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# K V MATRIC. HIGHER SECONDARY SCHOOL

CREATIVITY \* PROSPERITY \* ACHIEVEMENT

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## 12<sup>th</sup> std – ACCOUNTANCY

### IMPORTANT CREATIVE QUESTIONS & ANSWERS :

#### CHAPTER - 1 to 5

- 1) Under single entry system is it possible to check the arithmetical accuracy of books of accounts?
  - No, as arithmetical accuracy is checked by preparing a trial balance and in case of single entry system a trial balance cannot be prepared as it does not record both aspects of a transaction.
- 2) Can a limited company maintain its accounts under single entry system?
  - No, due to legal restrictions, a company cannot maintain its accounts under single entry system.
- 3) Why is statement of affairs prepared under single entry system not referred to as balance sheet?
  - Statement of affairs prepared under single entry system is not called a balance sheet because statement of affairs is not prepared with the list of ledger balances kept on the basis of double entry system.
  - Also value of assets and liabilities shown in statement of affairs are only the estimates and not the actual values.
- 4) What are the possible reasons for keeping incomplete records?
  - It is observed that many businessmen keep incomplete records because of the following reasons.
    - Single entry system can be adopted by people who do not have the proper knowledge of accounting principles.
    - As specialised accountants are not required, it is an inexpensive mode of maintaining records.
    - As only a few books are maintained, time consumed in maintaining records is also less.
    - It is suitable for organisations which have limited number of transactions and very few assets and liabilities.
- 5) What are the features of not-for-profit organizations?
 

Following are the features of not-for-profit organizations.

  - Not-for-profit organizations are the organizations which function without any profit motive.
  - Their main aim is to provide service 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
- 6) Write a note on Donations
  - ✦ These are the amount received by not-for-profit organizations as a gift. It may be a general donation or specific donation.
  - ✦ **General donation:**
    - If the donation is received without any specific condition, then it is a general donation.
    - It is a revenue receipt.
  - ✦ **Specific donation:**
    - If the donation received with a specific condition particular purpose like donations for sports fund, prize fund, etc.,
    - It is known as a specific donation. It is a capital receipt.
- 7) Can be balance in receipts and payments account be treated as income of the period?
  - ✦ No, as the balance in receipt and payments account is closing cash and bank balance
- 8) Income and expenditure account of a not-for-profit organization is akin to profit and loss account of a business concern. Explain the statement.
  - ✦ Income and expenditure account is prepared by a non-profit organization and is a summary of

income and expenditure of the accounting year.

- ✖ Income and expenditure account is akin to profit and loss account because of the following similarities which are observed amongst these accounts.

- Both are nominal accounts.
- Both are one prepared on accrual basis.
- Both record revenue items related to current accounting year only.
- In both the accounts, expenses and losses are recorded on the debit side and incomes and gains are recorded on the credit side.

**9) Distinguish between income and expenditure account and profit and loss account**

The difference between income and expenditure account and profit and loss account are

Basis	INCOME AND EXPENDITURE ACCOUNT	PROFIT AND LOSS ACCOUNT
Preparation	Income and Expenditure account is prepared by non-profit organisation.	Profit and loss account is prepared by organization whose main objective is to earn profit
Basis of preparation	It is prepared on the basis of receipts and payments account.	It is prepared on the basis of trial balance and additional information
Objective	Its main objective is to ascertain surplus or deficit	Its main objective is to ascertain net profit or loss
Balance	The balance in this account is either surplus or deficit	The balance in this account is either net profit or net loss.

**10) What is drawing?**

- ✖ Drawings is the amount withdrawn in each or in kind, for personal purposes
- ✖ drawings account is opened in the name of each partner and the drawings are debited to this account.
- ✖ At the end of every year, the drawings account is closed by a transfer to the respective partner's capital account or current account

**11) What is partner's current Account?**

- ✖ In the current account, the transactions relating to drawings, interest on capital, interest on drawings, salary, share of profit or loss etc, are recorded.
- ✖ Hence, the balance in the current accounts change every year.

**12) If the partner's capital accounts are fixed, where will you record the following items?**

- a) Salary payable to a partner,
- b) Drawings made by a partner

- ✖ Under fixed capital method, salary payable to a partner is recorded in the current account
- ✖ Under fixed capital method, drawings made by a partner is recorded in the current account.

**13) Suresh and Ramesh are partners in a firm with capitals of Rs.3,00,000 and Rs.4,00,000 respectively. They do not have a partnership deed. Ramesh wants to share the profits in the ratio of capitals. State with reason whether the claim is valid**

- According to Indian partnership Act, 1932 in the absence of partnership deed, profits are shared equally among the partners.
- So, the claim of Ramesh to share the profits in the ratio of capitals is not valid.

**14) A and B are partners in a firm without a partnership deed. A is an active partner and claims a salary of Rs.18,000 per month. State with reasons whether the claim is valid or not**

- ✖ According to Indian partnership Act, 1932, no salary is allowed to partners in the absence of partnership deed
- ✖ So the claim of A for salary of Rs.18,000 per month is not valid.

**15) Interest on partner's capital and interest on drawings are recorded through profit and loss appropriation account instead of profit and loss account. Why?**

✳ Interest on partner's capital and interest on drawings are an appropriation of profit and not a charge on profit and hence is recorded through profit and loss appropriation account instead of profit and loss account

16) Salary or commission paid to a partner is debited to profit and loss appropriation account and not to profit and loss account. Why?

→ It is so because salary or commission paid to a partner is not a charge on profit but an appropriation of profit.

17) An accountant of the firm has debited interest on partner's loan to the profit and loss appropriation account and credited to the partner's capital account. Is he correct?

→ No, the accountant is not correct.  
→ He has not recorded the interest on loan currently because the interest on loan is a charge against profits and not an appropriation of profits.

18) State where the following items shall appear in case the capital contributed by partners remain fixed

- i) Interest on capital
- ii) Withdrawal of capital
- iii) Fresh capital introduced
- iv) Drawings
- v) Share of profit by a partner

**Answer :**

- (i) Credit side of partner's current account.
- (ii) Debit side of partner's capital account
- (iii) Credit of partner's capital account
- (iv) Debit side of partner's current account
- (v) Credit side of partner's current account

19) What is meant by number of years purchase at the time of valuation of goodwill?

✳ Number of years purchase means for how many specific years the business will earn same amount of profits because of its past efforts.

20) Why is goodwill considered as an intangible asset, but not a fictitious assets?

→ Goodwill is considered as an intangible asset  
→ because it has a realised value whereas fictitious assets do not have a realisable value.

21) How does the factor's 'quality of product' affect the goodwill of a firm?

→ If the firm enjoys good reputations for its product's quality, there will be higher sales and the value of its goodwill will increase.

22) How does the 'market situation' affect the value of goodwill of a firm?

→ The monopoly condition or limited competition enables the concern to earn high profits which leads to higher value of goodwill

23) What is meant by admission of a partner?

→ A person may join as a new partner in an existing partnership firm.  
→ This is called admission of a partner.

24) Who is an incoming partner?

→ According to section 31 (1) of the Indian partnership Act 1932, a person can be admitted only with the consent of all the existing partners.  
→ A person who is admitted to the firm is known as an incoming or a new partner.

25) Durga and Naresh were partnership in a firm. They wanted to admit five more members in the firm.

List any two categories of individuals other than minors who cannot be admitted by them.

→ The individual other than minors who cannot be admitted by them are

- Person of unsound mind
- Person of disqualified by law.

26) The amount of bills payable appearing in the balance sheet is understated by. Rs.10,000 State whether the revaluation account will be debited or credited to restore the amount of bills payable

to its actual value. Also give reason for your answer.

- Revaluation account will be debited.
- Increase in bills payable is a loss for the firm.
- Being a nominal account, to record this loss, revaluation account will have to be debited.

27) On the admission of C, A and B decide to record an unrecorded asset worth Rs.10,000 State whether the revaluation account will be debited or credited.

- Revaluation account will be credited

28) The value of Plant and machinery increased by 10%. State whether revaluation account will be debited or credited.

- Revaluation account will be credited

29) Radhika started a small bakery for providing healthy and good quality bakery product at reasonable prices on 1st January, 2019 with a capital of Rs.1,80,000. She appointed a ten year old boy as a sweeper. She withdrew Rs.60,000 for household expenses. She introduced Rs.20,000 as fresh capital. Her position of assets and liabilities as at 31st December, 2019 stood as follows.

	Rs.
Cash in hand	70,000
Stock	80,000
Bills receivable	1,00,000
Debtors	1,50,000
Creditors	60,000
Bills payable	10,000

Answer :

Statement of affairs as on 31.12.2019

Liabilities	Rs.	Assets	Rs.
Creditors	60,000	Cash in hand	70,000
Bills payables	10,000	Stock	80,000
Capital	3,30,000	Bills receivables	1,00,000
(Balancing figure)		Debtors	1,50,000
	4,00,000		4,00,000

Calculation of Profit

Particulars	Rs.
Capital at the end	3,30,000
Add: Drawings	60,000
	3,90,000
Less: Additional capital	20,000
	3,70,000
Less: Opening capital	1,80,000
Profit for the year	1,90,000

Values involved are

- Violating child labour act by employing 10 year old boy.
- By providing good quality product she is promoting the welfare and health of society
- By charging reasonable prices she is not indulged in profiteering.



30) Which values are affected, when accounts are maintained on single entry system basis.

Values being affected are

- Reliability: Value of reliability is affected as accounts maintained on single entry system are less reliable as they are prepared from incomplete records.
- Accuracy: Value of arithmetical accuracy is affected, as in single entry system, trial balance cannot be prepared which proves arithmetical accuracy of accounts.

31) Yuvan foundation is formed to educate and to provide jobs to unemployed women. Identify the values involved.

→ The value involved are Respect for women and women empowerment.

32) Youth of India sports club decided to donate ~ 50,000 and spread awareness among the people of nearby societies about cleanliness in the country under the programme "Bharat Abhiyan". Identify the values highlighted.

The values highlighted are

- Social responsibility towards society.
- Sensitivity towards cleaner environment

33) Explain the procedure for preparation of final accounts of a partnership firm.

- In sole proprietorship, the profit or loss in the profit and loss account is transferred directly to the sole proprietor's capital account.
- In partnership, profit and loss appropriation account is prepared to which net profit or loss from profit and to which net profit or loss from profit and loss account is transferred.
- In the profit and loss appropriation account, adjustments for interest on capital, interest on drawings, salary and other remuneration due to the partners are shown.
- Finally, the balance in the appropriation account is transferred to the partner's capital account in the profit sharing ratio.
- Capital account balance of the sole proprietor alone is shown in the balance sheet of sole proprietorship.
- The balance sheet of a partnership concern shows the balances in the individual capital accounts (an current accounts) of the partners.

34) What is Fluctuating capital method?

- Under this method, only one capital account is maintained for each partner.
- The capital is changing from period to period.
- This capital account shows always a credit balance
- All adjustment relating to partners are recorded directly in the capital account.

35) The firm of A and B earned a profit of Rs.2,75,000 during the year ending on 31st March, 2015. They have decided to donate 10% of this profit to an NGO working for senior citizens. Pass necessary journal entry for the distribution of profits. Identify the values shown by the firm in donating a part of profit of NGO.

Answer :

Journal entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Profit and loss appropriation A/c Dr		2,47,500	
	To A's capital A/c			1,23,750
	To B's capital A/c			1,23,750
	(Being profit transferred to capital account)			

Values shown by the firm are

→ Responsibility :

- Firm has shown responsibility towards senior citizens by giving them their dues.

→ Compassion:

- Partners have shown compassion towards senior citizens by fulfilling their duties towards senior citizens.

**36) What is the nature of goodwill?**

The nature of goodwill can be described as follows:

- Goodwill is an intangible fixed asset. 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
- It can be purchased or sold only when the business is purchased or sold in full or in part

**37) What is the need for valuation of goodwill?**

Following are the circumstances that require valuation of goodwill of partnership firms in order to protect the rights of the partners

- 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

**38) Venu and Somu are carrying on a business of repairing electronic items. There are no other technicians for repairing electronic items in the locality. As the electric supply has a lot of fluctuations, the equipments get damaged. Therefore, both the partners themselves do the repairing work to the satisfaction of the customers. The firm donates 10% of its profits to a Charitable Hospital of the locality for the medical treatment of persons below poverty line. State the two factors affecting the goodwill of the firm discussed in the above para. Also identify any two values which the firm is trying to propagate.**

The factors affecting the goodwill of the firm are

- ✦ Location
- ✦ Market situation

The values which the firm is trying to propagate are

- Sensitivity towards people belonging to lower income group.
- Working towards customer satisfaction

**39) Kalyan and Dilip are partners in a firm dealing in stationery items. The firm is well managed and enjoys the advantage of being cost effective. It buys stationery items at reasonable cost from Dilip's relative who is manufacturer of stationery items. The firm's sale outlet is situated near a school. As a result, the firm is donating 10% of its profits to the nearby school for the education of the students of below poverty line. State any two factors affecting the value of goodwill of the firm. Also identify any two values which the firm is trying to propagate.**

The factors affecting the value of goodwill of the firm are

- Nature of business
- Efficiency of management

The values which the firm is trying to propagate are

- Promoting education among the students of below poverty line.
- Providing quality services to customers resulting in customer satisfaction.

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