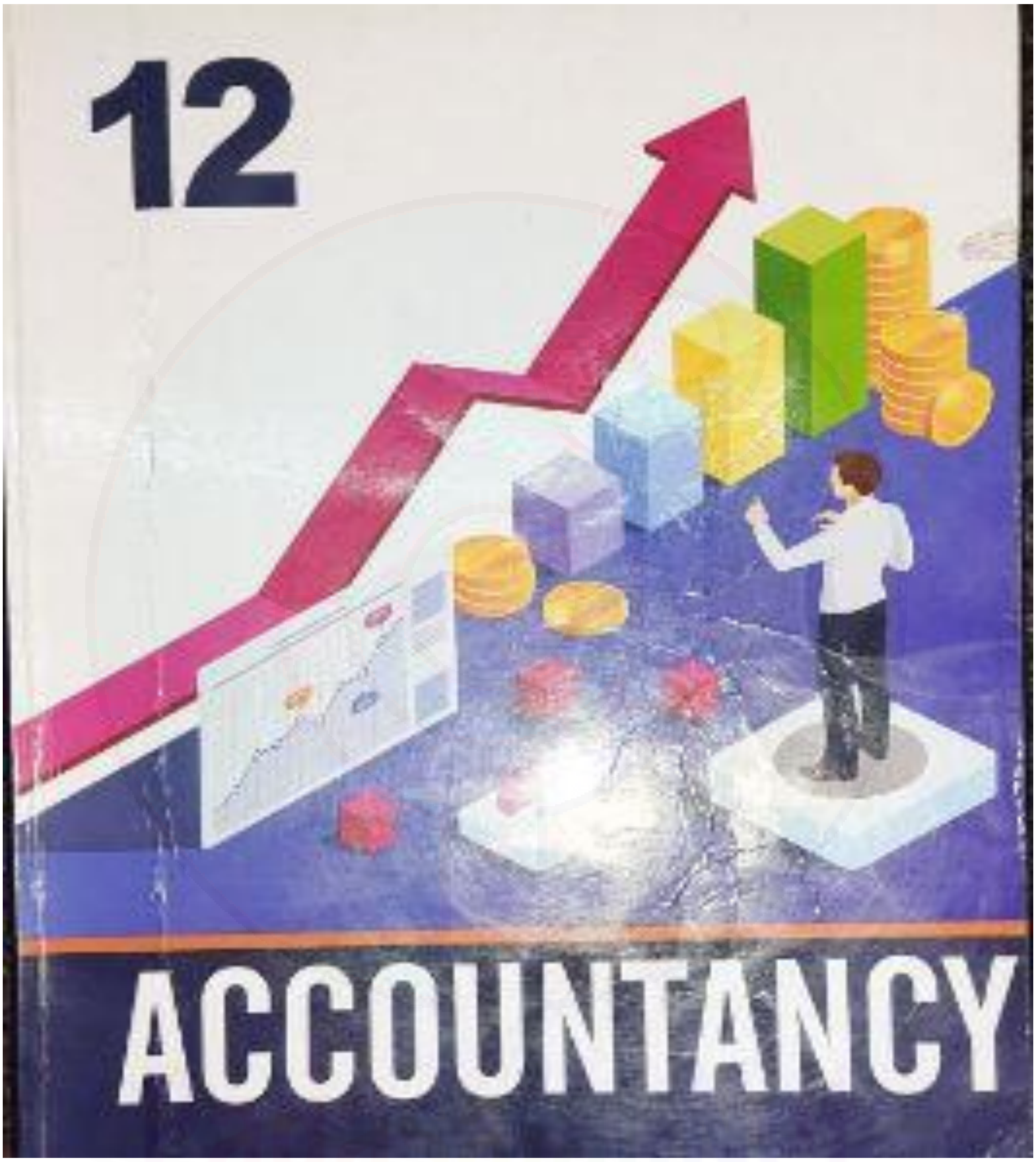
Little Flower Matriculation Higher Secondary School
Nathakkarai, Thalaivasal – 636112

XII - Accountancy
Study Material - English Medium



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12 – Accountancy
Unit – I Accounts From Incomplete Records

I. Choose the Correct Answers

1. Incomplete records are generally maintained by
(a) A company (b) Government
(c) Small sized sole trader business (d) Multinational enterprises

2. Statement of affairs is a
(a) Statement of income and expenditure
(b) Statement of assets and liabilities
(c) Summary of cash transactions (d) Summary of credit transactions

3. Opening statement of affairs is usually prepared to find out the
(a) Capital in the beginning of the year (b) Capital at the end of the year
(c) Profit made during the year (d) Loss occurred during the year

4. The excess of assets over liabilities is
(a) Loss (b) Cash **(c) Capital** (d) Profit

5. Which of the following items relating to bills payable is transferred to total creditors account?
(a) Opening balance of bills payable (b) Closing balance of bills payable
(c) Bills payable accepted during the year (d) Cash paid for bills payable

6. The amount of credit sales can be computed from
(a) Total debtors account (b) Total creditors account
(c) Bills receivable account (d) Bills payable account

7. Which one of the following statements is not true in relation to incomplete records?
(a) It is an unscientific method of recording transactions
(b) Records are maintained only for cash and personal accounts
(c) It is suitable for all types of organisations

(d) Tax authorities do not accept

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

(a) ₹ 85,000 (b) ₹ 1,06,000 (c) ₹21,000 **(d) ₹ 64,000**

9. When capital in the beginning is ₹ 10,000, drawings during the year is ₹ 6,000, profit made during the year is ₹ 2,000 and the additional capital introduced is ₹ 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: ₹ 30,000, cash received: ₹ 1,00,000, credit sales: ₹ 90,000; closing balance of debtors is

(a) ₹ 30,000 (b) ₹ 1,30,000 (c) ₹ 40,000 **(d) ₹ 20,000**

II Very short answer questions

1. What is meant by incomplete records?

⇨ When accounting records are not strictly maintained according to double entry system, these records are called "Incomplete accounting records or single entry system".

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

⇨ Generally, cash account and the personal accounts of customers (Debtors) and Suppliers (Creditors) are maintained fully and other accounts are maintained based on necessity.

⇨ Real accounts and Nominal accounts are not maintained.

3. What is a statement of affairs?

⇨ It is a statement showing the balances of assets and liabilities on a particular date.

⇨ The balances of assets are shown on the right side and the balances of liabilities on the left side.

⇨ This statement resembles a balance sheet.

⇨ Capital = Asset – liabilities.

III Short answer questions

1. What are the features of incomplete records?

(i) Nature:

- ⇨ It is an unscientific and unsystematic way of recording transactions.
- ⇨ Accounting principles and accounting standards are not followed properly.

(ii) Type of accounts maintained:

- ⇨ In general, only cash and personal accounts are maintained fully.
- ⇨ Real accounts and nominal accounts are not maintained properly.
- ⇨ Some transactions are completely omitted.

(iii) Lack of uniformity:

- ⇨ There is no uniformity in recording the transactions among different organisations.
- ⇨ Different organisations record their transactions according to their needs and conveniences.

(iv) Financial statements may not represent true and fair view:

- ⇨ Due to the incomplete information and inaccurate records of accounts, the profit or loss calculated from these records cannot be relied upon.
- ⇨ It may not represent true profitability.

(v) Suitability:

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

2. What are the limitations of incomplete records?

(i) Lack of proper maintenance of records:

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

(ii) Difficulty in preparing trial balance:

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

(iii) Difficulty in ascertaining true profitability of the business:

- Profit is found out based on available information and estimates.
- Hence, it is difficult to ascertain true profit as the trading and profit and loss account cannot be prepared with accuracy.

(iv) 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.

(v) 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.

S. No.	Basis of distinction	Double entry system	Incomplete records
1	Recording of transactions	Both debit and credit aspects of all the transactions are recorded.	Debit and credit aspects of all the transactions are not recorded completely. For some transactions both aspects are entered, some transactions are partially recorded and some transactions are omitted to be entered.
2	Type of accounts maintained	Personal, real and nominal accounts are maintained fully.	In general, only personal and cash accounts are maintained fully. Real and nominal accounts are not maintained fully.
3	Preparation of trial balance	Trial balance can be prepared to check the arithmetical accuracy of the entries made in the books of accounts.	It is difficult to prepare the trial balance to check arithmetic accuracy of entries made in the books of accounts as the accounts are incomplete.

4	Suitability	It is suitable for all types of organisations.	It may be suitable for small sized sole traders and partnership firms.
5	Reliability	It is reliable since it is a scientific system of accounting and is based on certain accounting principles.	It is not reliable since it is unscientific.

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

(i) 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.

(ii) 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.

(iii) Add the amount of drawings (both in cash and/in kind) to the closing capital.

(iv) Deduct the amount of additional capital introduced, to get adjusted closing capital.

(v) 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.

5. Differentiate between statement of affairs and balance sheet.

S. No.	Basis of distinction	Statement of affairs	Balance sheet
1	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.
2	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.

3	Basis of preparation	It is not fully based on ledger balances. Where ever possible ledger balances are taken. Some items are taken from some source documents and some items are mere estimates.	It is prepared exclusively on the basis of ledger balances.
4	Reliability	It is not reliable as it is based on incomplete records.	It is reliable as it is prepared under double entry system.
5	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.

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

Dr. **Total Debtors A/c** **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**

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12 – Accountancy
Unit – 2 Accounts of Not – For – Profit Organisation

I. Choose the Correct Answers

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) ₹ 50,000 (b) ₹ 50,200 (c) ₹ 49,900 (d) ₹ 49,800

II Very short answer questions

1. State the meaning of not – for – profit organization.

(i) Some organisations are established for the purpose of rendering services to the public without any profit motive.

(ii) They may be created for the promotion of art, culture, education, sports, etc.

(iii) These organisations are called not–for–profit organisation.

(iv) Charitable institutions, educational institutions, cultural societies, sports and recreation clubs, hospitals, libraries and literary associations are some of the examples of not–for–profit organisations.

2. What is receipts and payments account?

(i) Receipts and Payments account is a summary of cash and bank transactions of not–for–profit organisations prepared at the end of each financial year.

(ii) It is a real account in nature.

(iii) The receipts and payments account begins with the opening balances of cash and bank and ends with closing balances of cash and bank.

3. What is legacy?

(i) A gift made to a not–for–profit organisation by a will, is called legacy.

(ii) It is a capital receipt.

4. Write a short note on life membership fees.

⇨ Amount received towards life membership fee from members is a capital receipt as it is non-recurring in nature.

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

(i) Life membership fees

(ii) Legacies

(iii) Sale of fixed assets

(iv) Specific donations

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

(i) Subscription

(ii) Interest on investment

(iii) Interest on fixed deposit

(iv) Sale of (old) newspapers

III Short answer questions

1. What is income and expenditure account?

(i) 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.

(ii) It is prepared to find out the surplus or deficit pertaining to a particular year.

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

S. No.	Basis	Receipts and Payments Account	Income and Expenditure Account
1.	Purpose	It is prepared to know the cash receipts and cash payments.	It is prepared to know whether there is an excess of income over expenditure (surplus) or an excess of expenditure over income (deficit) during the current period.
2.	Nature of account	It is a real account. It is a summary of cash account. Cash receipts are recorded on	It is a nominal account. It is similar to profit and loss account.

		the debit side and cash payments are recorded on the credit side.	Expenses are recorded on the debit side and incomes are recorded on the credit side.
3.	Basis of accounting	It is based on cash system of accounting. Non-cash items are not recorded.	It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation, etc. are also recorded.
4.	Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
5.	Nature of items	It contains actual receipts and payments irrespective of revenue or capital items in nature.	It contains only revenue items, that is, only revenue expenses and revenue incomes.

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

<u>(A) Treatment in Income and Expenditure Account</u>

★ 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 after making the adjustments given below:

(i) Subscription outstanding for the current year is to be added.

(ii) Subscription received in advance in the previous year which is meant for the current year, is to be added.

★ When total subscription received during the current year is given, that total subscriptions received during the current year will be shown on the credit side of Income and Expenditure Account after making the following adjustments:

(i) Subscription outstanding in the previous year which is received in the current year will be subtracted.

Subscription outstanding for the current year is added.

(ii) Subscriptions received in advance in the previous year which is meant for the current year, is added and subscriptions received in advance in the current year which is meant for the subsequent year must be subtracted.

(B) Treatment in Balance Sheet

(i) Subscriptions outstanding for the current year and still outstanding for the previous year will be shown on the assets side of the balance sheet.

(ii) 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:

(i) Consumable items such as sports materials, stationery, medicines, etc., consumed during the year will appear on the debit side of income and expenditure account.

(ii) Consumption = Opening stock + Purchases during the current year - Closing stock

(iii) Closing stock will appear on the assets side of the balance sheet as at the end of the year.

(iv) 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

- ⇨ Amount received towards life membership fee from members is a capital receipt as it is non-recurring in nature.

(c) Tournament fund

- ⇨ It is recurring in nature.
- ⇨ It is revenue receipt.
- ⇨ It is shown liabilities side of balance sheet.
- ⇨ Opening balance added donations and subtracted expenses incurred.

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12 – Accountancy
Unit – 3 Accounts of Partnership Firms - Fundamentals

I. Choose the Correct Answers

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 moths **(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 to partners
(d) Interest on loan from partners is allowed at 6% per annum

10. Profit after interest on drawings, interest on capital and remuneration is ₹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**

II Very short answer questions

1. Define partnership.

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

2. What is a partnership deed?

(i) Partnership deed is a document in writing that contains the terms of the agreement among the partners.

(ii) It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932.

(iii) But, it is desirable to have a partnership deed as it serves as an evidence of the terms of the agreement among the partners.

3. What is meant by fixed capital method?

(i) Fixed capital method, two accounts are maintained for each partner namely (a) Capital account and (b) Current account.

(ii) The transactions relating to initial capital introduced, additional capital introduced and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

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

(a) For providing interest on capital:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Interest on capital A/c Dr. To Partners Capital / Current A/c		XXX	 XXX

(b) For closing interest on capital account:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Profit and loss appropriation A/c Dr. To Interest on capital A/c		XXX	 XXX

5. Why is Profit and loss appropriation account prepared?

(i) 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.

(ii) It is nominal account in nature.

(iii) It is credited with net profit, interest on drawings and it is debited with interest on capital, salary and other remuneration to the partners.

(iv) The balance being the profit or loss is transferred to the partners' capital or current account in the profit sharing ratio.

III Short answer questions

1. State the features of partnership.

(i) Partnership is an association of two or more persons.
(ii) The maximum number of partners is limited to 50.
(iii) There should be an agreement among the persons to share the profit or loss of the business.
(iv) The agreement may be oral or written or implied.
(v) The agreement must be to carry on a business and to share the profits of the business.
(vi) 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.

(i) Name of the firm and nature and place of business
(ii) Date of commencement and duration of business
(iii) Names and addresses of all partners
(iv) Capital contributed by each partner
(v) Profit sharing ratio
(vi) Amount of drawings allowed to each partner
(vii) Rate of interest to be allowed on capital
(viii) Rate of interest on drawings of partners

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

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

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

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

(ii) Profit sharing ratio:
Profits and losses are to be shared by the partners equally. [Section 13(b)]

(iii) Interest on capital:
No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [Section 13(c)]

(iv) Interest on loans advanced by partners to the firm:
Interest on loan is to be allowed at the rate of 6 per cent per annum. [Section 13(d)]

(v) Interest on drawings:
No interest is charged on the drawings of the partners.

5. Jayaraman is a partner who withdrew ₹10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December, 2018.

Solution:

Drawings are made in the middle of every month:

The amount withdrawn = 10,000 × 12 = 1,20,000

Average period = 6

Interest on drawings = Total amount of drawings × Rate of interest × Average Period

= ₹ 10,000 × 6/100 × 6/12

= ₹ 300

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12 – Accountancy
Unit – 4 Goodwill in Partnership Accounts

I. Choose the Correct Answers

1. Which of the following statements is true?
   (a) Goodwill is an intangible asset (b) Goodwill is a current asset
   (c) Goodwill is a fictitious asset (d) Goodwill cannot be acquired

2. Super profit is the difference between
   (a) Capital employed and average profit (b) Assets and liabilities
   (c) Average profit and normal profit (d) Current year's profit and average profit

3. The average rate of return of similar concerns is considered as
   (a) Average profit **(b) Normal rate of return**
   (c) Expected rate of return (d) None of these

4. Which of the following is true?
   (a) Super profit = Total profit / number of years
   (b) Super profit = Weighted profit / number of years
   (c) Super profit = Average profit – Normal profit
   (d) Super profit = Average profit × Years of purchase

5. Identify the incorrect pair
   (a) Goodwill under Average profit method - Average profit × Number of years of purchase
   (b) Goodwill under Super profit method - Super profit × Number of years of purchase
   (c) Goodwill under Annuity method - Average profit × Present value annuity factor
   (d) Goodwill under Weighted average - Weighted average profit × Number of years of profit method purchase

6. When the average profit is ₹ 25,000 and the normal profit is ₹ 15,000, super profit is
   (a) ₹ 25,000 (b) ₹ 5,000 **(c) ₹ 10,000** (d) ₹ 15,000

7. Book profit of 2017 is ₹ 35,000; non-recurring income included in the profit is ₹ 1,000 and abnormal loss charged in the year 2017 was ₹ 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 ₹ 1,00,000; assets are ₹ 1,50,000 and liabilities are ₹ 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**

II Very short answer questions

1. What is goodwill?

(i) Goodwill is the good name or reputation of the business which brings benefit to the business.
(ii) It enables the business to earn more profit.
(iii) It is the present value of a firm's future excess earnings.
(iv) It is an intangible asset as it has no physical existence.

2. What is acquired goodwill?

(i) Goodwill acquired by making payment in cash or kind is called acquired or purchased goodwill.

(ii) The excess of purchase consideration over the value of net assets acquired is treated as acquired goodwill.

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.

(i) When there is a change in the profit sharing ratio
(ii) When a new partner is admitted into a firm

III Short answer questions

1. State any six factors determining goodwill.

(i) Profitability of the firm
(ii) Favourable location of the business enterprise
(iii) Good quality of goods or services offered
(iv) Tenure of the business enterprise
(v) Efficiency of management
(vi) Degree of competition

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

- ⇨ Under these methods, super profit is the base for calculation of the value of goodwill.
- ⇨ Super profit is the excess of average profit over the normal profit of a business.

$$\boxed{\text{Super profit} = \text{Average profit} - \text{Normal profit}}$$

- ⇨ Average profit is calculated by dividing the total of adjusted actual profits of certain number of years by the total number of such years.
- ⇨ Normal profit is the profit earned by the similar business firms under normal conditions.

$$\boxed{\text{Normal profit} = \text{Capital employed} \times \text{Normal rate of return}}$$

Capital employed = Fixed assets + Current assets – Current liabilities

- ⇨ Normal rate of return = It is the rate at which profit is earned by similar business entities in the industry under normal circumstances.

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.

$$\boxed{\text{Goodwill} = \text{Total capitalised value of the business} - \text{Actual capital employed}}$$

The total capitalised value of the business is calculated by capitalising the average profits on the basis of the normal rate of return.

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

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

Thank You

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12 – Accountancy
Unit – 5 Admission of a Partner

I. Choose the Correct Answers

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 the 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**

II Very short answer questions

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

(i) When a partner is admitted into the partnership, the assets and liabilities are revalued as the current value may differ from the book value.

(ii) 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?

(i) Profits and losses of previous years which are not distributed to the partners are called accumulated profits and losses.

(ii) 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?

(i) Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.

(ii) The purpose of finding the sacrificing ratio is to share the goodwill brought in by 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 (b) Unrecorded liability

(c) Provision for outstanding expenses (d) Appreciation of assets

(a) Depreciation on assets – Debit account

(b) Unrecorded liability - Debit account

(c) Provision for outstanding expenses - Debit account

(d) Appreciation of assets – Credit account

<u>III Short answer questions</u>

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

(i) Distribution of accumulated profits, reserves and losses

(ii) Revaluation of assets and liabilities

(iii) Determination of new profit-sharing ratio and sacrificing ratio

(iv) Adjustment for goodwill

(v) 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?

Journal entry

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

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

(i) When new partner brings cash towards goodwill.

(ii) When the new partner does not bring goodwill in cash or in kind.

(iii) When the new partner brings only a part of the goodwill in cash or in kind.

(iv) Existing goodwill.

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12 – Accountancy
Unit – 6 Retirement and Death of a Partner

I. Choose the Correct Answers

1. A partner retires from the partnership firm on 30th June. He is liable for all the acts of the firm up to the
   (a) End of the current accounting period
   (b) End of the previous accounting period
   (c) Date of his retirement
   (d) Date of his final settlement

2. On retirement of a partner from a partnership firm, accumulated profits and losses are distributed to the partners in the
   (a) New profit sharing ratio **(b) Old profit sharing ratio**
   (c) Gaining ratio (d) Sacrificing ratio

3. On retirement of a partner, general reserve is transferred to the
   (a) Capital account of all the partners
   (b) Revaluation account
   (c) Capital account of the continuing partners
   (d) Memorandum revaluation account

4. On revaluation, the increase in liabilities leads to
   (a) Gain **(b) Loss** (c) Profit (d) None of these

5. At the time of retirement of a partner, determination of gaining ratio is required
   (a) To transfer revaluation profit or loss
   (b) To distribute accumulated profits and losses
   (c) To adjust goodwill (d) None of these

6. If the final amount due to a retiring partner is not paid immediately, it is transferred to
   (a) Bank A/c (b) Retiring partner's capital A/c
   (c) Retiring partner's loan A/c (d) Other partners' capital A/c

7. 'A' was a partner in a partnership firm. He died on 31st March 2019. The final amount due to him is ₹ 25,000 which is not paid immediately. It will be transferred to
   (a) A's capital account (b) A's current account
   (c) A's Executor account **(d) A's Executor loan account**

8. A, B and C are partners sharing profits in the ratio of 2:2:1. On retirement of B, goodwill of the firm was valued as ₹ 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

   Solution:
   B's share of goodwill = 30,000 x 2/5 = ₹ 12,000
   A's capital A/c (12,000 x 2/3) = ₹ 8,000
   C's capital A/c (12,000 x 1/3) = ₹ 4000

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

   Solution:
   A, B, C's sharing ratio = 4:2:3
   C's retired, so A and B's share ratio = 4:2 = 2:1

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

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II Very short answer questions

1. What is meant by retirement of a partner?

(i) When a partner leaves from a partnership firm, it is known as retirement.

(ii) 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?

⇨ 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.

Share gained = New share – Old share Gaining ratio = Ratio of share gained by the continuing partners

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 ₹	Credit ₹
	Deceased partner's capital A/c Dr. To Deceased partner's executor A/c		xxx	 xxx

III Short answer questions

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

(i) Distribution of accumulated profits, reserves and losses.
(ii) Revaluation of assets and liabilities.
(iii) Determination of new profit sharing ratio and gaining ratio.
(iv) Adjustment for goodwill.
(v) Adjustment for current year's profit or loss up to the date of retirement.
(vi) Settlement of the amount due to the retiring partner.

2. Distinguish between sacrificing ratio and gaining ratio.

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

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

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

(ii) Transfer the entire amount due, to the loan account of the partner.

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

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12 – Accountancy
Unit – 7 Company Accounts

I. Choose the Correct Answers

1. A preference share is one
(i) which carries preferential right with respect to payment of dividend at fixed rate
(ii) which carries preferential right with respect to repayment of capital on winding up
(a) Only (i) is correct (b) Only (ii) is correct
(c) Both (i) and (ii) are correct (d) Both (i) and (ii) are incorrect

2. That part of share capital which can be called up only on the winding up of a company is called:
(a) Authorised capital (b) Called up capital
(c) Capital reserve **(d) Reserve capital**

3. At the time of forfeiture, share capital account is debited with
(a) Face value (b) Nominal value (c) Paid up amount **(d) Called up amount**

4. After the forfeited shares are reissued, the balance in the forfeited shares account should be transferred to
(a) General reserve account **(b) Capital reserve account**
(c) Securities premium account (d) Surplus account

5. The amount received over and above the par value is credited to
(a) Securities premium account (b) Calls in advance account
(c) Share capital account (d) Forfeited shares account

6. Which of the following statement is false?
(a) Issued capital can never be more than the authorised capital
(b) In case of under subscription, issued capital will be less than the subscribed capital

(c) Reserve capital can be called at the time of winding up

(d) Paid up capital is part of called up capital

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

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

8. Match the pair and identify the correct option

List - I		List - II	
(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

Codes	(1)	(2)	(3)	(4)
(a)	(i)	(ii)	(iii)	(iv)
(b)	(iv)	(iii)	(ii)	(i)
(c)	**(iii)**	**(ii)**	**(iv)**	**(i)**
(d)	(iii)	(iv)	(i)	(ii)

9. If a share of ₹10 on which ₹ 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 ₹ 10 each for non-payment of final call of ₹ 2 per share. All these shares were re-issued at ₹ 9 per share. What amount will be transferred to capital reserve account?

(a) ₹ 700 (b) ₹ 800 (c) ₹ 900 (d) ₹ 1,000

II Very short answer questions

1. What is a share?

- ⇨ The capital of a company is divided into small units of fixed amount.
- ⇨ These units are called shares.

2. What is over-subscription?

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

3. What is meant by calls in arrear?

(i) When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears.

(ii) In other words, the amount called up but not paid is calls in arrear.

4. Write a short note on securities premium account.

(i) When a company issues shares at a price more than the face value (nominal value), the shares are said to be issued at premium.

(ii) The excess is called as premium amount and is transferred to securities premium account.

(iii) The amount of securities premium may be included in application money or allotment money or in a call.

(iv) Securities premium account is shown under reserves and surplus as a separate head in the Note to Accounts to the balance sheet.

5. Why are the shares forfeited?

(i) When a shareholder defaults in making payment of allotment and/or call money, the shares may be forfeited.

(ii) On forfeiture, the share allotment is cancelled and to that extent, share capital is reduced.

(iii) The person ceases to be a shareholder of the company after the shares are forfeited.

III Short answer questions

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

Basis	Preference shares	Equity shares
1. Meaning	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital.	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company.
2. Payment of dividend	Priority in payment of dividend over equity shareholders.	The dividend is paid after the payment of all liabilities.

3. Rate of dividend	Fixed	Fluctuating
4. Voting rights	Normally, preference shares do not carry voting rights.	Equity shares carry voting rights.
5. Convertibility	Preference shares can be converted into equity shares.	Equity shares can never be converted.

2. Write a brief note on calls in advance.

(i) The excess amount paid over the called up value of a share is known as calls in advance.

(ii) It is the excess money paid on application or allotment or calls.

(iii) Such excess amount can be returned or adjusted towards future payment.

(iv) 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.

(v) Calls in advance does not form part of the company's share capital and no dividend is payable on such amount.

(vi) In the balance sheet, it should be shown under current liabilities.

3. What is reissue of forfeited shares?

(i) Shares forfeited can be reissued by the company.
(ii) The shares can be reissued at any price.
(iii) But, the reissue price cannot be less than the amount unpaid on forfeited shares.

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

(a) Authorised capital

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

(b) Reserve capital

(i) The company can reserve a part of its subscribed capital to be called up only at the time of winding up.
(ii) 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.

★ Under such situation, the following journal entries are to be passed.

Date	Particulars	L.F.	Debit ₹	Credit ₹
	(i) For purchase of asset Respective asset A/c Dr. To Vendor A/c		 xxx	 xxx
	(ii) For issue of shares Vendor A/c Dr. To Equity share capital A/c To Securities premium A/c (if issued at premium)		 xxx	 xxx xxx

⇨ A company may also issue shares as consideration for the purchase of business, to promoters for their services and to brokers and underwriters for their commission.

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12 – Accountancy
Unit – 8 Financial Statement Analysis

I. Choose the Correct Answers

1. Which of the following statements is not true?
(a) Notes and schedules also form part of financial statements.
(b) The tools of financial statement analysis include common-size statement
(c) Trend analysis refers to the study of movement of figures for one year
(d) The common–size statements show the relationship of various items with some common base, expressed as percentage of the common base

2. Balance sheet provides information about the financial position of a business concern
(a) Over a period of time **(b) As on a particular date**
(c) For a period of time (d) For the accounting period

3. Which of the following tools of financial statement analysis is suitable when data relating to several years are to be analysed?
(a) Cash flow statement (b) Common size statement
(c) Comparative statement **(d) Trend analysis**

4. The financial statements do not exhibit
(a) Non-monetary data (b) Past data (c) Short term data (d) Long term data

5. Which of the following is not a tool of financial statement analysis?
(a) Trend analysis (b) Common size statement
(c) Comparative statement **(d) Standard costing**

6. The term 'fund' refers to
(a) Current liabilities **(b) Working capital** (c) Fixed assets (d) Non-current assets

7. Which of the following statements is not true?
(a) All the limitations of financial statements are applicable to financial statement analysis also.
(b) Financial statement analysis is only the means and not an end.
(c) Expert knowledge is not required in analysing the financial statements.
(d) Interpretation of the analysed data involves personal judgement.

8. A limited company's sales has increased from ₹ 1,25,000 to ₹ 1,50,000. How does this appear in comparative income statement?
(a) + 20 % (b) + 120 % (c) – 120 % (d) – 20 %

9. In a common-size balance sheet, if the percentage of non-current assets is 75, what would be the percentage of current assets?
(a) 175 (b) 125 **(c) 25** (d) 100

10. Expenses for a business for the first year were ₹ 80,000. In the second year, it was increased to ₹ 88,000. What is the trend percentage in the second year?
(a) 10 % **(b) 110 %** (c) 90 % (d) 11%

II Very short answer questions

1. What are financial statements?

(i) 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.

(ii) The basic financial statements prepared by business concerns are income statement and balance sheet.

2. List the tools of financial statement analysis.

(i) Comparative statement
(ii) Common-size statements
(iii) Trend analysis
(iv) Funds flow analysis
(v) 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.

Working Capital = Current Assets – Current Liabilities

4. When is trend analysis preferred to other tools?

(i) Trend refers to the tendency of movement.

(ii) Trend analysis refers to the study of movement of figures over a period.

(iii) The trend may be increasing trend or decreasing trend or irregular.

(iv) When data for more than two years are to be analysed, it may be difficult to use comparative statement.

III Short answer questions

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

⇨ The nature of financial statement is historical past cannot be the index of future and cannot be percent basis for future estimation, forecasting, budgeting and planning.

2. Write a short note on cash flow analysis.

(i) 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.

(ii) Cash includes cash in hand and demand deposits with banks.

(iii) Cash equivalents denote short term investments which can be realised easily within a short period of time, without much loss in value.

(iv) Cash flow analysis helps in assessing the liquidity and solvency of a business concern.

3. Briefly explain any three limitations of financial statements.

(i) Record of historical data:

⇨ Financial statements are prepared based on historical data.

⇨ They may not reflect the current position.

(ii) Ignore price level changes:

⇨ Adjustments for price level changes are not made in the financial statements.

⇨ Hence, financial statements may not reveal the current position.

(iii) Lack of consistency:

⇨ Different business concerns may use different accounting methods.

⇨ Hence, comparison between two business concerns becomes difficult.

4. Explain the steps involved in preparing comparative statement.

A comparative statement has five columns.

Column 1

- ⇨ In this column, particulars of items of income statement or balance sheet are written.

Column 2

- ⇨ Enter absolute amount of year 1.

Column 3

- ⇨ Enter absolute amount of year 2.

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.

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).

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

Format of Comparative Statement

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

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

★ Common-size statement can be prepared with three columns.

Column 1

⇨ In this column, particulars of items of income statement or balance sheet are written.

Column 2

⇨ Enter absolute amount.

Column 3

⇨ Choose a common base as 100.

Format of common-size statement

Particulars	Absolute amount	Percentage

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12 – Accountancy
Unit – 9 Ratio Analysis

I. Choose the Correct Answers

1. The mathematical expression that provides a measure of the relationship between two figures is called
(a) Conclusion **(b) Ratio** (c) Model (d) Decision

2. Current ratio indicates
(a) Ability to meet short term obligations (b) Efficiency of management
(c) Profitability (d) Long term solvency

3. Current assets excluding inventory and prepaid expenses is called
(a) Reserves (b) Tangible assets (c) Funds **(d) Quick assets**

4. Debt equity ratio is a measure of
(a) Short term solvency **(b) Long term solvency** (c) Profitability (d) Efficiency

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

List - I		List - II	
(i)	Current ratio	1.	Liquidity
(ii)	Net profit ratio	2.	Efficiency
(iii)	Debt-equity ratio	3.	Long term solvency
(iv)	Inventory turnover ratio	4.	Profitability

Codes	(i)	(ii)	(iii)	(iv)
(a)	**1**	**4**	**3**	**2**
(b)	3	2	4	1
(c)	4	3	2	1
(d)	1	2	3	4

6. To test the liquidity of a concern, which of the following ratios are useful?
   (i) Quick ratio
   (ii) Net profit ratio
   (iii) Debt-equity ratio
   (iv) Current ratio
   Select the correct answer using the codes given below:
   (a) (i) 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 operations ₹ 3,00,000; Inventory in 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

II Very short answer questions

1. What is meant by accounting ratios?

(i) Ratio is a mathematical expression of relationship between two related or interdependent items.

(ii) It is the numerical or quantitative relationship between two items.

(iii) It is calculated by dividing one item by the other related item.

(iv) When ratios are calculated on the basis of accounting information, these are called 'accounting ratios'.

2. What is quick ratio?

(i) Quick ratio gives the proportion of quick assets to current liabilities.

(ii) 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.

(iii) It is otherwise called liquid ratio or acid test ratio.

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

3. What is meant by debt equity ratio?

(i) Debt equity ratio is calculated to assess the long term solvency position of a business concern.

(ii) 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?

(i) Return on investment shows the proportion of net profit before interest and tax to capital employed (shareholders' funds and long term debts).

(ii) This ratio measures how efficiently the capital employed is used in the business.

(iii) It is an overall measure of profitability of a business concern.

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

5. State any two limitations of ratio analysis.

(i) Ratios are only means:

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

(ii) Accuracy of financial information:

⇨ The accuracy of a ratio depends on the accuracy of information taken from financial statements.

III Short answer questions

1. Explain the objectives of ratio analysis.

(i) To simplify accounting figures
(ii) To facilitate analysis of financial statements
(iii) To analyse the operational efficiency of a business
(iv) To help in budgeting and forecasting
(v) To facilitate intra firm and inter firm comparison of performance

2. What is inventory conversion period? How is it calculated?

(i) Inventory conversion period is the time taken to sell the inventory.
(ii) A shorter inventory conversion period indicates more efficiency in the management of inventory.

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

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

3. How is operating profit ascertained?

(i) Operating profit ratio gives the proportion of operating profit to revenue from operations.

(ii) Operating profit ratio is an indicator of operational efficiency of an organisation.

(iii) It may be computed as follows:

$$\text{Operating profit ratio} = \frac{\text{Operating profit}}{\text{Revenue from operations}} \times 100$$

(iv) Alternatively, it is calculated as under.
Operating profit ratio = 100 – Operating cost ratio
Operating profit = Revenue from operations – Operating cost

(v) A higher ratio indicates better profitability.

(vi) Greater the operating ratio, higher is the margin available for paying non-operating expenses.

4. State any three advantages of ratio analysis.

(i) Measuring financial solvency:

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

(ii) Facilitating investment decisions:

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

(iii) Analysing the profitability:

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

5. Bring out the limitations of ratio analysis.

(i) 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.

(ii) 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.

(iii) Non-availability of standards or norms:

- ⇨ Ratios will be meaningful only if they are compared with accepted standards or norms.
- ⇨ Only few financial ratios have universally recognised standards.
- ⇨ For other ratios, comparison with standards is not possible.

(iv) 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.

<u>Thank You</u>

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12 – Accountancy
Unit – 10 Computerised Accounting System - Tally

I. Choose the Correct Answers

1. Accounting report prepared according to the requirements of the user is
   (a) Routine accounting report **(b) Special purpose report**
   (c) Trial balance (d) Balance sheet

2. Function key F11 is used for
   (a) Company Features (b) Accounting vouchers
   (c) Company Configuration (d) None of these

3. Which submenu displays groups, ledgers and voucher types in Tally?
   (a) Inventory vouchers (b) Accounting vouchers
   (c) Company Info **(d) Account Info**

4. What are the predefined Ledger(s) in Tally?
   (i) Cash (ii) Profit & Loss A/c (iii) Capital A/c
   (a) Only (i) (b) Only (ii) **(c) Both (i) and (ii)** (d) Both (ii) and (iii)

5. Contra voucher is used for
   (a) Master entry **(b) Withdrawal of cash from bank for office use**
   (c) Reports (d) Credit purchase of assets

6. Which is not the default group in Tally?
   (a) Suspense account **(b) Outstanding expense**
   (c) Sales account (d) Investments

7. Salary account comes under which of the following head?
   (a) Direct Incomes (b) Direct Expenses
   (c) Indirect Incomes **(d) Indirect Expenses**

8. ₹ 25,000 withdrawn from bank for office use. In which voucher type, this transaction will be recorded
   (a) Contra Voucher (b) Receipt Voucher
   (c) Payment Voucher (d) Sales Voucher

9. In which voucher type credit purchase of furniture is recorded in Tally
   (a) Receipt voucher **(b) Journal voucher**
   (c) Purchase voucher (d) Payment voucher

10. Which of the following options is used to view Trial Balance from Gateway of Tally?
    (a) Gateway of Tally -> Reports -> Trial Balance
    (b) Gateway of Tally -> Trial Balance
    (c) Gateway of Tally -> Reports -> Display -> Trial Balance
    (d) None of these

II Very short answer questions

1. What is automated accounting system?

(i) Automated accounting is an approach to maintain up-to-date accounting records with the aid of accounting software.

(ii) 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?

(i) Accounting report is a compilation of accounting information that are derived from the accounting records of a business concern.

(ii) Accounting reports may be classified as routine reports and special purpose reports.

3. State any five accounting reports.

(a) Day books / Journal
(b) Ledger
(c) Trial balance
(d) Income statement
(e) Balance sheet
(f) Cash flow statement

4. What is Accounting Information System (AIS)?

(i) Accounting Information System (AIS) collects financial data, processes them and provides information to the various users.

(ii) To provide information AIS requires data from other information system that is manufacturing, marketing and human resources.

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

(i) In 2009, Tally Solutions introduced the software Tally.ERP 9.
(ii) The software offers comprehensive business management solution.
(iii) It maintains all books of accounts.
(iv) Different types of vouchers such as vouchers for receipt, payment, sales, purchases, etc., can be used for recording transactions.

<u>III Short answer questions</u>

1. Write a brief note on accounting vouchers.

(i) Voucher is a document which contains details of transactions.

(ii) Transactions are to be recorded through voucher entries.

(iii) Tally has a set of predefined vouchers such as Purchase, Sales, Payment, Receipt and Contra.

(iv) To view the list of voucher types:
Gateway of Tally > Masters > Accounts Info > Voucher Types > Display

★ Following are some of the major accounting vouchers used in an organisation:
⇨ Receipt Voucher
⇨ Payment Voucher
⇨ Contra Voucher
⇨ Purchase Voucher
⇨ Sales Voucher
⇨ Journal Voucher

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

(i) In Tally, to record transactions, the transactions are to be identified with the related ledger accounts.

(ii) Tally has two predefined ledgers, Cash and Profit & Loss A/c.

(iii) The user has to create various other ledgers based on their requirements.

(iv) To create ledger:
Gateway of Tally > Masters > Accounts Info > Ledgers > Single Ledger > Create

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

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

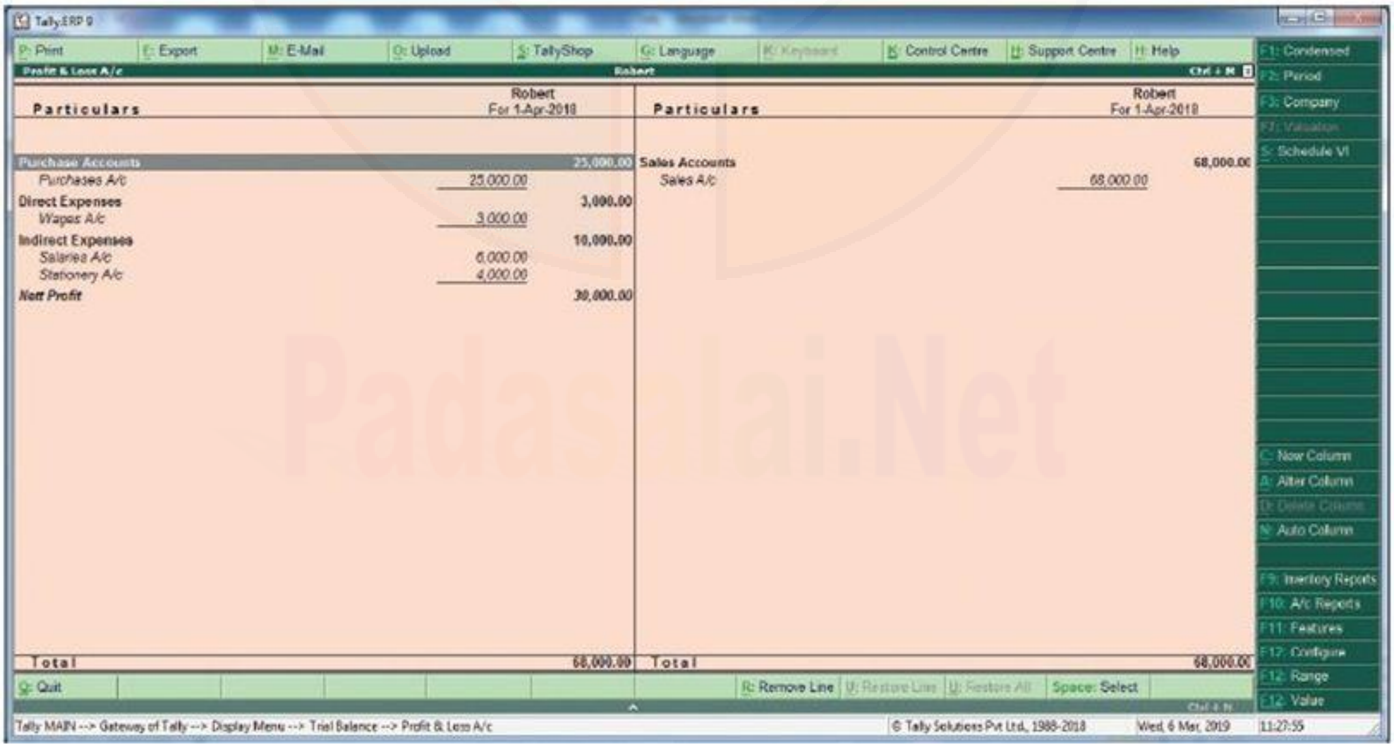
4. Explain how to view profit and loss statement in Tally.ERP 9.

To view Profit and Loss Account

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

(or)

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



5. Explain any five applications of computerised accounting system.

1. Maintaining accounting records:
   - ⇨ In CAS, accounting records can be maintained easily and efficiently for long time period.
   - ⇨ It facilitates fast and accurate retrieval of data and information.

2. Inventory management:
   - ⇨ CAS facilitates efficient management of inventory.
   - ⇨ 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.

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.

Thank You

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