 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)]

5. Interest on drawings

- No interest is charged on the drawings of the partners.

பயமுற் தயக்கமுற் உள்ளவர்களிடம் தோல்வி வந்து கொண்டே இருக்கும்
பயத்தையும் தயக்கத்தையும் தூக்கிபோடுங்கள் வெற்றி உங்கள் காணையில்..

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 x Years of purchase

5. Identify the incorrect pair

- (a) Goodwill under Average profit method – Average profit x Number of years of purchase
 (b) Goodwill under Super profit method – Super profit x Number of years of purchase
 (c) Goodwill under Annuity method – Average profit x Present value of annuity factor
 (d) Goodwill under Weighted average profit method – Weighted average profit x 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) 25,000 (b) 5,000 (c) 10,000 (d) 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) 36,000 (b) 35,000 (c) 38,000 (d) 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) 40,000 (b) 70,000 (c) 1, 00,000 (d) 30,000

Very Short Answer Questions**1) What is goodwill?**

- Goodwill is the good name or reputation of the business which brings benefit to the business.
- It enables the business to earn more profit. It is the present value of a firm's future excess earnings.
- It is an **intangible asset** as it has **no physical** existence.
- It is **shown** under **fixed assets** in the **balance sheet**.

2) What is acquired goodwill? (Or) purchased goodwill.

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

3) What is super profit?

- Super profit 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.

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

Short Answer Questions**1) State any six factors determining goodwill.**

1. Profitability of the firm
2. Favourable location of the business enterprise
3. Good quality of goods or services offered
4. Tenure of the business enterprise
5. Efficiency of management
6. Degree of competition
7. Other factors

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. Degree of competition

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

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

- **Super profit** is the **excess** of **average profit** over the **normal profit** of a business.

- **Average profit** = $\frac{\text{Total Profits}}{\text{Number of years}}$

- **Normal profit** = Capital employed × Normal rate of return

- **Capital employed** = Fixed assets + Current assets – Current liabilities

- **Super profit** = Average profit – Normal profit

- **Goodwill** = Super profit × Number of years of purchase

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

- Under this method, goodwill is the excess of capitalised value of average profit of the business over the actual capital employed in the business.

- **Capitalised value of the business** = $\frac{\text{Average profit}}{\text{Normal rate of return}} \times 100$

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

- **Goodwill** = Total capitalised value of the business – Actual capital employed

முயற்சிக்கு நீ அடிமை என்றால் வெற்றி உனக்கு அடிமை!
பணிவுக்கு நீ அடிமை என்றால் புகழ் உனக்கு அடிமை!

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	List II
(i) Sacrificing ratio	1. Investment fluctuation fund
(ii) Old profit sharing ratio	2. Accumulated profit
(iii) Revaluation account	3. Goodwill
(iv) Capital account	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	2	4
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

Very Short Answer Questions

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

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

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

- ↪ Profits and losses of previous years which are not distributed to the partners are called accumulated 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.

3) What is sacrificing ratio?

- ↪ The old partners may sacrifice a portion of the share of profit to the new partner.
- ↪ The sacrifice may be made by all the partners or some of the partners.
- ↪ Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.
- ↪ **Share sacrificed = Old share - New share**
- ↪ **Sacrificing ratio** = Ratio of share sacrificed by the old partners

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

Journal entry

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

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

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

Short Answer Questions

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

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Cash or Bank A/c	Dr.	xxx	
	Assets A/c	Dr.	xxx	
	To Partner's capital A/c			xxx

1. Distribution of accumulated profits, reserves and losses
 2. Revaluation of assets and liabilities
 3. Determination of new profit-sharing ratio and sacrificing ratio
 4. Adjustment for goodwill
 5. 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?

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

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

1. When new partner brings cash towards goodwill
2. When the new partner does not bring goodwill in cash or in kind
3. When the new partner brings only a part of the goodwill in cash or in kind
4. Existing goodwill

1. 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.

2. 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.

3. 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.

4. 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.

அடுத்தவனின் வளர்ச்சியை மூலக்கூறு நீ அவனது முயற்சியையும் மூலக்கூறு!

CHAPTER 6 RETIREMENTS 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 the retirement of a partner from a partnership firm, accumulated profits and losses are distributed to the partners on the basis of
 - (a) New profit sharing ratio
 - (b) Old profit sharing ratio**
 - (c) Gaining ratio
 - (d) Sacrificing ratio
3. On the retirement of a partner, general reserve will be 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. 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 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's account
 - (d) A's Executor's 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 30,000. Find the contribution of A and C to compensate B:.....
 - (a) 20,000 and 10,000
 - (b) 8,000 and 4,000**
 - (c) 10,000 and 20,000
 - (d) 15,000 and 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 36,000.
 - (a) 1,000
 - (b) 3,000**
 - (c) 12,000
 - (d) 36,000

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.
- * 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?

- * The continuing partners may gain a portion of the share of profit of the retiring partner.
- * The gain may be shared by all the partners or some of the partners.
- * Gaining ratio is the proportion of the profit which is gained by the continuing partners.
- * **Share gained** = New share – Old share
- * **Gaining ratio** = Ratio of share gained by the continuing partners

3) What is the purpose of calculating gaining ratio?

- * The 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	L.F.	Debit Rs.	Credit Rs.
	Deceased partner's capital A/c Dr. To Deceased partner's executor A/c (Being deceased partner amount transferred to capital account)		XXX	XXX

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 death
- * Settlement of the amount due to the deceased partner

2) Distinguish between sacrificing ratio and gaining ratio.

Basis	Sacrificing ratio	Gaining ratio
Meaning	It is the proportion of the profit which is sacrificed by the old partners in favour of a new partner.	It is the proportion of the profit which is gained by the continuing partners from the retiring partner.
Purpose	It is calculated to determine the amount to be adjusted towards goodwill for the sacrificing partners.	It is calculated to determine the amount to be adjusted towards goodwill for the gaining partners.
Time of calculation	It is calculated at the time of admission of a new partner.	It is calculated at the time of retirement of a partner.

Method of calculation	Sacrificing ratio = Old profit sharing ratio - New profit sharing ratio	Gaining ratio = New profit sharing ratio - Old profit sharing ratio
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3) What are the ways in which the final amount due to an outgoing partner can be settled?

- * Paying the entire amount due immediately in cash.
- * Transfer the entire amount due, to the loan account of the partner.
- * Paying part of the amount immediately in cash and transferring the balance to the loan account of the partner.

When the amount due is paid in cash immediately

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Retiring partner's capital A/c Dr. To Cash / Bank A/c (being cash due paid immediately recorded)		xxx	xxx

When the amount due is not paid immediately in cash

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Retiring partner's capital A/c Dr. To Retiring partner's loan A/c (being cash due not paid immediately recorded)		xxx	xxx

When the amount due is partly paid in cash immediately

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Retiring partner's capital A/c Dr. To Cash / Bank A/c (amount paid) To Retiring partner's loan A/c (being cash due paid partly immediately recorded)		xxx	xxx xxx

வெற்றி என்பது கதவு போன்றது தட்டிப் பார் ..
திறக்கவில்லை என்றால் முட்டித் திற..
முட்டியும் திறக்கவில்லை என்றால் உடைத்து விடு...!

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) Authorized 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 authorized 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 Rs. 10 on which Rs. 8 has been paid up is forfeited. Minimum reissue price is.....

(a) 10 per share

(b) 8 per share

(c) 5 per share

(d) 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

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.
- ☐ The shares which can be issued by a company are of two types
 - (i) **preference shares** (ii) **equity shares**

2) What is over-subscription?

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

3) What is meant by calls in arrear?

- ☐ When a shareholder **fails to pay** the amount **due** on allotment or on calls, the amount remaining **unpaid** is known as calls in arrears.
- ☐ In other words, the amount called up but not paid is calls in arrears.
- ☐ Calls in arrear if Articles of Association so provide not exceeding **10%** per annum.

4) Write a short note on securities premium account.

- ☐ When a company issues shares at a **price more than the face value** (nominal value), the shares are said to be issued at premium.
- ☐ The excess is called as premium amount and is transferred to securities premium account.
- ☐ The amount of securities premium may be included in application money or allotment money or in a call.

5) Why are the shares forfeited?

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

Short Answer Questions

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

Basis	Preference Shares	Equity Shares
Rights	Preference share are those shares which have preferential rights .	Equity shares are those shares which have no preferential rights .
Dividend	Preference towards the payment of dividend at a fixed rate during the life time of the company	Rate of dividend is not fixed on equity shares and it depends upon the profits earned by the company.
Winding up	Preference towards the repayment of capital on winding up of the company.	In case of winding up of company equity shareholders are paid after the payments are made to preference shareholders.
Voting rights	They cannot vote on any resolutions affecting the rights.	They can vote on are resolutions.

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.
- ▣ Such excess amount can be returned or adjusted towards future payment.
- ▣ If the company decides to adjust such amount towards future payment, the excess amount may also be **transferred** to a **separate account** called **calls in advance account**.
- ▣ Call in advance can provide not exceeding **12% per annum**.
- ▣ In the **balance sheet**, it should be shown under **current liabilities**.

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.
- ▣ 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) Authorized capital (b) Reserve capital

(a) 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**.

(b) 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 shares for consideration other than cash when the company acquires fixed assets such as land and buildings, machinery, etc.

முடியும் வரை முயற்சி செய்..
உன்னால் முடியும் வரை அல்லை.
நீ நினைத்தது முடியும் வரை..

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 analyzed?
 - (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 statement 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 have increased from 1,25,000 to 1,50,000. How does this appear in the 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%

Very Short Answer Questions**1) What are financial statements?**

- ✿ Financial statements are the statements prepared by the business concerns at the end of the accounting period to ascertain the operating results and the financial position.
- ✿ The basic financial statements prepared by business concerns are income statement and balance sheet.

2) List the tools of financial statement analysis.

- ✿ Comparative statement
- ✿ Common-size statements
- ✿ Trend analysis
- ✿ Funds flow analysis
- ✿ Cash flow analysis

3) What is working capital?

- ✿ The term 'fund' refers to working capital.
- ✿ **Working capital** refers to the **excess of current assets over current liabilities**. The term 'flow' means movement and includes both 'inflow' and 'outflow'.

4) When is trend analysis preferred to other tools?

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

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** 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.

- ✿ 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 realized easily within a **short period** of time, without much loss in value.

3) Briefly explain any three limitations of financial statements.

1. Record of historical data
2. Ignore price level changes
3. Lack of consistency
4. Limited access to external users
5. Influenced by personal judgment
6. Lack of qualitative information

1. Record of historical data

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

2. 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.

3. Lack of consistency

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

4. Limited access to external users

- ✿ The external users do not have detailed and frequent information of financial results as they have limited access.

5. Influenced by personal judgment

- ✿ Preparation of financial statements may be influenced by personal judgments and therefore these are not free from bias.

6. Lack of qualitative information

- ✿ Qualitative information that is non-monetary information is also important for business decisions.

4) Explain the steps involved in preparing comparative statement.

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

5) Explain the procedure for preparing common-size statement.

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

தோல்வி அடைவதற்கு பல வழிகள் இருக்கலாம்.
ஆனால் வெற்றி அடைய ஒரே வழி உழைப்பு தான்..

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 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
(d) 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 holders' 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 40,000; Current assets 1,00,000; Inventory 20,000. Quick ratio is.....

- (a) 1:1 (b) 2.5:1 (c) **2:1** (d) 1:2

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

- (a) 2 times (b) 3 times (c) **6 times** (d) 8 times

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'.
- * Ratio is a mathematical expression of relationship between two related or interdependent items.
- * It is the numerical or quantitative relationship between two items.

2) What is quick ratio?

- * Quick ratio gives the proportion of quick assets to current liabilities.
- * It **indicates** whether the business concern is in a **position** to pay its current liabilities as and when they become due, out of its quick assets.
- * **Quick assets** = Current assets – Inventories – Prepaid expenses
- * Higher the quick ratio better is the short-term financial position of an enterprise.

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

3) What is meant by debt equity ratio?

- * Debt equity ratio is calculated to assess the long term solvency position of a business concern.
- * Debt equity ratio expresses the relationship between long term debt and shareholders' funds.

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

4) What does return on investment ratio indicate?

- * Return on investment shows the proportion of net profit before interest and tax to capital employed (shareholders' funds and long term debts).
- * **This ratio measures how efficiently the capital employed is used in the business.**

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

5) State any two limitations of ratio analysis.

1. Ratios are only means
2. Accuracy of financial information
3. Consistency in preparation of financial statements
4. Non-availability of standards or norms
5. Change in price level

1. 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.

2. Accuracy of financial information

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

3. Non-availability of standards or norms

- * Ratios will be meaningful only if they are compared with accepted standards or norms. Only few financial ratios have universally recognized standards.

Short Answer Questions**1) Explain the objectives of ratio analysis.**

1. To simplify accounting figures
2. To facilitate analysis of financial statements
3. To analyze the operational efficiency of a business
4. To help in budgeting and forecasting
5. 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

$$* \text{ inventory conversion period (in day)} = \frac{\text{Number of days in a year}}{\text{Inventory turnover ratio}}$$

$$* \text{ inventory conversion period (in Months)} = \frac{\text{Number of months in a year}}{\text{Inventory turnover ratio}}$$

3) How is operating profit ascertained?

- * Operating profit = Gross profit – Operating Expenses
- * **Operating profit = Revenue from operations – Operating cost**
- * Gross profit = Sales – cost of goods sold
- * Gross profit = Revenue from operation – cost of revenue from operation
- * Operating expenses = Selling Expenses + Office Expenses + Distribution Expenses + Administration Expenses

4) State any three advantages of ratio analysis.

1. Measuring operational efficiency
2. Measuring financial solvency
3. Facilitating investment decisions
4. Analysing the profitability
5. Intra firm comparison
6. Inter firm comparison

1. Measuring operational efficiency

- * Ratio analysis helps to know operational efficiency of a business by finding the relationship between operating cost and revenues and also by comparison of present ratios with those of the past ratios.

2. Measuring financial solvency

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

3. Facilitating investment decisions

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

4. Analysing the profitability

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

5. Intra firm comparison

- * Comparison of efficiency of different divisions of an organisation is possible by comparing the relevant ratios.

6. Inter firm comparison

- * Ratio analysis helps the firm to compare its performance with other firms.

5) Bring out the limitations of ratio analysis.

1. Ratios are only means
2. Accuracy of financial information
3. Consistency in preparation of financial statements
4. Non-availability of standards or norms
5. Change in price level

1. Ratios are only means

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

2. 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.

3. Accuracy of financial information

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

4. 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.

5. Non-availability of standards or norms

- * Ratios will be meaningful only if they are compared with accepted standards or norms. Only few financial ratios have universally recognized standards.

உங்கள் வாழ்க்கையை யாரால் மாற்றியமைக்க முடியும் என்று யோசிக்கிறீர்களா நிக நிக என்று! கண்ணாடிவை எடுத்தால் பாருங்கள்! இன்றே தொடங்குங்கள்..

CHAPTER 10 COMPUTERISED ACCOUNTING SYSTEMS –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 F 11 is used for**
 - (a) **Company Features**
 - (b) Accounting vouchers
 - (c) Company Configuration
 - (d) None of these
3. **Which sub menu displays groups, ledgers and voucher type 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 vouchers 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

Very Short Answer Questions**1) What is automated accounting system?**

- ⇒ Automated accounting system 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?

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

3) State any five accounting reports.

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

4) What is Accounting Information System (AIS)?

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

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

- ↪ In tally a group is a collection of ledgers of the same nature. There are predefined group of accounts which are widely used in accounts of many organizations.

Short Answer Questions**1) Write a brief note on accounting vouchers.**

- ↪ Accounting voucher is a document which contains details of transactions. Transactions are to be recorded through voucher entries.
- ↪ Tally has a set predefined voucher 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** Account * **Profit** and **Loss** Account
- ↪ The user has to create various other ledgers based on their requirements.
 - Gateway of Tally > Masters > Accounts Info > Ledgers > Single Ledger > Create
 - Cash a/c, Profit and loss a/c, Purchases a/c, Sales a/c, Bank a/c.

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

1. Receipt Voucher
2. Payment Voucher
3. Contra Voucher
4. Purchase Voucher
5. Sales Voucher
6. Journal Voucher

1. Receipt Voucher

⇒ All transactions related to receipt either in cash or through bank are recorded using receipt voucher. In this voucher, cash or bank account is debited and other ledger account is credited.

⇒ **To record receipt:**

- Gateway of Tally > Transactions > Accounting Vouchers > F6:Receipt

2. Payment Voucher

⇒ All transactions related to payments either in cash or through bank are recorded using payment voucher. In this voucher, cash or bank account is credited and other ledger account is debited.

⇒ **To record payment:**

- Gateway of Tally > Transactions > Accounting Vouchers > F5:Payment

3. Contra Voucher

⇒ A transaction involving both cash account and bank account is recorded using contra voucher. The transaction may be for deposit of cash into bank account or withdrawal of cash from bank account.

⇒ **To record contra:**

- Gateway of Tally > Transactions > Accounting Vouchers > F4:Contra

4. Purchase Voucher

⇒ Purchase vouchers are used for recording both cash and credit purchases of goods.

⇒ **To record purchases:**

- Gateway of Tally > Transactions > Accounting Vouchers > F9:Purchase

5. Sales Voucher

⇒ Sales vouchers are used for recording both cash and credit sales of goods.

⇒ **To record sales:**

- Gateway of Tally > Transactions > Accounting Vouchers > F8:Sales

6. Journal Voucher

⇒ Journal vouchers are used for recording transactions involving other than cash, bank, purchases and sales such as depreciation, provision for bad debts.

⇒ **To record journal:**

- Gateway of Tally > Transactions > Accounting Vouchers > F7:Journal

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

⇒ F10 A/C Reports > Profit & Loss A/C > Alt F1 (detailed) (Or)

⇒ Gateway of Tally > Reports > Profit & Loss A/C > Alt F1 (detailed)

5) Explain any five applications of computerised accounting system.

1. Maintaining accounting records
2. Inventory management
3. Pay roll preparation
4. Report generation
5. Data import/export
6. Taxation

1. Maintaining accounting records

⇒ In CAS, accounting records can be maintained easily and efficiently for long time period. It does not require a large amount of physical space.

⇒ It facilitates fast and accurate retrieval of data and information.

2. Inventory management

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

3. 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.

4. Report generation

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

5. 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.

6. Taxation

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

இன்றிளைப் பாறுவம் என்றிருந்தால் - வழி
என்னென்ன வாகுமோ ஓரிரவில்
சென்றிளைப் பாறுக முற்றிடத்தே - தம்பி
தேன்வந்து பாயும் உன் நெஞ்சிடத்தே!
சாதனைப் பூக்களை ஏந்துமுன்னே - இங்கு
நல்லசெடி இளைப் பாறிடுமோ?
வேதனை யாவும் மறந்ததுபார் - செடி
வெற்றி கொண்டேந்திய பூவினிலே.

பொருள் : வாழ்க்கையாகிய வழித்தடம் குப்பைகூளங்களால் அடைபடுமுன் நீ நேர்வழியில் துளியும் சோர்வில்லாமல் விரைந்து செல்லுதல் வேண்டும்.

கல்லும் முள்ளும் உள்ள மலைப்பகுதியைக் கடப்பதற்கு இரண்டு கால்களை உடையவன் நீ. நடக்கும் பாதையில் வளரும் புதர்களை அழிப்பதற்கும் உனக்கு இரு கைகள் உள்ளன.

செல்லும் வழியில் முன்னேறிச் செல்வதற்குக் கண்களும் காதுகளும் துணையாக உள்ளன; இவற்றுடன் மனஉறுதியும் இருந்தால் விண்ணையும் கடந்து வெற்றி கொள்ளும் வழியைக் காணலாம். இன்று ஓய்வெடுத்து நாளை செல்லலாம் என்று எண்ணினால் ஓர் இரவுக்குள் வழித்தடத்தில் என்னென்ன நேருமோ; பணியை முடித்து ஓய்வு பெறுக தம்பி! இனிக்கும் செய்திகள் உன் மனத்தில் வந்து குவியும்.

செடிகள் பூப்பதற்குமுன் ஓய்வெடுப்பதில்லை. செடியின் வெற்றி பூவில் உள்ளதைப்போல், உன் வெற்றிகளால் துன்பங்கள் யாவும் ஓடிவிடும்.