

மருதம் அகாடமி Youtube channel

தொகுப்பு: ந. சண்முகசுந்தரம் (மருதம் ஆசிரியர்), அ.எண்: 96598 38789

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HIGHER SECONDARY SECOND YEAR

ACCOUNTANCY

Inside 2024 – 25

1.3 Features of incomplete records

Following are the features of incomplete records:

- Nature:** It is an unscientific and unsystematic way of recording transactions. Accounting principles and accounting standards are not followed properly.
- Type of accounts maintained:** In general, only cash and personal accounts are maintained fully. Real accounts and nominal accounts are not maintained properly. Some transactions are completely omitted.
- Lack of uniformity:** There is no uniformity in recording the transactions among different organisations. Different organisations record their transactions according to their needs and conveniences.

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

1.7.4 Format of statement of affairs

In the books of -----
Statement of affairs as on

Liabilities	₹	Assets	₹
Sundry creditors	xxx	Cash in hand	xxx
Bills payable	xxx	Cash at bank	xxx
Outstanding expenses	xxx	Sundry debtors	xxx
Bank overdraft	xxx	Bills receivable	xxx
Capital (Balancing figure)	xxx	Stock-in-trade	xxx
		Prepaid expenses	xxx
		Fixed assets	xxx
	xxx		xxx

(i) Format of total debtors account

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		

(ii) Format of bills receivable account

Dr.		Bills receivable account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (opening balance)	xxx	By Cash / Bank A/c (Bills receivable honoured)	xxx		
To Sundry debtors A/c (Bills receivable received during the year)	xxx	By Sundry debtors A/c (Bills receivable dishonoured)	xxx		
		By Balance c/d (closing balance)	xxx		
	xxx		xxx		

(iii) Format of total creditors account

Dr.		Total creditors account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c (paid)	xxx	By Balance b/d (opening balance)	xxx		
To Bank A/c (cheques paid)	xxx	By Purchases A/c (credit purchases)	xxx		
To Bills payable A/c (bills accepted)	xxx	By Bank A/c (cheques dishonoured)	xxx		
To Discount received A/c	xxx	By Bills payable A/c (dishonoured)	xxx		
To Purchase returns A/c	xxx		xxx		
To Balance c/d (closing balance)	xxx		xxx		
	xxx		xxx		

(iv) Format of bills payable account

Dr.		Bills payable account		Cr.	
Particulars	₹	Particulars	₹		
To Cash / Bank A/c (bills payable paid)	xxx	By Balance b/d (opening balance)	xxx		
To Sundry creditors A/c (bills payable dishonoured)	xxx	By Sundry creditors A/c (bills accepted)	xxx		
To Balance c/d (closing balance)	xxx		xxx		
	xxx		xxx		

2.2 Features of not-for-profit organisations

Following are the features of not-for-profit organisations:

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

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Format of Receipts and Payment Account

Dr. Receipts and Payments Account of for the year ending						Cr.	
Receipts	₹	₹	Payments	₹	₹		
To Balance b/d			By Balance b/d				
Cash in hand	xxx		Bank overdraft		xxx		
Cash at bank	xxx	xxx					
Revenue receipts:			Revenue payments:				
To Subscription		xxx	By Salaries	xxx			
To Entrance fees		xxx	By Rent paid	xxx			
To General donations		xxx	By Electricity charges	xxx			
To Grant-in-aid		xxx	By Postage	xxx			
To Sale of old newspapers		xxx	By Rent and taxes	xxx			
To Interest on investment		xxx	By Insurance	xxx			
To Dividend		xxx	By Advertisement	xxx			
To Locker rent received		xxx	By Telephone charges	xxx			
To Rent received		xxx	By Entertainment expenses	xxx			
To Sundry receipts		xxx	By Audit fees	xxx			
			By Repairs	xxx			
Capital receipts:			By Upkeep of ground	xxx			
To Life membership fees		xxx	By Conveyance charges	xxx			
To Donation for specific purpose		xxx	By Newspapers and periodicals	xxx			
To Legacies		xxx	By Office expenses	xxx			
To Endowment fund		xxx	By Gardening expenses	xxx			
To Sale of fixed assets		xxx	By Sundry expenses	xxx			
To Sale of investments		xxx					
To Receipt for specific purpose or fund		xxx	Capital Payments:				
To Interest on specific fund investments		xxx	By Fixed assets	xxx			
To Balance c/d (Bank overdraft)		xxx	By Investments	xxx			
			By Repayment of loan	xxx			
			By Balance c/d				
			Cash in hand	xxx			
			Cash at bank	xxx	xxx		
		xxx			xxx		

(i) Subscription

Not-for-profit organisations usually collect subscriptions periodically from their members. These may be collected monthly, quarterly, half-yearly or yearly. In addition, some special subscriptions, for example, subscription for tennis, billiards, etc., are collected from the concerned members playing tennis or billiards as the case may be. All these subscriptions are revenue receipts.

2.5.2 Format of Income and Expenditure Account

Name of the club / Institution

Dr. Income and Expenditure Account for the year ended				Cr.	
Expenditure	₹	Income	₹		
To Salaries	xxx	By Subscription	xxx		
To Charities	xxx	By Donation received	xxx		
To Rent	xxx	By Admission fee received	xxx		
To Donation paid	xxx	By Grant received	xxx		
To Stationery	xxx	By Rent received	xxx		
To Loss on sale of asset	xxx	By Interest received	xxx		
To Depreciation	xxx	By Profit on sale of asset	xxx		
To Surplus*	xxx	By Deficit*	xxx		
(Excess of income over expenditure)		(Excess of expenditure over income)			
	xxx		xxx		

* Note: The balancing figure may be either surplus or deficit.

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

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

3.2.2 Features of partnership

Following are the essential 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.

3.3.1 Contents of partnership deed

Generally, 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
7. Rate of interest to be allowed on capital

Format of capital account under fluctuating capital method

Dr. Partners' capital account							Cr.	
Date	Particulars	A	B	Date	Particulars	A	B	
		₹	₹			₹	₹	
	To Cash / Bank A/c	xxx	xxx		By Balance b/d	xxx	xxx	
	(capital withdrawn)				By Cash / Bank A/c	xxx	xxx	
	To Drawings A/c	xxx	xxx		(additional capital introduced)			
	To Interest on drawings A/c	xxx	xxx		By Interest on capital A/c	xxx	xxx	
	To Profit and loss appropriation A/c (share of loss)	xxx	xxx		By Salary A/c	xxx	xxx	
	To Balance c/d	xxx	xxx		By Commission A/c	xxx	xxx	
					By Profit and loss appropriation A/c (share of profit)	xxx	xxx	
		xxx	xxx			xxx	xxx	

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3.7.3 Interest on drawings

Interest is charged on drawings made by the partners only when there is an agreement among the partners in this regard. The rate of interest on drawings will be the rate agreed by the partners. Following are the journal entries to be made in the books of the partnership firm.

DO YOU KNOW? **Limited Liability Partnership (LLP)**
Limited Liability Partnership (LLP) is a type of partnership in which the liability of the partners is limited to the extent of their capital contribution. It is a legal entity separate from that of its partners. It is formed as per the provisions of The Limited Liability Partnership Act, 2008. It has perpetual succession. Any change in the partners of LLP shall not affect the existence, rights or liabilities of LLP. Provisions of the Partnership Act, 1932 will not apply to a Limited Liability Partnership. An individual or a body corporate can become a partner. Partners are not personally liable for the obligations of the partnership unless the obligations arise due to their own wrongful acts or omissions.

4.2 Nature of goodwill

The nature of goodwill can be described as follows:

- Goodwill is an intangible fixed asset. It is intangible because it has no physical existence. It cannot be seen or touched.
- It has a definite value depending on the profitability of the business enterprise.
- It cannot be separated from the business.
- It helps in earning more profit and attracts more customers.

(ii) Self-generated goodwill

It is the goodwill which is self generated by a firm based on features of the business such as favourable location, loyal customers, etc. Such self-generated goodwill cannot be recorded in the books of accounts.

(a) Purchase of super profit method

Under this method, goodwill is calculated by multiplying the super profit by a certain number of years of purchase.

$$\text{Goodwill} = \text{Super profit} \times \text{Number of years of purchase}$$

(b) Annuity method

Under this method, value of goodwill is calculated by multiplying the super profit with the present value of annuity.

$$\text{Goodwill} = \text{Super profit} \times \text{Present value annuity factor}$$

DO YOU KNOW? Annuity refers to series of uniform cash flows at regular intervals. The table value gives the present value of annuity of rupee one received at the end of every year for a specified number of years.

The following formula is used to compute annuity factor:

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

where, i = interest rate

n = estimated number of years

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

Format of Revaluation Account:

Dr.		Revaluation Account		Cr.	
Particulars	₹	Particulars	₹		
To Concerned asset A/c	xxx	By Concerned asset A/c			xxx
(net decrease)		(net increase)			
To Concerned liability A/c	xxx	By Concerned liability A/c			xxx
(net increase)		(net decrease)			
To Old partners' capital A/c	xxx	By Old partners' capital A/c			xxx
(profit on revaluation shared in old ratio)*		(loss on revaluation shared in old ratio)*			
	xxx				xxx

*There will be either profit or loss on revaluation.

1. When new profit sharing ratio is given

When new profit sharing ratio is given, sacrificing ratio has to be calculated as follows:

Sacrificing ratio = Ratio of share sacrificed by the old partners

Share sacrificed = Old share - New share

6.5.2 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. The purpose of finding the gaining ratio is to bear the goodwill to be paid to the retiring partner. The share gained is calculated as follows:

Share gained = New share - Old share

Gaining ratio = Ratio of share gained by the continuing partners

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.

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10th, 11th to 12th important Questions.

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6.8 Settlement of the amount due to the retiring partner

The amount due to the retiring partner from the partnership firm is the balance of his capital account after making adjustments for goodwill, accumulated profits and losses, profit or loss on revaluation, remuneration due, etc. The settlement is to be done in the manner prescribed in the partnership deed. The amount due to the retiring partner may be settled in one of the following ways:

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

6.9 Adjustments required on the death of a partner

When a partner dies, there is dissolution or reconstitution of partnership. The following adjustments are made on the death of a partner:

- Distribution of accumulated profits, reserves and losses
- Revaluation of assets and liabilities
- Determination of new profit sharing ratio and gaining ratio
- Adjustment for goodwill
- Adjustment for current year's profit or loss upto the date of death
- Settlement of the amount due to the deceased partner

7.5 Divisions of share capital

The share capital of a company is divided into the following categories:

(i) Authorised capital

It means such capital as is authorised by the memorandum of association. It is the maximum amount which can be raised as capital. It is also known as registered capital or nominal capital.

(ii) Issued capital

This represents that part of authorised capital which is offered for subscription.

(iii) Subscribed capital

It refers to that part of issued capital which has been applied for and also allotted by the company.

7.6 Issue of equity shares

A public company may raise capital by issue of equity shares through the following ways:

- Public issue
- Private placement
- Rights issue
- Bonus issue

7.8.1 Under subscription

All the shares offered to the public may not be subscribed in full. When the number of shares subscribed is less than the number of shares offered, it is known as under subscription. Under such circumstance, all those who have duly applied will obtain allotment provided minimum subscription as mentioned in the prospectus has been subscribed.

8.2.4 Limitations of financial statements

Following are the limitations of financial statements:

- Lack of qualitative information:** Qualitative information that is non-monetary information is also important for business decisions. For example, efficiency of the employees, efficiency of the management, etc. But, this is ignored in financial statements.
- Record of historical data:** Financial statements are prepared based on historical data. They may not reflect the current position.
- Ignore price level changes:** Adjustments for price level changes are not made in the financial statements. Hence, financial statements may not reveal the current position.

8.4.2 Objectives of financial statement analysis

Financial statement analysis may be done with any of the following objectives:

- To analyse the profitability and earning capacity
- To study the long term and short term solvency of the business
- To determine the efficiency in operations and use of assets
- To determine the efficiency of the management and employees
- To determine the trend in sales, production, etc.

9.4. Objectives of ratio analysis

Following are the objectives of ratio analysis:

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

(ii) Proprietary ratio

Proprietary ratio gives the proportion of shareholders' funds to total assets. Proprietary ratio shows the extent to which the total assets have been financed by the shareholders' funds. It is calculated as follows:

$$\text{Proprietary ratio} = \frac{\text{Shareholders' funds}}{\text{Total assets}}$$

The important turnover ratios are:

- Inventory turnover ratio
- Trade receivables turnover ratio
- Trade payables turnover ratio
- Fixed assets turnover ratio

9.7. Advantages of ratio analysis

Following are the advantages of ratio analysis:

- 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.
- Measuring financial solvency:** Ratio analysis helps to ascertain the liquidity or short term solvency and long term solvency of a business concern.
- Facilitating investment decisions:** Ratio analysis helps the management in making effective decisions regarding profitable avenues of investment.

10. Ledger Accounts

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

To create ledger:

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

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

- i) Receipt Voucher
- ii) Payment Voucher
- iii) Contra Voucher
- iv) Purchase Voucher
- v) Sales Voucher
- vi) Journal Voucher

(iii) 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

(iii) To view Balance Sheet

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

(or)

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

(v) To view Day Book

F10: A/c Reports > Day Book > AltF1 (detailed)

(or)

Gateway of Tally > Reports > Display > Day Book > AltF1 (detailed)

Following steps are to be followed to enter the transactions in Tally.ERP 9

1. To create company

Company Info > Create Company

Type the Name as Bright and keep all other fields as they are and choose 'Yes' to accept.

2. To maintain accounts only

Gateway of Tally > F11 Accounting Features > General > Maintain accounts only: Yes > Accept Yes

3. To create ledger accounts with opening balances

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

