ACCOUNTANCY

NAME : __________________________
REG NO : __________________________

2 MARK & 3 MARK STUDY MATERIAL

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PREPARED BY

P. VAHEESWARAN  M.COM., M.PHIL., DCA., B.ED.,
P.G. ASSISTANT OF COMMERCE & ACCOUNTANCY
VIVEKANANDA VIDYALAYA
PANNAIKADU PIRIVU

“Intelligence plus character – that is the goal of true education”
1. Choose the correct answer:

1. Net Profit is transferred from Profit and loss account to ______ account.

2. Closing stock is valued at Cost Price or ______ price whichever is lower.

3. Outstanding expenses are shown on the ______ side of the balance sheet.
   a). Assets    b). Liabilities    c). Credit

4. Prepaid expenses are shown on the ______ side of the balance sheet.

5. Income accrued but not received will be shown on the ______ side of the Balance sheet.
   a). Debit    b). Liabilities    c). Assets

6. Income received in advance will be shown on the ______ side of the Balance sheet.
   a). Liabilities    b). Assets    c). Credit

7. Interest on capital is debited in ______ account.

8. Interest on drawings is credited in ______ account.
   a). Trading Account    b). Profit and loss account    c). None of these

9. Interest on loan borrowed unpaid is shown on the ______ side of the Balance sheet.
   a). Assets    b). Liabilities    c). Credit

10. Depreciation is deducted from the concerned ______ in the Balance sheet.

11. Provision for Bad and Doubtful debts is deducted from ______ in the Balance sheet.

12. Provision for discount on creditors is deducted from ______ in the Balance sheet.

13. Debts which are not recoverable from Sundry debtors are termed as ______.
    a). Provision for debtors    b). Discount on debtors    c). Bad debts

14. Returns inwards are deducted from
    a) Purchases    b) Sales    c) Returns outward

15. The Profit and Loss account shows
    a) Financial position of the concern    b) Net profit or Net loss    c) Gross profit or Gross Loss

16. Rent outstanding is
    a) a liability    b) an asset    c) an income
17. Closing stock is shown in
   a) Profit and loss account   b) Trading account and Balance sheet   c) None of the above.

18. Opening stock is shown in
   a) Balance sheet   b) Profit and Loss account   c) Trading account

19. Gross Profit is transferred to
   a) Capital account   b) Profit and loss account   c) None of the above

20. Interest on capital is added to
   a) Expense A/c   b) Income A/c   c) Capital A/c

21. Interest on drawings is deducted from
   a) Income A/c   b) Capital A/c   c) Expense A/c

22. Outstanding interest on loan borrowed is to be added to
   a) Asset A/c   b) Income A/c   c) Loan A/c

23. All the items given in the adjustment will appear at _________ in the Final accounts.
   a) Three places   b) Two places   c) One Place

II. Questions Answer:

1. What is outstanding expense?
   Expenses which have been incurred but not yet paid during the accounting period for which the final accounts are being prepared are called as outstanding expenses.

2. What is prepaid expense?
   Expenses which have been paid in advance are called as prepaid (unexpired) expenses.

3. What is accrued income?
   Income which has been earned but not received during the accounting period is called as accrued income.

4. What is income received in advance?
   Income received during a particular accounting period for the work to be done in future period is called as income received in advance.

5. What is bad debt?
   Debts which cannot be recovered are called bad debts. It is a loss for the business.

6. Write notes on Provision for bad and Doubtful debts.
   * Sundry debtors figure is to be shown correctly in the Balance sheet provision for bad and doubtful debts must be adjusted.
   * This Provision for bad and doubtful debts is generally provided at a certain percentage on Debtors, based on past experience.

7. Write notes on Provision for discount on Debtors.
   ∙ To motivate the debtors to make prompt payments, cash discount may be allowed to them.
   ∙ After providing provision for bad and doubtful debts, the remaining debtors are called as good debtors.
They may pay their dues in time and avail themselves of the cash discount permissible. So a provision for discount on good debtors at a certain percentage may have to be created.

8. Write notes on Provision for discount on Creditors.
   - Similar to cash discount allowed to debtors, the firm may have a chance to receive the cash discount from the creditors for prompt payment.
   - Provision for discount on Creditors is calculated at a certain percentage on Sundry Creditors.

9. What is adjusting entry?
   - In a firm there will be a number of items, both expenses and incomes, which have to be adjusted.
   - If such items are not adjusted, the final accounts will not reveal the true and fair picture of the business performance.
   - All such items which need to be brought into books of account at the time of preparing final accounts are called “adjustments”.
   - Journal entries passed to effect the required adjustments are known as adjusting entries.

10. Write notes on

   a) Trading Account
      - Trading account shows the result of buying and selling of goods.
      - The difference between the selling price and cost price of the goods is the gross earning of the business concern.
      - Such gross earnings is called gross profit.

   b) Profit and loss account and
      - To earn net profit a trader has to incur many expenses apart from those spent for purchase and manufacturing of goods.
      - If such expenses are less than gross profit the result will be net profit.

   c). Balance sheet.
      - It is a statement showing the financial position of a business.
      - On the left hand side of the statement the liabilities and capital are shown
      - On the right hand side of the statement all the assets are shown.

“Education is not the filling of a pail, but the lighting of a fire”
CHAPTER - 2
ACCOUNTS FROM INCOMPLETE RECORDS (SINGLE ENTRY)

I. Choose the best answer:
1. Incomplete records are those records which are not kept under ______ system.
   a). Single entry       b). Double entry       c). None of these
2. Statement of affairs method is also called as ______ method.
3. ______ capital can be found by preparing a statement of affairs at the beginning of the year.
   a). Opening Capital   b). Closing Capital   c). Both a and b
4. A statement of affairs resembles a ______.
5. Closing capital can be found by preparing a statement of affairs at the ______ of the year.
   a). Opening          b). End              c). Centre
6. In ______ system, only personal and cash accounts are opened.
7. Credit purchase can be ascertained as the balancing figure in the ______.
   a). Total debtors a/c  b). Total Creditors a/c  c). None of these
8. The excess of assets over liabilities is ______.
9. The total assets of a proprietor are Rs.5,00,000. His liabilities Rs.3,50,000. Then his capital in
   the business is ______.
   a). Rs. 1,50,000       b). Rs. 8,50,000     c). Rs. 3,50,000
10. A firm has assets worth Rs.60,000 and capital Rs.45,000. Then its liabilities are ______.
    a). Rs. 1,05,000       b). Rs. 15,000       c). Rs. 45,000
11. Under the net worth method the basis for ascertaining the profit is
    a). the difference between the capital on two dates.
    b). the difference between the liabilities on two dates.
    c). the difference between the gross assets on two dates.
12. Incomplete records are generally used by
13. Credit sales is obtained from
    a). Bills Receivable account b). Total debtors account  c). Total creditors account
14. Single Entry System is
    a). a Scientific method       b). an Incomplete Double Entry System  c). None of the above.
15. The capital of a business is ascertained by preparing
II. Question and Answer:

1. **What is the meaning for incomplete records?**
   
   Single Entry System is an incomplete, inaccurate, unscientific and unsystematic system of bookkeeping. It maintains only personal and cash accounts. Real and nominal accounts are not maintained.

2. **Define Single Entry System.**
   
   “Single Entry System is a system of book-keeping in which as a rule, only records of cash and personal accounts are maintained. It is always incomplete double entry varying with circumstances”.

   - Kohler

3. **What are the features of Single Entry?**
   
   i). Suitable for sole traders and partnership firms:
   
   - The single entry system is suitable only for sole traders and partnership firms.
   - Companies cannot keep books on single entry system because of legal provisions.

   ii). Only personal accounts and cash accounts are kept:
   
   - In this system it is very common to keep only personal accounts and to avoid real and nominal accounts.

   iii). Lack of uniformity:
   
   - This system lacks uniformity as it is a mere adjustment of double entry system, according to the convenience of the individual.

   iv). **Profit only an estimate:**
   
   - Profit under this system is only an estimate.

   v). **Not accepted by Tax Authorities:**
   
   - Due to incompleteness, inaccuracy, and unsystematic nature, it is not accepted by tax authorities.

4. **What are the limitations of Single Entry System?**
   
   i). **Incomplete and unscientific method:**
   
   This system is incomplete, because real and nominal accounts are not prepared and also due to the fact that the debit and credit aspect of all transactions are not recorded.

   ii). **Performance of the business cannot be ascertained:**
   
   Trading, profit and loss account cannot be prepared and hence the gross profit, net profit and rate of net profit on sales cannot be known.

   iii). **True financial position cannot be ascertained:**
   
   It is very difficult to prepare balance sheet, so the true financial position cannot be ascertained.

   iv). **Unacceptable to tax authorities:**
   
   Tax authorities (income tax and sales tax) do not accept accounts prepared according to single entry system for computation of taxes.
v). Difficult to locate frauds:

It is difficult to locate frauds under this system and so employees may become dishonest and
negligent. It encourages misappropriation, fraud and carelessness.

5. What is net worth method?

☒ Net worth method also known as statement of affairs method or capital comparison method.
☒ It is adopted to find out profit or loss of the business, when accounts are kept under single entry
system, by comparing the capital between two dates.

6. What is conversion method?

☒ If it is desired to calculate profit by preparing Trading and Profit and Loss account under single
entry then it is called conversion method.

7. What is statement of affairs?

☒ When accounts are maintained under single entry system of accounting, the statement is prepared
to find out the capital of business is called “Statement of affairs”.
☒ A statement of affairs is like a balance sheet.
☒ The difference between assets and liabilities side represents capital.

8. What are the differences between single entry and Double Entry?

<table>
<thead>
<tr>
<th>S. No</th>
<th>Basics of Distinction</th>
<th>Double entry system</th>
<th>Single entry system</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Principle</td>
<td>For every debit there is a corresponding debit and vice versa.</td>
<td>Debit and credits do not agree.</td>
</tr>
<tr>
<td>2</td>
<td>Recording of transaction</td>
<td>Debit and credit aspects of all transactions are recorded.</td>
<td>Debit and credit aspects of all transactions are not recorded.</td>
</tr>
<tr>
<td>3</td>
<td>Nature of accounts maintained</td>
<td>Maintains complete record of personal, real and nominal accounts.</td>
<td>An incomplete record.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Only personal and cash account maintained.</td>
</tr>
<tr>
<td>4</td>
<td>Trial Balance</td>
<td>Arithmetical accuracy of the records can be checked by preparing a Trial Balance</td>
<td>Trial Balance cannot be prepared.</td>
</tr>
<tr>
<td>5</td>
<td>Suitability</td>
<td>It is suitable for all types of traders.</td>
<td>It is suitable for only small traders</td>
</tr>
</tbody>
</table>

9. Mention the procedure to calculate profit by statement of affairs method.

Step 1 → Ascertain opening capital:

A statement of affairs at the beginning of the year is prepared to find out the amount of capital in the
beginning.

A statement affairs is like a Balance sheet.

The difference between assets and liabilities side represents “Opening Capital”.

PREPARED BY MR. P. VAHEESWARAN M.COM., M.PHIL., DCA., B.ED
Format of Statement of Affairs

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry creditors</td>
<td>xxxxx</td>
<td>Cash in hand</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Bills payable</td>
<td>xxxxx</td>
<td>Cash at bank</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Outstanding expenses</td>
<td>xxxxx</td>
<td>Sundry debtors</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>xxxxx</td>
<td>Bills receivable</td>
<td>xxxxx</td>
</tr>
<tr>
<td><strong>Capital (bal.fig)</strong></td>
<td>xxxxx</td>
<td>Stock in trade</td>
<td>xxxxx</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prepaid expenses</td>
<td>xxxxx</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixed assets</td>
<td>xxxxx</td>
</tr>
<tr>
<td></td>
<td>xxxxx</td>
<td>xxxxx</td>
<td></td>
</tr>
</tbody>
</table>

Step 2 – Ascertainment Closing Capital:

Prepare a statement of affairs (after all adjustments*) at the end of the accounting period, to ascertain closing capital.

Step 3 → Add the amount of drawings (whether in cash or in kind) to the closing capital.

Step 4 → Deduct the amount of Additional Capital introduced, from the above, to get Adjusted capital.

Step 5 → Ascertainment profit or loss by deducting opening capital from the adjusted closing capital.

\[ \text{Adjusted closing capital} = \text{Closing capital} + \text{Drawings} - \text{Additional capital introduced during the year}. * \]

Adjustments: Depreciation, interest on capitals, interest on drawings, Provision for Bad debts etc.

10. Mention the procedure to calculate profit by conversion method.

Step 1 → Opening Statement of Affairs: Prepare statement of affairs in the beginning so as to calculate capital in the beginning.

Step 2 → Other Accounts: Then prepare (i) Total debtors account, and (ii) Total Creditors account, to find out credit sales, credit purchases, creditors or debtors balance either in the beginning or at the end.

Step 3 → Total sales and total purchase: After preparing these accounts, calculate

- Total sales, by adding cash sales and credit sales, and
- Total purchases by adding cash purchases and credit purchases.

Step 4 → Final Account: Now prepare Trading, Profit and Loss account and Balance Sheet.

@*@*@*@*@

“Just as a candle cannot burn without fire, men cannot live without a spiritual life”
CHAPTER 3

DEPRECIATION ACCOUNTING

1. Choose the correct answer: 

   I. All assets whose benefit is derived for a _______ period of time are called as Fixed Assets.
      a). Long  b). One  c). Three

   2. The estimated sale value of the asset at the end of its economic life is called as _______ value.

   3. _______ method of depreciation is calculated on the original cost of assets.
      a). Straight line  b). Witten down value  c). Annuity

   4. Under _______ method, depreciation is calculated on the book value of the asset each year.
      a). Annuity  b). Straight line  c). Witten down value

   5. _______ method of depreciation is used in the case of Lease.
      a). Depreciation fund  b). Annuity  c). Straight line

   6. Under insurance policy method, cash is paid by way of _______ every year.
      a). Discount  b). Premium  c). None of these

   7. _______ method of depreciation is suitable for special type of asset like Loose tools.

   8. Depreciation arises due to
      a). Wear and tear of the asset  b). Fall in the market value of asset  c). Fall in the value of money

   9. Under straight line method, rate of depreciation is calculated on
      a). Original cost  b). Written down value  c). Cost less scrap value

10. Under diminishing balance method, depreciation
      a). decreases every year  b). increases every year  c). Constant every year

11. The term depletion is used for
      a) Intangible assets  b) Fixed assets  c). Natural resources

12. If selling price is more than the book value of the asset on the date of sale, it is
      a) a loss  b) an income  c) a profit

13. If selling price is less than the book value of the asset it denotes
      a). Loss  b) capital profit  c) expenditure

14. Profit made on sale of fixed asset is debited to
      a). Profit and Loss account  b). Fixed Asset account  c). Depreciation account

15. Loss on sale of fixed asset appear on the
      a). credit side of Depreciation account  b). Debit side of fixed asset account
      c). credit side of fixed asset account

16. The amount of depreciation charged on machinery will be debited to
      a). Machinery account  b). Depreciation account  c). Cash account
17. Total amount of depreciation provided on the written down value method at the rate of 10% p.a. on Rs.10,000 for first three years will be
   a) Rs. 2,107  
   b) Rs. 2,710  
   c) Rs. 2,701

II. Other Questions:

1. Define Depreciation.
   Depreciation as “the gradual and permanent decrease in the value of an asset from any cause”.
   - Carter

2. What is Fixed Asset?
   * All assets whose benefit is derived for al long period of time, usually more than one year period are called fixed assets.
   * Examples: Machinery, Furniture, Land, Building,

3. What is residual value?
   ♥ It implies the value expected to be realized on its sale on the expiry of its useful life.
   ♥ This is otherwise known as scrap value or turn-in value.

4. What is obsolescence?
   When an asset becomes useless due to new inventions, improved techniques and technological advances, it is termed as obsolescence.

5. Write notes on ‘Effluxion of time’.
   When assets are exposed to forces of nature, like weather, wind, rain, etc., the value of such assets may decrease even if they are not put into any use.

6. What is straight line method of depreciation?
   Under this method, the same amount of depreciation is charged every year throughout the life of the asset.

7. Write notes on written down value method of depreciation.
   ✓ Under this method, depreciation is charged at a fixed percentage each year on the reducing balance (i.e., cost less depreciation) of asset.
   ✓ The amount of depreciation goes on decreasing every year.

8. What is Depreciation Fund Method of depreciation?
   ✓ Under this method, funds are made available for the replacement of asset at the end of its useful life.
   ✓ The depreciation remains the same year after year and is charged to Profit and Loss account every year through the creation of depreciation fund.
   ✓ The amount of annual depreciation is invested in good securities bearing interest at a specified rate.
9. What is Annuity method of depreciation?

- The annuity method considers that the business besides loosing the original cost of the asset in terms of depreciation and also looses interest.
- On the amount used for buying the asset.

10. What is insurance policy method of depreciation?

- According to this method, an Insurance policy is taken for the amount of the asset to be replaced.
- The amount of the policy is such that it is sufficient to replace the asset when it is worn out.
- A sum equal to the amount of depreciation is paid as premium every year.
- The amount goes on accumulating at a certain rate of interest and is received on maturity.
- The amount so received is used for the purchase of new asset, replacing the old one.

11. Write notes on revaluation method of depreciation.

- Under this method, the assets like loose tools are revalued at the end of the accounting period and the same is compared with the value of the asset at the beginning of the year.
- The difference is considered as depreciation.

12. Write the formula to calculate rate of depreciation under straight line method.

i). Amount of depreciation = \( \frac{\text{Total cost} - \text{Scrap value}}{\text{Estimated Life}} \)

ii) Rate of depreciation = \( \frac{\text{Amount of Depreciation}}{\text{Original Cost}} \times 100 \)

13. What are different methods of providing depreciation?

- Straight line method
- Written down value method
- Annuity method.
- Depreciation Fund method.
- Insurance Policy method.
- Revaluation method

14. What are the reasons for providing depreciation?

i). To ascertain correct profit / loss:

For proper matching of cost with revenues, it is necessary to charge depreciation against revenue in each accounting year, to calculate the correct net profit or net loss.

ii). To present a true and fair view of the financial position:

If the amount of depreciation is not provided on fixed assets in the books of account, the value of fixed assets will be shown at a higher value than its real value in the balance sheet.

iii). To ascertain the real cost of production:

For ascertaining the real cost of production, it is necessary to provide depreciation.
iv). To comply with legal requirements:

As per Section 205(1) of the Companies Act 1956, it is compulsory for companies to provide depreciation on fixed assets before it declares dividend.

v). To replace assets:

Depreciation is provided to replace the assets when it becomes useless.

15. **What are the causes of depreciation?**

**I. Internal Causes:**

i). Wear and tear:

- Wear and tear is an important cause of depreciation in case of tangible fixed asset.
- It is due to use of the asset.

ii). Disuse:

When a machine is kept continuously idle, it becomes potentially less useful.

iii). Maintenance:

The value of machine deteriorates rapidly because of lack of proper maintenance.

iv). Depletion:

It refers to the physical deterioration by the exhaustion of natural resources eg., mines, quarries, oil wells etc.

**II. External Causes:**

i. Obsolescence:

The old asset will become obsolete (useless) due to new inventions, improved techniques and technological advancement.

ii. Effluxion of time:

When assets are exposed to forces of nature, like weather, wind, rain, etc., the value of such assets may decrease even if they are not put into any use.

iii. Time Factor:

Lease, copy-right, patents are acquired for a fixed period of time. On the expiry of the fixed period of time, the assets cease to exist.

16. **What are merits and demerits of straight line method of depreciation?**

a). Merits:

i). **Simplicity:** It is very simple and easy to understand.

ii). **Easy to calculate:** It is easy to calculate the amount and rate of depreciation.

iii). **Assets can be completely written off:** Under this method, the book value of the asset becomes zero or equal to its scrap value at the expiry of its useful life.

b). Demerits:

The amount of depreciation is same in all the years, although the usefulness of the machine to the business is more in the initial years than in the later years.
17. What are merits and demerits of written down value method?

a). Merits:
   
i). Uniform effect on the Profit and Loss account of different years:
       The total charge remains almost uniform year after year, since in earlier years the amount of
depreciation is more and the amount of repairs and renewals is less, whereas in later years the amount
of depreciation is less and the amount of repairs and renewals is more.

ii). Recognized by the Income Tax authorities:
       This method is recognized by the Income Tax authorities

iii). Logical Method:
       It is a logical method as the depreciation is calculated on the diminished balance every year.

b). Demerits:
       It is very difficult to determine the rate by which the value of asset could be written down to zero.

18. What are the factors determining the amount of depreciation?

i). Original cost of the asset:
       It implies the cost incurred on its acquisition, installation, commissioning and for additions or
improvements thereof which are of capital nature

ii). Estimated life:
       It implies the period over which an asset is expected to be used.

iii). Residual value:
       It implies the value expected to be realized on its sale on the expiry of its useful life. This is
otherwise known as scrap value or turn-in value.

@*@@*@@@*@@@
CHAPTER 4

RATIO ANALYSIS

I. Choose the correct answer:

1. _______ is a mathematical relationship between two items expressed in quantitative form.
   a). Ratio   b). Cheque   c). None of these

2. Ratio helps in _______ forecasting.
   a). Management   b). Financial   c). None of these

3. _______ Ratio measures the firm ability to pay off its current dues.

4. _______ are those assets which are easily convertible into cash.
   a). Current Assets   b). Fixed Assets   c). None of these

5. Bank overdraft is an example of _______ liability.
   a). Current   b). Liquid   c). Short Term

6. Liquid ratio is used to assess the firm’s _______ liquidity.
   a). Short Term   b). Long Term   c). None of these

7. Liquid assets mean current assets less _______ and _______.
   a). Stock, Prepaid expenses   b). Stock, Sundry Debtors   c). None of these

8. _______ ratio is modified form of liquid ratio.
   a). Liquid   b). Absolute Liquid   c). None of these

9. Liquid liabilities mean current liabilities less _______.

10. Proprietary ratio shows the relationship between _______ and total tangible assets.

11. Gross profit can be ascertained by deducting cost of goods sold from _______.

12. Stock turnover ratio is otherwise called as _______.

13. 100% – Operating profit ratio is equal to _______ ratio.

14. When total sales is Rs.2,00,000, cash sales is Rs.65,000, then credit sales will be Rs._______.
    a). 135000   b). 265000   c). 65000

15. Liquid ratio is otherwise known as _______.

16. All solvency ratios are expressed in terms of
    a) Proportion   b) Times   c) Percentage

17. All activity ratios are expressed in terms of
    a) Proportion   b) Times   c) Percentage
18. All profitability ratios are expressed in terms of
   a) Proportion  b) Times  c) Percentage

19. Liquid liabilities means
   a) Current liabilities  b) Current liabilities – Bank overdraft  c) Current liabilities + Bank overdraft

20. Shareholders’ funds includes
   a). Equity share capital, Preference share capital, Reserves & Surplus
   b). Loans from banks and financial institutions
   c). Equity share capital, Preference share capital, Reserves & Surplus and Loans from banks and financial institutions.

21. Which of the following option is correct
   a). Tangible Assets = Land + Building + Furniture
   b). Tangible Assets = Land + Building + Goodwill
   c). Tangible Assets = Land + Furniture + Goodwill + Copy right

22. Gross profit ratio establishes the relationship between
   a). Gross profit & Total sales  b). Gross profit & Credit sales  c). Gross profit & Cash sales

23. Opening stock is equal to Rs.10,000, Purchase Rs.2,00,000 and closing stock is Rs.5,000. Cost of goods sold is equal to
   a). Rs. 2,15,000  b) Rs. 2,10,000  c). Rs. 2,05,000

24. Operating ratio is equal to
   a). 100 – Operating profit ratio  b). 100 + Operating profit ratio  c). Operating profit ratio

25. Total sales is Rs.3,40,000 and the gross profit made is Rs.1,40,000. The cost of goods sold will be
   a) Rs.2,00,000  b) Rs. 4,80,000  c) Rs. 3,40,000

26. Total sales of a business concern is Rs.8,75,000. If cash sales is Rs.3,75,000, then credit sales will be
   a) Rs.12,50,000  b) Rs.5,00,000  c) 12,00,000

27. Cost of goods sold is Rs.4,00,000 and average stock is Rs.80,000. Stock turnover ratio will be
   a) 5 times  b) 4 times  c) 7 times

28. Current assets of a business concern is Rs.60,000 and current liabilities are Rs.30,000. Current ratio will be
   a) 1 : 2  b) 1 : 1  c) 2 : 1

29. Equity share capital is Rs.2,00,000, Reserves & surplus is Rs.30,000. Debenture Rs.40,000 and the shareholders’ funds will be
   a). 2,00,000  b). 2,30,000  c). 1,90,000

II. Other Questions:

1. What are the significances of financial statement analysis?
   ♦ Judging the earning capacity or profitability of a business concern.
   ♦ Analyzing the short term and long term solvency of the business concern.
   ♦ Helps in making comparative studies between various firms.
   ♦ Assists in preparing budgets.
What are the limitations of financial statement analysis?

- It analyses what has happened till date and does not reflect the future.
- It ignores price level changes.
- Financial analysis takes into consideration only monetary matters, qualitative aspects are ignored.
- The conclusions of the analysis are based on the correctness of the financial statements.
- Analysis is a means to an end and not the end itself.

3. Explain current ratio.

- This ratio is used to assess the firm’s ability to meet its current liabilities. The relationship of current assets to current liabilities is known as **current ratio**.
- **Current Ratio = Current Assets / Current Liabilities**

4. What is the need for calculating Debt – Equity ratio?

- This ratio helps to ascertain the soundness of the long term financial position of the concern. It indicates the proportion between total long term debt and shareholders’ funds.
- **Debt Equity Ratio = Total Long term debt / Shareholders Fund**

5. What are profitability ratios?

Efficiency of a business is measured by profitability. Profitability ratio measures the profit earning capacity of the business concern.

6. What are operating expenses?

- Operating expenses include administration, selling and distribution expenses.
- Financial expenses like interest on loan are excluded for this purpose.

7. Write notes on operating ratio.

- This ratio determines the operating efficiency of the business concern.
- **Operating ratio** measures the amount of expenditure incurred in production, sales and distribution of output.
- The relationship between Operating cost to Sales is known as Operating Ratio.

8. What are activity ratios?

- Capital turnover ratio
- Fixed assets turnover ratio
- Stock turnover ratio
- Debtors turnover ratio
- Creditors turnover ratio

9. What is debtors turnover ratio?

This establishes the relationship between credit sales and average accounts receivable. Debtors turnover ratio indicates the efficiency of the business concern towards the collection of amount due from debtors.

**Debtors Turnover Ratio = Credit Sales /Average Account Receivable**
10. What is accounts receivable?

Accounts receivable includes sundry debtors and bills receivable.

Average Accounts Receivable =

\[
\frac{\text{Opening (debtors + bills receivable)} + \text{Closing (debtors + bills receivable)}}{2}
\]

11. What is account payable?

Accounts payable include sundry creditors and bills payable.

Average Accounts Receivable =

\[
\frac{\text{Opening (creditors + bills payable)} + \text{Closing (creditors + bills payable)}}{2}
\]

12. Explain solvency ratios.

Solvency refers to the firm’s ability to meet its long term indebtedness. Solvency ratio studies the firm’s ability to meet its long term obligations. The following are the important solvency ratios:

- Debt-Equity Ratio
- Proprietary Ratio

13. Write notes on capital turnover ratio.

This shows the number of times the capital has been rotated in the process of carrying on business. Efficient utilization of capital would lead to higher profitability.

The relationship between Sales and Capital employed is known as Capital Turnover Ratio.

14. What are current assets?

- Current Assets are those assets, which are easily convertible into cash within one year.
- Cash in hand, Cash at bank, Sundry debtors, Bills receivable, Short term investment or Marketable securities, Stock and Prepaid expenses.

15. Write notes on net profit ratio.

- This ratio determines the overall efficiency of the business.
- The relationship of Net Profit to Sales is known as net profit ratio.
- Net Profit Ratio = Net Profit / Sales x 100.

"Education is the most powerful weapon which you can use to change the world"
CHAPTER- 5
CASH BUDGET

I. Choose the best answer:
1. The term ‘cash’ in cash budget stands for __________ and __________.
2. Cash budget is also called as __________.
3. There are __________ methods by which a cash budget is prepared.
   a). Two b). Three c). Four
4. The opening balance of cash in April is Rs.1250. Total receipts for the month are Rs.4300 and total payments amounted to Rs.3750. Opening balance of cash in May will be __________
5. Cash budget is a useful tool for __________.
   a). Accounting Planning b). Financial Planning c). None of these
6. The closing balance of one month will be the __________ balance of the next month.
7. Budget is an estimate relating to __________ period.
   a) Future b) Current c) Past
8. Budget is expressed in terms of
   a) Money b) Physical units c) Money & Physical units
9. Cash budget deals with
   a). Estimated cash receipts b). Estimated cash payments
      c). Estimated cash receipts & Estimated cash payments
10. Purchase of Furniture is an example for
    a) Cash receipts b) Cash payments c) None of the above
11. The opening balance of cash in January is Rs.9,000. The estimated receipts are Rs.14,000 and the estimated payments are Rs.10,000. The opening balance of cash in February will be
    a) Rs. 21,000 b) Rs. 11,000 c) Rs. 13,000

II. Question Answer:
1. Define Budget
   Longman’s Dictionary of Business English defines a budget as “an account of the probable future income and expenditure”.

2. What are the characteristics of a budget?
   ♦ It is prepared in advance and relates to a future period.
   ♦ It is expressed in terms of money and/or physical units.
   ♦ It is a mean to achieve the planned objective.
3. Write notes on Cash budget

Cash budget is one of the most important budgets prepared by a business concern as every transaction directly or indirectly deals with cash. **Cash budget** shows the estimate of cash receipts and cash payments from all sources over a specific period. This is also called as ‘**Finance Budget**’.

4. **What are the advantages of cash budget?**

- It helps in maintaining an adequate cash balance.
- It provides the following useful information to the management
- To determine the future cash needs of a business concern
- To plan for financing those needs and
- To have control over cash balance of the business concern.

5. **List the methods that can be used for the preparation of the cash budget.**

- Receipts and Payments Method
- Adjusted Profit and Loss Account Method or Cash Flow Method
- Balance Sheet Method

6. **Give few examples for cash receipts?**

- Cash sales
- Cash receivable from customers
- Business receipts like interest, commission, dividend etc
- Sale of assets
- Proceeds from issue of shares/debentures
- Loans borrowed

7. **Give few examples for cash payments?**

- Cash purchases
- Cash payable to suppliers
- Business expenses like wages, office expenses, selling expenses, etc.
- Payment of interest, income tax, dividend etc.
- Purchase of assets
- Redemption of shares/debentures
- Repayment of loans

8. **Enumerate the steps in the preparation of cash budget.**

   **Step 1**  Take opening cash balance
   **Step 2**  Add the estimated total cash receipts for the month
   **Step 3**  Calculate the total cash available for the month
   **Step 4**  Less the estimated total cash payments during the month
   **Step 5**  Calculate the closing cash balance.
CHAPTER - 6

PARTNERSHIP ACCOUNTS - BASIC CONCEPTS

1. Choose the correct answer:

1. A sole trader business is owned and managed by ________ person.
   a). One    b). Two    c). More than 5

2. Indian Partnership Act was enacted in the year ________.

3. Mutual and ________ agency is the essence of a partnership.
   a). Agreement    b). Implied    c). None of these

4. The profits and losses of the business will be shared among the partners in the ________ ratio.

5. Under fluctuating capital method, profit or loss in a year, will be transferred to the respective ________ accounts.

6. The capital accounts of partners may be ________ or fluctuating.

7. Under ________ capital arrangement, current accounts will not be maintained.
   a). Fixed    b). Fluctuating    c). Both (a) and (b)

8. The debit balance of the current account, will be shown in the ________ side of the balance sheet.

9. Interest on partners’ capital is allowed, only when the ________ specifically provides for it.
   a). Partnership Act    b). Partnership Agreement    c). None of these

10. Money lent to the business by a partner is credited to his ________ account and not his capital account.
    a). Capital    b). Drawings    c). Loan

11. Interest on partners’ loan should be paid, even if there is no ________ in a year.
    a). Capital    b). Loan    c). Drawings

12. Goodwill is an ________ asset.
    a). Tangible    b). Intangible    c). Fixed

13. The excess of average profit over normal profit is ________.

14. In the absence of partnership deed, no interest is to be charged on ________.
    a). Drawings    b). Capital    c). Loan

15. A partnership can be formed only for a ________ business.

16. The persons who entered into partnership are collectively known as ________.
17. The minimum number of persons in a partnership firm is
   a) one    b) two    c) seven

18. In a partnership business, agreement is
   a) compulsory   b) optional   c) not necessary

19. In a partnership, partners share their profits and losses in ______ ratio
   a) their capital  b) equal   c) agreed

20. Under fixed capital system, the profits and losses of partners will be transferred to their ____ account
   a) current b) drawings c) capital

21. Interest on capital is calculated on the
   a) Opening Capital   b) Closing Capital   c) Average Capital

22. Current accounts for partners will be opened under
   a) Fixed capital method b) Fluctuating capital method
      c) Either fixed capital method or fluctuating capital method

23. In the absence of an agreement profits and losses are divided
   a) in the ratio of capitals    b) in the ratio of time devoted by each partner    c) equally

24. X and Y are partners sharing the profits and losses in the ratio of 2:3 with capitals of Rs.1,20,000 and Rs.60,000 respectively. Profits for the year are Rs.9,000. If the partnership deed is silent as to interest on capital. Show how profit is shared among X and Y.
   a) Profit : X - Rs. 6,000; Y - Rs.3,000   b) Profit : X - Rs. 3,600; Y - Rs.5,400
      c) Profit : X - Rs. 3,000; Y - Rs.6,000

25. Where a partner is entitled to interest on capital such interest will be payable,
   a) Only out of profits   b) Only out of capital   c) Out of profits or out of capital

26. In the absence of partnership deed, partners shall
   a) be paid salaries   b) not to be paid salaries
      c) paid salaries to those who work for the firm

27. Under fixed capital method salary payable to a partner is recorded
   a) in Current Account b) in Capital Account c) either in Current Account or Capital Account.

28. If a firm is maintaining both ‘Capital Accounts’ and ‘Current Accounts’ of the partners A and B.
    Additional capital introduced by B will be recorded in
   a) B’s Current Account b) B’s Capital Account
      c) either B’s Capital Account or Current Account

II. Question Answer:

1. Define Partnership.

   The Indian Partnership Act 1932, Section 4, defines partnership 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 Drawings?

- A drawing is the amount withdrawn in cash or in kind, for personal purposes.
- A drawings account is opened in the name of each partner and the drawings are debited to this account.

3. What is Goodwill?

- Goodwill is the value of the reputation of the firm.
- Goodwill is the present value of firm’s anticipated excess earnings in future.
- It is an intangible asset but not a fictitious asset.

4. What is Average profit?

- Average Profit is divided by output. It is an approach used to identify the profit margin that is achieved on each unit of a product that is produced or sold.
- Average Profit = Total Profit / No. of Years

5. What is Super profit?

- The excess of average profit over normal profit is called super profit.

6. 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 changes every year.

7. What is Profit and Loss Appropriation Account?

- This merely an extension of the profit and loss account.
- It is prepared to show how net profit has been distributed among the partners.
- This account will show the amount of profit or loss shall be distributed among partners in the agreed ratio.

8. What are the features of a partnership?

i). An association of two or more persons:

- To form a partnership, there must be at least two persons.
- Regarding the maximum number of persons, it is limited to 10 in banking business and 20 in other business.

ii). Agreement between the Partners:

- The relationship among the partners is established by an agreement. Such agreement forms the basis of their mutual relationship.

iii). Profit sharing:

- The agreement between the partners must be to share the profits or losses of the business.

iv). Lawful business:

- The agreement should be for carrying on some legal business to make profit.
v). Business carried on by all or any of them acting for all:

- Partnership business must be carried on by all or any of them acting for all.
- Mutual and implied agency is the essence of partnership.

9. Explain the methods by which the partners’ capital accounts are maintained.

- In partnership firm, the transactions relating to partners are recorded in their respective capital accounts.
- Normally, each partner’s capital account is prepared separately.
- There are two methods partners can be maintained.
  
  These are:

  - Fluctuating Capital method
  - Fixed Capital method.

i). Fluctuating Capital method:

- Under the fluctuating capital method, only one account, viz., the capital account for each partner, is maintained.
- It records all adjustments relating to drawings, interest on capital, interest on drawings, salary and share of profit or loss in the capital account itself.

ii). Fixed Capital Method:

Under this method, two accounts are maintained for each partner viz.,

- Capital account
- Current account.

  - The **Capital Account** will continue to show the same balance from year to year unless some amount of capital is introduced or withdrawn.
  - 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 changes every year.

10. In the absence of Partnership Deed, how are the following items dealt in the books of accounts of a firm?

a) Interest on Capital:

No interest is allowed on capitals of the partners. If as per the partnership deed interest will be paid only when there is profit. If a loss no interest will be paid

b) Interest on drawings:

No interest will be charged on drawings made by the partners.

c) Salaries to partners:

No partner is entitled to salary from the firm, unless the partnership deed provides for it.

d) Commission to partners:

No partner is entitled to commission from the firm, unless the partnership deed provides for it.
e) Interest on partners loan:
   If any partner apart from his share capital advances money to the firm as loan he is entitled to interest on such amount at the rate of six % per annum.

f) Profit sharing ratio
   The partners shall share the profit of the firm equally irrespective of their capital contribution.

11. What are the differences between fixed capital account and fluctuating capital account?

<table>
<thead>
<tr>
<th>S.no</th>
<th>Basic of Distinction</th>
<th>Fixed Capital Method</th>
<th>Fluctuating Capital Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Change in capital</td>
<td>The capital normally remains unchanged except under special circumstances.</td>
<td>The capital is changing from period to period</td>
</tr>
<tr>
<td>2</td>
<td>Number of Accounts</td>
<td>Each partner has two accounts, namely, Capital Account and Current Account.</td>
<td>Each partner has only one account i.e., Capital Account.</td>
</tr>
<tr>
<td>3</td>
<td>Balance</td>
<td>Capital Account shows always a credit balance. Current account may sometimes show debit or credit balance.</td>
<td>Capital Account shows always a credit balance.</td>
</tr>
<tr>
<td>4</td>
<td>Adjustments</td>
<td>All adjustments relating to partners are recorded in the Current Accounts.</td>
<td>All adjustments relating to partners are recorded directly in the Capital Accounts itself.</td>
</tr>
</tbody>
</table>

12. What are the factors affecting goodwill?

- **Location:**
  
  If the business is located in a prominent place, its value will be more.

- **Efficient management:**
  
  If the management is capable, the firm will earn more profits and that will raise the firm’s value.

- **Competition:**
  
  When there is no competition or competition is negligible, the value of those businesses will be high.

- **Advantage of patents:**
  
  Possession of trademarks, patents or copyrights will increase the firm’s value.

- **Time:**
  
  A business establishes reputation in course of time which is running for long period on profitable line.

There are three methods of valuation of goodwill. They are:

- Average Profit method
- Super Profit method
- Capitalization method

a) Average profit method:

In this method, past profits of a number of years are taken into account. Such profits are added and the average profit is found out. The average profit is multiplied by a certain number of years to arrive at the value of goodwill.

b) Super Profit method:

The excess of average profit over normal profit is called super profit. The goodwill under the Super profits method is calculated by multiplying the super profits by certain number of years purchase.

“Don’t let what you cannot do interfere with what you can do”
PARTNERSHIP ACCOUNTS - ADMISSION

1. In the event of admission of a new partner, legally there is ________ of old partnership.
   a). Dissolution   b). Indeed   c). None of these

2. At the time of admission of a new partner, ________ profit ratio should be found out.
   a). Old   b). New   c). Both (a) and (b)

3. At the time of admission of a new partner, ________ of assets and liabilities should be taken up.

4. When the value of an asset increases, it results in ________.

5. When an unrecorded liabilities is brought into books, it results in ________.

6. The balance of revaluation account shows ________ on revaluation.
   a). Profit   b). Loss   c). Profit or Loss

7. The revaluation profit or loss is transferred to the old partners’ capital accounts, in their ________.

8. The difference between old profit sharing ratio and new profit sharing ratio at time of admission is ________ ratio.

   a). Assets   b). Liabilities   c). Both (a) and (b)

10. At the time of admission, when goodwill is raised, the old partners capital account will be credited in the ________ ratio.
    a). Old Profit Sharing   b). New Profit Sharing   c). Equal

11. The partner admitted into partnership firm acquires two rights i.e., right to share in the ________ of the partnership and right to share in the ________.

12. The new profit sharing ratio will be determined by how the new partner acquires is from the old partners.

13. Under ________ goodwill account is raised by crediting the old partner’s capital accounts in the old profit sharing ratio.

14. When A and B sharing profits and losses in the ratio of 3:2, they admit C as a partner giving him 1/3 share of profits. This will be given by A and B.
    a) Equally   b) In the ratio of their capitals   c) In the ratio of their profits.
15. In admission, profit from revaluation of assets and liabilities will be transferred to the capital accounts of the old partners in the  
   a) Old profit sharing ratio   b) Sacrifice ratio   c) New profit sharing ratio  

16. If new share of the incoming partner is given without mentioning the details of the sacrifice made by the old partners then, the presumption is that old partners sacrifice in the  
   a). Old profit sharing ratio   b) Gaining ratio   c) Capital ratio  

17. In order to maintain fair dealings, at the time of admission, it is necessary to revalue assets and liabilities of the firm to their ________.  
   a) cost price   b) cost price less depreciation   c) true value  

18. On admission of a partner if goodwill account is to be raised this should be debited to  
   a) Partners’ capital account   b) Goodwill account   c) Revaluation account  

19. When A and B sharing profits and losses in the ration 3:2, admit C as a partner giving him 1/5 share of profits. This will be given by A and B  
   a) Equally   b) in their capitals ratio   c) in their profit sharing ratio  

20. On admission of a new partner, increase in value of assets is debited to  
   a) Asset account   b) Profit & Loss adjustment account   c) Old partners capital account  

21. On admission of a new partner balance of General Reserve Account should be transferred to the capital account of  
   a) all partners in their new profit sharing ratio   
   b) old partners in their old profit sharing ratio   
   c) old partners in their new profit sharing ratio  

22. The old partners share all the accumulated profits and reserves in their  
   a) new profit sharing ratio   b) old profit sharing ratio   c) capital ratio  

23. The reconstitution of the partnership requires a revision of the ______ of the existing partners  
   a) Profit sharing ratio   b) Capital ratio   c) Sacrificing ratio  

24. _________ ratio is computed at the time of admission of a new partner  
   a) Gaining ratio   b) Capital ratio   c) Sacrificing ratio  

II. Other Questions:  

1. What is meant by admission of a partner?  
   ✓ A Partnership firm suffering from shortage of funds or administrative in capabilities may decide to admit a partner.  
   ✓ Admission of a partner is one of the modes of reconstituting the firm  

2. Who is an incoming partner?  
   A person who is admitted to the firm is known as an incoming or a new partner.
3. What are the adjustments to be made in connection with admission?

- Recording the Capital of a new partner
- Calculation of New Profit Sharing ratio and Sacrificing ratio
- Revaluation of assets and liabilities
- Transfer of Undistributed Profit or loss
- Transfer of Accumulated reserves
- Treatment of Goodwill

4. What is new profit ratio on admission of a partner?

- The ratio in which all partners share the future profits and losses is known as the new profit sharing ratio.
- New share = Old share – Sacrifice

5. What is Sacrifice Ratio?

- The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the sacrificing ratio.
- Sacrificing ratio = Old profit sharing ratio – New profit sharing ratio
- Sacrifice = Old share – New share

6. What is revaluation account?

- Revaluation is the valuation of assets and liabilities at the time of reconstitution of the partnership firm.
- At the time of admission of a partner, the assets and liabilities are revalued.
- The revaluation effect will be given in an account is called Revaluation Account

7. Why revaluation account is to be prepared?

- At the time of admission of a partner the assets and liabilities are revalued so that the profit and loss arising on account of such revaluation may be adjusted in the old partners capital accounts in their old profit sharing ratio.
- For this purpose revaluation account is opened.

8. What are the entries for Revaluation of Assets and Liabilities of a firm in the event of admission of a partner?

For Profit Items:  
1) Increase in the value of Assets,  
2) Unrecorded Assets recorded  
3) Decrease in the amount of Liabilities

<table>
<thead>
<tr>
<th>Concerned Assets A/c</th>
<th>Dr</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned Liabilities A/c</td>
<td>Dr</td>
<td>xxx</td>
</tr>
<tr>
<td>To Revaluation A/c</td>
<td></td>
<td>xxx</td>
</tr>
</tbody>
</table>
For Loss Items:  
   i). Decrease in the value of Assets  
   ii). Increase in the amount of Liabilities  
   iii). Unrecorded Liabilities recorded  
   iv). New Liabilities recorded

Revaluation A/c  
Dr xxx  
To Concerned Assets A/c xxx  
To Concerned Liabilities A/c xxx

To Transfer Profit or Loss on Revaluation  
da). Profit: 
Revaluation A/c  
Dr xxx  
To Partner’s Capital xxx  
b). Loss: 
Partner’s Capital Dr xxx  
To Revaluation A/c xxx

9. How will you treat the undistributed profits and losses at the time of admission of a partner?  
   ➔ Sometimes, the balance sheet of the partnership firm may show undistributed profits in the form of profit and loss account in the liabilities side.  
   ➔ The undistributed loss in the business is generally shown at the assets side of the old Balance Sheet.  
   ➔ The new partner is not entitled to have any share in the undistributed profit or loss.

10. What is accumulated reserve?  
   Sometimes, Partners of the firm, may set aside a portion or percentage of the profit earned to meet the unexpected or unforeseen losses arise in future in the name of Reserve, General Reserve, Reserve Fund, Contingency Reserve etc.

11. What is Revaluation Method of Goodwill?  
   ♥ Under revaluation method of goodwill, goodwill does not appear in the given balance sheet as an asset.  
   ♥ But of course it exits in the firm. It is not yet recorded in its books.  
   ♥ A goodwill account is raised in the firm’s book and cash is not taken from the new partner for goodwill.

@*@@*@@*@@*@@*@@*@@*

"No matter what people tell you, words and ideas can change the world"
CHAPTER – 8
PARTNERSHIP ACCOUNTS – RETIREMENT

1. Choose the best answer:

1. The retiring partner should be paid off or the amount due to him, will be treated as his ______ to the firm.
   a). Cash  b). Loan  c). None of these

2. At the time of retirement of partners, the existing partners stand to ______.
   a). Gain  b). Loss  c). Income

3. If the value of liabilities decrease, it results in ______ item.
   a). Profit  b). Loss  c). Expenses

4. At the time of retirement, the increase in the value of goodwill will be transferred to the ______ side of the capital accounts of all the partners.
   a). Debit  b). Credit  c). Both

5. At the time of retirement, the profit on revaluation of assets and liabilities will be transferred to the ______ side of the capital accounts of all the partners.
   a). Debit  b). Credit  c). Both

6. At the time of retirement, the revaluation profits of business will be shared by ______ partners.
   a). Old  b). New  c). All

7. In the absence of any specific agreement between the partners, partners loan to the firms will carry an interest at the rate of ______ percentage.
   a). 3%  b). 6%  c). 10%

8. The accumulated reserves will be transferred to the old partners Capital account in the ______ ratio at the time of his retirement.

9. The amount due to the retiring partner is either ______ or is paid in ______.

10. ______ is calculated to determine the amount of compensation to be paid by each of the continuing partners to the outgoing partners.

11. A, B and C shares profit as 1/2 to A, 1/3 to B and 1/6 to C. If B retires then, the new profit sharing ratio is ______.
    a). 3:1  b). 1:3  c). 1:1

12. Sacrificing ratio is the ratio in which the old partners (existing) have agreed to sacrifice their ______ in favour of ______.

13. At the time of retirement of a partner, calculation of new profit ratio is ______.
    a) not necessary  b) necessary  c) optional

14. Undistributed profits and losses transferred to all the partners account at the time of retirement of a partner.
    a) should be  b) should not be  c) may be
15. At the time of retirement Balance sheet items like Profit & Loss account and General Reserve must be transferred to
   a) Revaluation A/c   b) Partner’s Capital A/c    c) None of the above

16. If the goodwill account is raised for Rs.30,000, the amount is debited to:
   a) The capital accounts of partners   b) Goodwill Account   c) Cash Account

17. _______ ratio is calculated by taking out the difference between new profit sharing ratio and old profit sharing ratio.
   a) Gaining   b) Capital   c) Sacrifice

18. On retirement of a partner goodwill amount is credited to the account of
   a) only retiring partner   b) all partners including retiring partner   c) only remaining partner

19. A, B and C are sharing profits in the ratio of 2/5 : 2/5 : 1/5. C retired from business and his share was purchased equally by A and B. Then new profit sharing ratio shall be

20. When the amount due to an outgoing partner is not paid immediately, then it is transferred to
   a) Capital A/c   b) Loan A/c   c) Cash A/c

21. If the amount due to the outgoing partner is transferred to loan account then he is entitled to interest at _____ until it is paid out.
   a) 9%   b) 5%   c) 6%

II. Other Questions:

1. What do you mean by retirement of a partner?
   When a partner one who is decided to retire from the firm because of old age, ill health, etc is called retirement of partners.

2. Who is an outgoing partner?
   A person who is retired from the firm is known as an outgoing partner or a retiring partner.

3. How can a partner retire from the firm?
   ✔ With the consent of all the partners
   ✔ In accordance with an express agreement by the partners
   ✔ Where the partnership at will by giving notice in writing to all the other partners of his intention to retire.

4. What is new profit ratio on retirement of a partner?
   ✧ The ratio in which the continuing partners decide to share the future profits and losses is known as new profit sharing ratio.
   ✧ New Profit sharing ratio = Old ratio + Gaining ratio
5. What is gaining ratio?

The ratio in which the continuing partners acquire the outgoing partner’s share is called as gaining ratio. This ratio is calculated by taking out the difference between new profit sharing ratio and old profit sharing ratio.

\[ \text{Gaining ratio} = \text{New ratio} - \text{Old ratio} \]

6. What are the adjustments to be made in connection with Retirement?

- Calculation of New profit sharing ratio and Gaining ratio
- Revaluation of assets and liabilities
- Transfer of Undistributed Profit or loss
- Transfer of Accumulated reserves
- Treatment of Goodwill
- Settlement of the retiring partner’s claim.

7. What are the entries for Revaluation of Assets and Liabilities of a firm in the event of retirement of a partner?

i). For profit items: a) Increase in the value of assets b) Decrease in the amount of Liabilities c) Unrecorded assets recorded

   Concerned Assets A/c Dr ......
   Concerned Liabilities A/c Dr ......
   To Revaluation A/c ......

ii). For Loss items: a) Decrease in the Value of assets b) Increase in the amount of Liabilities c) Unrecorded liabilities recorded and d) New liability created.

   Revaluation A/c Dr ......
   To Concerned Assets A/c ......
   To Concerned Liabilities A/c ......

iii). For transfer of profit or loss on revaluation:

   a) If Profit

   Revaluation A/c Dr ......
   To All partners’capital A/c ......

   b) If Loss

   All partners’capital A/c Dr ......
   To Revaluation A/c ......

8. How will you deal with the amount due to an outgoing partner?

The amount due is either paid off immediately or is paid in instalments. When it is not paid immediately, it will be transferred to his loan account.
9. Distinguish between sacrificing ratio and gaining ratio.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Basis of Distinction</th>
<th>Sacrificing Ratio</th>
<th>Gaining Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Meaning</td>
<td>It is the ratio in which the old partners have agreed to sacrifice their shares in profit in favour of new partner.</td>
<td>It is the ratio in which the continuing partners acquire the outgoing partner’s share.</td>
</tr>
<tr>
<td>2</td>
<td>Purpose</td>
<td>It is calculated to determine the amount of compensation to be paid by the incoming partner to the sacrificing partners.</td>
<td>It is calculated to determine the amount of compensation to be paid by each of the continuing partners to the outgoing partner.</td>
</tr>
<tr>
<td>3</td>
<td>Calculation</td>
<td>It is calculated by taking out the difference between old ratio and new ratio.</td>
<td>It is calculated by taking out the difference between new ratio and old ratio.</td>
</tr>
<tr>
<td>4</td>
<td>Time</td>
<td>It is calculated at the time of admission of a new partner.</td>
<td>It is calculated at the time of retirement of a partner.</td>
</tr>
</tbody>
</table>
CHAPTER 9
COMPANY ACCOUNTS

1. Choose the best answer:

1. Companies have been defined in Section ______ of the Companies Act, ____.
   a). Sec 2 (1) (i), 1981  b). Sec 3 (1) (i), 1956  c). None of these

2. ______ is considered as the official signature of the company.

3. The management of a company is done by ________ .
   a) Manager    b). Board of Director    c). Owner

4. The liability of share holders are _______ in a company.
   a). Limited    b). Unlimited    c). None of these

5. Audit of accounts are done by practicing chartered accounts who are appointed by _______ at the ________ .
   a). Shareholders, Annual General Meeting       b). Director, Annual General Meeting
   c). None of these

6. _________ is the maximum amount of capital that can be issued by a company.
   a). Authorized Capital  b). Minimum Capital  c). None of these

7. Nominal capital is the capital mentioned in the _______ of the company.
   a). Article of Association  b). Memorandum of Association  c). None of these

8. The part of the authorized capital not offered for subscription to the public is known as _________ .
   a). Issued    b). Unissued    c). Debentures

9. Reserve capital can be issued only at the time of ________ .
   a). Opening    b). Winding up    c). None of these

10. A public issue cannot be kept open for more ________ days.
    a). 5    b). 10    c). 20

11. Minimum subscription that should be received by the company is ________ % of the issued capital.
    a). 30%    b). 60%    c). 90%

12. When excess application money is adjusted towards allotment it is called as ________ allotment.
    a). Pro-rata    b). Over Subscription    c). Full Allotment

13. There should be a time gap of ________ between two calls.
    a). One Month    b). Two Month    c). Three Month

    a). Revenue    b). Capital    c). Deferred Revenue

15. Forfeited shares have to be reissued at a price ________ than the face value.

16. Securities premium is shown in the ________ side of the Balance Sheet.

17. According to Companies (Amendment) Act 2000, a company limited by share can issue ________ kinds of shares.
    a) 1    b) 2    c) 3
18. The public issue must be kept open for at least
   a) 3 days    b) 5 days    c) 7 days
19. Minimum amount to be collected by a company as application money according to SEBI is ________ %
   of the issue price.
   a) 10%    b) 25%    c) 50%
20. When more number of applications are received than that are offered to the public, it is called ________
   a) Over subscription    b) Under subscription    c) Full subscription
21. The maximum calls that a company can make is
   a) one    b) two    c) three
22. According to Table A, interest charged on calls-in-arrears is ________ %.
   a) 4%    b) 5%    c) 6%
23. According to Table A, interest charged on calls in advance is ________ %.
   a) 4%    b) 5%    c) 6%
24. A company can issue shares
   a) at par only    b) at par and at premium    c) at par, at premium & at discount
25. When the company issue shares at a price more than the face value it is called as an issue at ________
   a) Par    b) Premium    c) Discount
26. Normally companies can issue shares at ________ % of discount
   a) 5    b) 10    c) 20
27. When shares are forfeited the share capital of the company will ________.
   a) remain same    b) reduce    c) increase
   a) Asset    b) Liability    c) Assets & Liability
29. The balance of forfeited share account is ________ in the Balance Sheet.
   a) added to paid up capital    b) added to authorized capital    c) deducted from paid up capital.
30. Calls-in-arrears is shown in the Balance Sheet as
   a) deduction from called up capital    b) addition to paid up capital    c) addition to issued capital
31. Capital Reserve is shown on the side of Balance Sheet.
   a) Asset    b) Liability    c) Both

II. Other Questions:

1. Define a company.
   A company formed and registered under this act or an existing company.
   - Companies Act, 1956

2. What are the characteristics of a company?
   i) Voluntary Association
      It is a voluntary association of persons. No law can compel persons to form a company. It is their
      own creation and voluntary act.
   ii) Limited Liability
      The liability of shareholders is limited to the amount he has agreed to pay to the company, either by
      purchasing shares or by giving a guarantee
iii) Separate Legal Entity

Company can hold, buy and sell properties. It can open bank account in its name and can enter into contracts. It can sue and be sued.

iv) Transferability of shares

Shares are freely transferable without restriction.

v) Compulsory Registration

All companies must be registered under the Companies Act, 1956.

3. Explain the different types of share capital of a company.

i). Nominal or Authorized Capital

- This is the maximum amount of capital which a company is authorized to raise and is stated in the Memorandum of Association.
- It can also be called ‘Registered Capital’.

ii). Subscribed capital

This refers to that part of the issued capital which has been subscribed by the public, say 50,000 shares of Rs.10/- each.

iii). Unsubscribed Capital

The difference between the issued capital and subscribed capital represents unsubscribed capital, say 10,000 shares of Rs.10/- each in the above example.

iv). Called-up Capital

This refers to that part of the subscribed capital which has been called up by the company for payment.

v). Uncalled capital

The difference between subscribed and called up capital is called uncalled capital. Taking the previous example, uncalled capital would be Rs.2,50,000 (Rs.5 x 50000).

4. What is a share?

* The capital of the company is divided into units of small denomination.
* These units are called shares.

5. What are the different types of shares that can be issued by company?

According to the Companies (Amendment) Act, 2000, the share capital of a company limited by share, shall be of two kinds only namely:

- Preference Shares and
- Equity Shares

6. Explain the different types of preference shares.

i). Cumulative Preference Shares:

Holders of these shares have the right to receive arrears of dividend out of the subsequent years’ profit.
ii). Non cumulative Preference Shares:
   In this case, arrears of dividend are not paid.

iii). Convertible Preference Shares:
   These are shares, which can be converted into an equity shares.

iv). Irredeemable Preference Shares:
   These are shares, which cannot be refunded before winding-up

v). Non Participating Shares:
   It is as good as ordinary preference shares, which carry only fixed rate of dividend.

7. Explain the procedure for issue of shares.

   i). Issue of Prospectus

      • When shares are issued to public for cash it should satisfy the provisions of the Companies Act and
        the Securities Exchange Board of India (SEBI) guidelines.

      • Every public issue must be accompanied by an issue of prospectus.

   ii). Receipt of application money

      • If he is satisfied with the information available in the prospectus, he remits the application money
        along with the filled-in application form to any one of the banks mentioned in the application.

      • The applicant is required to remit at least 5% of the nominal value of the share with the application
        as application money (Sec 69(3)).

   iii). Allotment of Shares

      While application is an offer to buy shares, allotment of shares by the company constitutes an
      acceptance of such offer.

   iv). Call on Shares

      If the shares are not fully called up after allotment the Directors have the right to call the remaining
      amount. Call is an installment due on shares.

8. What is allotment?

   While application is an offer to buy shares, allotment of shares by the company constitutes an
   acceptance of such offer.

9. What is Prorata allotment?

   Some applicants may be allotted less number of shares than they applied for prorata allotment.

10. What do you understand by calls-in-arrears?

    Sometimes shareholders may fail to pay the amount due on calls. The total amount not received on
    the calls by the company is called as Calls-in-Arrears.
11. What is meant by calls-in-advance?

When an applicant sends more money than what is called by the company, the excess money is called Calls-in-Advance.

12. What are the differences between over subscription & under subscription?

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<th>Under-subscription</th>
<th>Over-subscription</th>
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<tr>
<td>1</td>
<td>All the shares offered may not be taken by the public</td>
<td>All the shares offered are taken by the public</td>
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<td>2</td>
<td>The shares cannot be allotted if the minimum subscription is not received.</td>
<td>Here all shares are subscribed so there is no question of minimum subscription</td>
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<tr>
<td>3</td>
<td>It does not require any special treatment in journal entries.</td>
<td>Additional journal entries are required for rejection and adjustment of application money.</td>
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</table>

13. Write a note on equity shares?

- Shares which are not preference shares are called **Equity Shares**.
- Equity shares are those which are entitled to dividend and repayment of capital after the preference share holders are paid.
- The rate of dividend is decided by the Board of Directors.

14. What do you understand by issue of shares at premium?

- When a company issues its share at price more than the face value, it is said to be issued at premium.
- Premium is the excess money collected, over and above the face value of share.
- When shares of Rs. 10 are issued at Rs. 12, it is said to be issued at premium.

15. What is forfeiture of shares?

Forfeiture of shares means to cancel the allotment to the defaulting shareholder. Once the shares are forfeited, these shares will not form part of the share capital and the shareholders will not be the members of the company.

16. Write notes on reissue of forfeited shares?

- The Directors of a company have the right to reissue the shares that were forfeited by them.
- Forfeited shares can be reissued at any price by the company.

@*@*@*@*@*@*

“The real failure is the one from which we learn nothing”
# ONE MARK ANSWERS

## CHAPTER - 1

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<td>The difference between the capital on two dates.</td>
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<td>an Incomplete Double Entry System</td>
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## CHAPTER - 3

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<td>Credit side of fixed asset account</td>
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## CHAPTER - 4

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<td>Short term</td>
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<td>Stock, prepaid expenses</td>
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<td>Absolute liquid</td>
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<td>Bank overdraft</td>
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<td>10</td>
<td>Shareholders fund / Proprietors fund</td>
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<td>12</td>
<td>Inventory turnover ratio</td>
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<td>19 Current liabilities – Bank overdraft</td>
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<td>11 3:1</td>
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<td>12 Share of profit, incoming partner</td>
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<td>18 All partners including retiring partner</td>
<td>18 3 days</td>
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<td>19 A – 1/2 &amp; B – 1/2</td>
<td>19 25%</td>
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<td>20 Loan A/c</td>
<td>20 Over subscription</td>
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