Q&A

WORK BOOK CUM QUESTION BANK WITH ANSWERS

ACCOUNTANCY

CLASS - XII

COMMERCE

SCHEDULED CASTES & SCHEDULED TRIBES
RESEARCH & TRAINING INSTITUTE (SCSTRTI)
ST & SC DEVELOPMENT DEPARTMENT
BHUBANESWAR

Work Book
cum
Question Bank with Answers

ACCOUNTANCY

CLASS-XII

COMMERCE

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RESEARCH & TRAINING INSTITUTE (SCSTRTI)
ST & SC DEVELOPMENT DEPARTMENT
BHUBANESWAR

2020

FOREWORD

An innovative education program has been initiated by ST & SC Development Department, Govt. of Odisha for the students appearing in +2 Science and Commerce examination pursuing studies in the ST & SC Development Department Schools (EMRS & HSS) to ensure quality education at +2 level.

In this regard it is to mention that an Academic Performance Monitoring Cell (APMC)has been set up in SCSTRTI to monitor the Training and Capacity Building of Teachers of SSD Higher Secondary Schools and Ekalabya Model Residential Schools (EMRS) to enhance quality education for better performance of the students appearing +2 Science and Commerce examination.This effort by APMC will certainly help the students to equip themselves for appropriate answering the question in the examination in an efficient manner.

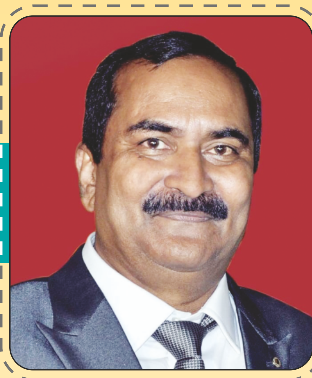
In order to materialize the effort, thebest ofsubject experts of the state have been roped into formulate self-contained and self-explanatory "Work book cumQuestions Bankwith Answers" as per the syllabi of CHSE,Odisha.They have tried to make the material as far as activity based and solution based as possible.This novel effort is first of its kind at +2 level in Odisha.

I would like to extend my thanks to Prof.(Dr.) A.B. Ota, Advisor-Cum-Director and Special Secretary, SCSTRTI and the team of Subject experts for their sincere effort for bringingout the study materials in quick time.

Hope, these study materials will be extremely useful for the students appearing the +2 examination in Science and Commerce of our SSD Schools.

Ranjana Chopra
Principal Secretary
ST & SC Development Department
Govt. of Odisha

PREFACE



The ST and SC Development Department, Government of Odisha, has initiated an innovative effort by setting up an Academic Performance Monitoring Cell (APMC) in Scheduled Castes and Scheduled Tribes Research and Training Institute (SCSTRTI) to monitor the Training and Capacity Building of teachers of SSD Higher Secondary Schools and Ekalavya Model Residential Schools (EMRS) and to ensure quality education of students studying at +2 level under the administrative control of the ST & SC Development Department. This innovative programme is intended to ensure quality education in the Higher Secondary Level of the schools of the ST & SC Development Department.

Since the introduction of +2 Science and +2 Commerce stream by the Council of Higher Secondary Education, Odisha, there was a great demand to cater to the needs of the students appearing the +2 Examination. But no organisation or institute has taken the initiative to fulfil the needs of the students appearing the +2 examination. Realizing the necessities and requirements of students to perform better and secure better marks in the examination and proper pattern of answering the question in a scientific way, the APMC under the banner of SCSTRTI has taken the initiative for the first time in Odisha to prepare Questions Banks in Physics, Chemistry, Botany, Zoology, Mathematics, IT, English & Odia of the Science Stream and all the disciplines of the Commerce stream in line with the Syllabus of the Council of Higher Secondary Education (CHSE).

These questions banks are first of this kind in Odisha, as per syllabi of CHSE and are self contained and self explanatory. The subject expert, who are the best in their respective subjects in the state have been roped in for the exercise. They have given their precious time to make the question banks as activity based and solution based as possible.

I take this opportunity to thank all the subject experts of different subjects for rendering help and assistance to prepare the question banks within a record time. I hope, this material will be extremely useful for the students preparing for the +2 examination in different subjects of Science & Commerce streams.

Prof. (Dr.) A.B. Ota
Advisor cum Director & Special Secretary
SCSTRTI, Govt. of Odisha

ACCOUNTANCY (2nd Year) Syllabus

Objectives :

- To provide students an understanding of the Concept, features, objectives, importance & functions of Management;
- To help the students in learning the principles & Techniques of Management;
- To develop Students with an understanding of Financial Markets with its types & functions;
- To acquaint students with concept, objectives and functions of marketing management;
- To enable students to act more effectively and responsibly as consumers, employers, employees and citizens after learning the concept and features of consumer protection act;

Course Inputs :

Unit-I Financial Statements of Sole Trade and Not for Profit Organizations:

Sole Trade form of Organization : Meaning, objectives and importance of preparing Trading, Profit and Loss Account and Balance sheet, Preparation of Trading, Profit and Loss and Balance Sheet of sole trader without and with adjustments relating to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation and bad debts, provision for doubtful debts, provision for discount on debtor, creditor, manager's commission, goods distributed as free samples and goods taken by the owner for personal use, abnormal loss, interest on capital and drawings.

Not for Profit organizations: Meaning, objectives, necessity, treatment of some important items such as legacy, donations, entrance fees, life membership fees, sale of assets, sale of old news paper, subscription, endowment fund, honorarium, expenses relating to a specific fund, Receipts and Payments Accounts: meaning, features, differences between Receipts and Payments Account and Cash Book, Income and Expenditure Accounts: meaning, features, difference between Income and Expenditure account and Profit and Loss account, Preparation of Income and Expenditure Account and Closing Balance Sheet.

Unit-II Accounting for Depreciation and from Incomplete Records (Single Entry System)

Depreciation: Meaning, need, causes, objectives and characteristics of depreciation, Methods of Charging Depreciation-Simple depreciation method and provision for depreciation method, Method of calculating depreciation: Straight Line and Written down Value method

Accounting from Incomplete Records (Single Entry System) : Meaning, characteristics and limitations of single entry system, Difference between single entry and double entry system, Difference between balance sheet and statement of affairs, Ascertainment of profit and loss by the statement of affairs method only.

Unit - III Accounting for Partnership Firm :

Meaning, Features, Partnership Deed and Provisions of Partnership act 1932 in the absence of partnership deed, Fixed vs. Fluctuating Capital accounts, preparation of Profit and Loss Appropriation A/c.

Goodwill - Meaning, nature and Factors affecting Goodwill, Methods of Valuation of Goodwill (Average profit, super profit method and capitalization method).

Reconstitution of partnership firm - Meaning, Circumstances Leading to Reconstitution Change in Profit Sharing Ratio, Sacrificing Ratio, Gaining Ratio, Accounting for revaluation of assets and liabilities and distribution of reserves and accumulated profits and loss.

Admission of a Partner - Simple Problems without Adjustment of Capital

Unit - IV Accounting for Companies :

Accounting for Share Capital :

Shares and share capital: Nature and types as per Companies Act, 2013.

Issue of Shares at par, Premium and Discount, Calls in Advance, Calls in Arrear over subscription and under subscription of shares, Accounting for Forfeiture of Shares and re-issue of shares, Disclosure of share capital in companies' balance sheet (Vertical Format).

Accounting for Debenture : Issue of debentures at par, at premium and at discount and Issue of debentures for consideration other than cash.

QUESTION PATTERN OF CHSE

Theory	:	80 marks
Project Work	:	20 marks
Total	**:**	**100 marks**

Group - A (Objective type - Compulsory)

1.	Multiple choice Questions (12 bits from all units)	1 mark each x 12 = 12 marks
2.	One word answer / very short answer / Correct the sentence / fill up the blanks (12 bits from all units)	1 mark each x 12 = 12 marks

Group B (Short type Answer)

3.	Answer within 30 words (out of 13 bits, one has to answer 10 bits)	2 marks each x 10 = 20 marks
4.	Answer within 50 words (out of Six bits, one has to answer Four bits)	3 marks each x 4 = 12 marks

Group C (Long Answer type)

5. to 9.

Out of Five Questions from all units, one has to answer 3 questions.	8 marks each x 3 = 24 marks
TOTAL	**80 marks**

CHSE QUESTION PAPERS WITH ANSWERS

2019 to 2017

2019 (A)

Time : 3 hours ***Full Marks : 80***

The figures in the right-hand margin indicate marks.
Carefully follow the instructions given in each Group and each Question

Group - A

All questions are compulsory

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit : [1x12=12]

(a) Outstanding subscription is
(i) Income (ii) Expense
(iii) Asset (iv) Liability

(b) Receipts & Payment A/c is prepared to know
(i) Excess of income over expenditure
(ii) Cash in hand at the end of the year
(iii) Gross profit
(iv) Net profit

(c) Transportation cost on purchase of a new machinery is a
(i) Capital expenditure
(ii) Revenue expenditure
(iii) Deferred revenue expenditure
(iv) Recurring expenditure

(d) The asset on which depreciation is charged, is
(i) Current asset (ii) Fixed asset
(iii) Liquid asset (iv) Fictitious asset

(e) Profit & Loss Appropriation A/c is prepared to know
(i) Net profit
(ii) Gross profit
(iii) Excess of income over expenditure
(iv) Appropriation of profit

(f) Donations received for a special purpose, is
(i) Asset (ii) Liability
(iii) Income (iv) Expenditure

(g) Profit & Loss A/c reveals
(i) Gross profit
(ii) Net profit
(iii) Cost of goods manufactured
(iv) Appropriation of profit

(h) The document required for issue of share capital to the public by a public limited company, is
(i) Memorandum of Association
(ii) Articles of Association
(iii) Certificate of Incorporation
(iv) Prospectus

(i) When depreciation is charged under straight-line method, the amount of depreciation
(i) Remains constant
(ii) Decreases year after year
(iii) Increases year after year
(iv) Increases and decreases

(j) Debenture holders get
(i) Dividend (ii) Commission
(iii) Interest (iv) Salary

(k) Outstanding Wages A/c is a
(i) Personal A/c
(ii) Real A/c
(iii) Nominal A/c
(iv) Representative personal A/c

(l) Mine is a
(i) Current asset (ii) Wasting asset
(iii) Liquid asset (iv) Fictitious asset

2. Answer the following questions as per instructions given under each part: [1x12=12]

(a) Answer the following questions within one sentences each:

(i) Define 'partnership' according to the partnership Act.

(ii) What is 'depreciation'?

(iii) What do you mean by redeemable preference share?

(b) Correct the underlined portions of the following sentences:

(iv) Goodwill is a current asset.

(v) Calls-in -advance is a/an asset.

(vi) Installation charges of new machinery is a revenue expenditure.

(c) Fill in the blanks of the following sentences:

(vii) Copyright is a _____ asset.

(viii) Closing stock, appearing in the Trial Balance, is shown only in the _____.

(ix) The maximum amount up to which a company can issue share capital is called _____ capital.

(d) Answer the following questions in one word/ term each:

(x) Name the additional account opened by the partners, when they decide to follow fixed capital method.

(xi) How should the partners share profits when there is no mention in the Partnership Deed?

(xii) To which account is the balance of Income & Expenditure A/c transferred.

Group - B

3. Answer any ten of the following questions within thirty words each. [2x10=20]

(a) What is wasting asset?

(b) What do you mean by capital fund?

(c) Name the two most commonly used methods of calculating depreciation.

(d) Pass the journal entry for prepaid insurance.

(e) What is the accounting treatment for goods taken by the proprietor for personal use?

(f) Write any two differences between Receipts & Payments A/c and Cash Book.

(g) What is statement of affairs?

(h) What do you mean by 'fixed capital method'?

(i) Why is Revaluation A/c prepared?

(j) What do you mean by 'issue of shares at par'?

(k) Define bill of exchange.

(l) What is preference share?

(m) What is meant by debenture?

4. Answer any *four* of the following questions within fifty words each : [3x4=12]

(a) What factors are considered for calculating depreciation?

(b) What is calls-in-arrear?

(c) What is meant by 'undersubscription' of shares?

(d) How is 'sacrificing' ratio calculated?

(e) Distinguish between equity share and Preference share.

(f) State any three clauses of Partnership Deed.

Group - C

Answer any three questions from the following : [8x3=24]

5. Nayak & Co. Ltd. Issued 10000 equity Shares of ₹10 each, payable as ₹2 on application, ₹5 on allotment (including premium), ₹3 on 1st call and ₹ 2 on final call. Applications were received for ₹15000 shares which were allotted on pro rata basis. Both the calls were made and duly received except one shareholder holding ₹200 shares who paid both the calls money on allotment.

   Pass Journal Entries for the above transactions.

6. Mohan and Nayan started a partnership on 1st January, 2017 with a capital of ₹3,75,000 and ₹2,50,000 respectively. On 1st July, Mohan introduced a further capital of ₹1,25,000. During the year, Mohan and Nayan withdraw ₹75,000 and ₹50,000 respectively. Interest on capital is to be allowed @5% per annum, but no interest is to be charged on drawings.Nayan is to be allowed a salary of ₹12,500 per month. The profit for the year before charging salary and interest amounted to ₹5,00,000.

   Prepare profit & Loss Appropriation A/c and Capital A/cs of the partners.

7. Bibek purchased machinery for ₹4,00,000 on 1st January, 2013. Depreciation is provided @ 10% p.a. on the diminishing balance. On 31st March, 2015, one-fourth of the machinery was sold for ₹56,000. On the same date, a new machinery was purchased at a cost of ₹1,50,000.

   Write up machinery A/c for the first four years, assuming that the accounts are closed on 31st December every year.

8. Write short notes on any four of the followings:

   (a) Forfeiture of Shares

   (b) Bearer Debenture

   (c) Accured Income

   (d) Gaining Ratio

   (e) Goodwill

9. Distinguish between Receipts & Payments A/c and income & Expenditure A/c.

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ANSWERS 2019 (A)

Group - A

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit :

(a) (iii) Asset
(b) (ii) Cash in hand at the end of the year
(c) (i) Capital expenditure
(d) (iii) Fixed asset
(e) (iv) Appropriation of profit
(f) (ii) Liability
(g) (ii) Net profit
(h) (iv) Prospectus
(i) (i) remains constant
(j) (iii) Interest
(k) (iv) Representative personal A/c
(l) (ii) Wasting asset

2. Answer the following questions as per instructions given under each part:

(a) (i) Partnership is the relationship between partners who have agreed to shares the profits of the business carried on by all or any of them acting for all.

(ii) Depreciation is the loss caused to fixed asset due to wear and tear, elapse of time, accident, obsolescence etc.

It is a charge/non-cash expense against profit for the use of the fixed assets.

(iii) Redeemable preference share is a preference share which can be redeemed after a specific period of time.

(b) (iv) Intangible
(v) Liability
(vi) Capital

(c) (vii) Intangible
(viii) Balance Sheet
(ix) Authorised

(d) (x) Partner's Current Account
(xi) Equally
(xii) Capital Fund

Group - B

3. Answer any ten questions in not more than thirty words each - [2x10]

(a) Wasting asset is one which is physically and visibly got exhausted after each and every use. For example: mine, store quary, Oilwell, timber yard etc.

(b) The excess of total assets over the total outside liabilities is called capital fund. The capital of a not for profit organization is known as capital fund.

(c) The two most important/commonly used methods of calculating depreciation are:

(i) Straight line method
(ii) Diminishing balance method

(d) Prepaid insurance A/c Dr
To Insurance A/c
(Being the amount paid in advance)

(e) Drawings A/c Dr
To purchase A/c
(Being goods taken by the proprietor for personal use)

(f) The two differences are:

(i) Receipts and payments Account is prepared by not for profit organisations but Cash Book is prepared by trading organisations.

(ii) Receipts and payment Account is a ledger account, but Cash Book is a journal as well as ledger account.

(g) Statement of affairs is nothing but a Balance Sheet prepared under single entry system on a particular date. It shows the assets on right hand side, liabilities and capital on the left hand side.

(h) It is a method of maintaining capital accounts of partners. Under fixed capital method, the capital account of partners remains fixed/unchanged except the introduction of additional capital by a partner. A separate account known as current account is opened for each partner to record entries regarding partner's salary commission, interest on capital, drawings, interest on drawings, share of profit/loss etc.

(i) Revaluation account is prepared at the time of admission, retirement or death of a partner for revaluation of assets and reassessment of liabilities.

(j) When shares are issued at price equal to its face value, it is called shares issued at par. For example, face value is ₹10, it is issued in the market at ₹10.

(k) Bills of exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

(l) The share given preferential right with respect to return of capital and payment of dividend in the event of liquidation/winding up of the company over the equity shares is called preference share.

(m) A debenture is a written acknowledgement of debt by a company under its common seal. It is issued usually in the form of a certificate. The debenture certificate contains the terms of payment of a fixed rate of interest and repayment of principal sum on a specified date.

4. Answer any *four* of the following questions within fifty words each :

(a) The factors to be considered for calculating depreciation are cost (cost + installation cost+transportation cost) of the asset, estimated working life in terms of years/hours/ units produced and its residual value if any.

(b) The total amount due but not received on allotment and calls within a specified period is called calls in arrear. Interest shall be charged on calls in arrear at a rate not exceeding 10% p.a. Calls in arrear is shown in the liabilities side of Balance Sheet by way of deduction from called of capital under the head "subscribed but not fully paid up capital".

(c) Under subscription of shares means the number of shares applied for by the public is less than the number of shares offered to them for subscription.

(d) The ratio of surrender of shares in the profit of old partners to the new partner is called sacrificing ratio. It is calculated by deducting the new profit sharing ratio from the old profit sharing ratio of each old partner i.e. Sacrificing ratio = Old ratio - New ratio.

(e) The distinction between equity share and preference shares are:

Equity share

1. Dividend is paid on equity shares if there is a balance of profit after payment of dividend on preference shares.
2. The rate of dividend is not fixed.
3. Equity shares have voting right
4. Equity shares cannot be redeemed except under the scheme of capital reduction

Peference share

1. Dividend is paid on preference shares before payment of dividend on equity shares.
2. The rate of dividend is fixed
3. Preference shares have no voting rights except on special circumstances.
4. Preference shares are to be redeemed within a maximum period of 20 yrs/30 yrs.

(f) The clauses of partnership deed are:
(i) Name of the firm
(ii) Name and address of all the partners
(iii) The nature of business
(iv) The location of the firm/business
(v) Profit/loss sharing ratio
(vi) Duration of partnership

Group - C

5. Journal entries in the books of Nayak & Co. ltd.

Date	Particulars	LF	Amount (Rs) Dr.	Amount (Rs) Cr.
	Bank A/c Dr To Equity Share Application A/c (Being share application money received on 15000 shares @ ₹ 2 per share)		30,000	30,000
	Equity Share Application A/c Dr To Equity Share Allotment A/c To Equity Share Capital A/c (Being application money transferred to Share Capital A/c and excess application money transferred to Share Allotment A/c)		30,000	 10,000 20,000
	Equity Share Allotment A/c Dr To Securities Premium Reserve A/c To Equity Share Capital A/c (Being allotment money due on 10,000 Shares @ ₹5 per share including premium of ₹2 per share)		50,000	 20,000 30,000
	Bank A/c Dr To Equity Share Allotment A/c To Calls in Advance A/c (Being the allotment money received after transfer of share application money and calls in advance received on 200 share@ ₹5 for both calls)		41,000	 40,000 1,000
	Equity Share First Call A/c Dr To Equity Share Capital A/c (Being share first call money due on 10,000@ ₹3 per share)		30,000	 30,000
	Bank A/c Dr Calls in Advance A/c Dr To Equity Share First Call A/c (Being first call money received on 9,800 shares @ ₹ 3 per share and calls in Advance adjusted for 200 shares @ ₹ 3 per share)		29,400 600	 30,000
	Equity Share Second & Final Call A/c Dr To Equity Share Capital A/c (Being 2nd & final cal money due on 10,000 shares ₹2 per share)		20,000	 20,000
	Bank A/c Dr Calls in Advance A/c Dr To Equity share second & final call A/c (Being second & final Call Money received on 9,800 shares @ ₹2 per share and calls in advance adjusted for 200 share @ ₹2 per share)		19,600 400	 20,000

6. Book of Mohan and Nayan Profit & Loss Appropriation A/c.

Dr. **Cr.**

Date		Amount (Rs)	Date		Amount (Rs)
31.12.17	To Interest on Capital A/c Mohan (3,75,000x(5/100)+(1,25,000x5/100x1/2) = 21,875 Nayan (2,50,000x(5/100) = 12,500 -------------	34,375	31.12.17	By Profit & Loss A/c (Net Profit)	5,00,000
	To Nayan's capital A/c Salary=12,500x12 =	1,50,000			
	To Net Profit transferred to Capital A/cs: Mohan: 1,57,812.50 Nayan: 1,57,812.50 -------------------	3,15,625			
		5,00,000			**5,00,000**

Partner's Capital Account

Dr. **Cr.**

Date	Particulars	Mohan (Rs)	Nayan (Rs)	Date	Particulars	Mohan (Rs)	Nayan (Rs)
-	To Cash A/c (Drawings)	75,000	50,000	1.1.2017	By Cash A/c	3,75,000	2,50,000
				1.7.2017	By Cash A/c	1,25,000	-
				31.12.2017	By Interest on Capital	21,875	12,500
					By Salary	-	1,50,000
31.12.2017	To Balance c/d	6,04,687.50	5,20,312.50		By Profit & Loss Appropriation A/c - (profit)	1,57,812.50	1,57,812.50
		6,79,687.50	**5,70,312.50**			**6,79,687.50**	**5,70,312.50**

7. Books of Bibek

Machinery A/c

Dr. **Cr.**

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
1.1.13	To Bank A/c Machine-I	4,00,000	31.12.13 31.12.13	By Depreciation A/c Machine-I By Balance c/d	40,000 3,60,000
		4,00,000			**4,00,000**
1.1.14	To Balance b/d Machine-I	3,60,000	31.12.14 31.12.14	By Depreciation A/c Machine-I By Balance c/d Machine-I	36,000 3,24,000
		3,60,000			**3,60,000**
1.1.15	To balance b/d Machine-I	3,24,000	31.3.15	By Bank A/c (¼ of Machine-I) By Depreciation A/c (Machine-I) (3,24,000 x 1/4 x 10/100 x 3/12)	56,000 2,025
31.3.15	To Bank A/c Machine-II	1,50,000	31.12.15	By Profit & Loss A/c (Loss on sale of ¼ of M1) By Depreciation A/c ¾ of Machine-I = 24,300 (2,43,000x10/100) (1,50,000x10/100x9/12) = 11,250 Machine-II By Balance c/d ¾ of Machine-I Machine-II	22,975 35,550 2,18,700 1,38,750
		4.74,000			**4,74,000**
1.1.16	To Balance b/d ¾ of Machine-I Machine-II	 2,18,700 1,38,750	31.12.16	By Depreciation A/c ¾ of Machine-I (2,18,700x(10/100) Machine-II (1,38,750x(10/100) By Balance b/d ¾ of Machine-I Machine-II	 21,870 13,875 1,96,830 1,24,875
		3,57,450			**3,57,450**

8. Write short notes on any four of the followings:

(a) **Forfeiture of shares :** Cancellation of allotted shares of defaulting shareholders and treating the amount received from the shareholders as the property of the company is known as forfeiture of shares. When the shareholder fails to pay the calls money due to the company within a stipulated period, the company may cancel/forfeit such defaulted shares.

(b) **Bearer Debenture :** Bearer Debenture are those debentures which are transferable by mere delivery and the company does not keep any record of names and addresses of the debenture holders. Interest is paid to the bearers of such debenture at the end of the stipulated period. In other words, interest is paid to the holders irrespective of their identity who produces the coupons in the specified bank. The coupons are attached to the debenture certificates.

(c) **Accrued Income :** The income which has been earned during the current year and is due, but has not been received in the current accounting period is called "accrued income". For example, interest on investment, rent receivable, commission etc. are earned during a year, becomes due in that year but received in the following year. Such incomes require adjustment to get a true picture of the financial statements.

(d) **Gaining Ratio :** The ratio in which a gain in profit sharing ratio is made is called the gaining ratio. It is the proportion in which a partner receives an increased share of profits than his old/previous share. As a result of reconstitution of the partnership firm, the profit sharing ratio is changed. One or more of the old partners may gain from some other partner's share of profit.

The ratio of gain of profit sharing ratio is called 'gaining ratio'. It is calculated as:

Gaining Ratio= New share - Old share

(e) **Goodwill :** Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal profit. Normal profit is the profit earned by a similar firm in the industry Goodwill of a firm exists when it earns super profit. It is an intangible asset.

9. The distinctions are:

	Receipt and Payment Account	**Income and Expenditure Account**
1. Account	It is a real Account	It is a Nominal Account
2. Objective	Its objective is to provide a summary of cash transactions	Its objective is to ascertain financial results i.e. surplus/deficit.
3. Form	It is a summarized form of Cash Book	It is in the form of income statement i.e. Profit and Loss A/c.
4. Opening Balance	It starts with opening balance of Cash/Bank	It does not start with any opening balance
5. Closing Balance	It ends with closing balance of Cash/Bank	It ends with a closing balance of surplus/deficit
6. Debit	All receipts of revenue and capital nature in cash are debited	All revenue expenses/losses are debited
7. Credit	All payments of revenue and capital nature in cash are credited	All revenue incomes/gains are credited
8. Cash/Non-Cash items	It ignores non-cash items	It records cash and non-cash items
9. Revenue/Capital	It records both revenue and capital items	It records only revenue items
10. Transfer	Closing balance is transferred to the next year and shown as opening balance	Closing balance is transferred to Capital Fund

2018 (A)

Time : 3 hours ***Full Marks : 80***

The figures in the right-hand margin indicate marks.
Carefully follow the instructions given in each Group and each Question

Group - A
All questions are compulsory

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit : [1x12=12]

(i) Pre-paid insurance is a/an :
(a) Asset (b) Liability
(c) Expense (d) Income

(ii) Outstanding office rent Account is a :
(a) Personal Account
(b) Real Account
(c) Fictitious Account
(d) Representative Personal Account

(iii) Coal mine is a :
(a) Liquid asset (b) Current asset
(c) Wasting asset (d) Fictitious asset

(iv) Shareholder gets :
(a) Commission (b) Dividend
(c) Salary (d) Interest

(v) Trading Account reveals :
(a) Financial position (b) Net profit
(c) Gross profit (d) Cash position

(vi) Outstanding subscription is :
(a) Expense (b) Income
(c) Liability (d) Asset

(vii) The Current Account of a partner always shows :
(a) Debit balance
(b) Credit balance
(c) Both debit and credit balance
(d) Either debit or credit balance

(viii) After re-issue of forfeited shares, the balance of share forfeited Account is transferred to :
(a) General Reserve
(b) Capital Reserve
(c) Revenue Reserve
(d) Capital Redemption Reserve

(ix) Income and Expenditure Account is prepared to know :
(a) Gross profit
(b) Net profit
(c) Excess of income over expenditure
(d) Financial positioin

(x) Depreciation is charged on :
(a) Current asset (b) Fixed asset
(c) Liquid asset (d) Fictitious asset

(xi) Under 'account from incomplete records', the opening capital can be ascertained by preparing :
(a) Opening Capital Account
(b) Opening Balance Sheet
(c) Opening Statement of Affairs
(d) Opening Cash Account

(xii) When drawings are made evely through out the year, interest is charged for :
(a) 12 months (b) 9 months
(c) 6 months (d) 3 months

2. Answer the following questions as per instructions under each part : [1x12=12]

(a) Answer the following questions within one word/term each :
(i) What type of liability is 'Bank Overdraft' ?
(ii) Where is closing stock shown in the final accounts, if given in the Trial balance ?
(iii) What type of asset is trade mark ?

(b) Answer the following questions within one sentence each :
(iv) Why is the Profit and Loss Appropriation Account prepared ?
(v) What is Authorised Capital?
(vi) What is meant by Entrance fee ?

(c) Correct the underlined portions of the following sentences :
(vii) Income received in advance is <u>asset</u>.
(viii) 'Calls-in-arrear' is a <u>liability</u>.
(ix) At the time of admission of a new partner, <u>gaining</u> ratio is calculated.

(d) Fill up the blanks of the following sentences :

(x) In the absence of any mention in the Partnership Deed, the partners share profits and losses in ______ ratio.

(xi) 'Sundry debtors' is a ____ asset.

(xiii) Wages paid for erection of new machinery is a _____ expenditure.

Group - B

3. Answer any ten of the following questions within 30 (thirty) words each : [2x10=20]

(i) Write the legal definition of 'Partnership'.

(ii) State the factors taken into consideration for calculating depreciation.

(iii) What do you mean by 'Bearer Debenture'?

(iv) How is Life membership fee treated in accounts ?

(v) What is the purpose of preparing Revaluation Account ?

(vi) What is meant by pro-rata allotment ?

(vii) Describe current liabilities.

(viii) How is Manger's commission calculated on Net Profit after charging such commission ?

(ix) How is specific donation treated in the accounts of 'Not for profit' organizations ?

(x) What is 'Premium on issue of shares'? How is it brought into books of accounts ?

(xi) What do you mean by 'Forfeiture of shares'?

(xii) What is Capital Fund ?

(xiii) What do you mean by Fictitious assets ?

4. Answer any four of the following questions within 50 (fifty) words each : [3x4=12]

(a) What are opening entries ? Explain opening entries with illustration.

(b) Distinguish between Share and Debenture.

(c) Describe any three causes of Depreciation.

(d) Distinguish between Profit and Loss Account and Profit and Loss Adjustment Account.

(e) What are the different methods of maintaining capital in partnership firm ? Explain.

(f) Explain any four clauses of Partnership Deed.

Group - C

Answer any three of the following questions : [8x3=24]

5. Mohanty and Co. Ltd. Issued 25,000 Equity shares of ₹10 each payable as : ₹2 on application, ₹5 on allotment (including premium), ₹3 on 1st call and ₹2 on final call. Applications were received for 20,000 shares and allotment was made in full. Both the calls were made and amounts were duly received, except 100 shares on which final call money was not received. Pass journal entries for the above transactions.

6. A and B are partners in a business sharing profits and losses equally. Their Balance Sheet on 31.12.2017 was as follows :

Liabilities	**(₹)**	**Assets**	**(₹)**
Capital : A 75,000		Building	70,000
B 75,000		Machinery	30,000
-------------	1,50,000	Stock	35,000
Reserve	30,000	Sundry Debtors	34,000
Sundry Creditors	6,000	Bills Receivable	11,000
Bills Payable	2,000	Cash at Bank	5,400
		Cash in Hand	2,600
	1,88,000		**1,88,000**

On the above date, they admit C as a partner for one-fourth share in future profits. C brings ₹50,000 as capital. The goodwill of the firm was valued at ₹30,000; Building at ₹75,000; Stock at ₹32,500 and Machinery to be depreciated by 10%. Prepare the Profit and Loss Adjustment Account and Capital Accounts of all the partners.

7. Ajay purchased a machine for ₹2,85,000 on 1st January, 2014. He spent ₹15,000 on its installation. He decided to write off depreciation @10% per annum on Diminishing balance method. Show the Machinery Account and Depreciation Account for the first four years, assuming that the accounts are closed on 31st December each year.

8. Explain the procedure for preparation of Income and Expenditure Account from the given 'Receipts and Payments' Account and additional information.

9. Distinguish between Single entry and Double entry system of Book-keeping.

***

ANSWERS 2018 (A)

Group - A

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit :

(i) (a) Asset
(ii) (d) Representative Personal Account
(iii) (c) Wasting Asset
(iv) (b) Dividend
(v) (c) Gross Profit
(vi) (d) Asset
(vii) (d) Either Debit or Credit Balance
(viii) (b) Capital Reserve
(ix) (c) Excess of Income over Expenditure
(x) (b) Fixed Asset
(xi) (c) Opening Statement of Affairs
(xii) (c) 6 months

2. Answer the following questions as per instructions given under each part:

(a) (i) Current Liability
(ii) Balance Sheet
(iii) Intangible Asset

(b) (iv) Profit and Loss Appropriation Account is prepared to appropriate/distribute the profit among the partners after considering the notional charges like interest on capital, interest on drawings, salary or commission to partners etc.

(v) Authorised capital is the maximum amount of capital for which a company is authorised/permitted to issue during its life time.

(vi) Entrance fee is the amount collected from the members at the time of admission to a Not for Profit Organization like Club, Cricket Association, Football/ Hockey Association etc.

(c) (vii) Liability
(viii) Asset
(ix) Sacrificing

(d) (x) equal
(xi) Current
(xii) Capital

Group - B

3. Answer any ten questions in not more than thirty words each

(i) Accounting to Sec. 4 of the Indian Partnership Act, 1932, "Partnership is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

(ii) Cost of the asset, estimated working life in years/hours and estimated scrap value of the assets at the end of its working life are the three most important factors taken into consideration for calculating depreciation.

(iii) Bearer debentures are those debentures which are transferable by mere delivery and the company does not keep any record of names and addresses of the debenture holders.

(iv) Life membership fee is a lump sum amount received only once from the members for their permanent (life) membership. It is non-recurring in nature. It is a capital receipt and shown in the liability side of Balance Sheet as an independent item or added to Capital Fund on the liability side of Balance Sheet.

(v) Revaluation Account is prepared to know profit/loss on revaluation of assets and liabilities on the occasion of admission, retirement or death of a partner.

(vi) Prorata allotment is the proportionate allotment of shares when there is over subscription to an issue. All applications are not rejected but allotted in a fixed proportion to all applicants.

(vii) Current liabilities are those liabilities which are payable within a maximum period of one accounting year. The examples of current liabilities are outstanding expenses, bank overdraft, bills payable, sundry/trade creditors etc.

(viii) There is a formula for calculating the manager's commission on net profit after charging such commission. It is as follows :

$$\frac{\%\,\text{Commission}}{100+\%\,\text{Commission}} \times \text{ Net Profit before}$$

charging such commission.

(ix) Donations received for a specific purpose is treated as a capital receipt and credited to the specific fund and shown on the liability side of Balance Sheet. Any expenditure incurred for this purpose is deducted from this specific fund (debited to this fund).

(x) Any amount received from the issue of shares at a price higher than its face value, is known as premium/securities premium. It may be received along with application/allotment/call money. But usually it is collected with allotment money. Securities premium is credited to a separate account called "Securities Premium Reserve Account".

(xi) When a shareholder fails to pay the allotment or call money, the Board of Directors may forfeit/cancel his shares. Any amount received by the company becomes property of the company after forfeiture/cancellation. "Share Capital Account is debited with amount called up, Share Allotment/Call Account (Calls in Arrear Account) is credited with the amount not received and Share Forfeiture Account is credited with the amount already received in respect of those shares. If shares are issued at premium and the premium is not received then Securities Premium Reserve Account will be debited.

(xii) The capital of a “not for profit” organization is called/known as 'Capital Fund'. It is increased/ decreased by the surplus/deficit of organization. The capital fund also increases where life membership fees, legacy etc. are credited to it. Capital fund is known as General Fund.

Finally at the end of the accounting period the excess of assets over the total outside liabilities is capital fund. It is shown on the liabilities side of Balance Sheet.

(xiii) Fictitious assets are not real assets and they physically do not exist. These are the expenses incurred or losses suffered in order to strengthen the financial ability of the business. For example : preliminary expenses, debit balance of profit and loss account, discount on issue of shares/debentures.

4. Answer any four of the following questions within 50 (fifty) words each :

(a) All the assets and liabilities at the end of the previous year are brought in to the books at the beginning of the current accounting year by passing a journal entry is called 'opening entry'. All the assets are debited and all liabilities and capital are credited.

(b) The distinctions are :

Shares

(i) It is owned capital

(ii) Shareholders are the owners of the Company

(iii) Dividend is paid when the company earns profit.

(iv) Shareholders have voting rights.

Debentures

(i) It is borrowed capital

(ii) Debenture holders are the creditors of the company.

(iii) Interest is paid on debentures whether profit is earned or not.

(iv) Debentureholders have no voting rights.

(c) The three causes of depreciation are :

(i) Wear and tear - Assets get worn, out because of constant use. For example plant, machines, furniture etc.

(ii) Passage of Time - The value of most fixed assets fall because of passage of time for example lease, patent, copyright etc.

(iii) Obsolescence - It is a process of assets getting obsolete/outdated/old fashioned because of rapid development of technology, change in taste and habits etc.

(d) The distinctions are : Profit and Loss Account is prepared by all forms of business concerns but Profit and Loss Adjustment Account is prepared by Partnership firm in the event of admission retirement or death of a Partner. Profit and Loss Accounts reveals the net profit/loss while Profit and Loss account reveals the profit/loss on revaluation of assets and liabilities.

(e) The different methods of maintaining capital in partnership firm are : fixed capital method and fluctuation capital method. In case of fixed capital method, capital account and current account for each partner are opened. Under fluctuating capital, only capital accounts of partners are opened and maintained. Any increase/decrease in capital is recorded in current account under fixed capital method but increase / decrease in capital is recorded in capital account under fluctuating capital method.

(f) Any of the four clauses of Partnership Deed are :

(i) The name of the firm

(ii) Name and address of all partners

(iii) The nature of business to be carried on.

(iv) The place of business.

Group - C

Answer any three of the following questions :

5. **Mohanty & Co Ltd. (Joined Entries)**

Date	Particulars	LF	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr To Share Application A/c (Being Share Application money received on 20,000 shares @ ₹2 each		40,000	 40,000
	Share Application A/c Dr To Share Capital A/c (Being Application money transferred Share to Capital A/c)		40,000	 40,000
	Share Allotment A/c Dr To Share Capital A/c To Securities Premium Reserve A/c (Being Share Allotment money due on 20,000 share @ ₹5 per share including premium @ ₹2 per share)		1,00,000	 60,000 40,000
	Bank A/c Dr To Share Allotment A/c (Being the share allotment money received in full)		1,00,000	 1,00,000
	Share First Call A/c Dr To Share Capital A/c (Being Share First Call money due on 20,000 shares @ ₹3 each)		60,000	 60,000
	Bank A/c Dr To Share First Call A/c (Being Share First Call money received)		60,000	 60,000
	Share Final Call A/c Dr To Equity Share Capital A/c (Being Shares Final Call money due on 20000 share @ ₹2 each)		40,000	 40,000
	Bank A/c Dr Calls in Arrear A/c Dr To Share Final Call A/c (Being Share Final Call money received except on 100 shares)		39,800 200	 40,000

6. **Profit and Loss Adjustment Account**

Dr			Cr
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Stock A/c	2,500	By Building A/c	5,000
To Machinery A/c	3,000	By Loss on Revaluation transferred to Partners	
		Capital A/c : A	250
		B	250
	5,500		**5,500**

Partners' Capital Account

Dr.							Cr
Particulars	**A (₹)**	**B (₹)**	**C (₹)**	**Particulars**	**A (₹)**	**B (₹)**	**C (₹)**
To Profit and Loss Adjustment A/c	750	250	-	By Balance b/d	75,000	75,000	-
				By Reserve A/c	15,000	15,000	-
To Capital A/c	-	-	7,500	By Cash A/c	-	-	50,000
To Balance c/d	93,500	93,500	42,500	By C's Capital A/c	3,750	3,750	-
	93,750	**93,750**	**50,000**		**93,750**	**93,750**	**50,000**

New Balance Sheet of A, B and C as on 31.12.2017

Liabilities			**Assets**		
Particulars		**Amount (₹)**	**Particulars**		**Amount (₹)**
Capital :	A 93,500		Building		75,000
	B 93,500		Machinery	30,000	
	C 42,500		Less Depreciation	3,000	
		2,29,500			27,0000
Sundry Creditors		6,000	Stock		32,500
Bills Payable		2,000	Sundry Debtors		34,000
			Bills Receivable		11,000
			Cash at Bank		5,400
			Cash in Hand		52,600
		2,37,500			**2,37,500**

Working :

1. Goodwill valued ₹30,000. C's share of goodwill should be credited old partner's Capital A/c in their sacrificing ratio. C's share of good will = ₹30,000 x $\frac{1}{4}$ = ₹7,500.
2. Sacrificing Ratio :

Old share of A and B $\Rightarrow \frac{1}{2}:\frac{1}{2}$, New share of $A = \frac{3}{4} x \frac{1}{2} = \frac{3}{8}$, New share of $B = \frac{3}{4} x \frac{1}{2} = \frac{3}{8}$.

Sacrifice of $A = \frac{1}{2} - \frac{3}{8} = \frac{1}{8}$, Sacrifice of $B = \frac{1}{2} - \frac{3}{8} = \frac{1}{8}$.

Sacrifice ratio of A and B $\Rightarrow \frac{1}{8}:\frac{1}{8} \Rightarrow 1:1$. Sacrifice A and B are equal.

$\therefore$ C's share of Goodwill is to be debited C's Capital A/c and credited to A's and B's Capital A/c equally.

7. **Books of Ajay**

Machinery Account

Dr					Cr
Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
1.1.2014	To Bank A/c (2,85,000 + 15,000)	3,00,000	31.12.2014	By Depreciation A/c (10% on 3,00,000)	30,000
			31.12.2014	By Balance c/d	2,70,000
		3,00,000			**3,00,000**
1.1.2015	To Balance b/d	2,70,000	31.12.2015	By Depreciation A/c (10% on 2,70,000)	27,000
			31.12.2015	By Balance C/A	2,43,000
		2,70,000			**2,70,000**
1.1.2016	To Balance b/d	2,43,000	31.12.2016	By Depreciation A/c (10% on 2,43,000)	24,300
			31.12.2016	By Balance c/d	2,18,700
		2,43,000			**2,43,000**
1.1.2017	To Balance b/d	2,18,700	31.12.2017	By Depreciation A/c (10% on 2,18,700)	21,870
			31.12.2017	By Balance c/d	1,96,830
		2,18,700			**2,18,700**

Dereciation Account

Dr					Cr
Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
31.12.2014	To Machinery A/c	30,000	31.12.2014	By Profit and Loss A/c	30,000
		30,000			**30,000**
31.12.2015	To Machinery A/c	27,000	31.12.2015	By Profit and Loss A/c	27,000
		27,000			**27,000**
31.12.2016	To Machinery A/c	24,300	31.12.2016	By Profit and Loss A/c	24,300
		24,300			**24,300**
31.12.2017	To Machinery A/c	21,870	31.12.2017	By Profit and Loss A/c	21,870
		21,870			**21,870**

8. Procedure of preparing Income and Expenditure Account :

   (i) Ignore the opening balance of cash and bank.

   (ii) Ignore all the capital receipts and capital expenditures

   (iii) Ascertain the revenue incomes of the current accounting period by taking into account additional information and credit them to Income and Expenditure Account.

   (iv) Ascertain the revenue expenses of the current year by taking into account the additional information and debit them to Income and Expenditure Account.

   (v) Ascertain the non-cash expenses like depreciation, loss on sale of fixed assets by taking into account the additional information and debit them to Income and Expenditure Account.

   (vi) Ascertain profit or loss from the trading activities if any, such as restaurant, bar, canteen etc. separately. Show those Profit/Loss in Income and Expenditure Account.

   (vii) Debtors and Creditors account are prepared for credit sales and purchases respectively.

   (viii) Ascertain the difference between the two sides of Income and Expenditure Account. If credit side is bigger, it is surplus and should be credited to Capital Fund. If debit side bigger, it is deficit and should be debited to Capital Fund. Capital Fund is shown on liability side of Balance Sheet.

9. The distinctions are :

Sl. No.	Basis of Distinction	Single Entry	Double Entry
1.	Principles and Assumptions	It is not based on specific principles and assumptions	It is based on certain principles and assumptions.
2.	Aspect of transactions	It does not record both aspect (debit & credit) of transaction.	It records both debit and credit aspect of transactions.
3.	Account Maintained	It usually records cash account and personal accounts.	It records all types of accounts, i.e. Personal, Real and Nominal.
4.	Trial Balance	Trial Balance cannot be prepared.	Trial Balance can be prepared.
5.	Arithmetic Accuracy	It cannot be checked.	It can be checked.
6.	Calculation of true Profit/Loss	Trading, P&L A/c cannot be prepared. So true profit/loss cannot be calculated.	Trading, PL A/c can be prepared to get true profit/loss.
7.	Financial Position	Balance Sheet cannot be prepared. So Correct financial position cannot be known.	Balance sheet can be prepared. So true/correct financial position can be known.
8.	Recognition	It is not recognized by Income Tax Authorities, Companies Act and other government agencies.	It is recognized by all.
9.	Business man	Usually small businessmen adopt this.	It is adopted by all types of business.
10.	Manipulation of Accounts	There is scope for manipulation of accounts and chances of brand.	There is no chance of manipulation of accounts and chances of fraud.

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2017 (A)

Time : 3 hours ***Full Marks : 80***

The figures in the right-hand margin indicate marks.
Carefully follow the instructions given in each Group and each Question

Group - A
All questions are compulsory

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit : [1x15=15]

(i) Transportation cost on purchase of a new machinery is a :
(a) Revenue expenditure
(b) Deferred revenue expenditure
(c) Recurring expenditure
(d) Capital expenditure

(ii) Income and Expenditure Account is prepared to know:
(a) Excess of income over expenditure
(b) Gross profit
(c) Net profit
(d) Financial position

(iii) Authorized capital is:
(a) The amount subscribed by the public
(b) The maximum amount of share capital up to which a company can issue
(c) The amount of subscribed capital less calls-in-arrear
(d) The amount offered to the public for subscription

(iv) An example of liquid asset is:
(a) Furniture (b) Cash
(c) Debtors (d) Building

(v) Manufacturing Account reveals:
(a) Net profit
(b) Appropriation of profit
(c) Cost of goods manufactured
(d) Gross profit

(vi) Bad debt is a :
(a) Loss (b) Asset
(c) Liability (d) Gain

(vii) Donations received for a special purpose is:
(a) Income (b) Liability
(c) Asset (d) Expenditure

(viii) Interest on drawings is a/an:
(a) Expense (b) Liability
(c) Asset (d) Income

(ix) The balance of Share Forfeiture Account is transferred to :
(a) Capital Reserve
(b) Profit and Loss Account
(c) Profit and Loss Appropriation Account
(d) General Reserve

(x) The document required for issue of share capital to the public is :
(a) Articles of Association
(b) Certificate of Incorporation
(c) Prospectus
(d) Memorandum of Association

(xi) Shareholders of a company get :
(a) Interest (b) Salary
(c) Commission (d) Dividend

(xii) Outstanding office rent is :
(a) Real Account
(b) Nominal Account
(c) Representative Personal Account
(d) Personal Account

(xiii) The asset on which depreciation is charged is:
(a) Liquid asset (b) Fixed asset
(c) Fictitious asset (d) Current asset

(xiv) Accrued interest is a/an :
(a) Liability (b) Income
(c) Expense (d) Asset

(xv) Profit and Loss Adjustment Account shows:
(a) Net profit
(b) Profit/Loss on revaluation
(c) Financial position.
(d) Gross profit

2. Answer the following questions as per instructions under each part : [1x15=15]

(a) Fill up the blanks of the following sentenses:

(i) Goodwill ia an example of ____ asset.

(ii) Annual repair to a machinery is ____ expenditure.

(iii) The balance of trading Account is transferred to the ____ account.

(b) Answer the following questions within one word/term each:

(iv) Give an example of wasting asset.

(v) How should the partners share profits when there is no mention in the partnership deed ?

(vi) To which account is the profit/loss of partners transferred when they keep the capital account fixed.

(vii) What type of asset is prepaid insurance?

(c) Answer the following questions within one sentence each:

(viii) How is General Reserve created?

(ix) What is Bad debt?

(x) What do you mean by Redeemable preference share?

(xi) How is interest on drawing calculated when dates of withdrawals are not known.

(d) Correct the underlined portions of the following sentenses:

(xii) Mine is a <u>liquid</u> asset.

(xiii) Subscription is a <u>capital</u> receipt.

(xiv) Trading account shows <u>net</u> profit.

(xv) Capital reserve is created out of <u>revenue</u> profit.

Group - B

3. Answer any eleven of the following questions within two sentences each: [2x11=22]

(a) Why is Profit and Loss Appropriation Account prepared ?

(b) State any two factors taken into consideration while calculating depreciation.

(c) Name any two clauses of Memorandum of Association.

(d) What is Bearer debenture?

(e) What do you mean by Doubtful debts?

(f) What will be the adjusting entry for 'Rent received in advance' ?

(g) Write any two expenses to be shown in the manufacturing Account.

(h) What is the formula for calculating manager's commission on net profit after charging such commission?

(i) What do you mean by par value of shares?

(j) What is secured debenture?

(k) Write the advantages of preference share.

(l) What is meant by issued capital?

(m) What is calls-in-arrear?

(n) How is 'subscription received in advance' treated in accounts?

4. Answer any six of the following questions within six sentences each: [3x6=18]

(i) Draft an imaginary partnership deed with at least six clauses.

(ii) Pass imaginary journal entries for 'forfeiture of shares' and 're-issue of forfeited shares'.

(iii) Write any three clauses of depreciation.

(iv) Mention any three differences between equity share and preference share.

(v) Explain 'Capital Fund'.

(vi) Pass an Opening entry with any six imaginary figures.

(vii) Distinguish between Manufacturing Account and Trading Account(any three).

(viii) Explain 'Provision for discount on debtors' and 'Reserve for discount on Creditors'.

Group - C

Answer any three of the following questions : [$7^1/_2$x4=15]

5. From the following balances, prepare the Profit and Loss Account of Rahul for the year ended on 31st December, 2015. His gross profit for the year was ₹ 89,500.

	(₹)
Salaries	15,000
Insurance	2,000
Carriage outward	750
Office rent	6,000
General expenses	450
Bad debt	1,750
Bad debts recovered	3,000
Advertisement	1,500
Depreciation	1,450
Commission received	1,500
Commission paid	2,375
Interest received	1,900
Loss by fire	545
Distribution of samples	1,700
Printing and Stationery	745

6. Write short notes on any three of the following :

(a) Average Profit method of Valuation of Goodwill

(b) Specific Reserve

(c) Fluctuating Capital method

(d) Sacrificing Ratio

7. A machinery is purchased for ₹1,20,000. Its estimated life is 10 years and its residual value is estimated at ₹20,000. It is decided to write off depreciation at 10% p.a. under Diminishing balance method. Show the Machinery Account and Depreciation Account for five years.

8. Sunshine Ltd. issued 20,000 Equity shares of ₹10 each at a premium of ₹2 per share. The amount was payable as ₹2 on application, ₹5 on allotment (including premium) and ₹5 on the first and final call. Applications were received for 22,000 shares out of which 2,000 were rejected and the rest were allotted on 100% basis. All the amounts due were received except the call money on 500 shares. These shares were forfeited and later re-issued at ₹ 6 per share as fully paid. Pass journal entries for the above transactions and the Balance Sheet of the company.

9. Distinguish between Receipt and Payment Account and Income and Expenditure Account.

10. Ajay and Bijoy were partners in a firm sharing profits and losses in the ratio of 3:2 respectively. Their Balance Sheet on 31.12.2015 was as under :

Liabilities	(₹)	Assets	(₹)
Sundry ceditors	60,000	Cash in hand	25,000
Bills payable	15,000	Cash at Bank	95,000
Reserve fund	1,05,000	Bills Receivable	45,000
Capital:	-	Sundry Debtors	1,05,000
Ajay 3,00,000		Closing stock	1,35,000
Bijoy 2,40,000	5,40,000	Furniture	35,000
		Machinery	2,80,000
	₹ 7,20,000		**₹7,20,000**

On the above date, they admitted Sanjay as a partner for one-fourth share in future profits.

Sanjay brought Rs. 1,50,000 as capital and Rs. 45,000 towards his share of goodwill. For this purpose, Closing stock was valued at Rs. 1,50,000, Furniture at Rs. 30,000 and Machinery at Rs. 2,60,000. Pass journal entries for the above transactions and prepare the opening Balance Sheet of the reconstituted firm.

***

ANSWERS 2017 (A)

Group - A

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit :

(i) (d) Capital expenditure

(ii) (a) Excess of income over expenditure

(iii) (b) The maximum amount of share capital up to which a company can issue

(iv) (b) Cash

(v) (c) Cost of goods manufactured

(vi) (a) Loss

(vii) (b) Liability

(viii) (d) Income

(ix) (a) Capital Reserve

(x) (c) Prospectus

(xi) (d) Dividend

(xii) (c) Representative Personal Account

(xiii) (b) Fixed asset

(xiv) (d) Asset

(xv) (b) Profit/Loss on revaluation

2. Answer the following questions as per instructions given under each part:

(a) (i) intangible

(ii) revenue

(iii) Profit and Loss

(b) (iv) Oil Wells / Quarries/Mines

(v) Equally

(vi) Partner's Current Account

(vii) Current / fictitious

(viii) Genral reserve is credited out of revenue profit. The journal entry is

Profit and Loss Account Dr
To General Account
(Being general reference created out of P& L A/c)

(c) (ix) The debt which can not be collected from sundry debtors within a reasonable period of time is called bad debt.

(x) The preference shares which have preferential rights with respect to the redemption of capital over equity shareholders in the event of liquidation is called Redeemable Preference shares.

(xi) The interest on drawings is calculated on six months on the total amount of drawings when dates of withdrawals are not known.

(d) (xii) Wasting

(xiii) Revenue

(xiv) Gross

(xv) Capital

Group - B

3. Answer any eleven of the following questions within two sentences each:

(a) Profit and Loss Appropriation Account is prepared to appropriate/distribute the profit among the partners. Interest on drawings, interest on capital salary/commission to partners are considered at the time of preparing it.

(b) Cost of the asset and useful life are two factors of depreciation.

(c) Any two clauses of Memorandum of Association are : Capital Clause, Name Clause/Object Clause.

(d) Bearer debentures are those debentures which can be freely transferable and holders of such debentures get interest on the due date.

(e) The expected unrecovered portion of debts/ sundry debtors is called as doubtful debt. In other words, it is a debt whose recovery is doubtful.

(f) The adjusting entry for "Rent Received in Advance' is :
Rent A/c Dr
To Rent Received in Advance A/c
(Being rent received in advance)

(g) Two expenses shown on the manufacturing account are : Wages, Coal, Gas and Water, Power etc.

(h) The formula is :
$\frac{\text{Rate of Commission}}{100+\text{Rate of Commission}}$ x Net profit before commission.

(i) When shares are issued in the market at a price equal to its face value/nominal value, it is called per value of shares. It is equal to face value of shares. Par Value = Market Value = Face Value.

(j) When debentures are issued by giving security of any asset of the company, the debentures are called 'secured debentures'.

(k) The advantages of preference shares are :

(i) The holder is entitled to get dividend at a fixed rate before payment of dividend to equity share holders;

(ii) The holder has preferential right with regard to repayment/redemption of capital at the time of winding up of the company.

(l) Issued capital is that part of authorised capital which is issued to the public for subscription.

(m) Calls-in-Arrear is a part of the called-up capital not paid by the shareholders or before the due date to the company.

(n) Subscription received in advance is a liability to the “not for profit” organisation. It is usually given in the adjustment. So, subscription received in advance is deducted from subscription received in the income side of Income and Expenditure Account and again it is taken to the liabilities side of Balance Sheet. It is a current liability to the concern.

4. Answer any six of the following questions within six sentences each:

(i) Imaginary Partnership Deed with six clauses:

(1) Name of the firm : M/s Glorious Brothers

(2) Name & Address :
Sanat Panda, At/Po-Khandagiri, Bhubaneswar
Manmath Panda, At/Po-Jagamara, Bhubaneswar

(3) Nature of Business - Manufacturing Steel Furniture

(4) Place of Business :
Khurda Industrial Estate, Sarua.

(5) Capital Contributed by each partner :
Sanat Panda - ₹ 7,00,000
Manmath Panda - ₹ 8,00,000

(6) Profit sharing ratio of Partners - Equal

Sd/- Sanat Panda
Sd/- Manmath Panda

(ii) Imaginary journal entries for forfeithre of shares and ‘re-issue of forfeited shares’ :

(a) Equity Share Capital A/c Dr. ₹20,000
To Calls in Arrear A/c ₹ 4,000
To Shares Forfeited A/c ₹ 16,000
(Being 200 equity shares of ₹100 each issued at par, now forfeited far non-payment of Final Call Money @ ₹20)

(b) Bank A/c Dr ₹18,000
Shares Forfeited A/c Dr ₹ 2,000
To Equity Share Capital A/c ₹20,000
(Being 200 forfeited equity shares : at reissued @ ₹90 per share as fully paid up)

(c) Shares Forfeited A/c Dr ₹14,000
To Capital Reserve A/c 14,000
(Being the balance in shares forefeited account transfered to Capital Reserve Account)

(iii) Three causes of depreciation are :

(a) Wear and tear - Fixed assets depreciate because of wear and tear, i.e. constant use.

(b) Passage of Time - The value of most fixed asets fall because of passage of time. For example patents, lease, depreciate due to passage of time.

(c) Obsolenscence - It is a process of fixed asset being outfashioned/out of date because of rapid development of technology. The assets become absolete and discarded.

(iv) Three differences between equiity share and Preference Share :

Equity Share

(1) Dividend is paid when profit is available after payment of dividend on Preference shares.

(2) Rate of dividend is not fixed.

(3) The equity shareholders have voting rights.

Preference Share

(1) Dividend is paid on preference shares before equity shares.

(2) Rate of dividend is fixed.

(3) The preference shareholders are generally restricted, but can vote on special occasions.

(v) Capital Fund is known as General Fund. Ordinarily, it is the capital of 'not for profit' organisation. It is the excess of total assets over the total outside liabilities of "not for profit" organisation. It is increased by surplus and decreased by deficit.

(vi) Opening Entry with six imaginary figures :

Cash A/c	Dr	15,000	
Stock A/c	Dr	25,000	
Debtors A/c	Dr	40,000	
Plant and Machinery A/c	Dr	2,20,000	
To Sundry Creditors A/c			30,000
To Capital A/c			2,70,000

(Being the closing balance of previous brought to curret year)

(vii) Distinctions between Manufacturing Account and Trading Account

Manufacturing Account

(1) It ascertains cost of goods produced.

(2) It is prepared by all manufacturing units.

(3) Manufacturing Account is prepared first then Trading A/c and other normal accounts are prepared.

Trading Account

(1) It ascertains gross profit.

(2) It is prepared by both trading and manufacturing concerns.

(3) Trading Account succeeds Manufacturing Account.

(viii) **Provision for discount on debtors :** It is a provision made in the expection of sundry debtors paying cash earlier/promptly. This provision is made for prompt payment by good debtors.

Reserve for Discount on Creditors : A trader also expects to receive discount from his creditors by making early payment. So the trader creates a reserve/provision for discount on creditors.

Group - C

Answer any three of the following questions :

5. **Profit and Loss Account of Rahul for the year ended 31st December, 2015.**

Dr **Cr**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Salaries	15,000	By Gross Profit b/d	89,500
To Insurance	2,000	By Bad debts Recovered	3,000
To Carriage Outward	750	By Commission Received	1,500
To Office Rent	6,000	By Interest Received	1,900
To General Expenses	450		
To Bad Debts	1,750		
To Advertisement	1,500		
To Depreciation	1,450		
To Commission Paid	2,375		
To Loss by Fire	545		
To Distribution of Samples	1,700		
To Printing & Stationery	745		
To Net Profit Transferred to Capital A/c	61,635		
	95,900		**95,900**

6. Short notes on any three :

(a) **Average Profit method of valuation of Goodwill :** Goodwill is valued at a few years' purchase of adjusted average past profits. Goodwill = Average profit x No. of years purchase.

(b) **Specific Reserve :** A specific reserve is one which is created for some specific purpose by debiting Profit and Loss Appropriation Account. The Board of Directors keep aside funds from general operating income of a company.

(c) **Fluctuating Capital Method :** Under this method, only one account namely 'Capital Account' is maintained for each partner. All transactions of a partner are recorded in his Capital Account. The transactions of a partner are (salary, commission, interest on capital, interest on drawings, drawing, additional capital introduced, share of profit/loss recorded in his Capital Account.

(d) **Sacrificing Ratio :** Whenever there is a change in the profit sharing ratio, one or more of the existing partners have to surrender some of their old share in favour of one or more old and new partners. The Ratio of surrender of the share of profit is called sacrificing ratio. So sacrificing Ratio = Old Share - New Share.

7. **Machinery Account**

Dr **Cr**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1st Year Begining	To Bank A/c	1,20,000	1st Year End	By Depreciation A/c By Balance c/d	12,000 1,08,000
		1,20,000			**1,20,000**
2nd Year Begining	To Balance b/d	1,08,000	2nd Year End	By Depreication A/c By Balance c/d	10,800 97,200
		1,08,000			**1,08,000**
3rd Year Begining	To Balance b/d	97,200	3rd Year End	By Depreciation A/c By Balance c/d	9,720 87,480
		97,200			**97,200**
4th Year Begining	To Balance b/d	87,480	4th Year End	By Depreciation A/c By Balance c/d	8,748 78,732
		87,480			**87,480**
5th Year Begining	To Balance b/d	78,732	5th Year End	By Depreciation A/c By Balance c/d	7,873 70,859
		78,732			**78,732**

Depreciation Account

Dr **Cr**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1st Year End	To Machinery A/c	12,000	1st Year End	By P & L A/c	12,000
		12,000			**12,000**
2nd Year End	To Machinery A/c	10,800	2nd Year End	By P & L A/c	10,800
		10,800			**10,800**
3rd Year End	To Machinery A/c	9,720	3rd Year End	By P & L A/c	9,720
		9,720			**9,720**
4th Year End	To Machinery A/c	8,748	4th Year End	By P & L A/c	8,748
		8,748			**8,748**
5st Year End	To Machinery A/c	7,873	5th Year End	By P & L A/c	7,873
		7,873			**7,873**

8. **Books of Sushine Ltd.**

Journal

Date	Particulars	LF	Amount Dr. (₹)	Amount Cr. (₹)
	Bank A/c Dr To Equity Share Application A/c (Being application money received on 22000 shares @ ₹2 each)		44,000	 44,000
	Equity Share Application A/c Dr To Bank A/c To Equity Share Capital A/c (Being application money on 20,000 shares transferred to Equity Share Capital A/c and on 2000 shares returned)		44,000	 4,000 40,000
	Equity Share Allotment A/c Dr To Equity Share Capital A/c To Securities Premium Reserve A/c (Being allotment money due on 20,000 shares at a premum of ₹2 per share)		1,00,000	 60,000 40,000
	Bank A/c Dr To Equity Share Allotment A/c (Being allotment money received)		1,00,000	 1,00,000
	Equity Share First Final Call A/c Dr To Equity Share Capital A/c (Being First & Final Call Money due on 20,000 shares @ ₹5 each)		1,00,000	 1,00,000
	Bank A/c Dr Calls in Arrear A/c Dr To Equity Share First & Final Call A/c (Being First and Final Call money received on 19500 shares only)		97,500 2,500	 1,00,000
	Equity Share Capital A/c Dr To Calls in Arrer A/c To Shares Forfeited A./c (Being 500 shares forfeited)		5,000	 2,500 2,500
	Bank A/c Dr Shares Forfeited A/c Dr To Equity Share Capital A/c (Being 500 forfeited shares re-issueed @ ₹6 per share as fully paid)		3,000 2,000	 5,000
	Shares Forfeited A/c Dr To Capital Reserve A/c (Being the balance of Share Forfeited A/c is transferred to Capitl Reserve A/c)		500	 500

Balance Sheet of Sunshine Ltd. as on ....

Equity & Liabiltiies			Amount (₹)	Assets	Amount (₹)
Shareholders Fund :				Current Assets	
(a)	Equity Share Capital	2,00,000		Cash & Cash Equivalents :	
(b)	Reserve & Surplus			Cash at Bank	
	Capital Reserve	500		(₹44,000 - ₹ 4,000+ ₹ 1,00,000	2,40500
	Securities Premium Reserve	40,000		+ ₹ 97,500 + ₹3,000)	
			2,40,500		
			2,40,500		**2,40,500**

9. Refer to Solved Papers of Annual H. S. Examination 2019 - Question No. 9.

10. **Journal Entires**

Date	Particulars		LF	Amount Dr. (₹)	Amount Cr. (₹)
	Cash A/c	Dr		1,95,000	
	To Sanjay's Capital A/c				1,50,000
	To Goodwill A/c				45,000
	(Being cash received as capital of Sanjay new partner and premium for good will.				
	Goodwill A/c	Dr		45,000	
	To Ajay's Capital A/c				27,000
	To Bijoy's Capital A/c				18,000
	(Being good will brought in cash transferred to old partner's Capital A/c in their sacrificing ratio)				
	Revaluation A/c	Dr		25,000	
	To Furniture A/c				5,000
	To Machinery A/c				20,000
	(Being decrease in the value of assets)				
	Closing Stock A/c	Dr		15,000	
	To Revaluation A/c				15,000
	(Being increase in the value of assets)				
	Ajay's Capital A/c	Dr		6,000	
	Bijoy's Capital A/c	Dr		4,000	
	To Revaluation A/c				10,000
	(Being loss onrevlaution transferred to old partners in old P.S. ratio)				
	Reserve Fund A/c	Dr		1,05,000	
	To Ajay's Capital A/c				63,000
	To Bijoy's Capital A/c				42,000
	(Being Reserve Fund transferred to old partners Capital A/c in old P.S. ratio)				

Balance Sheet of New Firm

Liabiltiies		Amount (₹)	Assets	Amount (₹)
Capital			Cash in hand	2,20,000
Ajay	3,84,000		(25,000 + 1,95,000)	
Bijoy	2,96,000		Cash at Bank	95,000
Sanjay	1,50,000		Bills Receivable	45,000
		8,30,000	Sundry Debtors	1,05,000
Sundry Creditors		60,000	Closing Stock	1,50,000
Bills Payable		15,000	Furniture	30,000
			Machinery	2,60,000
		9,05,000		**9,05,000**

Workings :

Capital A/c of Old Partners

Dr **Cr**

Particulars	Ajay (₹)	Bijoy (₹)	Particulars	Ajay (₹)	Bijoy (₹)
To Revaluation Loss A/c	6,000	4,000	By Balance b/d	3,00,000	2,40,000
To Balance c/d	3,84,000	2,96,000	By Goodwill	27,000	18,000
			By Reserve Fund	63,000	42,000
	3,90,000	**3,00,000**		**3,90,000**	**3,00,000**

***

GROUP - A

OBJECTIVE TYPE QUESTIONS

1. From the following alternatives given under each bit, write serially the correct answer along with its serial number against each bit :

Unit - I

A. Financial Statements of Sole Trade Organisations

(i) Revenue expenditure gives benefit for :
(a) Previous year (b) Current year
(c) Future year (d) Two years

(ii) Wages spent for transportation of machinery is a :
(a) Revenue expenditure
(b) Deferred revenue expenditure
(c) Capital expenditure
(d) Capital loss

(iii) Capital expenditure is one which gives benefits for :
(a) Current year (b) Future years
(c) Previous year (d) Less than one year

(iv) Heavy amount spent on advertisement of a new product is :
(a) Revenue expenditure
(b) Capital loss
(c) Revenue loss
(d) Capital Expenditure

(v) Trading Account reveals :
(a) Gross profit / Loss
(b) Financial position
(c) Net profit / Loss
(d) Stock position

(vi) Profit and Loss Account reveals :
(a) Stock position
(b) Net profit / loss
(c) Financial position
(d) Gross profit / loss

(vii) Balance sheet of a trader reveals :
(a) Financial position/ health of the business
(b) Assets position of the business
(c) Profitability of the business
(d) Liabilities position of the business

(viii) Manufacturing Account is prepared to know the :
(a) Cost of goods sold
(b) Total cost
(c) Cost of production
(d) Only material and Labour cost

(ix) Gross profit is :
(a) Sales - cost of goods sold
(b) Sales - cost of sales
(c) Sales-(Closign stock+cost of goods sold)
(d) Sales - Opening stock

(x) Closing stock appearing in the Trial Balance is transferred to;
(a) Trading Account only
(b) Trading Account and Balance sheet
(c) Trading and profit and Loss Account
(d) Balance Sheet Only.

(xi) Income tax paid by the sole trader is shown in :
(a) Trading Account
(b) Profit and Loss Account
(c) Assets Side of Balance Sheet
(d) Liabilities Side of Balance Sheet as a deduction from Capital Account

(xii) Royalty on copy right is :
(a) Direct expense
(b) Indirect expense
(c) Both direct and indirect expense
(d) Neither direct nor indirect expense

(xiii) Royalty on patent is :
(a) Direct expense
(b) Indirect expense
(c) Both direct expense and indirect expense
(d) Neither direct nor indirect expense

(xiv) An example of intangible asset is :
(a) Machiney (b) Mines
(c) Prepaid Expenditure (d) Patent

(xv) Direct expenses are shown in :
(a) Balance sheet
(b) Trading Account
(c) Profit and loss account
(d) Profit and loss account and Balance sheet

(xvi) Indirect expenses are shown in :
(a) Balance sheet
(b) Profit and loss account
(c) Trading Account
(d) Manufacturing Account

(xvii) Salary and wages are taken in :
(a) Trading Account
(b) Manufacturing Account
(c) Profit and loss account
(d) Balance sheet

(xviii) Wages and salaries taken in :
(a) Trading Account
(b) Manufacturing Account
(c) Profit and loss account
(d) Balance sheet

(xix) One of the following is not shown in Balance Sheet ?
(a) Current Liability
(b) Current Asset
(c) Non-Curretn Liability
(d) Contingent Liability

(xx) One of the following is not deducted from capital :
(a) Net Loss (b) Income Tax
(c) Loan (d) Drawings

(xxi) Outstanding expenses is a / an :
(a) Asset (b) Income
(c) Liability (d) Expense

(xxii) Accrued income is a / an :
(a) Asset (b) Liability
(c) Income (d) Expense

(xxiii) Prepaid expense is an example of :
(a) Current Asset (b) Intangible asset
(c) Fixed Asset (d) Fictitious asset

(xxiv) Income received in advance is a / an :
(a) Asset (b) Income
(c) Liability (d) Expense

(xxv) Prepaid Insurance appearing in the Trial Balane is shown in :
(a) Trading Account Only
(b) Profit and Loss Account only
(c) Balance sheet only
(d) Balance sheet and Trading Account

(xxvi) Royalty calculated on sale is :
(a) Direct Expense
(b) Indirect Expense
(c) Deduction from sale
(d) Deducted from purchase

(xxvii) The closing stock is valued at :
(a) Cost price
(b) Cost / mark prie which ever is less
(c) Market price
(d) Inflated price

(xxviii) Marshalling of a Balance Sheet implies :
(a) Arranging assets and liabilities in the order of liquidity
(b) Totalling the assets and liabilities
(c) Arranging only assets in order of liquidity
(d) Arranging only liabilities in order of liquidity

(xxix) A manager's commission of 10% on net profit of Rs.3,30,000 after charging such commission is :
(a) Rs. 33,000 (b) Rs.30,000
(c) Rs. 30,300 (d) Rs.33,330

(xxx) A Manager's commission of 10% on net proft of Rs.2,20,000 before charging such commission is :
(a) Rs. 20,000 (b) Rs.22,200
(c) Rs. 22,000 (d) Rs.20,200

B. Financial Statements of Not for Profit Organisations

(i) The objective of a not for profit organisation is to :

(a) Work with profit motive
(b) Provide service free of cost
(c) Work without profit motive
(d) Work with profit motive sometimes

(ii) Receipts and payments Account is a :

(a) Personal Account
(b) Real Account
(c) Nominal Account
(d) Cash Account

(iii) Income and Expenditure Account is a :

(a) Personal Account
(b) Real Account
(c) Nominal Account
(d) Representative Personal Account

(iv) Receipts and Payments Account reveals :

(a) Net profit / Loss (b) Surplus / deficit
(c) Balance of Assets (d) Balance of cash

(v) Income and Expenditure Account reveals :

(a) Balance of cash (b) Net profit / Loss
(c) Surplus / deficit (d) Capital fund

(vi) Income and Expenditure Accout is the other name of :

(a) Trading Account
(b) Profit and Loss Account
(c) Balance Sheet
(d) Profit and Loss Appropriation Account

(vii) The closing balane of Receipts and Payments Account is transferred to :

(a) Trial Balance
(b) Income and Expenditure Account
(c) Balance Sheet
(d) Both Balance sheet and Income and Expenditure Account

(viii) The closing balance of Income and Expenditure Account is transferred to:

(a) Balance Sheet
(b) Receipts and Payments Account
(c) Trial Balance
(d) Profit and Loss Account

(ix) Income and Expenditure Account contains :

(a) Capital items
(b) Revenue items
(c) Both of these
(d) None of these

(x) Receipts and payments account is prepared from :

(a) Subsidiary books
(b) Income and Expenditure Account
(c) Cash book
(d) Balance sheet

(xi) Receipts and payments account contains :

(a) Revenue items
(b) Capital items
(c) Both of these
(d) None of these

(xii) Not for profit organisations prepare :

(a) Manufacturing Account
(b) Profit and Loss Account
(c) Profit and Loss Appropriation Account
(d) Income and Expenditure Account

(xiii) Subscription received in advance during an accounting year is a/ an:

(a) Asset (b) Liability
(c) Income (d) Expense

(xiv) Subscription outstanding at the end of the accounting year is a / an:

(a) Asset (b) Liability
(c) Income (d) Expense

(xv) Donation received for a specific purpose is a :
- (a) Revenue receipt
- (b) Capital receipt
- (c) Revenue expenditure
- (d) Capital expenditure

(xvi) Life membership fee is a / an :
- (a) Revenue receipt
- (b) Capital receipt
- (c) Revenue expenditure
- (d) Capital expenditure

(xvii) Legacy may be treated as :
- (a) Revenue receipt
- (b) Capital receipt
- (c) Capital expenditure
- (d) Revenue expenditure

(xviii) Sale of old news paper is a / an :
- (a) Revenue receipt
- (b) Capital receipt
- (c) Capital or Revenue Receipt
- (d) Revenue expenditure

(xix) The day to day transactions are recorded in :
- (a) Trial Balance
- (b) Income and Expenditure Account
- (c) Cash book
- (d) Receipt and Payments Account

(xx) Special Fund usually appears in :
- (a) Income and Expenditure Account
- (b) Receipt and Payments Account
- (c) Balance sheet
- (d) Trial Balance

(xxi) The difference between assets and liabilities of opening Balance sheet is :
- (a) Surplus
- (b) Capital Fund
- (c) Reserve fund
- (d) Deficit

(xxii) General donation is treated as :
- (a) Revenue income
- (b) Capital income
- (c) Revenue income if it is a small acmount
- (d) Both Revenue and Capital income

Unit - II

A. Accounting for Depreciation

(i) Depreciation is the permanent decrease in the value of asset due to
- (a) fall in the market value
- (b) fall in the technical value
- (c) use and lapse of time
- (d) fall in the value of money

(ii) Depreciation is changed on :
- (a) current assets
- (b) fixed assets
- (c) fictitions assets
- (d) liquid assets

(iii) The main objective of depreciation is to :
- (a) ascertain true profit/loss
- (b) replace the fixed asset
- (c) determine the cost of production
- (d) all of these

(iv) Depreciation is calculated on the basis of :
- (a) cost price
- (b) market price
- (c) cost or market price which ever is less
- (d) average of cost and market price

(v) Under straightline method of depreciation, the amount of annual depreciation :
- (a) Increases every year
- (b) Decreases every year
- (c) Remains constant
- (d) Both increases and decreases

(vi) Under the diminishing balance method, the amount of depreciation :
- (a) Increases every year
- (b) Decreases every year
- (c) Remains constant
- (d) Both increases and decreases

(vii) Depreciation is a / an :
- (a) income (b) loss
- (c) asset (d) liability

(viii) Depreciation is charged to :
(a) Trading Account
(b) Profit and Loss Account
(c) Profit and Loss Appropriation Account
(d) Profit and Loss Adjustment Account

(ix) Profit on sale of machinery should be credited to :
(a) Profit and Loss Account
(b) Trading Account
(c) Profit and Loss Appropriation Account
(d) Provision for depreciation Account

(x) The cost of plant is Rs.50,000. Depreciation is provided @10% p.a. on written down value method. The depreciation for 3rd year will be:
(a) Rs.5000 (b) Rs.4000
(c) Rs.4500 (d) Rs.4050

(xi) If the cost of the asset is Rs.31,000 and scrap value is Rs.1,000; then the amount of depreciation @10% p.a. on written down value method for the 2nd year will be :
(a) Rs.3000 (b) Rs.2790
(c) Rs.3100 (d) Rs.2700

(xii) One of the assets given below is pressumed not to be depreciated :
(a) Plant (b) Machinery
(c) Land (d) Mine

(xiii) The amount of depreciation charged against asset will be debited to :
(a) Machinery Account
(b) Furniture Account
(c) Depreciation Account
(d) Profit and Loss Account

(xiv) The term 'depletion' is used in relation to :
(a) Fixed Asset
(b) Wasting assets
(c) Current Assets
(d) Intangible assets

(xv) Depreciation involves a :
(a) Cash expense
(b) Non-cash expense
(c) Both of these
(d) Non of these

B. Accounting from Incomplete Records (Single Entry System)

(i) The name single entry system is introduced into accounting because of / for :
(a) Only one aspect of each transaction is recorded
(b) Only the debit aspect of the transaction is recorded
(c) Every transaction is recorded in cashbook
(d) Incomplete records

(ii) Under the single entry system, it is not possible to prepare trial balance
(a) Because only debit aspect of a transaction is recorded
(b) Unless missing items are ascertained
(c) Because only one aspect of a transaction is recorded
(d) None of these

(iii) When adjusted closing capital is greater than opening capital, it denotes:
(a) Profit
(b) Loss
(c) Neither profit nor loss
(d) At times profit, At times loss

(iv) When adjusted closing capital is less than opening capital, it denotes :
(a) Profit
(b) Loss
(c) Neither profit nor loss
(d) At times profit, At times loss

(v) Incomplete records are generally prepared by :
(a) Company (b) Sole trader
(c) Government (d) Banks

(vi) The other name of incomplete records is :
(a) Single entry (b) Multiple entry
(c) Complete records (d) Full entry

(vii) The opening balance of capital can be ascertained by preparing :
(a) Capital Account
(b) Opening balance sheet
(c) Opening statement of affairs
(d) Cash Account

(viii) The closing balance of capital can be ascertained by preparing :
(a) Capital Account
(b) Closing balance sheet
(c) Closing statement of affairs
(d) Cash Account

(ix) Adjusted closing capital is :
(a) Opening capital-Additional capital-Drawings
(b) Opening capital+Additional capital+ Drawings
(c) Opening capital + Additional capital - Drawings
(d) Opening capital - Additional capital + Drawings

(x) In case of networth method of single entry, profit of the business can be ascertained by preparing :
(a) Trading Account and Profit and Loss Account
(b) Statement of affairs at the begining and at the end of the period
(c) Balance sheet at the begining and at the end of the period
(d) None of these method

(xi) Under the single entry system of book-keeping which accounts are maintained :
(a) Personal Accounts
(b) Real Accounts
(c) Real & Nominal Accounts
(d) All accounts

(xii) Under the single entry system of accounting, arithmetial accuracy :
(a) Can be checked
(b) Can not be checked
(c) Can be checked by converting the incomplete records to completed records.
(d) May or may not be checked

(xiii) Under the single entry system, true value of the business can not be determined due to the absence of :
(a) A precise balance sheet
(b) A statement of affairs
(c) A profit and loss account
(d) Trading and Profit and Loss account

(xiv) The process of maintaining records under single entry system is :
(a) Uniform
(b) Not uniform
(c) As per prescribed method
(d) None of these

(xv) In single entry system of accounting, it is not possible for :
(a) Checking arithmetic accuracy
(b) Ascertaining true profit
(c) Internal check
(d) All of these

(xvi) Under single entry system, one has to depend on :
(a) Cash and personal transactions
(b) Cash transactions
(c) Personal Accounts
(d) Original vouchers

(xvii) Statement of affairs is prepared on the basis of :
(a) Trial Balance
(b) Some ledger accounts and estimates
(c) Cash book only
(d) Personal accounts only

(xviii) Statement of affairs is prepared always at the :
(a) End of the year
(b) Begining of the year
(c) Either at the end on begining of the year
(d) Middle of the year

(xix) Under single entry system, there is :
(a) No scope for manipulation of accounts
(b) Scope for manipulation of accounts
(c) Little scope for manipulation of accounts
(d) Sometimes no scope for manipulation of accounts

(xx) Under the single entry system, double entry is followed :
(a) Fully
(b) Partially
(c) In a half-hazard manner
(d) All of these

Unit - III

A. Accounting for Partnership Firm

(i) Indian Partnership Act was enacted in the year :
(a) 1956 (b) 1932
(c) 1912 (d) 2013

(ii) The maximum number of partners in a banking business is :
(a) Two (b) Seven
(c) Twenty (d) Ten

(iii) In the absence of an agreement profit and losses are divided by partners in the ratio of :
(a) Capital
(b) Drawings
(c) Capital less drawings
(d) Equality

(iv) In the absence of an agreement to the contrary, partners are :
(a) Entitled to 6% interest on loans to firm, only when there isprofit
(b) Entitled to 6% interest on loans to firm whether there are profits or not
(c) Not entitled to any interest on loans to firm
(d) Entitled to 8% interest on loans to firm

(v) The Liability of a partner is :
(a) Unlimited
(b) Limited
(c) Limited by guarantee
(d) Limited up to their capital

(vi) A partner and his business exists :
(a) Independently (b) Together
(c) For others (d) For creditors

(vii) Partners' current accounts are opened when their capital accounts are:
(a) Fluctuating
(b) Fixed
(c) Either Fixed or Fluctuating
(d) None of these

(viii) The current accounts of a partner :
(a) Will always have a credit balance
(b) Will always have a debit balance
(c) May have a debit or credit balance
(d) None of these

(ix) Interest on capital of partners if allowed, will be paid :
(a) Only out of profits
(b) Only out of capital
(c) Either out of profits on out of capitals
(d) None of these

(x) Interest on partners' capital account is to be credited to :
(a) Partners' capital account
(b) Interest account
(c) Profit and loss account
(d) Profit and loss Adjustment account

(xi) If interest allowed on capital, it is calculated on the :
(a) Capital at the end of the year
(b) Capital at the begining of the year
(c) Capital at the end less drawings
(d) Average capital

(xii) Profit and Loss Appropriation Account is prepared after the preparation of :
(a) Trading Account
(b) Profit and Loss Account
(c) Manufacturing Account
(d) Balance sheet

(xiii) The items appearing in the Profit and Loss Appropriation Account are:
(a) Interest on capital
(b) Interest on drawings
(c) Salaries or commission
(d) All of these

(xiv) The purpose of preparing profit and loss appropriation account is :
(a) Same with profit and loss account
(b) How profits have been utilised and distributed
(c) How salary is calculated
(d) How interest on capital is calculated

(xv) Partner's Capital Account and Partner's current Account are opened in the case of :
(a) Fixed capital Method
(b) Fluctuating capital method
(c) Both of these
(d) None of these

(xvi) Under fluctuating capital account method, the account maintained in addition to Partner's Capital Account is :
(a) Current Account (b) Drawings Account
(c) Both of these (d) None of these

B. Goodwill

(i) Goodwill is a / an :
(a) Tangible asset (b) Fictitions asset
(c) Current asset (d) Intangible asset

(ii) The excess of actual profit over normal profit is :
(a) Normal profit (b) Super profit
(c) Gross profit (d) Net profit

(iii) Profit for last three years were Rs.26,000, Rs.20,000 and Rs,14,000; value of goodwill at two years purchase of average three years profit will be :
(a) Rs.20,000 (b) Rs.35,000
(c) Rs.30,000 (d) Rs.40,000

(iv) Under capitalisation of super profit method, goodwill is calculated by :
(a) (Average Profit) x (Years of Purchase)
(b) (Super Profit) x (Years of Purchase)
(c) (Super Profit) ÷ (expected rate of return)
(d) Total of time value of expected future profit

(v) When incoming partner pays for goodwill in cash, the amount should be debited to :
(a) Cash account
(b) Goodwill account
(c) Capital account of incoming partner
(d) Capital account of existing partner

(vi) A firm enjoying monopoly over the products can have goodwill of
(a) Higher value (b) Lower value
(c) Medium value (d) Lowest value

(vii) Higher the degree of risk, the amount of goodwill is :
(a) More (b) Less
(c) Equal to risk (d) Non of these

(viii) Super profit is equal to :
(a) (Average profit) ÷ (Normal rate of return)
(b) (Average profit) - (Normal profit)
(c) (Total profit) ÷ (Number of years)
(d) (Weighted profits) ÷ (Number of weights)

(ix) If super profit is Rs.12,000 and normal rate of return is 15%, the good will is :
(a) Rs.75,000 (b) Rs.1,20,000
(c) Rs.80,000 (d) Rs.88,000

(x) Capital employed is :
(a) Capital + free reserves - fictitious assets (if any)
(b) All assets - goodwill - fictitious assets - non trade investments - outsiders' liability
(c) None of these
(d) Both of these

(xi) Normal profit is :
(a) Total capital employed x $\dfrac{\text{actual rate of return}}{100}$
(b) Total capital employed x $\dfrac{\text{normal rate of return}}{100}$
(c) Average capital employed x $\dfrac{\text{actual rate of return}}{100}$
(d) Average capital employed x $\dfrac{\text{normal rate of return}}{100}$

C. Reconstitution of Partnership

(i) Reconstitution of partnership firm means :

(a) Change in the existing deed

(b) Change in the place of business

(c) No change in the existing deed

(d) No change in the place of business

(ii) Reconstitution of partnership firm is possible if :

(a) Some partners agree

(b) All partners agree

(c) At least one partner agrees

(d) Majority partners agree

(iii) The circumstance leading to reconstitution of partnership firm is :

(a) Change in the profit sharing ratio

(b) Admission of a new partner

(c) Retirement and / or death of a partner

(d) All of these

(iv) The profit on revaluation of assets and liabilities are shared by :

(a) Old partners in the sacrificing ratio

(b) Old partners including new in new ratio

(c) Old partners in old profit sharing ratio

(d) Old partners equally

(v) When assets are revalued, any increase in the value of assets is debited to :

(a) Profit and Loss Account

(b) Profit and Loss appropriation Account

(c) Revaluation Account

(d) Asset Account

(vi) A and B sharing profits in the ratio of 3:2, admit C as a partner with 1/5th share. The new profit sharing ratio is :

(a) 15 : 7 : 3 (b) 12 : 8 : 5

(c) 12 : 12 : 6 (d) 12 : 10 : 8

(vii) P and Q are partners sharing profits in the ratio of 3:2 and they admit R as a partner with 1/6th share. The new profit sharing ratio is

(a) 2 : 2 : 2 (b) 3 : 2 : 1

(c) 4 : 3 : 2 (d) 5 : 3 : 2

(viii) X and Y sharing profits in the ratio of 3:2 and admit z as a partner with 1/6th share. The ratio of sacrifice of X and Y is :

(a) 3 : 2 (b) 2 : 3

(c) 3 : 4 (d) 3 : 5

(ix) M and N sharing profits in the ratio of 5:3, admit O and their new profit sharing is fixed at 4:2:2. The ratio of sacrifice of M and N is

(a) 1 : 2 (b) 2 : 1

(c) 1 : 1 (d) 5 : 3

(x) Increase in liability amounts to :

(a) Gain to old partners

(b) Loss to old partners

(c) Neither gain no loss

(d) Gain to new partner

(xi) An old partner's Capital Account is debited when there is :

(a) Credit balance in profit and loss account

(b) Debit balance in the profit and loss account

(c) General reserves

(d) Workmen's Compensation Fund

(xii) Revalution Account is a :

(a) Real Account

(b) Personal Account

(c) Nominal Account

(d) Contingenet Account

(xiii) When all the partners including the incoming partner decide not to change the value of the assets and liabilities, they prepare :

(a) Revaluation Account

(b) Suspense Account

(c) Profit and Loss Adjustment Account

(d) Memorandum Revaluation Account

(xiv) A, B and C are partners sharing profit and losses in the ratio of 4:3:1. They agreed to share the future profits in the ratio of 5:4:3 who is to gain?

(a) A (b) B

(c) C (d) A and B

(xv) When c is admitted by taking $\frac{1}{5}$ th share from A, then the sacrifice of A is :

(a) $\frac{1}{5}$ (b) $\frac{2}{15}$

(c) $\frac{2}{5}$ (d) $\frac{2}{3}$

(xvi) When the share of goodwill of a new partner is brought in cash, it is shared by :

(a) Old partners in old profit sharing ratio

(b) Old partners in sacrificing ratio

(c) Old partners in gaining ratio

(d) All the partners in the new ratio

(xvii) A new partner may be admitted to the partnership

(a) With the consent of all partners

(b) Without the consent of all partners

(c) With the consent of majority partners

(d) With the consent of any one partner

(xviii) At the time of admission of new partner, if there appears goodwill in the books, it is shared among the old partners in

(a) New profit sharing ratio

(b) Old profit sharing ratio

(c) Sacrificing ratio

(d) Equally

(xix) X, Y and Z are partners in a firm. If A is to be admitted as a new partner

(a) Old partnership is dissolved

(b) Both old firm and partnership is dissolved

(c) Old firm is dissolved

(d) Neither old firm nor partnership is dissolved

(xx) The balance of Memorandum Revaluation Account (second part) is transferred to the capital accounts of the partners in :

(a) Capital ratio

(b) Old profit sharing ratio

(c) Equally among all partners

(d) New profit sharing ratio

(xxi) The purpose of profit and loss adjustment account is to find out :

(a) Gross profit

(b) Net profit

(c) Financial position

(d) Results of revaluation of assets and liabilities

(xxii) At the time of admission of a new partner, undistributed profit appearing in the balance sheet of old firm should be transferred to capital accounts of:

(a) Old partners in the old profit sharing ratio

(b) Old partners in the new profit sharing ratio

(c) All the partners in the new profit sharing ratio

(d) None of the above

(xxiii) Increase in the value of assets is credited to :

(a) Realisation Account

(b) Revaluation Account

(c) Partner's Capital Account

(d) Profit and loss Appropriation Account

(xxiv) Decrease in the value of assets is debited to:

(a) Realisation Account

(b) Partner's Capital Account

(c) Profit and loss Appropriation Account

(d) Revaluation Account

(xxv) Decrease in the liability is credited to :

(a) Liability Account

(b) Partner's Capital Account

(c) Revaluation Account

(d) Profit and Loss Appropriation Account

(xxvi) Increase in the liability is debited to :

(a) Liability Account

(b) Revaluation Account

(c) Partner's Capital Account

(d) Profit and Loss Appropriation Account

(xxvii) Increase in liability credited to :

(a) Revaluation Account

(b) Profit and Loss Appropriation Account

(c) Partner's Capital Account

(d) Liability Account

(xxviii) Decrease in liability debited to :

(a) Liability Account

(b) Partner's Capital Account

(c) Revaluation Account

(d) Profit and Loss Appropriation Account

(xxix) When goodwill is raised in the books of the firm, it is credited to old partners capital accounts at their :

(a) Old profit sharing ratio

(b) new profit sharing ratio

(c) Sacrificing ratio

(d) gaining ratio

(xxx) When goodwill is written off it is debited to :

(a) All parnters Capital Account

(b) Old partners Capital Account

(c) New partners Capital Account

(d) Old partners Capital Account

Unit - IV

A. Accounting for Share Capital

(i) Minimum number of share holders in a private limited company other than one person company is :

(a) 7 (b) 2

(c) 50 (d) 20

(ii) Minimum number of shareholders in a public limited company is :

(a) 7 (b) 2

(c) 50 (d) 20

(iii) Maximum number of shareholders in a public limited company is :

(a) 500 (b) 50

(c) Unlimited (d) 700

(iv) Maximum number of shareholders in a private limited company is :

(a) 100 (b) 200

(c) 50 (d) Unlimited

(v) As per the Companies Act, 2013 the minimum amount of paid up share capital of public limited company is :

(a) Rs.5 lakh (b) Rs.2 lakh

(c) Rs.1 lakh (d) Rs.10 lakh

(vi) The minimum amount of paid up share capital of a private limited company as per the companies Act, 2013 is :

(a) Rs.5 lakh (b) Rs.1 lakh

(c) Rs.2 lakh (d) Rs.10 lakh

(vii) The equity shareholders of a company are :

(a) Debtors (b) Owners

(c) Creditors (d) Customers

(viii) Preference shareholders having no right to share in the surplus left after distribution to equity shareholders are called :
(a) Non-participating preference shareholders
(b) Non-Convertible preference shareholders
(c) Non-Cumulative preference shareholders
(d) Irredeemable preference shareholders

(ix) Preference shareholders have preferential right to :
(a) Receive dividend
(b) Return of capital at the time of liquidation
(c) Both of the above
(d) Participate in the management

(x) The minimum paid up capital of a one person Company should be :
(a) Rs.50,000 (b) Rs.90,000
(c) Rs.75,000 (d) Rs.1,00,000

(xi) The minimum share application money as per companies Act is :
(a) 5% of the nominal value of shares
(b) 10% of the nominal value of shares
(c) 25% of the nominal value of shares
(d) 25% of the issue price of shares

(xii) When the excess application money is to be adjusted towards allotment, the account to be credited is :
(a) Share application account
(b) Share capital account
(c) Share allotment account
(d) Calls-in-advance account

(xiii) According to Table F of the Companies Act, 2013 the maximum amount of one call should not exceed :
(a) 5% of the nominal value of shares
(b) 25% of the nominal value of shares
(c) 25% of the issue price of shares
(d) 10% of the nominal value of shares

(xiv) The account to be credited at the time of allotment of shares :
(a) Share allotment account
(b) Share application account
(c) Bank account
(d) Share capital account

(xv) A pubic limited company can raise share capital by issuing :
(a) Memorandum of Association
(b) Prospectus
(c) Articles of Association
(d) Certificate of Incorporation

(xvi) A shareholder gets :
(a) Dividend (b) Interest
(c) Salary (d) Commission

(xvii) A private limited company :
(a) Can transfer shares
(b) Can not transfer shares
(c) Can transfer shares with the consent of other shareholders
(d) None of the above

(xviii) Securities premium can not be utilised for
(a) Issuing fully paid bonus shares
(b) Writting off preliminary expenses
(c) Writting of discount on issue of debentrues
(d) Declaration of dividend

(xix) Interest on calls-in-arrear is charged at a maximum rate when articles of Association are silent :
(a) 5% p.a. (b) 10% p.a.
(c) 12% p.a. (d) 6% p.a.

(xx) Interest on calls-in-advance is payable by the company at :
(a) 5% p.a. (b) 10% p.a.
(c) 6% p.a. (d) 12% p.a.

(xxi) The profit on reissue of forfeited shares is transferred to :
- (a) Capital reserve account
- (b) General reserve account
- (c) Capital redemption reserve account
- (d) Securities premium reserve account

(xxii) On the forfeiture of shares, the share forfeiture account is credited with
- (a) The amount not received on shares forfeited
- (b) The nominal value of shares forfeited
- (c) The amount received on such forfeited shares
- (d) The called up amount on the shaes forfeited

(xxiii) In a share of Rs.10, issued at par, Rs.8 has been called up and Rs.6 is paid, if the share is forfeited the share capital account is debited with :
- (a) Rs.10 (b) Rs.8
- (c) Rs.4 (d) Rs.6

(xxiv) If a share of Rs.100 issued at a premium of Rs.20 is forfeited in respect of which the ful amount has been called up and Rs.80 (including premium) is paid, the share capital is debited with :
- (a) Rs.100 (b) Rs.120
- (c) Rs.80 (d) Rs. 60

(xxv) The balance of share forfeiture account in the Balance Sheet under the head :
- (a) Share capital
- (b) Current liabilities
- (c) Non-current liabilities
- (d) Reserve and srplus

B. Accounting for Debentures

(i) A debenture is :
- (a) Owned capital of the company
- (b) Borrowed capital of the company
- (c) Both of the above
- (d) None of the above

(ii) Debenture holders :
- (a) Has no voting rights
- (b) Has voting rights for their interest
- (c) Has voting rights
- (d) None of the above

(iii) Denenture holders are :
- (a) Debtors of the company
- (b) Customers of the company
- (c) Creditors of the company
- (d) Owners of the company

(iv) Debenture holders are entitled to :
- (a) Dividend
- (b) Interest
- (c) Voting rights
- (d) Share in the excess profit

(v) Unamortised portion of 'discount of issue of debentures' appears on the / in the
- (a) Assets side balance sheet
- (b) Liabilities side of balance sheet
- (c) In the statement of profit and loss as expense
- (d) In the statement of profit and loss as income

(vi) The total amount of 'discount on issue of debentures is written off :
- (a) In the year of redemption of debentures
- (b) During the life time of the business
- (c) During the term of the debentures
- (d) In the year of issue of debentures

(vii) On the issue of debentures for consideration other than cash, the account credited is :

(a) Vendor's Account

(b) Debenture Account

(c) Debtors Account

(d) Creditors Account

(viii) On the issue of debentures as collateral security, the account debited is

(a) Debenture suspense Account

(b) Debenture holders Account

(c) Bank Loan Account

(d) Debentures Account

(ix) Premium on redemption of Debenture Account is :

(a) Real Account

(b) Personal Account

(c) Nominal Account

(d) None of these

(x) On issue of debentures to vendors the account debited is :

(a) Vendor's Account

(b) Debtors Account

(c) Creditors Account

(d) Debentures Account

(xi) Securities premium reserve account is shown on the Equity and Liabilities side of Balance sheet under :

(a) Share Capital

(b) Reserve and surplus

(c) Non-current liabilities

(d) Current liabilities

(xii) Discount on issue of debentures is written off against :

(a) General reserve

(b) Capital reserve

(c) Securities premium reserve

(d) Share capital

(xiii) When a company issues debentures at par or at a discount which are redeemable at premium, the premium payable on redemption of the debentures is to be treated as :

(a) Deferred revenue expenditure

(b) Revenue Loss

(c) Capital Loss

(d) None of the above

(xiv) When debentures are issued at premium,

(a) Debenture premium account is credited

(b) Debenture premium account is debited

(c) Securities premium account is credited

(d) Profit on debenture is credited

(xv) The maximum rate of discount on issue of debenture is :

(a) 10%

(b) 20%

(c) 15%

(d) No restriction of maximum rate

***

ANSWERS

GROUP- A

Unit - I

A. Financial Statements of Sole Trade Organisations

(i) (b) Current year
(ii) (c) Capital expenditure
(iii) (b) Future year
(iv) (d) Capital Expenditure
(v) (a) Gross profit / Loss
(vi) (b) Net Profit / Loss
(vii) (a) Financial position/health of the business
(viii) (c) Cost of production
(ix) (a) Sales - cost of goods sold
(x) (d) Balance Sheet only
(xi) (d) Liabilities of Balance Sheet as a deduction from Capital Account
(xii) (b) Indirect expense
(xiii) (a) Direct expense
(xiv) (d) Patent
(xv) (b) Trading Account
(xvi) (b) Profit and Loss Account
(xvii) (b) Manufacturing Account
(xviii) (a) Trading Account
(xix) (d) Contingent Liability
(xx) (c) Loan
(xxi) (c) Liability
(xxii) (a) Asset
(xxiii) (a) Current Asset
(xxiv) (c) Liability
(xxv) (c) Balance sheet only
(xxvi) (b) Indirect Expense
(xxvii) (b) Cost or Market Price whichever is less
(xxviii) (a) Arranging assets and liabilities in the order of liquidity
(xxix) (b) Rs.30,000
(xxx) (c) Rs.22,200

B. Financial Statements of Not for Profit Organisations

(i) (c) Work without profit motive
(ii) (b) Real Account
(iii) (c) Nominal Account
(iv) (d) Balance of cash
(v) (c) Surplus/deficit
(vi) (b) Profit and Loss Account
(vii) (c) Balance Sheet
(viii) (a) Balance Sheet
(ix) (b) Revenue items
(x) (c) Cash book
(xi) (c) Both of these
(xii) (d) Income and Expenditure Account
(xiii) (b) Liability
(xiv) (a) Asset
(xv) (b) Capital receipt
(xvi) (b) Capital receipt
(xvii) (c) Capital or Revenue Receipt
(xviii) (a) Revenue receipt
(xix) (c) Cash book
(xx) (c) Balance sheet
(xxi) (b) Capital Fund
(xxii) (a) Revenue income

Unit - II

A. Accounting for Depreciation

(i) (c) use and lapse of time
(ii) (b) fixed assets
(iii) (d) all of these
(iv) (a) cost price
(v) (c) Remains constant
(vi) (b) Decreases every year
(vii) (b) loss
(viii) (b) Profit and Loss Account
(ix) (a) Profit and Loss Account
(x) (d) Rs.4050
(xi) (d) Rs.2700
(xii) (c) Land
(xiii) (c) Depreciation Account
(xiv) (b) Wasting assets
(xv) (b) Non-cash expense

B. Accounting from Incomplete Records (Single Entry System)

(i) (d) Incomplete records
(ii) (b) Unless missing items are ascertained
(iii) (a) Profit
(iv) (b) Loss
(v) (b) Sole trader
(vi) (a) Single entry
(vii) (c) Opening statement of affairs
(viii) (c) Closing Statement of Affairs
(ix) (d) Opening capital - Additional capital + Drawings
(x) (b) Statement of affairs at the begining and at the end of the period
(xi) (a) Personal Accounts
(xii) (c) Can be checked by converting the incomplete records to completed records.
(xiii) (a) A precise balance sheet
(xiv) (b) Not uniform
(xv) (d) All of these
(xvi) (d) Original vouchers
(xvii) (b) Some ledger accounts and estimates
(xviii) (c) Either at the end or begining of the year
(xix) (b) Scope for manipulation of accounts
(xx) (c) In a half-hazard manner

Unit - III

A. Accounting for Partnership Firm

(i) (b) 1932
(ii) (d) Ten
(iii) (d) Equality
(iv) (b) Entitled to 6% interest on loans to firm whether there are profits or not
(v) (a) Unlimited
(vi) (a) Independently
(vii) (b) Fixed
(viii) (c) May have a debit or credit balance
(ix) (a) Only out of profits
(x) (a) Partners' capital account
(xi) (b) Capital at the begining of the year
(xii) (b) Profit and Loss Account
(xiii) (d) All of these
(xiv) (b) How profits have been utilised and distributed
(xv) (a) Fixed capital Method
(xvi) (b) Drawings Account

B. Goodwill

(i) (d) Intangible asset
(ii) (b) Super profit
(iii) (d) Rs.40,000
(iv) (c) Super profit expected rate of return
(v) (a) Cash account
(vi) (a) Higher value
(vii) (b) Less
(viii) (b) (Average profit) - (Normal profit)
(ix) (c) Rs.80,000
(x) (d) Both of these
(xi) (d) Average capital employed x $\frac{\text{normal rate of return}}{100}$

C. Reconstitution of Partnership

(i) (a) Change in the existing deed
(ii) (b) All partners agree
(iii) (d) All of these
(iv) (c) Old partners in old profit sharing ratio
(v) (d) Asset Account
(vi) (b) 12 : 8 : 5
(vii) (b) 3 : 2 : 1
(viii) (a) 3 : 2
(ix) (b) 2 : 1
(x) (b) Loss to old partners
(xi) (b) Debit balance in the profit and loss account
(xii) (c) Nominal Account
(xiii) (d) Memorandum Revaluation Account

(xiv) (c) C

(xv) (a) $\frac{1}{5}$

(xvi) (b) Old partners in sacrificing ratio

(xvii) (a) With the consent of all partners

(xviii) (b) Old profit sharing ratio

(xix) (a) Old partnership is dissolved

(xx) (d) New profit sharing ratio

(xxi) (d) Results of revaluation of assets and liabilities

(xxii) (a) Old partners in the old profit sharing ratio

(xxiii) (b) Revaluation Account

(xxiv) (d) Revaluation Account

(xxv) (c) Revaluation Account

(xxvi) (b) Revaluation Account

(xxvii) (d) Liability Account

(xxviii) (a) Liability Account

(xxix) (a) Old profit sharing ratio

(xxx) (a) All parnters Capital Account

Unit - IV

A. Accounting for Share Capital

(i) (b) 2

(ii) (a) 7

(iii) (c) Unlimited

(iv) (c) 200

(v) (a) Rs.5 lakh

(vi) (b) Rs.1 lakh

(vii) (b) Owners

(viii) (a) Non-participating preference shareholders

(ix) (c) Both of the above

(x) (d) Rs.1,00,000

(xi) (d) 25% of the issue price of shares

(xii) (c) Share allotment account

(xiii) (c) 25% of the issue price of shares

(xiv) (d) Share capital account

(xv) (b) Prospectus

(xvi) (a) Dividend

(xvii) (b) Can not transfer shares

(xviii) (d) Declaration of dividend

(xix) (b) 10% p.a.

(xx) (d) 12% p.a.

(xxi) (a) Capital reserve account

(xxii) (c) The amount received on such forfeited shares

(xxiii) (c) Rs.4

(xxiv) (a) Rs.100

(xxv)(d) Reserve and surplus

B. Accounting for Debentures

(i) (b) Borrowed capital of the company

(ii) (c) Has voting rights

(iii) (c) Creditors of the company

(iv) (b) Interest

(v) (a) Assets side balance sheet

(vi) (c) During the term of the debentures

(vii) (b) Debenture Account

(viii) (a) Debenture suspense Account

(ix) (b) Personal Account

(x) (a) Vendor's Account

(xi) (b) Reserve and surplus

(xii) (c) Securities premium reserve

(xiii) (c) Capital Loss

(xiv) (c) Securities premium account is credited

(xv) (d) No restriction of maximum rate

***

2. Express / Answer in one word / term each

Unit - I

A. Financial Statements of sole trade form of Organisation

1. Name one item which is added to owner's capital.
2. Name one item which is deducted from owner's capital.
3. Give an example of intangible asset.
4. Give an exampe of fictitions asset.
5. Given an example of current asset.
6. From which account, return outward is deducted.
7. From which accoutn return inward is deducted.
8. The difference between assets and liabilities.
9. Account depicting gross profit / loss.
10. Prepaid insurance appearing in Trial baance will be shown.
11. Which side income received in advance is to be shown in balance sheet.
12. If closing stock appears in Trial balance, where it is shown in final account ?
13. Where will you show in final accounts if depreciation appears in trial balance ?
14. The amount due from customers but can not be recovered.
15. Give an example of wasting asset.
16. What does manufacturing account ascertain?
17. Outstanding expense is taken to which side of balance sheet ?

B. Financial Statements of not for profit Organisations.

18. What is the credit balance of income and expenditure account called ?
19. On which side of Balance Sheet, subscription received in advance is shown?
20. What is ascertained from Receipts and Payments Account ?
21. Give an example of a not-for-profit organisation.
22. Name the account to which funds raised by a not-for-profit organiations are credited.
23. Mention the nature of receipts and paymetns account.
24. Mention the nature of income and expenditure account.
25. What is the basis of accounting followed in preparing receipts and paymetns account ?
26. State the basis of accounting followed in preparing Income and Expenditure Account.

Unit - II

A. Accounting for Depreciation

27. Name the type of fixed asset on which depreciation is not calcualted.
28. Name the asset against which the term 'depletion' is used.
29. Name the account to be debited while charging depreciation.
30. What is the term used for the amount realised on sale of fixed asset after its useful life.
31. Name the method of depreciation which reduces the amount of depreciation year by year.
32. Which specific account is prepared on sale of fixed asset ?
33. In which method of charging depreciation, the value of fixed assets becomes zero at the end of its useful life.

B. Accounting for Incomplete Records

34. What is the other name of Incomplete Records of book-keeping ?
35. Under which method, profit is determined by preparing profit and loss account.
36. Which accounts are only maintained in single entry system ?
37. What is the other name of net worth method of single entry ?

38. How many methods are there to determine profit in single entry ?
39. Single entry system is suitable for which type of business ?
40. To know capital at the begining under the single entry system, what one prepares ?
41. Name the capital under single entry system which is arrived by taking capital at the end + drawings - fresh capital introduced.
42. State whether single entry system of accounting is recognised by law.
43. Is internal check is possible in accounting for incomplete records?
44. Is it possible to find true financial position of the business under single entry system ?
45. Name the term which represents the decrease in closing capital under single entry system ?

Unit - III

A. Accounting for Partnership Firm

46. What is the maximum number of partners for a banking business ?
47. Which account is to be opened to record the transactions of a partner with firm when capital is fixed ?
48. Under which capital system, only one account is opened in the name of each partner ?
49. Name the ratio of surrender of profit sharing ratio.
50. Name one mode of reconstitution of partnership.
51. On which basis partners compensate each other for the change in profit sharing ratio ?
52. What is the other name of Revaluation Account ?
53. What is the other name of partnership deed.
54. Name the ratio which results in increase in profit sharing ratio?
55. State the nature of Revaluation Account.

Unit - IV

A. Accounting for Companies

56. Name the company which has only one person as its shareholder.
57. Name the company which has 200 member at the maximum limit.
58. Which type of company has a minimum paid up capital of Rs.5,00,000 (five lakh).
59. What is the other name of authorised capital.
60. Which balance does call-in-arrear account show ?
61. What is the maximum rate of interest allowed on calls-in-advance ?
62. What is the maximum rate of interest changed on calls-in-arrear ?
63. Under which head of balance sheet 'securities premium reserve account' is shown ?
64. Under which head of Balane sheet, share forfeited account is shown ?
65. What is the nature of share Application Account ?
66. What is the minimum gap between two share calls ?
67. Discount on issue of debetnrues is treated as which asset ?
68. Name the debentures issued without security.
69. Which account is credited on the issue of debentures for purchase of an asset ?
70. Name the debentures which are redeemable only at the time of liquidation of the company.
71. What type of capital is debentures ?
72. Besides 'Securities Premium Reserve Account' state the account to be credited on issue of debentures at premium.

***

ANSWERS

2. Express / Answer in one word / term each

Unit - I

A. Financial Statements of sole trade form of Organisation

1. Net profit
2. net loss
3. goodwill
4. preliminary expenses
5. stock
6. purchases
7. sales
8. Captal
9. Trading Account
10. In balance sheet
11. Liability side
12. Balane sheet
13. Income statement
14. Bad debts
15 Mines
16. Cost of goods produced
17. Liability side

B. Financial Statements of not for profit Organisations.

18. surplus
19. Liability
20. Closing cash balance
21. Cricket club
22. Capital fund
23. Real Account
24. Nominal Account
25. Cash basis
26. Accrual basis

Unit - II

A. Accounting for Depreciation

27. land
28. Wasting asset
29. Depreciation Account
30. Scrap / salvage value
31. Written down value method
32. Asset Disposal Account
33. Straight line method

B. Accounting for Incomplete Records

34. Single entry
35. Conversion method
36. Personal accounts
37. Statement of affairs methods
38. Two
39. Small
40. Opening statement of affairs
41. Adjusted closing capital
42. No
43. No
44. No
45. Loss

Unit - III

A. Accountign for Partnership firm

46. 10
47. Current Account
48. Flutuating Capital
49. Sacrificing ratio
50. Change in profit sharing ratio
51. Goodwill
52. Profit and loss adjustment account
53. Articles of partnership
54. Gaining ratio
55. Nominal

Unit - IV

A. Accounting for Companies

56. One person company
57. Private limited company
58. Public limited company
59. Nominal / Registered capital
60. Debit
61. 12%
62. 10%
63. Reserves and surplus
64. Share capital
65. Representative Personal Account
66. One month
67. Fictitious asset
68. Unsecured/Naked debenture
69. Vendor's Account
70. Irredeemable debentures
71. Loan capital
72. Debentures Account

2. Answer in one sentence each.

Unit - I

1. Mr. X spends Rs.4,00,000 for the advertisement of a new product in the mark for five years. What type of expenditure is this ?
2. Give a formula to calculate operating profit from net profit.
3. Cost of obtaining a license to carryout a motor transport business is a capital expenditure on revenue expenditure ?
4. Where will you show interest in fixed deposit in 'final accounts' ?
5. Salary and wages is shown in the trial balane of trader. To which account will he transfer ?
6. The valuation of closing stock is based on which principle ?
7. What journal entry will be passed for prepaid insurance ?
8. What journal entry will be passed for outstanding salary ?
9. What is marshalling of Balance sheet ?
10. What do you mean adjusted purchase ?
11. Why are trading and profit and loss account called Income Statement ?
12. The provision for discount on debtors is calculated after deducting the provision for doubtful debt from debtors. State the reason.
13. What is the main objective of not-for-profit organisations?
14. State the items which are shown in income and expenditrue account.
15. What are the sources of income of a not-for profit organisation.
16. Which account is prepared to obtain cash position of the not-for-profit organisation?
17. When capital fund of a not-for-profit organisation is not mentioned in the question, how will you calculate it ?
18. Where will you credit the general donations of a not-for-profit organisations.
19. On which basis of accounting, receipts and payments account is prepared?
20. On which basis of accounting, Income and Expenditure Account is prepaid?

Unit - II

21. State the purpose of providing depreciation.
22. Is depreciation a non-cash expenditure ?
23. How will you determine the 'depreciable cost of the asset' ?
24. Patanjali Traders charges 10% depreciation on its land because it wants show lesser profit to avoid tax. Is it a right decision ?
25. Gitanjali Traders charges depreciation @10% on straight-line method. Will this method be recognised by Income Tax Act.
26. What is single entry system ?
27. What is Statement of Affairs ?
28. Which methods are followed to ascertain profit / loss under single entry system?

Unit - III

29. What are the two methods of maintaining capital accounts of partners?
30. Why profit and loss appropriation account is prepared ?

31. Mention four items appearing on the debit side of a partner's capital Account.
32. Mention four items appearing in the debit side of profit and loss appropriation account.
33. What do you mean by reconstitution of partnership firm ?
34. What is the sacrificing share ?
35. Who are sacrificing and gaining partner ?
36. If A and B are partners sharing profit in 3:2 ratio and they agreed to share the profit equally, calculate the sacrifice / gain.
37. State any one reason of admitting a new partner.
38. What is Revaluation Account ?
39. Define goodwill.
40. What are the methods of valuation of goodwill?

Unit - IV

41. Define a company.
42. What is meant by private placement of shares ?
43. What is meant by Initial Public Offer ?
44. What is minimum subscription ?
45. What is meant by pro-rata allotment ?
46. What is meant by forfeiture of shaes ?
47. What are sweat Equity shares ?
48. What is re-issue of shares ?
49. What is stock ?
50. What is surrender of shares ?
51. What is debenture ?
52. What is meant by bond ?

***

ANSWERS

2. Answer in one sentence each.

Unit - I

1. It is deferred revenue expenditure.
2. Operating profit = Net profit + Non operating expenses - Non operating incomes.
3. It is a capital expenditure.
4. Interest on fixed deposit will be credited to profit and loss account.
5. He will transfer 'salary and wages' to profit and loss account.
6. The valuation of closing stock is based on the principle of prudence /conservatism.
7. Prepaid Insurance A/C ....Dr
   To Insurance Account
   (Being insurance paid in advance)
8. Salary A/C ... Dr
   To Outstandign salary A/C
   (Being salary unpaid)
9. The arrangement of assets and liabilities in Balance sheet either in the order of liquidity or permanency is called markshalling of Balance sheet.
10. Adjusted purchases = Net purchases + Opening stock - Opening stock
11. The financial performance of an enterprise shown in the vertical form in an accounting year, the Trading, profit and Loss account are called income statement.
12. The discount will be allowed only to those debtors who will make prompt payment.
13. The main objective of not-for-profit organisations is not to earn profit but to render services.
14. Items of revenue nature of the current accounting period are shown in Income and Expenditure Account.

15. The main sources are subscriptions and entrance fees from members.
16. Receipts and payment account is prepared to obtain cash position of a not-for-profit organisation.
17. Capital fund of the not-for-profit organisation can be calculated by preparing opening Balance sheet.
18. General donations is to be credited to Income and Expenditure Account.
19. Receipts and payment accounts is prepared on cash basis of accounting.
20. Income and Expenditure Account is prepared on accrual basis of accounting.

Unit - II

21. The purpose depreciation is to ascertain the true amount of profit.
22. Yes. It is a non cash expenditure because it does not involve cash outlay.
23. Depreciable cost is determined by deducting the salvage value of the asset from its cost price.
24. No, it is not a right decision to depreciate land. Land is not a depreciable asset as its useful life is not limited to years.
25. No, Income Tax Act recognises only written down value / dimnishing value method of depreciation.
26. The incomplete double entry system of keeping accounting records is called single entry system.
27. Statement of affairs is a balance sheet prepared under single entry system on a particular date.
28. Statement of affairs and conversion method are two alternative methods of ascertaing profit / loss.

Unit - III

29. The two methdos to maintain capital accounts of partners are fixed captial and fluctuating capital.
30. Profit and loss appropriation account by a partnership firm to carry out adjustments of partners rights (salary, interest on capital) and obligations (interest on drawings).
31. (a) drawings made during year
    (b) interest on drawings,
    (c) share of loss if any and
    (d) closing balance
32. (a) interest on capital
    (b) partner's salary
    (c) partner's commission and
    (d) partner's share of profit
33. Whenever there is a change in the partnership agreement and the firm continues it is called reconstitution of the partnership firm.
34. The sacrificing share is that ratio in which partners sacrifice / forgo their share of profit in favour of other partner.
35. Sacrificing partner is one whose share of profit is decreased and againing partner is one whose share of profit is increased due to change in profit sharing ratio.
36. A gains by share and B sacrifices by share.
37. When necessity is felt for more capital to expand the business.
38. Revaluation Account is a nominal account which shows profit / loss arising because of valuation of existing assets and liabilities at the time of admission /retirement.
39. Goodwill is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits earned by other similar firms of a particualr industry.
40. (i) Average profit method
    (ii) Super profit method
    (iii) Capitalisation method

Unit - IV

41. A Company is an artificial person created by law, having a corporate and legal personality, distinct from its members, perpetual succession and a common seal.
42. Private placement of shares means issue of shares to a selected group of persons.
43. Making an offer to general public, inviting them to subscribe for the shares of the company for the first time through a stock exchange.
44. Minimum subscription refers to the minimum amount of capital must be subscribed by the public before the company proceeds for allotment.
45. Prorata allotment is an allotment of shares proportionately to the applicants when the applications for shares received are more than the number of shares issued.
46. If a shareholders fails to pay the money due either on allotment or on calls within the stipulated date, the company can forfeit the deposited amount by giving a notice to the default shareholder.
47. Shares issued by the company to its employees or directors at a discount for providing know-how or making available right to use intellectual property.
48. Forfeited shaes being the property of the company can be offered to new shareholders at any price either at par or at premium or at discount.
49. A fully paid share is called a stock.
50. Surrender of shares mean the voluntary return of shares to the company by a shareholder who is unable to pay money due on subsequent calls.
51. A debenture is a document acknowledging the indebtedness of the company to the investor and to return the principal together with interest.
52. A bond like a debenture is an acknowledgement of debt where the rate of interest is not generally predetermined.

2. Correct the underlined portion.

Unit - I

1. An expenditure the benefit of which is consumed in the current accounting period is called <u>capital</u> expenditure.
2. An expenditure, the benefit of which is consumed in more than one accounting period is <u>revenue</u> expenditure.
3. Provision for discount on debtors <u>sometimes</u> shows a credit balance.
4. Depreciation appearing in Trial Balance will appear in <u>Balance sheet.</u>
5. Prepaid expenses if appears inTrial balnce will be shown on <u>liabilities</u> side of Balance sheet.
6. The Manager's commission is <u>an income</u> of the business firm.
7. Interest on capital is an income of the <u>business.</u>
8. Interest on drawings is an <u>income</u> of the proprietor.
9. For goods withdrawn by proprietor for personal use, purchase account in <u>debited.</u>
10. For goods distributed as free samples / charity, <u>purchase account</u> is debited.
11. All direct expenses are charged to <u>profit and loss account.</u>
12. <u>Income Statement</u> is also known as the position statement of a business.
13. Receipts and payments account is a <u>personal</u> account.
14. Income and expenditue account is a <u>real</u> account.
15. Legacy is a <u>revenue</u> receipt.
16. Life membership fee is a <u>revenue</u> receipt.

17. Honorarium paid to doctors of a charitable hospital is a capital expenditure.

18. Remuneration paid to expert invitees like dancers, singers, doctors, artists etc. for their performance and service is called bonus.

Unit - II

19. In straight line method of depreciation, the value of asset will never be zero at the end of its useful life.

20. In diminishing value method of depreciation, value of assets will be zero at the end of its useful life.

21. Provision for deprecation account will always show debit balance.

22. Depreciation cannot be provided in case of loss suffered during an accounting period.

23. Amortisation is used to write off the value of fixed assets.

24. Provision for Depreciation account is prepared at the time of sale of asset.

25. In a single entry system nominal accounts are maintained.

26. There are three methods to determine profit from incomplete records.

27. Single entry system of accounting is applicable for large business enterprises.

28. If closing capital Rs.27,000; Profit Rs.5,000; opening capital Rs.12,000; Profit is Rs.15,000.

29. If opening capital Rs.18,000; Profit Rs.12,000; Drawings Rs.6,000; Closing capital is Rs.14,000.

30. If opening capital Rs.27,000; Profit Rs.12,000; Closing Capital Rs.30,000; Drawings is Rs.18,000.

31. Arithmetic accuracy of accounts can not be checked under double entrysystem of accounting.

Unit - III

32. In fixed capital method, additional capital introduced by a partner is recorded in his current account.

33. The written agreement among the partners is known as 'Partnership Will'.

34. The liability of a partner is limited by guaranted.

35. In the absence of a partnership deed, the partners are allowd 5% interest on loan to firm.

36. Registration of partnership is compulsory.

37. On the admission of a partner, the firm is dissolved.

38. Accumulated losses are credited to to partner's capital account.

39. Revaluation is a real account.

40. Three years purchase of super profit means, super profit is divided by 3.

41. Capitalised value of average profit method for valuing goodwill is used frequently.

42. For writing off the decrease in the value of goodwill, the term depreciation is used.

43. Unrecorded assets are shown in the Revaluation Account as decrease in assets.

44. If provision for bad and doubtful debts is created for a reconstituted firm the revaluation account will be credited.

45. On the retirement of a partner, sacrificing ratio is calculated.

46. As per AS-20 only purchased goodwill will be recorded in the boks of account.

47. Profit on revaluation is transferred to the capital account of old partners in the sacrificing ratio.

Unit - IV

48. Public limited companies must have paid-up capital of Rs.10 lakhs.
49. Equity shareholders can not participate in the management of a company.
50. 'Securities Premium Reserve' is shown under the head share capital.
51. Premium on issue of shares can be used for distribution of profit.
52. When shares are forfeited, share capital account in debited with the amount of paid-up value of shares.
53. On the forfeiture of shares, calls-in-arrear accountis debited for the total amount due on all instalments but not received.
54. If premiumis not received, on the forfeiture of a share, share forfeited account is debited.
55. Share application account is real account.
56. Debentures can not be redeemed at premium.
57. Debentures are shown under the head 'current liabilities' in the Balance Sheet.
58. First debentures are not redeemeble during the life time of the company.
59. If premium on issue of debentrue is more than the premium on redemption of debentures, the loss on issue of debenture account is opened.
60. In case of debenture issue, minimum subscriptin clause applied.

***

ANSWERS

2. Correct the underlined portion.

Unit - I

1. Revenue
2. Capital
3. Always
4. Profit and loss A/c.
5. Asset
6. Expense
7. Proprietor
8. Expense
9. Credited
10. Advertisement / Charity Account
11. Trading Account
12. Balance sheet
13. Real
14. Nominal
15. Capital
16. Capital
17. Revenue expenditure
18. Honorarium

Unit - II

19. Diminishing value
20. Straight line
21. Credit
22. Can
23. Depreciation
24. Asset Disposal
25. Personal
26. Two
27. Small
28. Rs.10,000
29. Rs.24,000
30. Rs.9,000
31. Single

Unit - III

32. Capital
33. Deed
34. Unlimited
35. 6%
36. Voluntary
37. Partnership
38. Debitd
39. Nominal
40. Multiplied
41. Rarely
42. Amortisation
43. Increase
44. Debitd
45. Admission
46. AS-26
47. Old

Unit - IV

48. Rs.5 lakhs
49. Preference shareholders
50. Reserves and surplus
51. Issue of bonus shares
52. Called-up
53. Credited
54. Securities premium reserve
55. Personal
56. Discount
57. Non-current liabilities
58. Irredeemable debentures
59. Capital Reserve Account
60. Not applied

2. Fill up the Gaps

Unit - I

1. All direct expenses are shown in ______.
2. Assets and liabilities are shown in the balance sheet in the order of ______ or permanence.
3. Income received in advance is a ______ for the business.
4. Provision for doubtful debts is calculated on the amount of debtors after deducting ______.
5. Accrued income is considered as ______ for the business.
6. Manager's commission payable is shown on ______ side of balance sheet.
7. Interest on drawings is shown on the ______ of the profit and loss account.
8. ______ refers to those expenses which are still payable but the benefits of them have been already enjoyed.
9. ______ refer to those expenses that have been paid in the current accounting period, but their benefit shall only be realised in the next accunting period.
10. Royalities on sale is charged to ______ account.
11. Royalities on production is charged to ______ account.
12. All indirect expense are taken to ______ account.
13. The opening balance of receipts and payments account is ______.
14. Receipts and payments account record revenue and ______ items.
15. The excess of assets over liabilities of a not-for-profit organisation is ______
16. Endowment fund yields ______ income.
17. Life membership fees is shown on the ______ of Balance sheet.
18. Payment of honorarium is treated as ______ expense.

19. Receipt of Legarcy is treated as a ______ receipt.
20. Income and expenditure account does not show any ______ balance.
21. Amount received under the 'will' of a person after his death is known as ______
22. Lumsum amount received from well-wisshers is ______
23. Income and Expenditure Account is prepared on ______ basis.
24. Receipts and payments account is prepared on ______ basis.

Unit - II

25. The term 'depreciation' is derived from the latin word ______.
26. The realised estimated value at the time of discarding fixed asset is known as ______.
27. Obsolenscence is the technical term used as the reason of discarding ______ asset.
28. Depreciation is a ______ expense.
29. ______ method of depreciation is approved by income tax authorities.
30. Depreciation is shown on the ______ side of machinery account.
31. Capital at the end of the year is ascertained by preparing ______ at the end of the year.
32. In a single entry system, there are ______ methods to find out profits.
33. Under single entry system, information regarding expenses must be ascertained from the analysis of ______.
34. In single entry, a ______ pictures of all transactions will be available.
35. Increase in adjusted closing capital represents ______.
36. Decrease in adjusted closing capial represents ______.

Unit - III

37. In the absence of partnership deed, the profits are shared in ______ ratio.
38. Partners are collectively called ______.
39. Partners current accounts are prepared when capital accounts are ______.
40. Under ______ capital method, capital at the begining and capital at the end will be different.
41. In the absence of agreement, interest ______ paid on capitals.
42. A partner ______ entitled to salary if he works more than others.
43. Excess of actual adjusted profit over normal profit is called ______ profit.
44. Negative super profit indicates that there is no ______ of business concern.
45. The number of methods of goodwill / valuationis ______.
46. When a business is taken over by another business, the excess of purchase price over its net assets value is referred as ______.
47. Appreciation in the value of investment is ______ to the Revaluation Account.
48. A partner whose share is increased due to change in profit sharing ratio, is called ______ partner.
49. Share of goodwill brought in cash by new partner is also called ______.
50. Decrease in provision for doubtful debts will be ______ to Revaluation Account.

51. _____ assets are debited to old partner's capital accounts at the time of admission of partners.

52. If memorandum of Revaluation Account is opened and its first portion shows a profit, then its second portion will show _____.

53. Profits on revaluation is credited to old partnes in _____ ratio.

54. For any decrease in the value of liability, the revaluation account is to be _____.

55. A new partner instead of bringing cash for his share of goodwill, may bring some _____.

Unit - IV

56. The minimum application money is _____% of the issue price of shaes as per SEBI guidelines.

57. The amount of calls-in-advance is a _____ of the company.

58. When shares are forfeited, share _____ account is debited for the amount already called up on shares forfeited.

59. The company can not proceed with the allotment of shares, unless it receives _____ subscription.

60. If any shareholder fails to pay the allotment or calls money within the stipulated period, the company may _____ his shares.

61. When shares are forfeited, the unpaid call account is _____.

62. Profit on reissue of forfeited shaes is transferred to _____ account.

63. A new company can not issue shares at _____.

64. Securities premium Reserve Account is shown under the heading _____.

65. Discount on issue of shares is a _____ loss.

66. A notice of _____ days is must for the payment of calls on shares.

67. Debenture is a written _____ of debt by a company.

68. Debenture are _____ of the company.

69. Premium on redemption of debentures is a _____ account.

70. When debentures are issued to venders _____ account is credited.

71. The unamortised portion of discount on issue of debentures is shown on the _____ side of the Balance sheet.

72. If price paid to the vendors is less than the net assets purchased, the difference is to be credited to _____ account.

73. If price paid to the vendor is more than the net assets acquired, the diference is to be debited to _____ account.

74. Discount on issue of debentures is treated as a _____ asset.

75. A debenture is a _____ capital of the company.

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ANSWERS

2. Fill up the Gaps

Unit - I

1. Trading Account
2. Liquidity
3. Liability
4. Further bad debt
5. Asset
6. Liabilities
7. Credit side
8. Outstanding expenses
9. Prepaid expenses
10. Profit and loss
11. Manufacturing
12. Profit and loss
13. Cash in hand / bank
14. Capital
15. Capital fund
16. Regular Income
17. Liabilities
18. Revenue
19. Capital
20. Opening
21. Legacy
22. Donations
23. Accrual
24. Cash

Unit - II

25. Depretium
26. Scap
27. Fixed
28. Non-cash
29. Written down value
30. Credit
31. Statement of affairs
32. Two
33. Cash book
34. Partial
35. Profit
36. Loss

Unit - III

37. Equal
38. Firm
39. Fixed
40. Fluctuating
41. is not
42. is not
43. super
44. goodwill
45. three
46. goodwill
47. credited
48. gaining
49. premium
50. credited
51. Fictitious
52. loss
53. old
54. credited
55. assets

Unit - IV

56. 25
57. Debt
58. capital
59. minimum
60. forfeit
61. credited
62. capial reserve
63. discount
64. Reserves and surplus
65. capial
66. 14
67. acknowledgement
68. Creditors
69. personal
70. debentures
71. assets
72. capital reserve
73. goodwill
74. fictitious assets
75. borrowed

GROUP - B

SHORT TYPE QUESTIONS

3. SHORT QUESTIONS TO BE ANSWERED IN 30 WORDS (2 MARKS EACH)

UNIT - I

Final Accounts of Sole Trade form of Organisation

1. Distinguish between revenue expenditure and capital expenditure?
2. What is cost of goods sold ?
3. What are the direct expenses of a business?
4. Differenciate between Trial Balance and Balance Sheet ?
5. What are the ways / methods of arranging of the items in Balane Sheet?
6. Differenciate between current assets and fixed assets?
7. Distinguish between gross profit and net profit ?
8. Name five items appearing in Trading Account?
9. Name five items in Profit and Loss Account ?
10. What is gross profit ?
11. What is net profit ?
12. What is Trading Account ?
13. What is Profit and Loss Account ?
14. What are the indirect expenses ?
15. What is fixed asset ?
16. What is tangible fixed asset ?
17. What is intangible fixed asset ?
18. What is current asset ?
19. What is fictitious assets ?
20. What are current liabilities ?
21. What is Income Received in Advance ?
22. What are the ways in which assets can be arranged in Balance Sheet?
23. What are the wasting assets ?
24. What is outstanding expenses ?
25. What is prepaid expense ?
26. What do you mean by order of liquidity ?
27. What is a contingent liability ?
28. What is contingent asset ?
29. What is long-term liability ?
30. What is bad debts ?
31. What is provision for bad and doubtful debts ?
32. Give the treatment provision for bad and doubtful debts in Final Accounts?
33. What is the treatment of bad debts in Final Accounts ?
34. What is the treatment of closing stock in the Final Account ?
35. How will you treat prepaid expenses in Final Accounts ?
36. What is the treatment of outstanding expenses in the Final Accounts?
37. What is the treatment of depreciation in Final Accounts?
38. What is the treatment of provision for depreciation in Final Accounts?
39. What is the treatment of Accrued Income in Final Accounts?
40. What is the treatment of income received in advance in Final Accounts?
41. What is Manufacturing Account ?

Accounts of Not for profit Organisations.

42. What is meant by not-for-profit Organisation ?
43. Which financial statements are prepared by a not-for-profit Organisation?
44. What is life Membership subscription ?
45. Mention any four featuers of Income and Expenditure Account?
46. Mention any four features of Receipts and Payments Account?
47. What is honorarium ?
48. What is Capital Fund ?
49. How life membership subscription is treated in accounts ?
50. What does Income and Expenditure Account reveal ?
51. Give the accounting treatment of specific donation in not-for-profit organisation?
52. How legacy is treated in a not-for-profit Organisation ?

UNIT - II

Accounting for Depreciation

53. What is depletion ?
54. What is amortitation ?
55. What is salvage/scrap vaue of a fixed asset ?
56. Write any two differences between straight live and written-down value method of depreciation?
57. What are the causes of depreciation?
58. Why is asset shown in the Balance Sheet at its original cost under 'Provision for depreciation' method?
59. What is the need for charging depreciation ?
60. What do you mean by 'diminishing balance method' of depreciation ?
61. Why straightline method of depreciation is so named ?
62. Write two characterstics of depreciation?
63. Give the factors for determination of depreciation?

Accounts from Incomplete Records

64. Define single entry system of accounting?
65. What do you mean by "Statement of Affairs"?
66. What do you mean by 'Incomplete accounting records'?
67. "Arithmetic accuracy of the accounts maintained under the single entry system can not be checked", why ?
68. Why true profit of the business can not be ascertained under single entry?
69. Name the different laws of the country / India which do not recognise single entry system?
70. Why single entry system is not popular ?
71. Write two differnces between single entry and double entry system?
72. Give some reasons of maintaining incomplete records?
73. State any two limitations of single entry system?
74. How can opening capital be ascertained from incomplete records?
75. How can closing capital be ascertained from incomplete records?
76. Enumerate the names of methods to ascertain profit / loss from incomplete records?
77. Why good will can not be valued under single entry system ?

UNIT - III

Accounting for partnership firm

78. What is partnership ?
79. How many persons are required for partnership?
80. Which Act governs the partnership business in India?
81. Why profit and loss appropriation account is prepared?
82. State Fixed Capital
83. Define current account.
84. Which accounts are opened under fixed capital account methods?
85. What is fluctuating Capital Account ?
86. Which transactions are recorded in fluctuating capital account?
87. How many accounts are opened under fluctuating capital account method?
88. Explain interest on drawings of parteners.
89. Give two situations in which fixed capital of partners may change?
90. Mention five items appearing on teh debit side of capital account of a partners when capitals are fluctuating?
91. Mention five items appearing on the credit side of the partner's capital account when capitals are fluctuating?
92. What is drawings ?
93. Explain the interest on capitals of partners?
94. Explain the interest on loan by a partner?
95. What do you mean by goodwill?
96. What is the nature of goodwill?

97. Give any four factors affecting goodwill?
98. What are the methods of valuation of goodwill?
99. Explain average profit ?
100. Explain the average profit method of goowill?
101. What are the needs of valuing goodwill?
102. What do you mean by super profit ?
103. What is super profit method of goodwill?
104. What is capital employed ?
105. What is average capital employed ?
106. What is capitalisation method of good will valuation ?
107. Explain average profit method for valuation of goodwill?
108. Explain the super profit method for valuation of goodwill?
109. Give at least two differences between average profit and super profit?
110. What is reconstitution of partnership ?
111. What are the circumstances for reconstitution of partnership ?
112. What is sacrificing ratio ?
113. What is gaining ratio ?
114. Define Revaluation Account ?
115. What is revaluation of assets and liabilities ?
116. Why revaluation is necessary ?
117. What is the effect of revaluation?
118. What is Memorandum Revaluation Account?
119. Least any three features of Revaluation Account ?
120. How undistributed reserves and accumulated profits / losses are treated on the change of constitution of partnership?
121. What is hidden goodwill ?
122. What is the effect of Memorandum Revaluation Account on partners' Capital Account ?
123. Explain the A.S-26 with regard to treatment of goodwill?
124. What is premium method of goodwill ?
125. Pass journal entries when a new partner is unable to bring his share of goodwill in cash?
126. On admission of a partner, what journal entires will be passed for increase in assets?
127. On admission of a aptner, which journal entry to be passed for increase in liability ?
128. Give the accounting entry for new partner bringing his share of goodwill / premium in cash and it is retained in the business.
129. Give the accounting entry for new partner bringing his share of goodwill in cash and it is withdraw by old partners?
130. Give the accounting entry for goodwill not brought in cash by now partner?
131. What is the accounting treatment for goodwill if paid privately ?
132. Estimate goodwill if A and B shares equally having capital of Rs.20,000 each. C is admitted with 1/4th of profits in the firm and contributed Rs.24,000 as his share of goodwill?
133. P and Q are partners with 3 : 2 ratio. R is admitted and the new ratio of P, Q and R is 2 : 2 : 1. Calculate sacrifice of old partners.
134. What is the accounting treatment for new partner bringing only a portion of goodwill in cash ?

UNIT - IV

Accounting for Companies

135. What is sweat equity shares ?
136. What is book-building process ?
137. What is ESOP ?
138. Explain issue of shares by a company?
139. What is minimum application money ?
140. What is allotment of shares ?
141. What is the effect of allotment of shares?
142. What do you mean by share call ?
143. What is issue of shares at a premium ?

144. Explain two utilisations of securities premium ?
145. What is the probibitin on issue of shares at discount ?
146. Write two conditions for issuing shares at discount?
147. What is over subscription of shares ?
148. What is prorata allotment of shares ?
149. What is calls in arrear ?
150. What is calls in advance?
151. What do you mean by share ?
152. What is share capital ?
153. What is authorised capital ?
154. What is Initial Public Offer ?
155. What is preferential allotment ?
156. What is share certificate ?
157. Write any two features of a joint stock company?
158. Write any two features of a private limited company?
159. Write any two features of public limited company ?
160. What are the types of shares a company can issue ?
161. What is one person company / OPC ?
162. What is a small company ?
163. What are preference shares ?
164. What are equity shares ?
165. What is cumulative preference share ?
166. What is meant by reserve capital ?
167. What is capital reserve ?
168. What is forfeiture of shares ?
169. What is re-issue of shares?
170. What is stock ?
171. What is the accounting effect of reissue of shares ?
172. What is surrender of shares ?
173. What is issue of shares for cash by private placement ?
174. State the issue of shares for consideration other than cash?
175. What is the accounting entry for forfeiture of shares issued at par ?
176. What is under subscription of shares ?
177. What is Lien on shares ?
178. What is Share Application Account ?
179. What is Debenture ?
180. What is Debenture stock ?
181. What is naked debentures ?
182. What is secured debentures ?
183. What is Bearer Debentures ?
184. What is debenture Interest ?
185. Write two features of debentures ?
186. What is redeemable debentures ?
187. What is irredemable Debentures ?
188. What is convertible debentures ?
189. What is Registered Debentures ?
190. Give two distinctions between share and debenture?
191. What are the vairous forms of issue of debentures?
192. Explain debentures issued at premium?
193. Explain debentures issued at discount ?
194. What is the accounting treatment of discount on issue of debentures ?
195. What is the accounting treatment of Premium on issue of debentures?
196. Why an investor prefers to invest in debentures rather than in the shares of a company ?
197. What is meant by “debentures issued for consideration other than cash”?
198. Classify debentures from priority point of view ?

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ANSWERS

UNIT - I

Final Accounts of Sole Trade form of Organisation

1. Revenue expenditure is incurred to maintain the earning capacity of the business in its day to day operations while capital expenditure is incurred to improve the earning capacity of the business. The benefit of revenue expenditure is exhausted within one accounting period while the benefit of captial expenditure will continue for more than one accounting period.

2. Cost of goods sold is the sum total of net purchases, stock at the begining, direct expenses on purchases less closign stock. Symbolically :

   Cost of goods sold = Net purchases + stock at the begining + Direct expenses on purchases - Stock at the end.

   In other words, it is the difference between net sales and gross profit. Symbically

   Cost of goods sold = Net sales - gross profit

3. Direct expenses are incurred in order to make the goods ready and fit for sale. The various direct expenses being debited to trading account are wages / wages and salaries, carriage/feight inward, import and dock dues. Motive power, coal, gas, water, manufacturing expenses, consumable stores, royalty and packagings are also debited to trading account if manufacturing account is not opened.

4. Trial Balance is a statement of real, personal and nominal accounts where as balance sheet is a statement of only personal and real accounts. The objective of Trial Balance is to check the arithmetical accuracy of the transactions recorded in ledger accounts where as the objective of Balance Sheet to ascertain the financial position of the business.

5. The assets and liabilities are arranged either in order of liquidity or in order of permanence. The presentation of items in any of these two methods is called marshalling and grouping of assets and liabilities.

6. Current assets are likely to be realised within one accounting year to discharge current liabilities. But fixed assets are acquired and held permanently and used in the business with the objective of making profit.

7. Gross profit is the result of total net sales less cost of goods sold where as net profit is result of all operating and non-operating incomes less all operating and non operating expenses. Gross profit is ascertained from Trading Account where as net profit is ascertained from Profit and Loss Account.

8. Opening stock, net purchases, direct expenses, wages or wages and salaries, import duty, are the items in the debit side where as net sales and closing stock are the items in the credit side of Trading Account.

9. Gross profit / loss, salaries / salaries and wages, interest, commission, discount, insurance, depreciation, advertisements etc. are some items on either side of the Profit and Loss Account.

10. The difference between selling price and purchasing price is called gross profit. In otherwords, the excess of net sales over cost of goods sold is called gross profit.

11. The difference between gross profit and indirect expenses is called net profit. It is a measure of firm's net income during a given period of time.

12. Trading Account is the account prepared to ascertain trading profit / loss. In other words, it shows the gross profit / loss. In the debit side openign stock, net purchases and direct expenses and in the credit side net sales and closing stock are entered.

13. Profit and Loss Account is the account prepared to ascertain the net profit / loss of a business. In the debit side all the operating and non operating expenses and in the credit side all operating and non operating incomes are entered.

14. Indrect expenses are incurred to make the goods available to consumers. Indirect expenses may be sellign and distribution expenses, management expenses, financial expenses, extra ordinary expenses and losses to maintain the assets in working order. These are recurrign in nature.

15. Fixed asset is acquired and held permanently in the business. These are used for more than one accounting period to carry on the busienss and not meant for sale. Fixed assets can be tangible or intangible.

16. Tangible fixed asset is the fixed asset having a physical existence, shape and size. For example plant and machinery, land and building, furniture etc. are some of the fixed assets.

17. Intangible fixed assets are those fixed assets having no physical existence, shape and size but can be used in the business for more than accounting period for generating income. For example, goodwill, copyright, patent, trademark etc. are some intangible fixed assets.

18. Current asset is an asset which is used for converting into cash or bank within a maximum period of one year. Current assets are in the form of cash, debtors, bank balances, bills receivable and stocks. Current assets can be tangible or intangible.

19. Fictitious asset is not a real asset. Past accumulated losses or expenses being capitalised, preliminary expenses incurred for promotion of the business, discount on issue of shares, debit balance of profit and loss account are the examples of fictitious assets.

20. Liabilities repayable within one accounting period of the business are called current liabilities. Examples of current liabilities are sundry creditors, bills payable, outstanding expenses, bank overdrafts etc. They are paid out of the current assets.

21. Any income received in an accounting period which is to be earned in the coming / next accounting period is called income received in advance. For example a commission of Rs.2,000 of 2020 is received in 2019. It is treated as a current liability.

22. There are two ways of arranging assets in balance sheet such as (i) order of liquidity (ii) order of permanence. These methods are called the marshalling / grouping of assets and liabilities.

23. Fixed assets whose value are gradually reduced or which are physically depleted or exhausted in the course of regular use are called wasting assets. These assets are finally exhausted completely. Mines, quarries, oil wells etc. are coming under the wasting assets.

24. An expenses has been incurred, its benefit has been enjoyed by the business in an accounting period. But it is paid in the next accounting period. For example wages of Rs.1,000 for the year 2019 will be paid in the year 2020. It is treated as current liability.

25. An expense which is paid in advance before enjoying its benefit. For example insurance premium is paid in 2019 of Rs.5000 for the year 2020. It is treated as a current asset.

26. Order of liquidity is a method of arranging assets and liabilities in the balance sheet. More liquid assets are recorded first and then less liquid assets and the least liquid assets are recorded at the last.

27. A liability that arises on he happening of an uncertain event is called a contingent liability. For example, a case pending in the court may be a liability if judgement goes against the business. Similarly, a discounted bills of exchange may be a liability if it is dishonoured on due date.

28. A contingent asset is one which comes into existence on the happening of an uncertain event. For example, the business may win the case pending in the court.

29. A liability which will be paid back after a long period of time say five, seven or eight or ten years is called long-term liability. For example Loan on mortgage, loan from financial institutions like IDBI, ICICI, IFCI and bank loans for more than five years.

30. The credit customers are called sundry debtors. If the sundry debtors do not pay within a reasonable period, then amount of goods sold to them is treated bad debts. The reasonable period of collection from the debtors is one accounting period.

31. The owner of the business keeps aside an amount out of the profit of the current year to meet the possible / expected bad debts in the next (accounting period) year.

32. Provision for bad and doubtful debt given in the adjustment debited to Profit and Loss Account and then deducted from sundry debtors in asset side of Balance Sheet. But if it is given in the Trial Balance it is to be shown in the credit side of profit and loss account only.

33. The bad debts given in the Trial Balance is debited to Profit and Loss Account. If it is given in the adjustement, it is debtied to profit and Loss Account and again deducted from sundry debtors in the assets side of Balance sheet.

34. Closing stock given in the adjustment is credited to Trading Account and also shown in the assets side of Balance Sheet. If it is given in the Trial Balance, it is only shown in the assets side of Balance Sheet.

35. Prepaid expenses given in the Trial Balance will only be shown in the assets side of Balance Sheet. But if it is given in the adjustment, it is first deducted from the concerned expenses in the debit side of Profit and Loss Account and then shown in the assets side of Balance Sheet.

36. Outstanding expenses if given in the Trial Balance will only be shown in the liabilities side of Balance sheet. If given in the adjustment, it is added to the concerned expenses in the debit side of Profit and Loss Account once and again shown in the liabilities side of Balance Sheet.

37. Depreciation when given in the Trial Balance, it is debtied to Profit and Loss Account (shown in the debit side of P & LA A/C). When depreciation is given in the adjustment, it is first debtied to Profit and Loss Account and then deducted from concerned asset in the assets sides of Balance Sheet.

38. Provision for depreciation given in the Trial Balance is to be shown in the liabiltieis side of Balance sheet. When provision for depreciation is given in the adjustment it is debited to profit and loss account and again shown in the liabilities side of Balance Sheet.

39. Accrued income if given in the Trial Balance is to be shown in the assets side of Balance Sheet. But if given in the adjustment, it is added to the concerned income in the credit side of Profit and Loss Account and again shown in the assets side of Balance Sheet.

40. Income received in advance given in the Trial Balance is to be shown in the liabilities side of Balance Sheet. If given in the adjustment, it is subtracted from the concerned income in the credit side of Profit and Loss Account and again shown in the liabilities side of Balance Sheet.

41. An account being prepared to ascertain the cost of goods manufactured is called Manufacturing Accounts. Small manufacturing concernes prepare the Manufacturing Account along with Trading and Profit and Loss Account.

Important Note :

For treatment of any item in final accounts students should always keep in mind that :

(i) If the item is shown Trial Balance, it is to be once treated by taking into either Trading Account or Profit and Loss Account or Balance Sheet. Because one aspect of double entry system is not complete.

(ii) If the item is shown in the adjustment it means that no double entry system has been done / carried out. So it is to be treated twice by taking into Final Accounts.

Accounts of Not for Profit Organisations.

42. Organisations help in promoting commerce, art, science, culture, religion, charity, recreation, entertainment and sports are called not-for-profit organisations. The prime objective of these organisations is to render valuable services to its memebrs and to the society without any motive for profit.

43. Not-for-profit organisations carry out most of their business in cash. So, they prepare a cash book known as Receipts and Payments Account. Besides, they prepare Income and Expenditure Account and Balance Sheet at the end of the financial period.

44. Membership fees / subscription collected once for the whole life from the members is known as life membership subscription. The member is to pay a lumpsum amount instead of periodic (Yearly / half yearly / monthly) payments. The member enjoys the benefits of the organisation till the end of his life.

45. It is a nominal account. It is debited with all expenses and losses of revenue nature. It is credited with all incomes and gains of revenue nature. Income and Expenditue Account is prepared on accrual basis.

46. Receipts and Payments Account is a real account based on the golden principle of double entry system. It stands with opening balance of cash / bank and ends with closing balance of cash / bank. It is prepared on cash basis.

47. The remuneration paid to the invitees, guests lecturers, doctors, artists, singers, dancers for their voluntary services is called honorarium. Honararium is paid in the honour of those invitees for their visit and providing service to the public. It is a revenue expenditure, debited to Income and Expenditure Account.

48. Capital Fund is similar to the capital of a sole trading organisation. It is the excess of assets over liabilities. It is also known as General Fund.

49. Life membership subscription / fee is a capital receipt and non-recurring in nature. It is shown in the liability of Balance sheet as an independent item. It may also be shown in the liability side of balance sheet by addition to Captial Fund.

50. Income and Expenditure Account reveals either surplus or deficit. The excess of incomes and gains of revenue nature over the expenses and losses of revenue nature is called surplus. The excess of expenses and losses of revenue nature over the incomes and gains of revenue nature is called deficit.

51. A donation received for a specific purpose is treated as a capital receipt. It is credited to that specific fund and shown on the liabilities side of the Balance Sheet. The specific funds are Building Fund, Prize Fund, Tournament Fund etc.

52. When the amount of legacy is very small and not for any specific purpose, it is treated as a revenue receipt and credited to Income and Expenditure Account. If the amount of legacy is significantly large and for a specific purpose, it is a capital receipt and credited to Capital Fund.

UNIT - II

Accounting for Depreciation

53. The method of charging depreciation on wasting assets is called depletion. The wasting assets are mines, quarries, oil wells etc.

54. The method of writing off intangible assets is called amortisation. Some of the intangible assets are patents, copy right, leasehold property etc. These have a limited periods of life and must be written over their life span.

55. It is the estimated realisable value of an asset at the end of its useful life. The difference between the cost of the asset and its depreciable cost is called the scrap or salvage or residual value.

56. The amount of depreciation remains the same under the straight line method and the amount of depreciation goes on reducing year after year. Depreciation is calculated on the original cost of the asset under straight line method while the amount of depreciation is calculated on the written down value or book value of the asset.

57. The causes of depreciation are physical wear and tear, passage of time, exhaustion, absolescence and accident. Constant use of an asset is known as wear and tear. The value of asset falls with the passage of time irrespective of its use.

58. Under the 'Provision for depreciation' method, depreciation is not a direct charge against the fixed asset. The provision for depreciation account is not closed every year and it goes on increasing till the end of life of the asset. The accumulated 'Provision for depreciation' account is shown in the liability side of the Balance sheet and it becomes equal the original cost of the asset.

59. The cost of the asset is to be charged to the Profit and Loss Account over its useful life. Depreciation is charged as an expense to Profit and Loss Account to know the true profit. It is deducted from the asset in Balance Sheet to know the true financial position. The amount of depreciation being a non-cash expense is set aside for replacement of the old, discarded asset by new one.

60. This method is based on the assumption that the efficiency of the asset goes on diminishing as the asset grows older. So the amount of depreciation goes on diminishing every year. The depreciation is charged at a fixed percentage on the book value of the asset.

61. Under this method depreciation is charged at a fixed percentage onthe original / acquision cost of the fixed asset. The amount of depreciation is fixed or equal throughout its useful life. If depreciation of the asset over the years of useful life plotted on a graph, it will give a straight line.

62. Depreciation is a noncash expense as the business man pay nothing for depreciation. Depreciation is applicable only to fixed assets. It is charged against profit.

63. The calculation of depreciation usually depends on three factors : acquistion/origin cost, scrap value and estimated useful life of the asset. The estimated useful life of the asset is expressed in terms of numbers of calender years, total number of units to be produced, total number of working hours to work or run.

Accounts from Incomplete Records

64. Single entry system of accountign is defined as a system of accounting in which double entry system is not followed. As a rule, only records of cash and personal accounts are maintained.

65. A 'Statement of Affairs' is a 'Balance Sheet' prepared under the single entry system on a particular date. Complete informatin about assets and liabilities is not available from it.

66. The accounting records not completed as per the double entry principles are called 'incomplete accountign records'. The principles of double entry system are followed in a half-hazard or incomplete manner. For example once both aspects of a transaction is recorded; sometimes one aspect of the transaction or not any aspect of the transaction is recorded.

67. Under the single entry system, Trial Balance can not be prepared. Full information is not recorded. So, there is chances of fraud and misappropriation in the business. Arithmetic accuracy can not be maintained without Trial Balance.

68. Trial balance can not be prepared under single entry system. Complete information regarding purchases, sales and other expenses is not available. Trading and Profit and Loss Account can not be prepared to ascertain the true profit earned or loss suffered by the business.

69. No law of the country / India recognises single entry system of accounting. The legal authorities like Income Tax, Goods and services Tax, Courts do not recognise the records of the system.

70. Single entry system is not popular because of its limitations : arithmetic accuracy of the records can not be checked, trial balance can not be prepared, audit and internal check is difficult etc.

71. Under single entry, trial balance can not be prepared where as it can be prepared under double entry. Single entry system is accepted only in non corporate form of business organisations where as double entry is universally accepted.

72. Accounting records may remain incomplete due to any one or more of the reasons given below :

(a) The business man may be ignorant of the concept of business entity concept.

(b) He may be ignorant or may not be interested to keep records in double entry system.

73. The limitations are :

(a) Arithmetic accuracy of the accounts can not be checked;

(b) True financial performance (P & L A/C) can not be ascertained;

(c) True financial position (B/S) can not be determined.

74. Opening capital can be ascertained from incomplete records by preparing the statement of Affairs of the business at the begining of the accounting period. The difference between the total assets and liabilities at the begining of the accounting period is called the opening capital a business.

75. Closing capital of a business can be ascertained from incomplete records by preparing the statment of affairs of the business at the end of the accountign period. The difference between assets and liabilities at the end of the accounting period is the closing capital.

76. The profit / loss of the business can be ascertained from incomplete records in two different methods such as :

(a) Statement of Affairs or net worth method. It is also called the pure single entry system.

(b) Final Accounts system or conversion method. It is also called quasi single entry system.

77. It is difficult to ascertain the net worth of a business. Financial performance (profit / loss) and financial position are not true. So good will can not be valued.

UNIT - III

Accounting for partnership firm

78. Partnership is the contractual relationship between / among partners to carry on a business and to share the profits. The business may be carried on by all any one of them acting for all.

79. At least two persons are required for a partnership. The Partnership Act, 1932 does not mention anything about the maximum number of persons who can be partners in a partnership firm. But section 464 of the Companies Act 2013, lays down that the number of partners in a partnership firm must not exceed 50.

80. Indian Partnership Act, 1932 governs the partnership business in India. It came into force on 1st October 1932 except Section 69 (dealing with the effect of non-registration of firms). Section 69 came into force on 1st October 1933.

81. Profit and Loss Appropriation Account is prepared to show the distribution of profits among the partners. All appropriations / distributions payable to the partners as per the partnership deed are recorded in this account. The transactiosn between the firm and the partners are mainly recorded in this account. It is an extension of the Profit and Loss Account.

82. A partnership firm can maintain the capital account of partners on the method of fixed capital. In this method, the capital of partners remains unchanged mainly the opening and closing balances in the capital account remain the same. If additional captial is introduced, then closing balance of capital will be different from the opening balance of capital.

83. Under the fixed capital account method, the transactions between the firm and the partner are recorded in a separate account. That account is called current account. The transactions between the firm and the partner recorded in the partners current account are salary, fees, commission, interest on capital, share in profit, reserves, good will, drawings, interest on drawings and share of losses.

84. Two accounts are maintained for each partner i.e. partner's capital account and partner's current account. Capital introduced at the begining and if during the year, are recorded in capital account. Other current transaction like salary, fee and drawings are recorded in current account.

85. It is a method of keeping the capital accounts of partners. The firm maintains fluctuating capital account of partners, if it is written in the partnership deed.

86. In fluctuating capital account of partner's all the transaction like salary, fee, interest on capital, drawings, interest on drawings are recorded alongwith opening balance of capital and additional capital introduced.

87. Two accounts are opened under fluctuating capital account method. These are partner's capital account and partner's drawing account.

88. The partnership deed may provide for the charging interest on drawings at a mutually agreed rate. In the absence of the deed of partners, no interest can be charged on drawings.

89. The fixed capital of partners may change (i) when partners invest additional capital and (ii) withdraw the excess amount of capital with mutual consent.

90. The five items are opening (debit) balance of capital, drawings, interest on drawings, profit and loss account debit balane and closing balane of capital.

91. The five items are opening (credit) balance of capital, additional capital during the year, interest on capital, commission, fees, salary and profit and loss account credit balance, closing balance of capital.

92. Any amount taken by the owner / partner from the business for his domestic use is called drawings. It is in the form of kind / goods or in cash. It is deducted from capital in the liabilities side of capital.

93. The rate of interest must be stated in the partnership deed. It must also be stated that in the event of loss, interest to be paid or not. In the absence of partnership deed, interest on capital is not allowed. If it is mentioned in the deed, interest on capital is payable only out of proft.

94. If a partner provides loan to the firm at the time of needs for additional funds, he is entitled to interest on loan amount at an agreed rate. If there is no agreement as to the rate of interest,interest @6% p.a. is payable to partners as per provisions of the Indian Partnership Act.

95. Goodwill is the reputation of a firm which is acquired in the course of time. As per the time value of money, good will may be defined as the present value of firm's anticipated excess earnings. It the excess of expected future profit over the normal profit of the firm.

96. Goodwill is an intagible asset, which can not be seen or touched. But it has an intrinsic value. It is an attractive force which brings in customers to old place of business.

97. The factors affecting goodwill are nature of business, suitable location, managerial talent, degree of competition. High quality goods, better is goodwill. Better location, profit expectation is more, so higher is goodwill. Better is the management, more is the goodwill. When there is less competition, chances of profit is more and higher is the goodwill.

98. By taking profit as the basis, good will is valued in any of the three methods : (i) average profit method, (ii) super profit method and (iii) capitalisation of profit method.

99. Normal profit of each year is calculated by deducting non-business and abnormal income and adding abnormal loss and non-business expenses. The normal profits of the agreed years are totalled. Then the total profits is divided by the number of years agreed.

100. The average of the normal profits is multiplied by the number of years' purchase. Number of years purchase means the business is likely to earn profits at a similar rate for an expected years in future for their past efforts and experiences.

101. The need for valuation of goodwill arises due to change in the profit sharing ratio among partners, a new partner is admitted, an old partner's retirement or death, the old business to be dissolved or sold amalgamated with other firms, and conversion into a company.

102. The excess of actual profit over the normal profit is called super profit. When a similar type of business earns profit at a certain percentage on the capital employed, it is called normal profit. The businessman has the advantages of earning excess profit than normal profit in the industry.

103. Super profit is calculated by deducting the normal profit from the actual average profit. Then super profit is multiplied with the number of years' purchase in order to arrive at goodwill. Super profit can also be capitalised to arrive at godwill.

104. Capital employed refers to the total investments made in a business and can be defined in a number of ways.

The three most widely used definitions are :

(i) gross capital employed means total of fixed and current assets.

(ii) net capital employed means total assets less currnet liabiliteis.

(iii) proprietor's net capital employed means total assets less outside liabilities.

105. The capital employed in the begining and at the end may be averaged to find out the figure of average capital employed. Average capital employed may also be found out by deducting half of the profits earned during the year from the capital at the end or half of the profit may be added to the capital employed at the begining.

106. Average profit or super profit is capitalised at the normal rate of return for calculation of goodwill. When average profit is capitalised, the method is called average profit method of valuation. When super profit is capitalised, it is called super profit method.

107. Average profit is capitalised at the normal rate of return to find the normal investment in the business. The normal investment in the business is also called the value of business. The excess of value of business over the actual investment is called goodwill.

108. Some investors earn profit more than the normal profit being earned by others in the same industry. The excess of actual profit over the normal profit is called super profit. Super profit is multiplied with number of years purchase to find good will. Super profit can also be capitalised to get goodwill.

109. Normal rate of return is not relevant in calculation of average profit where as it is required in calculating super profit. Average capital employed is not relevant for average profit method whereas it is required for super profit method.

110. Any change in the existing agreement of partnership, it is called reconstituion of the partnership. As a result old agreement ends and new agreement comes in. In other words it is a change in the relationship among partners of a firm.

111. The various circumstances leading to reconstitution of partnership are change in the profit sharing ratio of all partners, admission of a new partner, retirement / death of an old partner, amalgamation of a firm, and insolvency of an old partner.

112. When there is a change in the profit sharing ratio, some existing partners are to surrender some of their shares in favour of others. The ratio of surrender of the share of profit is called sacrificing ratio.

Sacrificing ratio = Old share - New share

113. Gaining ratio is the proportion in which a partner receives higher share of profit than his previous share. The ratio of gain in profit sharing ratio is called gaining ratio. It is calculated as :

Gaining ratio = New share - Old share

114. Revaluation account is an account in which the revaluations of assets and liabilities are recorded. It is also called profit and loss adjustment account. It is a nominal account.

115. Revaluation of assets and liabilities means to re examine their value. The exercise of revaluation is essential for a firm at the time of admission, retirement/death of partners or reconsitution of the firm.

116. The revaluation of assets and liabilities is necessary because any increase or decrease in their values upto the date of change in profit-sharing ratio should be shared by the partners in their old profit sharing ratio. The value of assets and liabilities must be up-to-date on the date of reconstitution of the firm.

117. An increase in the value of assets and decrease in the value of liabilities is gain to the firm. Similarly, an decrease in the value of assets and increase in the value of liabilities is loss to the firm. The net effect of revaluation of assets and liabilities is either profit or loss. It is transferred to old partners capital account in the old ratio.

118. If the partners decide to continue the existing value of assets and liabilities at the time of change in profit sharing ratio, the account opened is called Memorandum Revaluation Account. The account is divided into two parts. First part is similar to Revaluation Account and in the second part entries are reversed.

119. Revaluation Account is a nominal account. It is opened temporarily to find out the effect of revaluation. Any increase in the value of assets or decrease in the value of liabilities is a gain to the partnership firm, credited to Revaluation Account and vice versa.

120. Any undistributed reserves, accumulated profits / losses shown in the existing balance sheet are credited to old partners' capital account in the old profit sharing ratio if there is a change in constitution of the firm. The reserves and accumulated profits / losses will not appear in Balance sheet.

121. Sometimes the amount of goodwill being brought in by new partner is not clearly mentioned. The agreement is silent about the method of calculation of goodwill. Under such circumstances, goodwill is hidden and calculated on the basis of new partner's share and his capital.

122. In the first part of the Memorandum Revaluation Account, the capital account of old partners increases and in the second part, capital account of all partners (including new) decreases if there is profit on revaluation and vice versa.

123. Goodwill should be recorded in the books only when the new partner brings money or money's worth over and above his share of capital. The new partner should bring in cash for his share of goodwill. If money is not paid by new partner for goodwill, it should not be raised in the books.

124. This method is adopted when the new partner brings his share of goodwill in cash. The old partners share such cash paid by new partner in their sacrificing ratio.

125. The new partner's capital acount is debited with his share of goodwill and old partners' capital accounts are credited in their sacrificing ratio.

New Partners Capital A/c ... Dr

To Old Partners' Capital A/c

(Being share of new partners' goodwill shared by old partners)

126. Various Assets A/C .... Dr

To Revaluation A/C

(Being increase in assets credited to Revaluation Account)

127. Revaluation Account ....Dr

To various Liabilities A/C

(Being increase in various liabilities debited to Revaluation Account)

128. (i) Cash A/C ... Dr

To Premium A/C

(Being goodwill brought in cash)

(ii) Premium A/C .... Dr

To Old Partners Capital A/C

(Being goodwill credited in sacrificing ratio)

129. In addition to the two journal entries given above in Q.No.128, another entry for withdrawal is given below.

Old Partner's Capital A/C ...Dr

To Bank A/C

(Being goodwill withdrawn by old partners)

130. New partner's Capital A/C .... Dr
     To Old Partners' Capital A/C
   (Being the new partner's share of good will debited to his Capital Account and credited to old partners' capital account in sacrificing ratio)

131. Goodwill is a way for compensating the old partnes for their sacrifice they make in favour of new partner. When goodwill is paid privately by the new partner to the old partners it is not recorded in the books of account of the firm. Hence, no entry is passed.

132. C's Capital $\frac{1}{4}$ th share = Rs.24,000
   (i) Estimated total capital of the firm $= 24000 \times \frac{4}{1} =$ Rs.96,000
   (ii) A and B's share profit = 24,000 x 3 = Rs.72,000
   (iii) Both combined capital of A & B = Rs.40,000
   (iv) Goodwill:(ii)-(iii)=Rs.72,000-Rs.40,000 = Rs.32,000

133. Old ratio → P:Q :: 3:2, P's share $= \frac{3}{5}$, Q's share $= \frac{2}{5}$
   New ratio P:Q:R::2:2:1; P's share - $\frac{2}{5}$, Q's share = $\frac{2}{5}$ R's share = $\frac{1}{5}$.
   Q. does not sacrifice. Only P sacrificed for R by $\frac{3}{5} - \frac{2}{5} = \frac{1}{5}$ th share.

134. (i) Cash/Bank A/C ....Dr
       To Premium / Goodwill A/C
     (Being a portion of share of goodwill brought in cash)
   (ii) Premium / Goodwill A/C ......(with brought in goodwill)
     New Partner's Capital A/C .....Dr
     (with not brought in goodwill)
       To Old Partner's Capital A/C
     (Being total new's partner's share of goodwill transferred to old partner in sacrificing ratio)

UNIT - IV

Accounting for Companies

135. Equity shares issued at discount or for consideration other than cash for providing know-how or making available rights like patents, copyrights (intellectual property rights). It can also be issued to directors end employees.

136. It is a technique used for marketing a public offer of eqity shares of a compnay. It is a way of raising more funds from the market.

137. Employees stock option (ESOP) means the option given to the wholetime directors, officers or employees of a company to purchase or subscribe shares at a future date at a pre-determined price.

138. The terms / conditions on which shares are to be issued by a company are given in the prospectus. Shares can be issued either at par or at a premium or at a dicount. The issue price of shares can be received by the company either in one / more instalments.

139. As per section 39 of Companies Act 2013, a sum equal to at least 5% of the nominal value of the shares must be received in cash as application money. As per SEBI, minimum application money, shall not be less than 25% of issue price.Hence 25% of issue price can not be less than 5% of nominal value of shares.

140. Allotment of shares means acceptance of the share applications. An application for share is an offer and allotment is the acceptance of that offer by the company. After the minimum subscription is received, the Board of Directors proceed to allot shares.

141. The share application money is converted into share capital account. On allotment, an amount is payable called allotment money. After allotment of shares, a letter of allotment is sent to applicants to pay the allotment money within a stipulted date.

142. The Board of Directors ask for the balance amoutn due on shares after receiving application and allotment money in a number of instalments. Each instalment is called a call or share call. The first instalment is called share first call, and so like.

143. When shares are issued at a price more than the face value of shares, it is said to be issued at premium. The premium so collected is credited to securities premium Account / Securities Premium Reserve Account. Securities premium is collected either with application or with allotment or with calls money.

144. Securities premium can be utilised for (i) writing off the preliminary expenses of the company, (ii) writting off the expenses of the commission paid / discount allowed on any issue of shares / debenetures.

145. As per Sec.53 of the Companies Act, 2013, there is a prohibition on issue of shares at discount. Sec.54 of the Companies Act, 2013 a company shall not issue shares at a discount. Any share issued at discount is void. Only sweat equity shares may be issued at discount.

146. The issue must be authorised by a special resolution passed by the company. The resolution must specify the number of shares, current market price, consideration, if any, and class of directors / employees to whom equity shares will be issued. One year should pass from the date of commencement of business to the date of issue.

147. Over subscription of shares arises when the number of shares applied for exceed the number of shares issued. The allotment is made on a reasonable basis and to be restricted to the number of shares issued.

148. In case of over subscription, prorata allotment may be made. In a prorata allotment, no application is refused and no applicant is allotted the shaes in full. Each applicant receives the shares in some proportion of his application.

149. If any amount has been called by the company either as allotment or call money and a share holder has not paid that money, such amount not received is known as Calls in Arrears. The company can charge interest @10% p.a. for the unpaid period.

150. If any call has been made by the company, the share holders pay the calls money and some share holders pay the amount of money for rest of calls. Hence calls money received before the due date by the company is called. Calls in Advance. The company pays interest @12% p.a. on calls in advance from the date of receipts to the due date.

151. The capital of the company is divided into small parts of equal amount. Each part is called a share. Each share is given in a physical form or non-physical form.

152. The capital of the company form of business organisations is called share capital. As the company needs huge capital, it is raised from the open market by issuing shares. The capital of a company being shared by the public, it is so named as share capital.

153. This the maximum amount of capital the company is authorised to issue. It is stated in capital clause of the Memorandum of Association. It is also called the registered capital.

154. A company issues new/existing shares to the public for the first time. After an IPO, the issuing company becomes a public listed company on a recognised stock exchange.

An IPO is also commonly known as 'going public'.

155. When a company makes a bulk allotment to an individual, companies, venture capitalists or any other person through a fresh issue of shares, it is called preferential allotment. Under this method of allotment, the entire allotment is made to pre-identified people / person.

156. Share certificate is a document issued by a company signifying the ownership of number of shares mentioned their in. As per section 53(4) of the Companies Act, 2013, every company is to issue the share certificates within a period of two months from the date of allotment of shares.

157. A joint stock company is an incorporated, voluntary and autonomous association of a number of persons. A company is an artificial legal person and its entity is distinct from its members.

158. A private limited company should have a minimum paid up share capital of one lakh rupees. The members have no right to transfer share. The maximum number of shareholders are limited to 200. It can not invite the public to subscribe to its shares and debentures.

159. A public limited company should have a minimum paid up capital of five lakh rupees. It must have a minimum of seven members. There is no restriction on transfer of shares

160. A company can issue two types of shares. These are equity shares and preference shares. Equity shares are of two types : equity shares with voting right and equity shares with differential right to dividend, voting etc. Preference shares carry preferential rights on dividend and repayment of capital.

161. As per section 2(62), a one person company means a private limited company with only one person as its member. The member must be a natural person, an Indian citizen and resident of India.

162. A small company should be private limited company. It's maximum paid up capital is of ₹50 lakh or such higher amount as prescribed on its turnover should not exceed ₹2 crores.

163. Shares carrying preferential rights as regards payment of dividend and repayment of capital are called preference shares. Preference shareholders generally do not posses voting rights. But they can vote only when their interests are affected.

164. Equity shares are the ownership shares. These are the most risk bearing securities because holders of these shares will get repayment of capital after meeting the claims of preference shareholders, debenture holders and other creditors.

165. The unpaid dividends go on accumulated for years and paid on a share called cumulative preference share. The arrears of dividend will be paid when there is profit in subsequent years.

166. It is a part of uncalled capital. It can only be called up in the event of winding up of the company. It adds to the financial strength of the company.

167. It is the accumulated capital profits such as profit on sale of fixed assets, gain on forfeited shares etc. All such capital gains / profits are transferred to one account called capital reserve account.

168. Forfeiture of shares means depriving a shareholder of his rights to ownership. The ownership is cancelled as he does not pay the allotment or call money as asked by the company.

169. The forfeited shares become the property of the company. Such forfeited shares can be issued to new shareholders either at par or at premium or at discount. It is called reissue of shares / forfeited shares.

170. Stock is the aggregate of fully paid up shares. It is a set up shares put together. Stock can be split into fractions of any amount without any regard / reference to the original face value of shares.

171. The profit on reissue of forfeited shares is transferred an account known as capial reserve account. This account is shown in liability side of balance sheet under the head 'Reserves & Surplus' capital reserve can be used for writing off capital losses.

172. After the allotment of shares, sometimes a shareholder is not able to pay further calls. He returns his shares to the company for cancellation. Such voluntary return of shares

to the company by the shareholder himself is called surrender of shares. It has same accounting treatment with forfeiture of shares.

173. When a public limited company is confident of raising capital through private sources, it does not invite the public for subscription of shares. Rather, it issue shares to selected group of persons or institutional investors and it is known as private placement of shares.

174. Sometimes a company issue shares to vendors for purchase of assets or purchase of business or issue of shares to promoters or issue of shares to underwriters or any other person for their services. Such shares are to be disclosed in the Balance Sheet under the head 'Equity and Liabilities' and subhead 'share capital'.

175. Share Capital A/C ....Dr. (with the called up amount)

    To Share Allotment A/C
    (Amount not paid on allotment)

    To Share Call A/C
    (Amount not paid on call)

    To Share Forfeiture A/C (Amount paid)

    (Being Forfeiture of ....shares for non payment of ....)

176. An issue is called under subscription of shares when the public apply for the number of shares are less than the number of shares are offered. Allotment is to be made to all applicants provided the minimum subscription has been received.

177. Lien on shares is an equitable charge on shares to secure any debt. The debt may be recoverable from shareholders of the company. The effect of lien is that the company is given complete freedom to sell the shares under lien.

178. Share Application Account is a representative personal account. This account represents the name of all persons from whom share application money is received by the company.

179. Debenture is an instrumetn in writing issued by a company acknowledging the debt. The debenture holder is entitled to a fixed rate of interest till the repayment / redemption of debenture by the company.

180. When the debentures are issued in one lot for the sake of convenience it is called debenture stock. Nominal debentures are issued for small demoninations Debenture Stock certificate is issued for large amount.

181. The debentures against whom no security is available is called naked debentures. It is known as unsecured debentures also. It does not carry any security in respect of repayment of principal or interest.

182. Debentures backed by assets of the company are called secured debentures.If some specific assets are earmarked for the debenture, it is called fixed charge. If all assets are given as security it is called floating charge secured debentures.

183. The debentures which are transferable by more delivery are called be ara debentures. Such debentures are transferable just like bearer cheque. It is not recorded at all.

184. Debenture holders are to get interest on their investment in debentures. The rate of interest is fixed and payable yearly or half yearly whether the company earns profit or not. The interest on debenture is a revenue expenditure and shown in Profit and Loss Statment.

185. A debenture is a written acknowledgement of indebetedness by a company. It is issued under the seal of a company. Debenture certificate contains a contract for the repayment of principal sum at a specified date.

186. Redeemable debentures are those debentures which are repaid by the company in lump sum at the end of a specific period. It can also be repaid by instalments during the life time of the company.

187. Irredemable debentures are those debentures which are not repaid during the life time of the company. Such debentures are to be paid back on the event of liquidation of the company. It is called perpetual debentures. No company is allowed to issue such debentures.

188. Convertible debentures are those debentures which are convertible into equity shares or other securities at the option of either debentureholders or issuing company. It is converted at a stated / fixed rate of exchange after a specified period.

189. Register debentures are those debentures which are registered in the name of a debentureholders in the books of the company. Names and addresses of the holders of registered debentures are recorded in a register of the company. Such debentures are not freely transferable.

190. Share is ownership capital whereas debenture is creditorship/loan capital. Shares earn dividend whereas debentures earn interest.

191. Issue of debentures takes various forms such as :

(i) issue of debentures for cash

(ii) issue of debentures for consideration other than cash

(iii) issue of debentures as collateral security

192. When debentures are issued at a price more than is face value / nominal value, it is said to be 'debentures issued at premium'. The premium on issue of debentures is credited to a separate account called, 'Securities Premium Reserve Account'. It is a capital profit.

193. When debentures are issued at a price lower than its face value / nominal value, it is said to be 'debentures issued at discount'. There is no restriction regarding the maximum limit for discount on debentures in the Companies Act, 2013.

194. Discount on issue of debenture is a capital loss. It should be written off within the life time of the debentures as early as possible. It can be written off against 'Securities Premium Reserve Account' or Statement of Profit and Loss.

195. Premium on issue of debentures is a capital profit for the company. The amount of premium should be credited to a separate account called "Securities Premium Reserve Account". It is shown separately on the 'Equity and Liabilities' side of Balance Sheet under the subhead "Reserve and Surplus"and head 'Share holders' funds.

196. The investors who want security of their investment and regular income without any risk they will invest in debentures. These investors want to get low income and low risk to their investment.

197. Sometimes a company purchases assets from vendors or acquires a running business for which the company issues debentures to them. This type of issue of debentures for acquiring their assets is called 'issue of debentures for consideration other than cash'.

198. From priority point of view, debentures are classified as ' first debentures' and 'second debentures'. First debentures is one, which are repayable prior to other debentures. Similarly second debentures are repayable only after the redemption of 'first debentures'.

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4. SHORT QUESTIONS TO BE ANSWERED IN 50 WORDS (3 MARKS EACH)

UNIT - I

Financial Statements of Sole Trade and Not for Profit Organisations.

1. What are the characterstics of Balance Sheet ?
2. What is the purpose of Balance Sheet ?
3. A Balance Sheet always agree - why ?
4. Explain the ways of arranging assets and liabilities in the Balance sheet.
5. What are various types of liabilities ?
6. Which items are shown on the debit side of Trading Account ?
7. What is cost of goods sold ?
8. Which closing entries are recorded in Trading Account ?
9. Mention the closing entries in Profit & Loss A/C.
10. How do you treat outstanding expenses in Final A/C when given in adjustment ?
11. Why Provision for Doubtful Debts is opened / made?
12. How Provision for Discount on Creditors treated in Final Account ?
13. Why should depreciation be written off on fixed assets ?
14. What is the objective of preparing Final Accounts ?
15. Why manufacturing account is prepared ?
16. How would you treat prepaid expenses in Profit and Loss Account and Balance Sheet when given in adjustment ?
17. How would you treat Accrued Income in Final Accounts if given in adjustment ?
18. When closing stock is given inside Trial Balance and how it is treated in Final Accounts?
19. Why Trading Account is prepared before preparation of Profit and Loss Account ?
20. What is income received in advance and how it is treated in Final Account ?
21. What entries are passed for bad debts and baddebts recovered later?
22. Narrate the current assets?
23. Why Balance Sheet is called a 'statement' not an 'account' ?
24. What do you mean by interest on drawings and how it is treated in final accounts ?
25. Explain the fixed assets with suitable examples.
26. Which books are maintained by Not for Profit Organisations ?
27. Write three features of Receipts and Payments Account.
28. State the meaning of Income and Expenditure Account.
29. Write three characterstics of Income and Expenditure Account.
30. Give the treatment of donations in the financial statements of a Not for Profit Organisation.
31. How special fund is treated in the final accounts of a Not for Profit Organisation ?
32. What is Legacy ? How it is treated.
33. What is subscription ? How its accounting treatment is made by the Not for Profit Organisaiton ?
34. What is 'Life Membership Fee' ?
35. What is 'Capital Fund' ?

UNIT - II

Accounting for Deprecation and From Imcomplete Records (single entry)

36. Write the advantages of straight line method of depreciation.
37. What are the disadvantages of straight line method of depreciation ?
38. Write the advantages diminishing balance method of depreciation.
39. What are disadvantages of diminishing balance method of depreciaiton ?
40. Distinguish between Depreciation Account and Provision for Depreciation Account.
41. Write the important features of deprecation.
42. State the main causes of depreciation.
43. Which factors determine the amount of deprciation ?
44. What are the needs for providing depreciation ?
45. Distinguish between straight line method and written down value method of depreciation.
46. What do you mean by accounting from incomplete records or single entry system ?
47. Give some examples of incomplete records.
48. State the features of single entry system.
49. What are the limitations of single entry system ?
50. Give three differences between single entry and double entry.
51. Give three differences between Balance sheet and Statement of Affairs.
52. How profit is ascertained by single entry system ?
53. How profit is determined under networth method ?
54. Give the proforma of a Statement of Affairs.
55. Give a format for ascertaining profit under single entry.

UNIT - III

Accounting for Partnership

56. What do you mean by 'fixed capital' system ?
57. What is 'fluctuating capital' system ?
58. What do you mean by 'Current Account' in partnership ?
59. What is 'Revaluation Account' or 'Profit and Loss Adjustment Account'?
60. When and why 'Momorandum Revaluation Account' is opened ?
61. What do you mean by sacrificing ratio ?
62. What do you mean by 'Profit and Loss Appropriation Account' ?
63. Give three factors affecting the value of goodwill.
64. What do you mean by 'gaining ratio' ?
65. Give a note on 'Average Profit Method' of Valuation of good will.
66. What is super profit method of valuation of good will ?
67. Give the circumstances where valuation of goodwill is necessary.
68. Why a new partner is admitted into a continuing partnership firm ?
69. How accumulated profit is treated on the admission of a new partner?
70. How accumulated losses will be treated at the time of admission of a new partner ?
71. Give sixe contents of Partnership deed.
72. Narrate the provisions of Partnership Act, 1932 in the absence of a partnership deed.
73. Distinguish between fixed capital system and fluctuating capital system.
74. Distinguish between Profit and Loss Account and Profit and Loss Appropriation Account.
75. State the nature of goodwill.

UNIT - IV

Accounting for Companies

76. What do you mean by equity share ?
77. What do you mean by preference shares ?
78. What do you mean by stock ?
79. Distinguish between shares and stock.
80. How securities premium be used by the company ?
81 What are the provisions of Section 53 of the Companies Act 2013 regarding issue of shares at discount ?
82. State the different methods of issuing Sweat Equity Shares.
83. What is the treatment forfeiture of shares issued at a premium?
84. Give three differences between preference shaes and equity shares.
85. What is reissue of forfeited shares ?
86. Write the name of different types of debentures.
87. State three difference between shares and debentures.
88. Explain the debentures on the basis of convertibility.
89. What are the main features of debenture ?
90. What are the various forms of issue of debentures ?

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ANSWERS

UNIT - I

Financial Statements Sole Trade and Not for Profit Organisations.

1. The characterstics of a Balance Sheet are as follows :
   - Balance sheet is a 'statement' not an account.
   - It is a summary of balances of asset and liabilities.
   - Both sides of balance sheet tally / are equal.
   - It shows financial position.
2. - The purpose of preparing Balance Sheet is to :
   - Ascertain the nature and value of assets.
   - Ascertain the natue and extent of liabilities.
   - Ascertain the financial position / solvency.
3. As per accounting equation concept, assets are equal to liabilities plus capital. The total investment must be equal to the total funds at the disposal of the business. The investment of a business can not be more than its funds. So balance sheet will agree always.
4. There are two ways of arranging assets and liabilities in the Balance Sheet.
   - Order of liquidity - In this way or method, the assets which are more readily converted into cash recorded first and which are less readily or can not be so readily converted into cash will be recorded next and so on. Similarly, the liabilities which are to be paid off first will be recorded first and those payable in late or later will be recorded next and so on.
   - Order of permanence - In this method of recording more permanent assets or liabilities are recorded first, less permanent assets or liabilities are recorded next and so on.

5. The various types of liabilities are -
   - Fixed liability like capital, reserve and surplus.
   - Longterm liability like debentures of a company, mortgage loan.
   - Current liability like sundary creditors, bills payable and bank overdraft etc.
   - Contingent liability like bills receivable discounted before maturity, liability for a case pending in the court.

6. The following items are shown on the debit side Trading Account :
   - Opening stock
   - Net purchases
   - Direct expenses like wages, carriage inward, import / export duty, motive power, coal, gas and water, manufacturing expenses, consumable stores, royalty, packaging etc.

7. The cost incurred for bringing the goods / merchandise into fit for selling conditions is called cost of goods sold. The difference between sales and gross profit / loss is cost of goods sold. Cost of goods sold can be ascertained as follows :

   Cost of goods sold = Opening stock + Net products + Direct expenses - closing stock

8. The closing entries in the Trading Account are :
   - In the debit side

     Trading A/C ....Dr.

     To Opening Stock A/C

     To Purchases A/C

     To Direct Expenses A/C

     To Sales Return A/C
   - In the credit side

     Sales A/C ....Dr

     Closing Stock A/C .....Dr

     To Trading A/C
   - If gross profit

     Trading A/C........Dr

     To Profit & Loss A/C
   - If gross Los

     Profit & Loss A/C ....Dr

     To Trading A/C

9. The closing intries in the Profit & Loss A/C are :
   - In the debit side

     Profit and Loss A/C.. ...Dr

     To Indirect Expenses & Losses
   - In the Credit side

     Revenue incomes / gains A/C ...Dr

     To Profit & Loss A/C
   - For net profit

     Profit and Loss A/C ..Dr

     To Capital A/C
   - For Net Loss

     Capital A/C ..Dr

     To Profit & Loss A/C

10. The adjustment entry for outstanding expenses is :

    Particular Expenses A/C Dr

    To outstanding Expenses A/C

    Outstanding expense is added to particular expense in the debit side of Trading A/C (if it is direct expense) or in the debit side of Profit and Loss A/C (If it is indirect expense). Again it is shown in the liability side of Balance Sheet. It is a current liability to be paid in the next accounting period.

11. There is every possibility that some of the sunday debtors may not pay their debt in full. The total credit sales can not be collected. So a provision is made for in the profit and loss account to keep the income in a conservative position. If provision is created and deduted from income (P & L A/C), net profit is justified and the sundry debtors are shown at their net realisable value in the Balance Sheet.

12. Provision for discount account is recorded in the credit side of Profit and Loss Account and again it is substracted from sunday creditors in the liabilities side of Balance Sheet. The adjustment entry is :

    Provision/ Reserve for Discount on Creditors A/C. Dr.

    To Profit and Loss A/C

13. Depreciation should be written of in order to:
    - Ascertain the true profit or loss of the business.
    - Show true financial position of the business
    - Show the fixed asset at its book value
    - Give correct informaiton to the creditors, bankers of the business.

14. The main objective of preparing Trading Account is to ascertain the trading results, i.e. gross profit / loss Profit and Loss Account is prepared to determine the net profit / loss. Balance Sheet is prepared to show the financial position of the business on the last date of the acocunting period.

15. When the size of a manufacturing undertaking is small, it is unable to install cost accounting procedure. So that undertaking wants to know the cost of goods produced by preparing maufacturing account. In addition, they prepare Trading and Profit and Loss Account and Balance Sheet.

16. Prepaid expenses means the expenses is paid in cash for the next accounting period but the benefit of the expenditure is not received. The adjustment entry is :

    Prepaid expenses A/C Dr

    To Particular Expenses A/C

    In the debit side of Profit and Loss Account, prepaid expense is deducted from the particular expense and again it is shown in the assets side of Balance Sheet.

17. Accrued income means income earned but not received during the current accounting period. The adjustment entry is :

    Accrued Income A/C Dr

    To Particular Income A/C

    In the credit side of Profit and Loss Account, accrued income is added to the particular income and again it is shown in the assets side of Balance Sheet.

18. When closing stock is adjusted against purchases it will appear in Trial Balance. In such a situation, closing stock is not shown in the credit side of Trading Account and it is shown in the assets side of Balance Sheet only.

19. Trading Account discloses the trading results i.e. gross profit or loss. Gross profit / loss is the opening entry of Profit and Loss Account. At the time of preparing Profit and Loss Account, gross profit is to be recorded first. Then other indirect expenses and incomes are entered in the Profit and Loss Account to find out net profit / loss of a business. Hence, prior to the preparation of Profit and Loss Account, Trading Account is prepared.

20. Any income received in cash before it is being earned is called income received in advance. If income received in advance is given in the adjustment it is deducted from the particular income in the credit side of Profit and Loss Account and again shown in the liabilities side of Balance Sheet. If it is given in the Trial Balance, it is to be shown in the liabilities side of Balance Sheet only.

21. The entries are :

    For bad debts

    Bad debts Account Dr

    To Sundry Debtors Account

    For bad debts recovered

    Cash A/C Dr

    To Bad debts Recovered Account

22. Current assets are acquired for converting them into cash or near cash during the normal business operation. Current assets are also known as floating assets. For example cash, bank, debtors, bill, receivables, inventory, short term investment etc.

23. An account has two sides called debit side and credit side. The left hand side is denoted as debit side and right hand side is denoted as credit side of an account. 'To' and 'By' are prefixed to the postings in an account in the debit side and credit side respectively. A Balance sheet has 'assets' side and 'liabilities' side. Its left side is 'liabilities side' , right side is 'assets' side and not prefixed by 'To' or 'By'. So. Balance sheet is a statement not an account.

24. Interest is charged on drawings by the partners / proprietor. It is a gain to the business and credited to Profit and Loss Account. Interest on drawings is added to drawings and deducted from capital.

25. Assets acquird for use and not for sale are known as fixed assets. Fixed assets are held in the business for generating income by using Current Assets for a long period. Examples are land, building, furniture, goodwill, patent etc.

26. Not for profit organisations mainly use a cash book. Its cash book is known as Receipts and Payments Account. Besides, this book, members register, personel ledger like collection register and Donors' Register, stock register,and minutes book are maintained. At the end of the year, not for profit organisations prepare Income and Expenditure Account and Balance Sheet.

27. The three features are :
    - It is a real account and is based on the golden principles of double entry system.
    - It starts with an opening balance of cash/ bank or both and ends with closing balance of cash or bank or both.
    - It records only cash transactions irrespective of time period and nature of receipts on payments.

28. It is a nominal account. It is a summary of revenue incomes and expenditures of a Not for Profit Organisation in an accounting period. All expenses and losses are recorded on the debit side and all incomes and gains are recorded on credit side. The excess of incomes over expenditures and is the surplus. If the debit side exceeds credit side, the difference is known as deficit. The Not for Profit Organisations prepare Income and Expenditure Account to know whether their incomes are sufficient to meet their expenditures or not.

29. The characterstics are :
    - It is similar to Profit and Loss Account of a trading concern.
    - It is a nominal account.
    - It is prepared on accrual basis.

30. All specific donations are to be capitalised and put on the liabilities side of Balance Sheet. If a general donation is considerably a large amount, it is to be capitalised and added to capital fund in the Balance Sheet. If general donation is considerably a small amount, it is treated as an ordinary revenue income and credited to Income and Expenditure Account.

31. The special fund may be invested in a bank or in government securities. Any income accruing to such special fund is added to and any expenditure on this fund is subtracted from such special fund. That special fund is shown in liabilities side of Balance Sheet.

32. Legacy is the amount received from the properties of a deceased person as per his will. If the amount of legacy is substantial, it is capitalised and added to Capital Fund. If the amount of legacy is a small amount, it is treated as a revenue income and credited to Income and Expenditure Account.

33. The membership fees collected from members regularly is called subscription. It is the main source of income for any Not for Profit Organisation. The subscription collected by the organisation is shown in the credit side of Income and Expenditure Account.

34. It is a lump sum amount received once only from the members for their permanent membership. It is non recurring in nature. Once paying a huge amount, a member can become a life/permanent member of the organisation. It is a capital receipt. It may be shown in the liability side of Balance Sheet as an independent item or added to Capital Fund on the liability side of Balance Sheet.

35. The capital of a Not for Profit Organisation is called as 'Capital Fund'. Capital fund is the excess of total assets over the total outside liabilities of a Not for Profit Organisation. It is shown on the liabiliies side of Balance Sheet. Capital fund is also known as General Fund. Capital fund is increased by addition of surplus, and decreased by deduction of deficit. Sometimes special funds, legacy and donations are capitalised and added to Capital Fund.

UNIT - II

Accounting for Deprecation and from Imcomplete Records (single entry)

36. Advantages of straightline method of deprecaiotn are :
    - This method is very simple to understand and easy to calculate depreciation.
    - This method is suitable for assets whose life can be accurately estimated such as lease hold property, patents, trademarks etc.
    - The books value of an asset will be reduced to zero or to scrap value at the end of its life time.
    - The same amount of depreciation is charged every year which makes the comparison of income of different years.

37.
    - This method wrongly assumes that the asset has same utility in different accounting periods. But the eficiency of the asset is reduced every year.
    - The repairs and maintenance cost go on increasing as the asset grew older and its depreciaiton remains the same. So total charge / debit to P &L A/C increases year after year as the asset becomes older and older.
    - This method is not recognised by Income Tax Department.

38. Advantages of diminishing balance method are as follows :
    - This method is logical in charging reduced amount of depreciation from year to year in proportionate to the service / working capacity of the asset.
    - In case of additional purchase of assets, calculation of depreciation does not create any problem.
    - It is recognised by Income Tax Department.

39. Disadvantages of diminishing balance method of depreciaiton are as follows:
- The book value of the asset can never be reduced to zero.
- The fixation / calculation of the rate of depreciation is difficult.
- It does not take into account the loss of interest due to investment in the asset.
- It takes a very long time to write off the asset.

40. Distinguish between Depreciation Account and Provision for Depreciation Account.

Depreciation Account

(i) It is a nominal account.

(ii) It is recorded in the debit side of P & L A/c.

(iii) At the time of charging deprecation asset A/c is credited.

(iv) Depreciation A/c always shows debit balance.

Provision for Depreciation Account

(i) It is a provision account always showing a credit balance.

(ii) It is recorded in the liability side of B/S.

(iii) At the time of charging depreciation Provisin for Dep. A/c is credited.

(iv) Provision for Depreciation A/c always shows credit balance.

41. The features of depreciation are :
- Depreciation is the decrease in the value of a fixed asset.
- It is a non-cash/non-moneytary expenses.
- Depreciaiton is a continuous and gradual decline in the utility value of an asset.
- The total amount of depreciation will always be equal to or less than the book value of the asset.
- The calculation of exact depreciation is impossible. Only an estimation is made for charging depreciaiton of fixed assets.

42. The main causes of depreciation are :
- Wear and Tear - Fixed assets get depreciated because of constant use.
- Passage of Time - The value of a fixed asset is reduced because of passage / efflux of time.
- Exhaustion - Wasting assets get depreciated becuase of exhaustion of stock. For examples mines, quarries, oil wells get exhausted after every ton of minerals raised / extracted.
- Obsolescences - Due to technological development and new invention, the value of an existing asset may decrease.
- Accident - An accident will reduce the value a fixed asset.

43. These following factors determine the amount of depreciation :
- Cost of the asset : The cost incurred on the acquisition of the asset and other costs incurred to put the asset in the useful condition.
- Estimated useful Life : The useful life of the fixed asset is to be predicted in number of years, hours, unit of output etc.
- Scrap on salvage value : The scrap value of the asset is deducted from its acquisition cost. The difference between the cost of the asset and scrap value becomes the depreciable cost of the asset.

44. The needs for/ objectives of providing depreciation are :
- To ascertain the true profit / loss.
- To show the correct financialposition.
- To facilitate the replacement of the existing fixed asset.
- To save Income Tax.

45. Distinguish between straight line method and written down value method of depreciation.

Straightline Method

(i) The rate and amount of depreciation remain the same year after year.

(ii) Depreciation is calculated as a percentage on original cost.

(iii) The book value of the asset becomes zero at the end of useful life of the assets.

(iv) The total amount of repairs and depreciation are more in older years of the asets life.

Written down value Method

(i) The rate remains same but amount of depreciatin reduces year after year.

(ii) Depreciation is calculated as a percentage on book value.

(iii) The book value of the assets will never be zero at its end of useful life.

(iv) The total amount of repairs and depreciation are relatively lesser in the older years of the assets life.

46. The term 'single entry system' can be defined as a system of book keeping in which double entry system is not followed completely. It is not exactly double entry system. It is called accounting from incomplete records because accounting records are not completed according to double entry principles. Double entry system is followed in a half-hazard manner / incomplete manner.

47. Some examples of incomplete records may be :

- In some cases, both aspects (debit and credit) of transactions are recorded for example, cash received from debtors and cash paid to creditors.
- In some cases only one aspect (either debit or credit) of the transactions are recorded. For example : Cash purchases, cash sales, payment for expenses etc.
- In some cases no aspect (neither debit nor credit) of a transaction is recorded. For example writting of depreciation, differed revenue expenditure is not at all recorded in the books of account.

48. The features of single entry system are :

- Maintenance of personal accounts.
- Maintenance of cash book in crude / raw form.
- Dependence of original vouchers.
- No uniformity
- Suitable to small business units.

49. The limitations are :

- Arithmetical accuracy can not be checked.
- True profit can not be ascertained.
- True financial position can not be presented.
- It is very difficult to make valuation of the business.
- It has no internal check system.
- It is difficult to conduct audit.
- It is not recognised by law.

50. The differences are :

Single entry system

(i) It is not based on any specific principles and assumptions.

(ii) It does not record both aspects of transactions.

(iii) It usually records cash and personal Accounts.

Double entry system

(i) It is based on certain strong principles and assumptions.

(ii) It records both aspects (debit and credit) of transactions.

(iii) It records all types of accounts, i.e. Personal, Real and Nominal.

51. The differences are :

Balance Sheet

(i) It is prepared under double entry system.

(ii) It is prepaed from Trial Balance.

(iii) It is always prepared at the end of the accounting period.

Statement of Affairs

(i) It is prepared under single entry system.

(ii) It is prepared from some ledgers and estimates.

(iii) It is prepared either at the end or begining of the accounting period.

52. Under the system, two methods are used to ascertain profit such as ‘Net Worth Method’ and ‘Conversion Method’. In net worth method, profit is determined by comparing the capital at the begining and at the end of the accounting period. In conversion method, first of all single entry is convertd / changed into double entry by determining the missing items. Then profit / loss is ascertained by preparing Trading, Profit and Loss Account.

53. Profit under networth method is determined as follows :

- Prepare statement of affairs at the begining of the accounting period to find out capital at the begining.
- Prepare statement of affairs at the end of the accounting period to find out capital at the end.
- Find adjusted capital at the end of the accounting period by adding drawings or subtracting further capital.
- The difference between the adjusted capital and begining capital is the profit or loss.

54. The proforma of a Statement of Affairs is given below :

Liabilities	Amount (Rs)	Assets	Amount
Sunday creditors	?	Cash in Hand	?
Bills Payable	?	Cash in Bank	?
Outstanding Expenses	?	Sundry Debtor	?
Bank Overdraft	?	Bills Receivable	?
Income Received in Advance	?		Stock ?
Loans	?	Prepared Expenses	?
Capital (Balancing figures)	?	Accrued Income	?
		Fixed Assets	?

55. Format for showing profit / loss for the period endin=g . . ..

Capital at the end of the accounting period	?
Add : Drawings (whether cash / kind)	?
	(+) ________
Less : Additional capital introduced during the period	?
Adjusted capital at the end of the period	?
	(-) ________
Less : Capital at the begining of he period.	?
Profit / Loss for the accounting period.	?
	________

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UNIT - III

Accounting for Partnership

56. In 'fixed capital' system two accounts are opened for each partner such partner's capital account and partner's current account. The capital accounts of partners are credited with the initial contribution to the business as capital and subsequent by additional capital if any. The share of profit / loss from the business, drawings, interest on capitals, salary, commission etc. are recorded in current accounts of the partners.

57. In 'fluctuating capital' system one account for each partner is opened called partner's capital account. All entries relating to partners' contribution, drawings, interest on capital interest on drawings, salary, commission, profit / loss etc. are recorded in this account. The balance of capital accounts of partners at the end of the accounting period may be more or less than the balance of capital at the begining of the year. Partners drawing account account may be opened for drawings in cash or kind and interest on drawings which are debited to partners' capital account.

58. In fixed capital system, partner's current account is opened for each partner in addition to partners capital account. The entry for share of profit / loss, drawings, salary, interest on capital, interest on drawing commission etc are made in each partner's current acount. Current account is subject to fluctuation and may show either a credit on debit balance. But the capital accoutns of partners will always show credit balance.

59. The account is opened for revaluation of assets and liabilities in the event of admission or retirement or death of a partner and at the time of change in the constitution of the firm. It is necessary to open revaluation account when ever there is a change in the profit sharing ratio of partners. Increase in the value of assets and decrease in the value of liabilities are credited to revaluation account. Any decrease in the value of assets and increase in the value of liabilities are debited to this account. The difference of the debit total and credit total of the revaluation account is known as profit / loss on revaluation. The profit / loss on revaluation is transferred to partners' capital / current accounts in their old profit sharing ratio.

60. If all the partners including the newly admitted partner decide not to show the revised values of assets and liabilities in the Balance sheet, at that time Memorandum Revaluation Account is opened. The first part is for revaluation assets and liabilities and any profit / loss transferred old partners in old ratio. The second part is the reverse entries of first part and transferred to all partners including the new one in new profit share ratio.

61. When a new partner is admitted into the partnership he is entitled to get a share of the firm. For this old partners have to sacrifice a fraction of their share in favour of the new partner. Sacrifice made by the old partners can be determined by deducting their new share from their old share.

62. This accounts is opened to distribute the profit among partners. The net profit is transferred to the credit side of this, account as the first entry. Other items like inteest on capital, salary commission etc. are debited and items like interest on drawins is credited to this account. The balance of profit in this account at the end of the accounting period is distributed among the partners in the profit share ratio or eaually.

63. The following factors affect the value of goodwill :
    (i) Location - A favourable location of a business has positive effect the value of goodwill.
    (ii) Time - A business continuing over a period of time will have more goodwill since it has more patronised customers.
    (iii) Nature of business - The nature of a business such as trading in goods, risk involved, monopooistic competition etc. will affect the value of goodwill.

64. When a partner retires or dies, that retiring or deceased partner sacrifices his shares to the existing or surviving partners. Those existing / surviving / continuing partners gain in their profit sharing ratio. The gain made by such continuing partners may be at their new profit share ratio or may be some other ratio. In otherwords, gaining ratio is the proportion in which a partner receives an incresed share of profit than his earlier share. The ratio of gain of profit sharing ratio is called gaining ratio. It is calculated as :

    Gaining Ratio = New Share - Old Share.

65. Under this method, the average annual profits of a specified number of years past / previous years is multiplied by agreed number of years say 1, 2, 3 or 4 to arrive at the value of the goodwill. The assumption of this method is that the average profit will be maintained in some forseable future years. Before calculation of average profit each year's profit should be adjusted by taking into account abnormal profits / losses, non-business incomes / expenses ec.

66. Under this method, goodwill is calculated for a few years purchase of super profit. Super profit is the excess of actual profit over normal profit. It is calcualted by this method as follows :

    Goodwill = Super profit x Number of years purchases. Sometimes super profit is also capitalised.

67. In a partnership firm, the need for valuation of goodwill arises in the following circumstances :
    - When there is a change in profit sharing ratio.
    - When a new partner is admitted.
    - When an existing partner retires.
    - When an old partner dies.
    - When a partnership firm is sold.
    - When two / more partnership firms are amalgamated.

68. The existing partners in a continuing partnership firm may feel the necessity of more capital or special skill or both. When the old partners are unable to provide extra capital and / or special skill to the partnership firm, they with mutual consent, admit one / more partners. Thus a new partner is admitted.

69. The accumulated profit in the business like reserve fund, profit and loss account credit balance is transferred/ credited to the capital accounts of old partners in their old profit sharing ratio. If the firm has fixed capital system, accumulated profit is credited to current account of old partners in their old profit sharing ratio. The accumulated profit will not appear in the new balance sheet.

    When the partners decide not to close the accumulated profit account and those will be shown in the new Balance Sheet an entry is to be passed.

    Gaining Partner's capital Account Dr. (with his share)

    To sacrificing Partner's Capital Account

70. The accumulated losses may be in the form of preliminary expenses, debit balance of profit and loss account at the time of admission. The new partners should not be made liable for the previous losses. It is necessary to distribute among the old partners in old profit sharing ratio. The various

accumulated losses are to be debited to old partners capial account / current account in the old profit sharing ratio. These losses will not appear in the new balance sheet.

If the partners decide not to close the accumulated losses account and those will appear in the new Balance Sheet, an entry is to be passed :

Sacrificing Partner's Capital Account ... Dr (with his share)

To Gainign Partner's Capital Account

71. The six contents are :
- Name of the firm
- Name and address of all partners
- The nature of business to be carried on
- The place of business
- The duration of Partnership
- The profit sharing ratio
- The capital to be invested by each partner

72. In the absence of partnership deed, the profit and loss of the business will be divided equally among partners. Interest is not allowed on capital. Interest is not charged on drawings. The partners are not entitled to any salary, commission etc. from the firm's profit. However, interest on loan of partners is allowed @ 6% p.a.

73. The distinctions are :

Fixed Capital system

(i) Normally the balance in the capital accounts remains unchanged unless further caial is invested.

(ii) Two accounts, i.e. Capital account and current account are opened.

(iii) The entries for interest on capital, interest on drawings, salary, commission are passed through current account.

Fluctuating Capital system

(i) The balance in the capital accounts change frequently.

(ii) Only one account is opened, i.e. capital account.

(iii) The entries for interest on capital, interest on drawings, salary, commission are passed through capital account.

74. Profit and Loss account is prepared to find out the net profit or loss of the business. But profit and loss appropriation account is prepared to appropriate or distribute the net profit of the firm by considering the notional charges / incomes like interest on capital interest on drawings, salary, commission etc. Profit and Loss account is the first step of ascertaining profit / loss of the firm. But profit and loss appropriation is the next step for distribution of profit / loss of the firm. Profit and Loss Appropriation Account is an extention of Profit and Loss Account.

75. Goodwill is an intangible asset.
- No value is given to a loss making firm.
- A price may realised for goodwill if the business is sold as a going concern.
- It is helpful in earning higher profit.
- It has an attractive force to bring customers.
- It adds extra value to the intrinsic worth of the business.

Unit-IV
Accounting for Companies.

76. The ownership shares are called the equity share. The equity shares have voting rights and they participate in the management of the company. They get dividend on their investment but it is not guaranted. The rate of divided is not fixed. The equit shares have not any preferential right as to dividend and return of capial.

77. Preference shares are those shares which carry preferential right with regard to repayment of capital and paymetn of dividend in the event of liquidation of the company. Preference shareholders are paid dividend at a fixed rate before payment of dividend to equity shareholders.

78. Stock is the aggregate of fully paid shares. It is considered as a set of shares put together in a bundle. Stocks can be split into fractions of any amount without any regard to the original face value of the shares. The value of stock depends upon the number of fully paid up shares being consolidated. A company can not make an original issue of stock. Articles of Association gives permission for convertion of shares into stock.

79. The differences are :

    Shares

    (i) Shares may be partly or fully paid.

    (ii) A share has a face / nominal value.

    (iii) A share is transferable as a whole.

    (iv) A share has a distinct number.

    (v) Share can be directly issued to public.

    Stock

    (i) A stock is always fully paid.

    (ii) A stock has no nominal / face value.

    (iii) Stock can be transferable in fraction.

    (iv) Stock does not have a distinct number.

    (v) Stocks can not be directly issued to public.

80. The securities premium may be utilised for the following purposes only :

    - in writing off preliminary expenses of the company, or
    - in waiting off the expenses, commission, discount on issue of shares or debentures of the company, or
    - for issuign fully paid bonus shares to existing shareholders of the comapny, or
    - for providing premium payable on redemptioin of preference shares or debentures of the company, or
    - for buy back of company's own shares and other securities as per section 68 of Companies Act 2013.

81. Under Sec.53 of the Companies Act 2013, comapnies are prohibited to issue shares at a discount. The only share could be issued at discount are "Sweat Equity Shares' as per section 54 of the Companies Act 2013. Issue of any other shares at a discount other than Sweat Equity share is void. When a company violates the provisions of the Act, it shall be punishable with fire not less than one lakh rupees. The fine may be extended to Rs.5lakh and every officer in default will get imprisonment for a term exending upto six months or fine of Rs.1 to Rs.5 lakh or both.

82. The Act provides different methods for issuing Sweat Equity Shares such as :

    - at a discount
    - for consideration other than cash
    - for providing technical know - how
    - for making available the rights to intellectual property

83. When shares are issued at a premium and it is not received, Securities Premium Reserve Account shall be debited along with Share Capital Account for amount called up. The Calls in Arrears Account and Shares Forfeited Account shall be credited.If the premium has already been received, the entry shall be Share Capital Account debited for the called up amount and Calls in Arrears Account and Shares Forfeited Account shall be credited.

84. The differences are :

- Preference shares are entitled to dividend at a fixed rate while dividend rate on equity shares is not fixed.
- Preference shares having preferential rights to refund of capital and payment dividend, where as equityshares have no such facility for refund of capital and payment of dividend.
- Preference shares can be redeemed during the life of the company but equity shares can not be reedeemed.

85. Directors of a company are empowered to re-issue the forfeited shares, if authorised by the Articles of Association. Such forfeited shares can be reissued on such term as the Directors think fit. The Directors are at liberty to reissue the forfeited shares at par or at premium or at discount. But if the forfeited shares are issued at discount, the amount of discount allowed can not exceed the amount previously received on these forfeited shares.

86. The names different types of debentures are :

- Redeemable Debentures
- Irredeemable Debentures
- Naked Debentures
- Secured Debentures
- Registered Debentures
- Bearer Debentures
- First Debentures
- Second Debentures
- Convertible Debentures
- Non-convertible Debentures

87. The three difference between shares and debentures are :

Shares

(i) It is owned capital

(ii) Shareholders are owners of the company

(iii) Dividend is payable on shares when company earns profits.

Debentures

(i) It is borrowed / debt capital

(ii) Debenture holders are creditors of the company.

(iii) Interest is paid on debentures whether the company earns profit or not.

88. On the basis of convertibility, debentures are :

- Convertible Debentures : The debentures which are convertible into shares at the option of the debentureholders are called convertible debentures. It may be converted into equity shares, preference shares or into any other class of debentures.
- Non-Convertible Debentures : Debentures which can not be converted either into any class of shares or any other class of debentures, that debentures are called non-convertible debentures.

89. The main features of debenture are :

- It is a documetn of acknowledgement of indebtedness.
- It is issued under the seal of the company.
- It carries a fixed rate of interest.
- It usually repay the original sum after a specific period.
- It may be convered into shares or other class of debentures.

90. As per section 39 of Companies Act, 2013 the issue of debentures takes various forms :

- Issue of debentures for cash
- Issue of debentures for consideration other than cash
- Issue of debentures as collateral security.

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GROUP - C

LONG QUESTION

Unit-I

Financial Statements of Sole Trading Organisations

1. Explain the accounting treatment of outstanding expenses, prepaid expenses, accrued income, and unearned income in final accounts with imaginary figures.

2. What is meant by provision for doubtful debts? How are the relevant accounts prepared and how journal entries are passed in final accounts.

3. Define Trial Balance and Balance Sheet. Distinguish between these two.

4. Discuss the classifications of assets and liabilities.

5. Give the accounting treatment of goods destroyed by fine under different situations with suitable example.

6. From the following Trial Balance prepare Trading and Profit and Loss Account and Balance Sheet as on 31.12.2018.

   Closing Stock as on 31.12.2o18 was ₹22,400.

Debit Balance	**(₹)**	**Credit Balance**	**(₹)**
Plant and Machinery	27,000	Capital	60,000
Sundry Debtors	21,600	Bills Payable	1,400
Drawings	2,700	Sundry Creditors	2,800
Purchases	59,000	Sales	73,500
Wages	14,500		
Sundry Expenses	600		
Rent and Taxes	1,350		
Carriage Inwards	450		
Bank	4,500		
Opening Stock	6,000		
Total	**1,37,700**		**1,37,700**

7. From the following Balance of M/s. N & Co. on 31.03.2019, you are required to prepare Trading, Profit and Loss Account and Balance Sheet as on that date :

Debit Balances	₹	Credit Balances	₹
Opening Stock	12,000	Sales	80,000
Purchases	38,000	Returns Outward	600
Returns Inward	900	Miscellaneous Income	6,000
Productive Wages	6,000	Rent from Tenants	2,000
Dock and Cleaning Charges	4,000	Capital	40,000
Donation and Charity	600	Sundry Creditors	8,000
Delivery Van expenses	6,000		
Lighting	500		
Goods and Services Tax	800		
Bad debts	600		
Royalty	3,200		
Drawings	2,000		
Sundry Debtors	6,000		
Cash	3,000		
Investment	6,000		
Patents	4,000		
Machinery	43,000		
	1,36,600		**1,36,600**

Closing Stock ₹15,000.

8. From the following Trial Balance of Ajay as on 31.12.2017, prepone the final accounts :

Particulars	Debit ₹	Credit ₹
Cash in Hand	13,800	-
Purchases	2,62,500	-
Purchases Return	-	2,000
General Expenses	10,000	-
Insurance	3,600	-
Capital	-	3,50,000
Debtors & Creditors	60,000	48,000
Sales	-	5,00,500
Sales Return	4,500	-
Wages	45,200	-
Fuel and Power	5,700	-
Carriage on Sales	5,100	-
Carriage Inward	2,600	-
Opening Stock	40,000	-
Building and Land	3,00,000	-
Machinery	1,00,00	-
Salaries	12,500	-
Trade Mark	35,000	-
	9,00,500	**9,00,500**

Adjustments :

(a) Closing stock ₹85,000

(b) Salaries Outstanding ₹2,500

(c) Insurance Prepaid ₹1,200

(d) Depreciate Building & Land by 5% and Machinery by 10%.

9. Prepare Final Accounts from the following Trial Balance of M/s. Tyagi & Sons for the year ending 31.03.2019.

Debit Balances	₹	Credit Balances	₹
Opening Stock	30,000	Capital	1,50,000
Purchases	2,70,000	Sales	4,00,000
Sales Return	7,000	Purchases Return	6,500
Carriage on Purchases	2,000	Sundry Creditors	40,000
Plant and Machinery	1,00,000	Bills Payable	20,000
Furniture & Fixtures	60,000	Commission	10,000
Freehold Property	50,000		
Cash in Hand	6,000		
Carriage Outwards	1,000		
Wages	33,000		
Salaries	20,000		
Lighting-factory	2,000		
Sundry Debtors	30,000		
Travelling Expenses	2,500		
Rent and Taxes	5,000		
Drawings	6,000		
Insurance	2,000		
	6,26,500		**6,26,500**

Adjustments :

(a) Closing stock ₹35,000, (b) Wages unpaid ₹ 2,000, (c) Commission Received in Advance ₹ 3,000, (d) Depreciation on Plant and Machinery 5% and on furniture and fixtures 10%.

10. The following balances have been extracted from the Trial Balance of Bijoy. You are required to prepare Trading, Profit and Loss Account for the year ending 30th Septermber 2018 and the Balance Sheet on that date from the given data.

Debit Balances	₹	Credit Balances	₹
Drawings	20,000	Sales	2,76,000
Bad debts	1,000	Returns Outward	2,000
Sundry Debtors	80,000	Capital	2,50,000
Printing & Stationery	2,000	Bank Overdraft	12,000
Freight Inwards	4,000	Provision for Bad debts	4,000
Trade Expenses	2,400	Sundry Creditors	20,000
Returns Inward	7,000	Bills Payable	5,400
Opening Stock	25,000		
Purchases	1,80,000		
Rent, Rates & Taxes	5,000		
Furniture & Fixtures	20,000		
Plant and Machinery	1,00,000		
Bills Receivable	14,000		
Wages	10,000		
Cash at Bank	6,000		
Discount	2,000		
Investment	40,000		
Land and Buildings	51,000		
	5,69,400		**5,69,400**

Adjustments :

(a) Closing stock ₹45,000, (b) Provision for Bad Debts is to be made @5% on debtors. (c) Depreciate Furniture and Fixtures @5% p.a., Plant and Machiney @ 6% p.a. and Land and Buildings @10% p.a.

11. From the Trail Balance and information given below, prepare Trading A/c and Profit and Loss A/c for the year ended 31.12.2018 and Balance Sheet as on that date :

Particulars	₹	Particulars	₹
Opening Stock	66,000	Sundry Creditors	31,950
Sundry Debtors	96,000	Sales	4,02,000
Cash	4,740	Bills Payable	22,500
Plant and Machinery	52,500	Capital (1.1.2018)	2,38,500
Trade Expenses	3,225		
Salaries	6,675		
Carriage Outwards	1,200		
Rent	2,700		
Purchases	3,55,110		
Discount	3,300		
Business Premises	1,03,500		
	6,94,950		**6,94,950**

The Closing Stock was ₹ 37,350, Rent Outstanding ₹ 225, Trade Expenses Outstanding were ₹ 450, ₹ 1,200 to be written of as bad debts, out of the above debtors 5% to be provided for doubtful debts. Depreciate plant and machinery by 10% and business premises by 2%.

12. From the following Trial Balance of Mr. Amit, prepare Trading Account, Profit and Loss Account for the year ending 30th June 2018 and the Balance Sheet as on that date :

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	8,000	Sales	37,000
Purchases	20,000	Returns Outward	1,455
Returns & Inward	1,350	Capital	30,000
Wages	1,000	Sundry Creditors	20,000
Carriage	500		
Salaries	1,700		
Printing and Stationery	800		
Drawings	3,000		
Machinery	32,000		
Cash	105		
Sundry Debtors	20,000		
	88,455		**88,455**

Adjustments :

(a) Wages Oustanding ₹ 300

(b) Goods destroyed by fire ₹ 2000; Insurance claim was not admitted for the loss

(c) Depreciate machinery by 5% p.a.

(d) Closing stock was ₹18,000.

13. From the following Trial Balance of Shivam, prepare final accounts for the year ending 31.12.2018.

Debit Balances	**Amount (₹)**	**Credit Balances**	**Amount (₹)**
Sundry Debtors	10,000	Capital	75,000
Furniture	8,000	Sales	1,27,500
Plant and Machinery	52,000	Sundry Creditors	12,000
Bad Debts	700	Interest	1,000
Bills Receivable	4,000	Bills Payable	4,000
Drawings	17,000	Rent	3,200
Discount	1,200	Purchases Return	1,000
Purchases	90,800		
Opening Stock	23,500		
Wages & Salaries	6,000		
Bank	7,500		
Trade Expenses	1,000		
Depreciation	2,000		
	2,23,700		**2,23,700**

Additional Information :

(i) Closing Stock ₹35,000, (ii) Wages due ₹ 2,000

(iii) Create a Reserve for Discount @5% on creditors.

14. From the following extract of the Trial Balance as at 31st March, 2018, pass necesary journal entries and show the treatment of bad debts and provision for bad and doubtful debts in the relevant accounts and in financial statements.

Trial Balance

Ledger Accounts	**Debit (₹)**	**Credit (₹)**
Sundry Debtors	5,20,000	-
Provision for Bad and Doubtful Debts	-	30,000
Bad Debts	5,000	-

Adjustments :

(a) Further Bad Debts were ₹ 20,000

(b) Provision for Bad and Dobtful Debts is to be maintained at 10% on Sundry Debtors.

15. Followings are the items shown in the Trial Balance of Hira Kohli on 31st December 2018.

Particulars	**Debit (₹)**	**Credit (₹)**
Sundry Debtors	21,000	-
Bad Debts	500	-

Adjustments :

(a) Write off ₹ 1,000 as further bad debts.

(b) Create a provision for bad and doutful debts at 5% on sundry debtors as on 31.12.2018.

16. M/s. Nexto & Co. maintained a Reserve for discount @4% on creditors which on 1st January 2017 was ₹4,000. Their Balances on 31.12.2017 and 2018 were given as below :

	31.12.2017 (₹)	**31.12.2018 (₹)**
Discount Received	3,000	300
Sundry Creditors	50,000	40,000

Show the necessary ledger accounts and show how the items would appear in the final account of 2017 and 2018.

17. From the extract of a Trial Balance as on 31.03.2019 as given below, you are required to pass the necessary journal entries and show the treatment in relevant ledger account and final accounts :

	Debit Balance (₹)	**Credit Balance (₹)**
Sundry Debtors	1,06,500	-
Bad Debts	2,000	-
Discount	1,000	-
Provision for Doubtful Debts A/c	-	1,500

Adjustments :

(a) Create a provision for Doubtful Debts @5% on sundry debtors.

(b) A further bad debts of ₹ 6,500 to be written off.

(c) Create a provision for Discount on Debtors @ 2% on debtors.

18. Wat is a Balance Sheet ? Explain the relevant items shown in a Balance Sheet.

19. Define Financial Statements. Distinguish between Trading Account, Profit and Loss Account in one side and Balance Sheet on the other side.

20. What is a closing entry ? Give the feasible number of closing entries in Trading and Profit and Loss Account separately.

21. Give the proforma of a Trading Account, Profit and Loss Account and Balance Sheet.

Financial Statements of Not for Profit Organisations

22. Define not for profit organisations with suitable examples. Distinguish between Receipts and Payments Account and Income and Expenditure Account.

23. Define Receipts and Payments Account. State the procedure of preparing Income and Expenditure Account from it.

24. Explain the treatment of eight important items in the financial statements of not for profit organisations.

25. What do you mean by not for profit organisation ? Narrate its special featres.

26. From the following Receipts and Payments Account of Kishore Club, Bhubaneswar for the year ending 31.12.2017, prepare Income and Expenditure Account for the year and the Balance Sheet as on that date :

Receipts and Payments Account for the year ending 31st December 2017

Receipts		(₹)	Payments	(₹)
To Balance b/d : Cash		9,800	By Salaries	15,000
To Subscriptions :			By Printing and Stationery	3,000
For 2016	₹ 12,500		By Office Expenses	8,500
For 2017	₹ 34,500		By Books	10,000
For 2018	₹ 5,400		By Newspapers	6,000
		52,400	By Rent	4,500
To Rent of Hall		12,000	By Balance c/d : Cash	33,200
To Entrance Fees		5,000		
To Sale of Old Newspapers		1,000		
		80,200		**80,200**

Additional Information :

(i) On 01.01.2017, the club owned building valued ₹ 2,00,000 and Furniture Valued ₹50,000)

27. From the following Receipts and Payments Account and additional information, prepare the Income and Expenditure Account and Balance Sheet of DAV Educational Society for the year ending 31st December 2018 :

Receipts and Payments Account for the year ending 31st December 2018

Debit			Credit	
Receipts		**(₹)**	**Payments**	**(₹)**
To Balance b/d : Cash		20,550	By General Expenses	4,200
To Subscriptions :			By News Papers	2,850
For 2017	₹ 2,200		By Salaries	4,600
For 2018	₹ 27,500		By Electricity	3,000
For 2019	₹ 2,500		By Investments	30,000
		32,200	(@10% per annum)	
To Sale of Old Newspapers		250	By Rent	5,500
To Lockers Rent		3,000	By Printing and Stationery	3,300
To Sale of Old Furniture		4,2000	By Furniture	20,000
(Book Value ₹6,000)			By Balance c/d	7,200
To Interest for Investment		450		
To Grants from Government		20,000		
		80,650		**80,650**

Additional Information :

(i) Subscription outstanding on 31.12.2018 ₹ 2,000.

(ii) Salary outstanding on 31.12.2018 ₹ 1,400.

(iii) Rent ₹ 700 has been paid in advance.

(iv) On 01.01.2018, the society had furniture valued ₹ 15,000.

28. The Receipts and Payments Account of a Not for Profit Organisation shows ₹44,000 as subscriptions received during the year 2017. Taking into consideration the following additional information, calculate income from subscriptions for 2017 :

(i) Subscriptions Outstandings as on 31.12.2016 : ₹ 1,350

(ii) Subscriptions Outstanding as on 31.12.2017 : ₹ 3,200

(iii) Subscriptions received in advance as on 31.12.2016 : ₹ 950

(iv) Subscriptions received in advance as on 31.12.2017 : ₹ 1,250

29. Receipts and Payments Account of a Charitable Society shows payment of salary ₹ 5,600 for the year ending 31.12.2018. The additional information were :

Salary paid include ₹ 550 for 2017 and ₹ 600 for 2019. Salary due but not paid on 31.12.2018 amounted to ₹ 750. Salary paid in advance as on 31.12.2017 was ₹ 700. Show the information in the Financial Statements for the year ending 31st December 2018.

30. The following is the Receipts and Payments Account of Samaleswari Club, Sambalpur for the year ended 31st March 2019 :

Debit		**Credit**	
Receipts	**(₹)**	**Payments**	**(₹)**
To Balance b/d		By Salaries	4,200
Cash in Hand ₹ 1,700		By Postages and Telephones	700
Cash at Bank ₹ 1,400		By Investments	12,000
	3,100	By Rent	2,000
To Sale of Old Newspapers	500	By Printing and Stationeries	800
To Subscriptions	25,000	By Furniture	6,000
		By Balance b/d	
		Cash in Hand ₹ 1,300	
		Cash at Bank ₹ 1,600	
			2,900
	28,600		**28,600**

Additional Information :

(i) Salary Outstanding ₹ 300

(ii) Rent Prepaid ₹ 500

(iii) Subscriptions Due ₹ 1,000; (iv) Depreciate furnitue by 10%.

Prepare Income and Expenditure Account and Balance Sheet.

31. The following is Receipts and Payments Account of Sadheikala Cultural Society for the year ending 31.03.2019 :

Receipt and Payments Account of Sadheikala Cultural Society for the Year ending 31.03.2019

Debit		Credit	
Receipts	**(₹)**	**Payments**	**(₹)**
To Balance b/d	18,000	By Salaries and Wages	32,200
To Subscriptions	30,000	By Office Expenses	3,100
To Government Grants	12,000	By Library Books	12,300
To Rent of Hall	1,000	By Telephone Charges	3,600
To Entrance Fees	7,000	By Repairs	900
		By Addition to Building	5,000
		By Balance c/d	10,900
	68,000		**68,000**

You are required to prepare the Income and Expenditure Account and Balance Sheet after considering the following additional information :

(i) Assets on 31.03.2018 were Furniture ₹ 17,000; Building ₹ 50,000; Library Books ₹ 10,700.

(ii) Subscriptions outstanding on 31.03.2019 ₹ 1,000.

(iii) Provide depreciation on all fixed assets @10%.

Unit-II

Accounting for Depreciation

32. What is depreciation ? Discuss the causes and objectives of providing depreciation.

33. Define depreciation. Discuss its characterisitics.

34. Explain straight line method of depreciation.

35. Explain written down value method.

36. Give the journal entries for charging depreciation under simple method with imaginary example. Show the treatment in balance sheet also.

37. Write up journal entries for depreciation under provision for depreciation method with imaginary example. Show the treatment in the balance sheet also.

38. Ajay purchased a machinery on 01.01.2014 for ₹ 80,000. Depreciation is provided under straight line method @10% p.a. Accounts are closed on 31st March every year. Pass journal entries and prepare necessary ledger accounts till 31st March 2017.

39. A manufacturer acquires a machine on 01.04.2014 for ₹ 80,000. He spent ₹ 2000 on transportation and ₹ 18,000 on installation. The manufacturer charges depreciation @10% p.a. on original cost every year. Show the Machinery Account and Depreciation Account for 3 years. The books are closed on 31st March every year.

40. Mr. Ram Prasad purchased a machine for ₹ 3,00,000 on 1st January 2014. It was decided that depreciation to be charged at 10% p.a. on reducing balance method. Show the Machinery Account and Depreciation Account in the books of Ram Prasad from 1st January 2014 to 31st March 2017 assuming that accounts are closed on 31st March every year.

41. X purchased a machinery on 1st April 2014 for ₹12,00,000. On 1st April 2015, a part of the machine purchased on 1.4.2014 for ₹ 2,00,000 was sold for ₹1,70,000. Another machine was purchased on 1st April 2016 for ₹1,00,000. X has adopted method of providing 10% depreciation p.a. on the diminishing balance of the machinery. Show the necessary ledger accounts from 2014-15 to 2016-2017 assuming that :

    (a) Provision for depreciation account is not maintained.
    (b) Provision for depreciation account is maintained.

Accounting from Incomplete Records

42. What is single entry system ? What are its Limitations ?
43. Discuss the characteristics and limitations of single entry system.
44. What do you mean by single entry system ? Differentiate between single entry system and double entry system of book keeping.
45. Differentiate between Balance Sheet and Statement of Affairs.
46. Discuss in brief with suitable example, the ascertainment of profit/loss under Statement of Affairs method.
47. Ascertain the opening and closing capital from the following balances :

	01.04.2018	**31.03.2019**
Cash	12,200	15,600
Bank Overdraft	4,000	6,300
Bills Receivable	8,200	12,300
Debtors	7,500	6,300
Creditors	16,400	12,500
Stock-in-Trade	8,400	10,200
Furniture	20,000	20,000
Machinery	40,000	40,000

48. Following incomplete information is available from the record maintained by M/s Y & Co. :

Particulars	**01.04.2018**	**31.03.2019**
Cash	12,200	14,300
Bank	18,500	21,300
Debtors	22,300	17,500
Creditors	25,200	27,000
Investment	14,000	16,000
Stock	15,600	12,700
Bank Loan	18,000	20,000
Bills Receivable	12,400	14,300

During the year M/s. Y & Co. introduced further capital ₹10,000. His drawings were ₹ 2000 p.m.

From the above information, prepare a statement showing the Profit or Loss made by him for the year ending 31st March 2019.

49. A trader does not keep proper books of accounts. However, he can provide you the following informations.

Particulars	31.03.2016	31.03.2017
Cash in Hand	42,000	45,000
Bank Overdraft	33,000	37,000
Stock in Trade	68,000	77,000
Equipments	50,000	50,000
Debtors	26,800	31,400
Creditors	30,000	20,000
Furniture	40,000	40,000

The trader had introduced a further capital of ₹30,000. He withdraw ₹ 40,000 for his personal use. Depreciation to be provided on equipment and furniture @5% p.a., Allow interest on capital ₹2000. Charge interest on drawings ₹ 500, Rent prepaid ₹ 500, Salary Outstanding ₹ 1000.

Prepare a statement showing profit/loss for the year ending 31st March 2017.

50. Prepare the statement of affairs and ascertain the profit/loss from the following information :

Particulars	01.04.2018	31.03.2019
Stock	22,200	25,700
Debtors	18,300	20,200
Creditors	17,400	12,600
Cash in Hand	22,500	28,600
Bank Balance	8,200	7,300
Bills Receivable	14,200	16,400
Furniture	25,000	25,000
Prepaid Expenses	-	500

51. Jayant keeps his accounts records incomplete. His position on 31st March 2019 was as follows :

Cash in Hand ₹15,200. Cash at Bank ₹ 6,300. Sundry Debtors ₹7,600, Sundry Creditors ₹8,400; Bills Receivable ₹5.400; Furniture and Fixtures ₹ 18,000.

He introduced ₹ 15,000 as further capital during the year. His drawings were ₹ 1000 p.m.. His position on 31st March 2018 was as follows :

Cash in hand ₹ 16,400. Cash at Bank ₹ 7,200; Sundry Debtors ₹ 8,200; Sundry Creditors ₹ 7,200, Bills Receivable ₹ 5,400, Fixtures and Fittings ₹ 18,000.

Prepare statement of affairs and statement of profit/loss for the year ending 31st March 2019.

Unit-III

Accounting for Partnership

52. What is 'Partnership Deed' ? Discuss its important clauses.

53. Define Partnership. Discuss its essential characteristics.

54. Discuss and distinguish between fixed and fluctuating capital.

55. X and Y started a partnership on 1st January 2018 by contributing capital of ₹70,000 and ₹60,000 respectively. The agreement between the partners was as follows :

    (i) X and Y to get monthly salary of ₹ 1,500 and ₹ 2,000 respectively and sharing profits in the ratio of 3:2.

    (ii) Interest on capital to be allowed at 10% p.a.

    (iii) Interest on drawings to be charged at 8% p.a.

    (iv) X is entitled to a commission of ₹5,000.

    (v) 15% of the profits to be transferred to General Reserve.

    The profits for the year ending 31st December, 2018 before above mentioned adjustments was ₹1,44,000. X and Y have drawn ₹ 35,000 and ₹ 30,000 respectively during the year.

    You are required to prepare Profit and Loss Appropriation Account and Partners' Capital Account.

56. A, B and C are in partnership with respective fixed capitals of ₹40,000, ₹30,000 and ₹20,000. Band C are entitled to annual salaries of ₹2000 and ₹1,500 respectively payable before division of profits. Interest on capital is allowed at 5% p.a., but no interest is charged on drawings. Of the profit earned during a year, the first ₹12,000 is divided between A, B and C in 5:3:2 ratio and profit in excess of this is to be divided equally. The profit for the year ended 31st December 2018 was ₹20,100 after debiting partner's salaries but before changing interest on capital. The drawings during the year were, A- ₹8000, B- ₹7,500 and C-₹4,000. The balances on partners' current account on 1st January 2018 A- ₹3,000 (Cr.), B-₹500 (Cr.) and C-₹1,000 (Dr.)

    Prepare Profit and Loss Appropriation Account and Partners' Current Account for the year 2018.

57. Define goodwill. What are the nature of goodwill ?

58. What do you mean by goodwill ? Describe the factors affecting goodwill.

59. From the following information, calculate the value of goodwill on the basis of 3 years purchase of the super profits :

    (i) Average Capital employed in the business ₹15,00,000.

    (ii) Rate of interest expected from capital is 10%.

    (iii) Net trading profit for the firm for last four years were : ₹2,70,800, ₹3,20,000; ₹2,70,500; and ₹3,05,1000.

    (iv) Fair remuneration to the partners for their services for the firm is ₹36,000 p.a.

60. The following particulars are available in respect of a firm carried on by X and Y :

    (i) Profit earned 2016 - ₹50,000; 2017 - ₹60,00; 2018 - ₹55,000.

    (ii) Normal rate of profit 10%.

    (iii) Capital employed ₹3,00,000.

    (iv) The profit included non-recurring profits on an average basis of ₹3,000 p.a.

    You are required to calculate goodwill as per capitalisation of super profit method.

61. From the following information, calculate value of goodwill of the firm by applying capitalisation method : Total capital of the firm ₹16,00,000, Reasonable rate of return 10%, Profit for the year ₹2,00,000.

62. What is Revaluation Account ? How does it differ from a Memorandum Revaluation Account?

63. Pass necessary journal entries relating to revaluation of assets and liabilities on the reconstitution of a firm.

64. A, B and C are partners sharing profits and losses in the ratio of 2:1:1. They decided that with effect from 1st April 2018, A shall receive 1/4 th share in the profits.

On 31st March 2018, their Balance Sheet stood as follows :

Balance Sheet of Band C as on on 31.03.2018

On this date land was valued at ₹75,000. Stock at ₹30,000 and a provision of ₹2,000 on debtors is to be created. Pass necesary journal entries in the books of the firm regarding the revaluation of assets and prepare Revaluation Account.

65. X and Y are partners in a firm sharing profits and losses in the ratio of 2:1. There Balance Sheet as on 31st March,2019 stood as follows:

Balance Sheet as on 31.03.2019

Liabilities	(₹)	Assets	(₹)
Capital Accounts		Cash in Hand	1,000
X	30,000	Plants	16,000
Y	15,000	Machinery	
Bills Payable	3,000	Cash at Bank	7,250
Creditors	12,000	Stock	11,750
		Debtors	24,000
	60,000		**60,000**

The partners agree to admit Z on the following conditions :

(i) Stock to be valued at ₹15,000

(ii) Plant and Machinery to be reduced by 10%.

(iii) Z was to introduce ₹13,350 as capital for 1/5th share in the future profits of the firm. Show necessary ledger accounts in the books of the firm and draw up the opening Balance Sheet of X, Y and Z.

66. A and B carrying on business in partnership and sharing profits and losses in the ratio of 3:2 respectively, admitted C on 31st December 2018 when their Balance Sheet stood as follows :

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	15,000	Cash	1,000
General Reserves	6,000	Debtors	15,200
A's Capital Account	18,000	Stock	18,100
B's Capital Account	14,000	Furniture	8,700
		Building	10,000
	53,000		**53,000**

The terms of C's admission were as follows :

(i) C would get 1/4th share in the future profits.

(ii) C would bring ₹15,000 as his share of capital and ₹5,000 as his share of goodwill.

(iii) Building would be appreciated by 25% and a provision for bad debts would be created for ₹200.

(iv) Capital Accounts of all partners would be in the profit sharing ratio, the necessary adjustments being made in cash.

Show Revaluation Account, Cash Book, Partners' Capital Account and the Balance Sheet of new firm.

67. P and Q were partners having equal ratio to share profits and losses. On 31st December, 2018, there Balance Sheet was as follows :

Balance Sheet as on 31.12.2018

Liabilities	(₹)	Assets	(₹)
Capitals :		Building	12,000
P 10,000		Furniture and	
Q 5,000	15,000	Fittings	600
Sundry Creditors	4,300	Stock	5,400
Bills Payable	2,450	Sundry Debtors	3,400
		Cash	350
	21,750		**21,750**

On 1st January 2019, R was admitted for 1/5th share on the following terms :

(i) R brings ₹4,000 for his capital and ₹1,600 for goodwill.

(ii) Half of the goodwill will be withdrawn by P and Q in cash.

(iii) Assets are to be re-valued as follows : increase in the value of Building by 10%, decrease in the value of by 25% stock, 5% provision is to be made for doubtful debts, decrease in the value of furniture by 20%.

Prepare Revaluation Account, Capital Account of partners and the Balance Sheet of the new firm.

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Unit-IV

Accounting for Companies

68. Define a joint stock company. Discuss the essential features of a joint stock company.

69. What is share capital ? Explain the different classes of share capital. How are they shown in the Balance Sheet ?

70. Can the shares be issued at a premium? State the purposes for which securities premium reserve can be utilised ?

71. Can the shares be issued at a discount ? Outline the guidelines of the Companies Act, 2013.

72. Utkal Asbestos Limited with authorised capital of ₹50,00,000 in Equity shares of ₹100 each issued 10,000 of such shares payable as follows:

    On application ₹30; on allotment ₹40 (with premium); On first call ₹20 and on final call ₹20.

    All the shares were subscribed by the public. The allotment was duly made and money was realised in full. On first call being made, Prakash to whom ₹ 100 shares were allotted paid the entire amount due on his holdings. Final call is yet to be made.

    Give journal entries to record the above transactions and prepare an extract of Balance Sheet.

73. XYZ Ltd. issued ₹6,000 Equity shares of ₹100 each at ₹120 per share payable on application ₹ 30 on allotment (including premium) ₹ 70 and on first and final call ₹ 20. All the shares were subscribed by the public and duly allotted by the Directiors. All the money due on shares were received except the allotment and call money on ₹ 500 shares. These shares were forfeited subsequently.

    Pass necessary journal entries in the books of XYZ Ltd.

74. Fortune Ltd. issued 1,00,000 equity shares of ₹10 each at a premium of ₹2 per share, payable ₹5 on application, ₹5 (including premium) on allotment and ₹2 on first and final call. Subscriptions were received for 1,20,000 shares. The company rejected the applications for 20,000 shares and remaining applications were accepted. The allotment money was received in full. But a holder of 3000 shares failed to pay the first and final call money. His shares were forfeited and subsequently reissued at ₹9 per share as fully paid.

    Show the necessary journal entries in the books of the company.

75. XYZ Ltd. invited for 1,00,000 Equity shares of ₹10 each, payable as ₹3 on application, ₹5 on allotment and the balance on first and final call. Applications were received for 3,00,000 shares and the shares were allotted on prorata basis. The application money was to be adjusted against allotment only. A shareholder who had applied for 6,000 shares, failed to pay the call money and his shares were forfeited. Subsequently, these shares were reissued at ₹8 per share as fully paid up.

    Journalise the above transactions.

76. What is debenture ? Describe the different types of debentures briefly.

77. What do you mean by "Issue of Debentures at par, at discount and at premium ? Explain with the help of accounting entries in each case with imaginary figures.

78. What is meant by "Issue of Debentures for consideration other than cash"? Discuss with the help of journal entries with imaginary figures.

79. B Ltd. issued 5,000, 14% Debentures of ₹100 at par. The full amount due on debentures was payable on application. All the debentures were fully subscribed and duly allotted. Make the journal entries in the books of B. Ltd.

80. A Ltd issued 5,000 - 14% Debentures of ₹100 each at a premium of 10% for public subscription. The full amount due on debentures was payable on application. Applications were received for 7,000 Debentures. Applications for 2000 Debentures were rejected and money refunded. The remaining applications were accepted and Debentures were duly allotted.

    Pass necessary journal entries in the books of B Ltd.

81. Apple Ltd. issued 20,000, 12% Debentures of ₹100 each for subscriptions to the public and payable as follows :

    On application ₹40, on allotment ₹50 and on first and final call ₹10.

    Applications for ₹25,000 Debentures were received. The Directors accepted the applications for 16,000 Debentures in full. Applications for 8,000 Debentures were allotted 4,000 Debentures and the remaining applications for 1000 Debentures were rejected. Excess money on application was to be utilised for allotment.

    Pass journal entries in the books of Apple Ltd.

82. S Ltd. acquired the assets at an agreed value of ₹10,20,000 and creditors of 60,000 from B. Ltd and issued 10% Debentures of ₹100 each at a premium of 20% as purchase price.

    Pass journal entries in the books of S Ltd.

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GROUP - C

ANSWERS

Unit-I

Financial Statements of Sole Trading Organisations

1. Give the adjustment entry if the item is (outside the trial balance) in the additional information. Then treatment in Trading Account/Profit & Loss Account and Balance Sheet. Again if the item is in trial balance, its treatment is only in Balance Sheet.
2. The provision made on net debtors (Total Debtors - Bad Debts) is called provision for bad and doubtful debts. If some of the net debtors do not pay their dues in future then loss can be recovered from this provision.

   Then give the journal entries. The necessary ledger accounts are Sundry Debtors A/c, Bad Debt A/c, Provision for Bad and Doubtful Debt A/c and Profit and Loss A/c.
3. Trial Balance is a statement of Ledger accounts prepared at the end of the accounting period on a particular date. It tests the arithmetic accuracy of the books of accounts.

   Balance sheet is the statement of assets and liabilities prepared on a particular date at the end of the accounting period. It reveals the financial position of the business.

Distinctions :

(i) Trial Balance shows two columns Debit and Credit, Balance sheet shows two sides 'Assets' and 'Liabilities'.

(ii) Trial balance is summary of ledger accounts Balance Sheet is a summary of assets and liabilities.

(iii) Trial Balance is a prepared at regular intervals; Balance sheet is prepared once at the end.

(iv) Trial Balance is prepared before final account; balance sheet is the last stage of final account.

(v) Closing stock does not appear always in Trial Balance where as closing stock always appears in Balance Sheet.

4. Assets are classified as fixed and current; tangible and intangible and fictitious assets.

   Liabilities are classified as long term liability (fixed liability), short-term liability, current liability and contingent liability.
5. Three alternative situations may occur :

   (a) If goods are not insured.

   (b) If goods are fully insured.

   (c) If goods are partially insured (say 80%).

   Give adjustment entry in all the three cases and then treat them in final accounts.
6. Gross Profit ₹15,950, Net Profit ₹ 14,000 & B/S Total ₹ 75,500.
7. Gross Profit ₹ 31,500, Net Profit ₹ 31,000, Balance Sheet Total ₹ 77,000.
8. Gross Profit ₹ 2,27,000, Net Profit ₹ 1,69,500, and Balance Sheet Total ₹ 5,70,000.
9. G. P. - ₹ 95,500, N.P. : ₹ 61,000, B/S Total ₹ 2,70,000).
10. Gross Profit ₹ 97,000, Net Profit ₹ 72,500 and B/S Total ... Rs. 3,39,900).
11. Gross Profit ₹ 18,240; Net Loss ₹ 12,825; Balance Sheet Total ₹ 2,80,830.
12. Gross Profit ₹ 27,305; Net Profit ₹ 21,205; Balance Sheet Total ₹ 68,505.
13. Gross Profit ₹ 41,200; Net Profit ₹ 41,100, Balance Sheet Total ₹ 1,16,500.
14. Provision for Band and Doubtful Debts to be charged to P&L A/c ₹ 45,000 Sundry Debtors to be shown in the B/S at ₹ 4,50,000.
15. Provision for Bad and Doubtful Debts to be charged to P&L A/c ₹ 2,500, Sundry Debtors to be shown in the Balance sheet at ₹19,000.
16. Reserve for discount on creditors ₹ 1,000 for 2017 was credited to P&L A/c, and ₹ 100 was charged to P&L A/c for 2018.

17. Provison for Doubtful debts to be charged to P&L A/c ₹ 12,000, Provision for Discount on Debtors to be charged to P&L A/c ₹1,900 and Sundry Debtors to be shown in the Balance Sheet ₹ 93,100.

18. Balance Sheet is a statement of assets and liabilities on the closing day of the accounting period. It is a summary of ledger accounts which are not closed by transfer to either Trading Account or Profit and Loss Account.

    The purpose of Balance Sheet is to show the financial position of the business.

    A brief classification of assets and liabilities is to be portrayed and then discussion on different items is to be made.

19. Financial Statements are the summary of the accounts showing the result of operations and statements showing the financial position of a business enterprise.

    The distinctions are to be made on the points of nature, objective, contents, period, balancing, sides, manner of recording etc.

20. The entry passed at the end of the accounting period to close the nominal accounts by transfer to Trading Account and Profit and Loss Account.

    The closing entries for Trading A/c are :

    Trading A/c Dr.
    To Opening Stock
    To Purchases (Net)
    To Direct Expenses
    To Gross Profit transferred to be A/c

    Sales A/c Dr.
    Closing Stock Dr.
    Gross Loss Transferred Dr.
    To P & L A/c
    To Trading A/c

    The Closing entries for Profit and Loss Account are :

    Profit Loss Account Dr
    To Salaries
    To Rent
    To Insurance
    To Net Profit transferred to Capital A/c

    Commission received Dr.
    Interest received Dr.
    Net Loss transferred to Capital A/c Dr.
    To Profit and Loss Account

21. Draw the 'T' shape proforma of both Trading and Profit and Loss Account show the items on both debit and credit side.

    Draw the proforma of Balance Sheet horizontaly or vertically. Better give the horizontal proforma in 'T' shape and show the assets and liabilities arranged either in order of liquidity on in the order of permanence.

Financial Statements of Not for Profit Organisations

22. Organisations work for service motive, not for profit. They try to earn some surplus for their survival, growth, maintenance and expansion. For example, NGOs, clubs, charitable organisations, Relgious Trusts, Educational Trusts etc.

    Then distrinctions are to be made with points: types of account, objective, form, opening balance, closing balance, debit aspect, credit aspects, cash items, revenue/capital items, transfer etc.

23. The account prepared by not for profit organisations on the basis of transactions recorded in their Cash Book is called Receipts and Payments Account. The summerised total of each item is extracted from Cash Book to Receipts and Payments Account.

    Then steps in preparation of Income and Expenditure Account are :

    (i) Ignore opening balance and closing balance of cash.

    (ii) Ignore all capital receipts and expenditures.

    (iii) Ascertain the revenue incomes and expenses of the current year and transfer those to Income and Expenditure Account.

    (iv) Ascertain the non-cash expenses like depreciation and loss/profit in sale of fixed assets and transfer those to income and expenditure account.

(v) Ascerain profit/loss on small trading activities if any like restaurants, bar, canteen etc. separately and transfer those to Income and Expenditure Account.

(vi) Ascertain the difference between the total credit side and debit side and show it either as surplus or deficit as the case may be.

24. The items may be :

    Legacy, donations, entrance fees, life membership fees, sale of assets, subscriptions, honorarium, Government Grant, Capital fund etc.

25. The organisation whose objective is not to earn profit but to provide services to its members and to the public at large is known as not for profit organisation.

    The features are : service motive, separate identity, type of organisation, financing, utilisation of surplus, budget, management and accounting procedure etc.

26. Surplus/Excess of Income over expenditure ₹15,500 and Balance Sheet Total ₹2,93,200. Opening Capital Fund ₹ 2,72,300 Opening Balance Sheet total ₹ 2,72,300.

27. Surplus/Excess of Income over expenditure ₹29,800; Balance Sheet Total ₹ 71,450; Loss on sale of furniture ₹1,800; Opening Balance Sheet total as on 01.01.2018 - ₹ 37,750 and Capital Fund on 01.01.2018 - ₹ 37,750.

28. Subscriptions for 2017 - ₹ 45,550.

29. Salary for 2018 - ₹ 5,900; Salary Prepaid in 2018 - ₹ 600 and Salary outstanding in 2018 transfered to Balance Sheet as on 31.12.2018).

30. Surplus/ Excess of Income Over expenditure ₹ 18,400; Opening Capital Fund ₹ 3,100; Balance Sheet Total ₹ 21,800.

31. Surplus/Excess of Income over expenditure ₹ 1,700; Opening Capital Fund ₹ 95,700; Balance Sheet Total ₹ 97,400.

Unit-II

Accounting for Depreciation

32. Depreciation is the decrease in the value of fixed assets. It is charged to the income either directly on indirectly.

    The causes of depreciation are : wear and tear (use), passage of time, exhaustion, obsolescence, accident etc.

    The objectives of providing depreciation are to ascertain profit, to reveal true financial position, to replace the fixed asset, to compute tax liability, to determine the cost of production.

33. Depreciation is the allocation of the depreciable amount of an asset over the estimated useful life. It is a measure of the wearing out, consumption or other loss of the value of depreciable asset arising from use, effluxion of time or obsolescence through technology or market changes.

    The characteristics are : non-cash/non-monetary expense, applicable to fixed assets only, charge against profit, charged on fixed assets whether used or not, total amount of depreciation can not exceed the depreciable value of the fixed asset, the depreciable value of the fixed asset, the depreciable value is cost price less scrap value, a process of allocation of cost calculated on estimated basis, a continuous fall in the value of fixed asset till the total cost comes to zero.

34. A fixed percentage of the original cost of the asset is written off during each accounting period over the useful life of an asset.

    Advantages : Simple and easy, same amount every year, value of assets reduced zero or scrap value, suitable to leasehold property, patents, copyright etc.

Disadvantages : based on the assumption of same utility every year, charge to Profit and Loss Account increases year after year (depreciation+repairs and maintenance cost), does not consider loss of interest on the amount blocked in fixed asset, does not provide liquid fund to replace the asset immediately after useful life, difficult to calculate depreciation subsequently when addition is made, method is not recognised by Income Tax Department.

35. Depreciation is calculated at a fixed percentage on the written down value every year. The amount of depreciatin goes on decreasing every year.

    Advantages : Total charge (depreciation + repairs and maintenance cost) to profit and loss account remains almost the same every year; method is logical; recognised by Income Tax Department;. Fresh calculation of depreciation is not required at the time of addition; replacement of the asset due to technological change will not create problem.

    Disadvantages : Value of assets can not be reduced to zero, does not consider interest on the investment cost on fixed asset, does not provide liquid fund for replacement of the asset after its useful life, very difficult to calculate the amount of depreciation, takes a long time to write off the asset.

36. Under this method depreciation is debited to Depreciation Account and credited to the relevant Asset Account every year. The asset appears in the balance sheet every year at its written down value. The depreciation account is closed by transfering to profit and loss account every year.

    The entires can be made for addition of new fixed assets, sale of fixed asset profit/loss on sale of fixed asset etc.

37. Under this method, provision for depreciation account is opened, dipreciation is not a direct charge against the asset. Throughout the life time of the asset, it is shown on the asset side of balance sheet at its original cost price. The provision for depreciation goes on accumulating till the end of the life of the asset. Commonly, the total provision for depreciation will be more or less equal to the original cost of the asset. Provision for Depreciation is shown on the liability side of balance sheet at an increased value every year.

    The journal entries can be made for providing depreciation, transfering depreciation to P&L A/c, transfering provision for depreciation account on sale of fixed asset, profit/loss on sale of assets etc.

38. Balance of Machinery Account ₹ 54,000.

39. Balance of Machinery Account ₹ 70,000.

40. Balance of Machinery Account ₹ 2,13,232.

41.a) (i) Balance of Machinery Account - ₹8,19,00

(ii) Loss on sale of Machinery ₹ 10,000

b) (i) Balance of Machinery A/c. ₹ 11,00,000

(ii) Balance of Provision Depreciation A/c ₹ 2,71,000

42. Records completed not as per double entry system of book keeping is called single entry system of book keeping.

    Limitations are : Arithmetic accuracy can not be checked, true profit/loss cannot be ascertained, no internal check possible, not recognised by law, difficult for audit work, planning, controlling and decision making is difficult, difficult to ascertain the worth of the business, goodwill can not be valued accurately etc.

43. Characteristics : Recording personal accounts, maintaining cash book no uniformity in the system, suitable to small business, dependent on original vouchers etc.

    Demerits : Refer to Q. 42.

44. For meaning refer to Q. 42

    For differentiation, refer to Group B - Q.3 & Q.4.

45. Refer to Group-B in Q.3 and Q. 4.

46. Steps :

    (i) Find closing capital by preparing statement of affair at the end of the year;

    (ii) Deduct additional capital introduced from closing capital.

    (iii) Add amount of drawings to get “adjusted closing capital”.

    (iv) Find out opening capital by preparing statement of affairs at the begining of accounting period.

    (v) Deduct Opening Capital from “adjusted closing capital” i.e., (iii) - (iv).

    (vi) Make adjustment for interest on capital drawings; proprietor’s/partners’ salary, depreciation on fixed assets, provision for doubtful debts etc.

47. Opening capital ₹75,900, Closing Capital ₹91,900.

48. Opening capital ₹51,800; Closing Capital ₹49,100; Profit earned during the year ₹11,300.

49. Opening Capital ₹1,63,800; Closing Capital ₹1,86,400, Gross Profit ₹32,600; Net Profit ₹26,100.

50. Opening Capital - ₹93,000, Closing Capital ₹1,11,100, Profit ₹18,100.

51. Opening Capital ₹42,900, Closing Capital ₹48,000, Profit ₹2100.)

Unit-III

Accounting for Partnership

52. The oral/written agreement among the partners is called the 'Partnership Deed'.

    Important Clauses : Name of the firm, name and address of partners, place of business, nature of business, duration of partnership, amount of capital to be invested by each partner, profit sharing ratio, drawings limit of each partner, interest on capital, interest on drawings, interest on loan, method of goodwill valuation, mode of settlement of account in case of retirement/death, dissolution of firm, maintenance of books of accounts, operating bank accounts, arbitration clause to solve dispute, etc.

53. It is the 'relationship' between / among partners to carry on the business and share profit on agreed basis.

    Features/Characteristics : Two/more persons, agreement, lawful business, profit-sharing, goodfaith, implied agency, no separate legal entity, unlimited liability.

54. Capital remains fixed, but for recording changes current account for each partner is maintained.

    Capital fluctuates as all the changes are recorded in capital account.

    The changes in capital account are due to interest on capital, interest on drawings, commission to partners, salary to partners, profit/loss in business etc.

55. Share of Profit : A - ₹39,000; B- ₹26,000; Capital : A- ₹1,02,600, B- ₹84,800.

56. Profit : A- ₹72,00, B-₹4,800; C-₹3600; Current Account : A : ₹4,200 (Cr.), B:₹1300 (Cr.), C : ₹1100 (Cr.)

57. Goodwill is the present value of firm's anticipated excess earnings. It is simply, the reputation of a business.

Nature : Intangible, no value attached, price is realised at the time of sale, helps to earn higher profit, an attractive force, extra value attached to business, calculated on admission, retirement or death of partners, no concrete method for valuation.

58. Meaning - refer to Q. 57.

Factors : Nature of business, suitable location, greater managerial talent, degree of competition, commitment to customers, degree of risk, advantages of patents, profit trend, market condition, other factors like general economic conditions, political stability, government policy, money market conditions, trade cycle etc.

59. (i) ₹ 2,56,8000.

60. ₹ 2,20,000

61. ₹ 4,00,000

62. Revaluation Account is the nominal account prepared at the time of change in profit sharing ratio (retirement, death, admission of partners) to evaluate the assets and liabilities.

Difference from Memorandum Revaluation Account : In Revaluation account value of assets and liabilities are changed in Balance Sheet but no change in value of assets and liabilities in Balance sheet if Memorandum Revaluation Account is opened.

Revaluation Account has one part but Memorandum Revaluation Account has two parts. If there is profit in Revaluation Account, it will be credited to partner's capital account and the Memorandum Revolution Account will show loss for the same amount and debited to partners Capital Account.

Entries of Revaluation Account are reversed in Memorandum Revaluation Account.

63. Refer to Text Book.

64. Profit on Revaluation ₹28,000.

65. Revaluation Profit : ₹1650 - X's share ₹1,100, Y's share ₹550; Capital : X- ₹31,100; Y-₹15,550; Z-₹13,350, B.S Total ₹75,000.

66. Profit of Revaluation ₹2,300; Cash at Bank ₹20,700; Capital Accounts : A-₹27,000; B-₹18,000; C-₹15,000; Balance Sheet Total ₹ 75,000.

67. Profit on revaluation ₹640; Capital : P-₹10,720; Q- ₹5,720; R- ₹4,000; B/S Total ₹27,190.

Unit-IV

Accounting for Companies

68. A company is an incorporated, voluntary and autonomous association of many persons in business. It is having joint capital divided into transferable shares of a fixed value. It has the features of limited liability, common seal and perpetual succession.

Features : Incorporated, voluntary and autonomous association, separate legal existence, perpetual succession, common seal, limited liability, transferability of shares, separation of management from ownership etc.

69. Total capital of a company divided into a number of shares of equal value is called share capital.

Types of share capital : Authorised Registered/ Nominal Capital, Issued Capital, Subscribed Capital, Called up Capital, Uncalled Capital, Paid up Capital, Reserve Capital etc.

70. Yes, the share can be issued at a premium, i.e. issued at a price more than its face value.

Utilisation of Securities Premium u/s 52(2) of Companies Act 2013 :

(i) Writing off preliminary expenses; or

(ii) Writing off the expenses, commission, discount allowed on issue of shares or debentures; or

(iii) For issuing fully paid bonus shares; or

(iv) For providing premium payable on redemption of redeemable preference shares or debentures; or

(v) For buyback of Company's own shares and other securities as per section 68 of the Companies Act 2013.

71. Section 53 of the Act prohibits the companies to issue shares at discount. Only Sweat Equity Shares can be issued at a discount u/s 54 of the Act.

Any share issued by a Company other than Sweat Equity share at discount shall be void.

72. Calls in Advance 2000, B/S Total 9,02,000.

73. Securities Premium A/c debited for ₹10,000 for 500 shares, Share Forfeited A/c (Cr) ₹15,000 for 500 shares.

74. Capital Reserve A/c ₹21,000

75. Capital Reserve Account 12,000

76. Debenture is a written acknowledgement of debt by a company under its common seal.

Types of Debentures :

(i) From Security point of view : Secured and Unsecured debentures.

(ii) From Permanence point of view : Redeemable and Irredeemable debentures.

(iii) From Convertibility point of view : Convertible and Non-Convertible debentures.

(iv) From Records point of view : Bearer and Registered debentures.

(v) From priority point of view : First Debentures and Second Debentures.

77. Debentures are normally issued by company for cash either at par or at discount or at Premium. Accounting entries on issue of debentures are also same as in case of issue of share. The only difference is that Debentures A/c will be opened instead of 'Share Capital A/c'. It is usual to prefix the rate of interest to the debentures. There is no restriction to issue debentures at a discount.

78. Sometime a company purchase assets from vendors or acquires a running business by issuing debentures to discharge the purchase consideration instead of paying in cash.

Such debentures can be issued either at par or at discount or at premium.

79.

80.

81.

82.

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