

**SCHOOL EDUCATION DEPARTMENT
CHENNAI DISTRICT**

**LEARNING MATERIAL
2022-2023**

**HIGHER SECONDARY SECOND YEAR
ACCOUNTANCY**

Preface

We convey our sincere gratitude to our respected Chief Educational Officer, who has given this opportunity to bring out an unique material for the students (XII standard Accountancy) in the name of Learning Material.

The minimum learning material is prepared based on the selected chapters. This includes classification for selected chapters, solved text book exercise problems (2 marks, 3 marks and 5 marks).

Students can prepare the example problems based on the classification. All the text book MCQ problems have to be practiced regularly. Students must practice all the problems in the classification. This material mainly focuses on the slow learners to achieve their goals.

Good effort always leads to success

All the best!!!

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**UNITWISE CLASSIFICATION OF QUESTIONS
(BOTH ILLUSTRATION AND EXERCISE)**

UNIT NO.	2 MARKS	3 MARKS	5 MARKS
1	1,5,10,12,14	6,7,11,13,15	8,9,16, 17,18,19,20
2	8, 14 TO 16	9 TO 13, 17,18,19	1 TO 5, 6,7, 20 TO 24
3	7,11,14,17,18	5,6,8,9,10,12, 13,15,16,19	1,2,3,4, 21 TO 23
4	III-4,5 IV-1	2,3,6,9,11	4,5,7,8,9,10
5	1,2, 8 TO 17	3,4,5, 18 TO 23	7, 24 TO 27
6	1,2, 7 TO 11	3,4,5,6, 12 TO 15,20	16 TO 19, 21,22
7	7,8,9	6,10,11,12, 13,19,20	1 TO 5, 14 TO 18
8	6,9	1,3,7,8, 12,13	1,4,5,10,11, 14 TO 16
9	1,2,4,5, 9,11,13	3,6,8,10, 14,16,17,19	7,12,15,18
10	-	-	1 & 2

UNIT - 1: ACCOUNTS FROM INCOMPLETE RECORDS

VERY SHORT ANSWER QUESTIONS

1. What is meant by incomplete records?
 - When accounting records are not strictly maintained according to double entry system, these records are called incomplete records.
2. State the accounts generally maintained by small sized sole trader when double entry accounting system is not followed.
 - Generally, cash and the personal accounts are maintained fully.
3. What is a statement of affairs?
 - It is a statement showing the balances of assets and liabilities on a particular date.
 - It is prepared to find out capital.
 - $\text{Capital} = \text{Assets} - \text{Liabilities}$

SHORT ANSWER QUESTIONS

4. What are the features of incomplete records?
 - (1) Nature:**
 - It is an unscientific way of recording transactions.
 - Accounting principles are not followed properly.
 - (2) Type of accounts maintained:**
 - Only cash and personal accounts are maintained fully.
 - (3) Lack of uniformity:**
 - Different organisations record their transactions according to their needs and conveniences.
5. What are the limitations of incomplete records?
 - i). Lack of proper maintenance of records:**
 - It is an unscientific way of maintaining records.
 - (ii) Difficulty in preparing trial balance:**
 - The accounting records are incomplete.
 - Hence, it is difficult to prepare trial balance.
 - (iii) Errors and Frauds:**
 - Errors and frauds cannot be easily detected from partial records.
6. State the differences between double entry system and incomplete records.

S.No.	Basis	Double Entry System	Incomplete Records
1	Types of Accounts Maintained	All accounts are maintained	Only personal and cash accounts are maintained fully.

2	Preparation of Trial balance	It can be prepared easily.	It is difficult to prepare.
3	Reliability	It is reliable.	It is not reliable.

7. Differentiate between statement of affairs and balance sheet.

S.no	Basis	Statement of Affairs	Balance Sheet
1	Reliability	It is not reliable.	It is reliable.
2	Missing items	It is very difficult to trace.	It can be traced very easily.
3	Basis of Preparation	It is not fully based on ledger balances.	It is fully based on ledger balances.

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

By preparing total debtors accounts credit sale can be ascertained:

Dr.		Total Debtors Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (opening balance)	xxx	By Cash A/c (received)	Xxx		
To Sales A/c (credit sales)	xxx	By Bank A/c (cheque received)	xxx		
To Bank A/c (cheque dishonoured)	xxx	By Discount allowed A/c	xxx		
To Bills Receivable A/c (bills dishonoured)	xxx	By Sales returns A/c	Xxx		
		By Bad debts A/c	xxx		
		By Bills Receivable A/c (bills received)	xxx		
		By Balance c/d (closing balance)	xxx		
	xxx		xxx		

PROBLEMS WITH SOLUTIONS

9. From the following particulars ascertain profit or loss:

Particulars	₹
Capital at the beginning of the year (1 st April, 2018)	5,00,000
Capital at the end of the year (31 st March, 2019)	8,50,000
Additional capital introduced during the year	1,20,000
Drawings during the year	70,000

ANS:

Statement of Profit or Loss for the year ending 31st March, 2019

PARTICULARS	₹
Closing Capital	8,50,000
<u>ADD:</u> Drawings	70,000
	9,20,000
<u>LESS:</u> Additional Capital	1,20,000
Adjusted Closing Capital	8,00,000
<u>LESS:</u> Opening Capital	5,00,000
PROFIT	3,00,000

10. From the following details, calculate the missing figure:

Particulars	₹
Capital as on 1 st April, 2018	40,000
Capital as on 31 st March, 2019	50,000
Additional capital introduced during the year	7,000
Profit for the year	8,000
Drawings during the year	?

ANS:

CALCULATION OF MISSING FIGURE

PARTICULARS	₹	PARTICULARS	₹
Closing Capital	50,000	Additional Capital	7,000
Drawings	5,000	Opening Capital	40,000
Loss	-	Profit	8,000
	<u>55,000</u>		<u>55,000</u>

11. Following are the balances in the books of Thomas as on 31st March 2019

PARTICULARS	₹	PARTICULARS	₹
Sundry Creditors	6,00,000	Bills Payable	1,20,000
Furniture	80,000	Cash in hand	20,000
Land and Buildings	3,00,000	Bills Receivable	60,000
Sundry Debtors	3,20,000	Stock	2,20,000

Prepare a statement of affairs as on 31st March 2019 and calculate capital as at that date.

ANS:

**In the books of Thomas
Statement of affairs as on 31st March 2019**

Liabilities	₹	Assets	₹
Sundry Creditors	6,00,000	Furniture	80,000
Bills payable	1,20,000	Land and Building	3,00,000
Capital	2,80,000	Sundry Debtors	3,20,000
		Cash in Hand	20,000
		Bills Receivable	60,000
		Stock	2,20,000
	10,00,000		10,00,000

12. Raju does not keep proper books of accounts. Following details are taken from his records.

Particulars	1.1.2018	31.12.2018
	₹	₹
Cash at bank	80,000	90,000
Stock of goods	1,80,000	1,40,000
Debtors	90,000	2,00,000
Sundry creditors	1,30,000	1,95,000
Bank Loan	60,000	60,000
Bills payable	80,000	45,000
Plant and machinery	1,70,000	1,70,000

During the year he introduced further capital of ₹50,000 and withdrew ₹2,500 per month from the business for his personal use. Prepare statement of profit or loss with the above information.

In the books of Raju

ANS: Statement of Affairs as on 1.1.2018

Liabilities	₹	Assets	₹
Sundry Creditors	1,30,000	Cash at bank	80,000
Bank loan	60,000	Stock of goods	1,80,000
Bills payable	80,000	Sundry Debtors	90,000
Capital	2,50,000	Plant and Machinery	1,70,000
	5,20,000		5,20,000

Statement of Affairs as on 31.12.2018

Liabilities	₹	Assets	₹
Sundry Creditors	1,95,000	Cash at bank	90,000
Bank Loan	60,000	Stock of goods	1,40,000
Bills payable	45,000	Sundry Debtors	2,00,000
Capital	3,00,000	Plant and Machinery	1,70,000
	6,00,000		6,00,000

Statement of Profit or Loss for the year ended 31st December 2018

Particulars	₹
Closing capital	3,00,000
Add: Drawings (2500 X 12)	30,000
	3,30,000
Less: Additional capital	50,000
Adjusted Closing Capital	2,80,000
Less: Opening capital	2,50,000
Profit	30,000

13. From the following details find out total sales made during the year.

Particulars	₹
Debtors on 1 st January 2018	1,30,000
Cash received from debtors during the year	4,20,000
Sales returns	35,000
Bad debts	15,000
Debtors on 31 st December 2018	2,00,000
Cash Sales	4,60,000

ANS:

Dr.		Total Debtors Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	1,30,000	By Cash A/c	4,20,000		
To Sales A/c (Credit)	5,40,000	By Sales returns A/c	35,000		
		By Bad debts A/c	15,000		
		By Balance c/d	2,00,000		
	6,70,000		6,70,000		

Total Sales = Cash Sales + Credit Sales
 = ₹4,60,000 + ₹5,40,000

Total Sales = ₹10,00,000

14. From the following details, calculate credit purchases.

Particulars	₹
Opening creditors	1,70,000
Purchase returns	20,000
Cash paid to creditors	4,50,000
Closing creditors	1,90,000

ANS:

Dr.		Total Creditors Account		Cr.	
Particulars	₹	Particulars	₹		
To Purchase returns A/c	20,000	By Balance b/d	1,70,000		
To Cash A/c	4,50,000	By Purchases A/c	4,90,000		
To Balance c/d	1,90,000	(Credit)			
	6,60,000		6,60,000		

15. Selvam does not keep his books under double entry system. From the following information prepare trading and Profit and loss A/c and Balance Sheet as on 31-12-2018

Particulars	1-1-2018	31-12-2018
	₹	₹
Machinery	60,000	60,000
Cash at bank	25,000	33,000
Sundry debtors	70,000	1,00,000
Stock	45,000	22,000
Bills receivable	20,000	38,000
Bank loan	45,000	45,000
Sundry creditors	25,000	21,000

	₹		₹
Cash sales	20,000	Credit sales	1,80,000
Cash purchases	8,000	Credit purchases	52,000
Wages	6,000	Salaries	23,500
Advertisement	7,000	Interest on bank loan	4,500
Drawings	60,000	Additional capital	21,000

Adjustments:

Write off depreciation of 10% on machinery. Create a reserve of 1% on debtors for doubtful debts.

Ans:

**In the books of Selvam
Statement of Affairs as on 1.1.2018**

Liabilities	₹	Assets	₹
Opening Capital	1,50,000	Machinery	60,000
Bank loan	45,000	Cash at bank	25,000
Sundry Creditors	25,000	Sundry Debtors	70,000
		Stock	45,000
		Bills receivable	20,000
	2,20,000		2,20,000

Trading and Profit and loss Account

for the year ended 31 December, 2018

Dr.	Particulars	₹	Particulars	₹	Cr.
	To Opening Stock	45,000			
	To Purchases:		By Sales:		
	Cash	8,000	Cash	20,000	
	Credit	<u>52,000</u>	Credit	<u>1,80,000</u>	2,00,000
	To wages	6,000	By Closing stock		22,000
	To Gross profit c/d	1,11,000			
		2,22,000			2,22,000
	To Depreciation on Machinery	6,000	By Gross profit b/d		1,11,000
	To Provision for doubtful debts	1,000			
	To Salaries	23,500			
	To Advertisement	7,000			
	To Interest on bank loan	4,500			
	To Net profit	69,000			
	(Transferred to Capital A/c)				
		1,11,000			1,11,000

Balance sheet as on 31st December, 2018

Liabilities	₹	Assets	₹
Bank loan	45,000	Machinery	60,000
Sundry Creditors	21,000	Less: Depreciation	6,000
Capital	1,50,000	Cash at bank	33,000
Add: Net profit	69,000	Sundry Debtors	1,00,000
	2,19,000	Less: Provision for doubtful debts	1,000
Add: Additional capital	21,000	Closing Stock	22,000
	2,40,000	Bills receivable	38,000
Less: Drawing	60,000		
	1,80,000		
	2,46,000		2,46,000

UNIT - 2: ACCOUNTS OF NOT-FOR-PROFIT ORGANISATION

VERY SHORT ANSWER QUESTIONS

1. State the meaning of not-for-profit organisation.
 - Some organisations are established for the purpose of rendering services to the public without any profit motive.
 - They may be created for the Promotion of Art, Culture, Education, Sports, etc.
2. What is receipts and payments account?
 - It is a summary of cash and bank transactions.
 - It is a real account in nature.
3. What is legacy?
 - A gift made to a not-for-profit organisation by a will, is called legacy.
 - It is a capital receipt.
4. Write a short note on life membership fees.
 - Amount received towards life membership fee from members.
 - It is a capital receipt.
 - It is non-recurring in nature.
5. Give four examples for capital receipts of not-for-profit organisation.
 - Life membership fees
 - Legacies
 - Sale of fixed assets
 - Prize fund
6. Give four examples for revenue receipts of not-for-profit organisation.
 1. Subscription
 2. Sale of old newspapers
 3. Sale of old sports materials
 4. Interest on investment

SHORT ANSWER QUESTIONS

7. What is income and expenditure account?
 - It is a nominal account.
 - It is prepared to find out the Surplus or Deficit relating to a particular year.
 - Only revenue receipts and expenditure items are recorded.

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

S.no	Basis	Receipt and Payment Account	Income and Expenditure Account
1	Nature of account	It is a real account.	It is a nominal account.
2	Basis of accounting	It is based on cash system.	It is based on accrual system.
3	Purpose	It is prepared to know the cash receipts and cash payments.	It is prepared to know the surplus or deficit.

PROBLEMS WITH SOLUTIONS:

9. From the following information, prepare Receipts and Payments account of Cuddalore Kabaddi Association for the year ended 31st March, 2019.

Particulars	₹	Particulars	₹
Opening Cash Balance (1.4.2018)	11,000	Interest and bank charges	250
Bank overdraft balance (1.4.2018)	20,000	Miscellaneous income	350
Stationery purchased	5,200	Upkeep of ground	550
Travelling expenses	1,800	Grant from Government	12,000
Dividend received	3,000	Telephone charges paid	2,800
General expenses	500	Endowment fund receipts	10,000
Admission fees	4,000	Insurance premium paid	2,000
Courier charges	2,000	Electricity charges paid	5,000
Municipal taxes paid	3,000	Closing cash balance (31.03.2019)	1,750

ANS:

**In the book of Cuddalore kabaddi Association
Receipts and payments account for the year ended 31st March 2019**

Dr.					Cr.
Receipts	₹	₹	Payments	₹	₹
To Balance b/d			By Balance b/d		
Cash in hand		11,000	Bank overdraft		20,000
To Dividend received		3,000	By Stationery purchased		5,200
To Admission fees		4,000	By Travelling expenses		1,800
To Miscellaneous income		350	By General expenses		500
To Grant from government		12,000	By Courier charges		2,000
To Endowment fund receipt		10,000	By Municipal tax paid		3,000
To Balance c/d		4,500	By Interest and bank charges		250
Bank overdraft			By Upkeep of ground		550
			By Insurance premium paid		2,000
			By Electricity charges paid		5,000
			By Telephone charges		2,800
			By Balance c/d		
			Cash in hand		1,750
		44,850			44,850

10. From the following receipts and payment account, prepare income and expenditure account of Kumbakonam Basket Ball Association for the year ended 31st March, 2018.

Receipts	₹	₹	Payments	₹	₹
To Balance b/d			By Rent of ground paid		12,000
Cash in hand	23,000		By Printing charges		5,000
Cash at bank	12,000	35,000	By Bank charges		1,000
To Rent of hall received		6,000	By Insurance for building		2,000
To Subscription received		9,000	By Tournament expenses		16,000
To Life membership fees		7,000	By Audit fees		3,000
To Locker rent received		2,000	By Sports materials purchased		4,000
			By Balance c/d		
			Cash in hand	2,000	
			Cash at bank	14,000	16,000
		59,000			59,000

ANS:

In The Book of Kumbakonam basketball Association,

Dr. Income and Expenditure account for the year ended 31st March 2018		Cr.	
Expenditure	₹	Income	₹
To Rent of ground	12,000	By Rent of hall	6,000
To Printing charges	5,000	By Subscription	9,000
To Bank charges	1,000	By Locker rent	2,000
To Insurance for building	2,000	Deficit	26,000
To Tournament expenses	16,000	(Excess of Expenditure over Income)	
To Audit fees	3,000		
To Sports material purchased	4,000		
	43,000		43,000

11. How will the following appear in the final accounts of Vedaranyam Sports club?

Particulars	₹
Opening stock of bats and balls	3,000
Purchase of bats and balls during the year	17,000
Sale of old bats and balls	2,000
Closing stock of bats and balls	4,000

ANS:

In The Book of Vedaranyam Sports Club

Dr. Income and Expenditure account for the year ended			Cr.		
Expenditure		₹	Income	₹	₹
To Bats and balls consumed:			By Sale of Sports Materials		2,000
Opening Stock	3,000				
<u>Add: Purchases</u>	17,000				
	20,000				
<u>Less: Closing Stock</u>	4,000	16,000			

Balance sheet as on

Liabilities	₹	Assets	₹
		Closing Stock	4,000

12. Compute capital fund of Salem Sports Club as on 1.4.2019.

Particulars	₹	Particulars	₹
Sports equipment	30,000	Prize fund	10,000
Computer	25,000	Prize fund investments	10,000
Subscription outstanding for 2018-19	5,000	Cash in hand	7,000
Subscription received in advance for 2019-20	8,000	Cash at bank	21,000

ANS:

**In the books of Salem Sports Club
Balance sheet as on 1st April 2019**

Liabilities	₹	Assets	₹
Capital Fund	80,000	Sports Equipment	30,000
Prize Fund	10,000	Computer	25,000
Subscription received in advance	8,000	Subscription outstanding	5,000
		Prize fund investments	10,000
		Cash in hand	7,000
		Cash at bank	21,000
	98,000		98,000

UNIT – 3: ACCOUNTS OF PARTNERSHIP FIRMS - FUNDAMENTALS

VERY SHORT ANSWER QUESTIONS

1. Define partnership.

The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. - Indian Partnership Act, 1932 (Section 4)

2. What is a partnership deed?

- It is a document in writing that contains the terms of the agreement among the partners.
- It is not Compulsory for a Partnership to have a partnership deed as per the Indian Partnership Act, 1932

3. What is meant by fixed capital method?

- The capital of the partners is not altered and it remains generally fixed.
- Two accounts are maintained for each partner
 - a) Capital account
 - b) Current account

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

Journal entry

Date	Particulars	LF	Debit ₹	Credit ₹
	Interest on capital A/C Dr. To Partners capital/current A/C (Interest on capital provided)		xxx	xxx
	Profit and Loss appropriation A/C Dr. To Interest on capital A/C (Interest on capital transferred)		xxx	xxx

SHORT ANSWER QUESTIONS

5. State the features of partnership.

- It is an association of two or more persons.
- Minimum is 2 and Maximum number of members is limited to 50.
- The agreement may be oral or written.

6. State any six contents of a partnership deed.

- Name of the firm and nature and place of business
- Date of commencement and duration of business
- Names and addresses of all partners
- Capital contributed by each partner
- Profit sharing ratio
- Amount of drawings allowed to each partner.

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

S.no	Basis	Fixed Capital Method	Fluctuating Capital Method
1	Number of Accounts	Two accounts are maintained i). capital account ii). current account	Only capital account is maintained.
2	Change in Capital	The amount of capital remains unchanged.	The amount of capital changes from period to period
3	Adjustments	All adjustments are done in current account	All adjustments are done in capital account

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

(i) Remuneration to partners:

No salary or remuneration is allowed to any partner [Section 13(a)]

(ii) Profit sharing ratio:

Profits and losses are to be shared equally. [Section 13(b)]

(iii) Interest on loans advanced by partners to the firm:

Interest on loan is to be allowed at the rate of 6%. [Section 13(d)]

PROBLEMS WITH SOLUTIONS

9. Akash, Bala, Chandru and Daniel are partners in a firm. There is no partnership deed. How will you deal with the following?

1. Akash has contributed maximum capital. He demands interest on capital at 10% per annum.

Ans: Interest on capital is not allowed. Sec 13 (c)

2. Bala has withdrawn ₹3,000 per month. Other partners ask Bala to pay interest on drawings @ 8% per annum to the firm. But, Bala did not agree to it.

Ans: Interest on Drawings is not allowed.

3. Akash demands the profit to be shared in the capital ratio. But, others do not agree.

Ans: Profits and Losses to be shared equally. Sec 13 (b)

4. Daniel demands salary at the rate of ₹10,000 per month as he spends full time for the business.

Ans: Salary is not allowed. Sec 13 (a)

5. Loan advanced by Chandru to the firm is ₹50,000. He demands interest on loan @ 12% per annum.

Ans: Interest on Loan allowed @ 6% p.a. Sec 13(d)

10. Mani is a partner, who withdrew ₹30,000 on 1st September, 2018. Interest on drawings is charged at 6% per annum. Calculate interest on drawings on 31st December, 2018 and show the journal entries by assuming that fluctuating capital method is followed.

Ans:

Interest on drawings= Amount of drawings × Rate of interest × Period of Interest

Interest on Drawings = 6% p.a.

$$= 30000 \times \frac{6}{100} \times \frac{4}{12} = ₹600$$

Interest on Drawings = ₹600

Journal entries

Date	Particulars	LF	Debit ₹	Credit ₹
2018	Mani's capital A/c Dr		600	
Dec 31	To Interest on Drawings A/c (Interest on Drawings provided)			600
31	Interest on Drawings A/c Dr.		600	
	To Profit and Loss Appropriation A/c (Interest on drawings transferred)			600

11. Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings.

ANS:

Interest on drawings = Amount of drawings × Rate of interest × Period of Interest

Interest on Drawings = 6% p.a.

Withdrawal on Date		₹
February 1	$2000 \times 6/100 \times 11/12$	110
May 1	$10000 \times 6/100 \times 8/12$	400
July 1	$4000 \times 6/100 \times 6/12$	120
October 1	$6000 \times 6/100 \times 3/12$	90
Total Interest on Drawings		720

12. Mathew is a partner who withdrew ₹20,000 during the year 2018. Interest on drawings is charged at 10% per annum. Calculate interest on drawings on 31st December 2018.

Ans:

Interest on drawings = Amount of drawings × Rate of interest × Period of Interest

Interest on drawings = 10%

$$= 20,000 \times \frac{10}{100} \times \frac{6}{12} = 1,000$$

Interest on drawings = ₹1,000

13. Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings by using product method

Ans:

Date of Drawings	Amount Withdrawn ₹	Period upto 31Dec 2018 (months)	Product ₹
February 1	2,000	11	22,000
May 1	10,000	8	80,000
July 1	4,000	6	24,000
October 1	6,000	3	18,000
Sum of product			1,44,000

Interest on Drawings = 6% p.a. (Product Method)

$$\text{Interest on drawings} = \text{Sum of product} \times \text{Rate of interest} \times \frac{1}{12}$$
$$= 144000 \times \frac{6}{100} \times \frac{1}{12} = 720$$

Interest on Drawings = ₹720

UNIT – 4 : GOODWILL IN PARTNERSHIP ACCOUNTS

VERY SHORT ANSWER QUESTIONS

1. What is goodwill?
 - It is the good name or reputation of the business.
 - It enables the business to earn more profit.
2. What is acquired goodwill?
 - Goodwill acquired by making payment in cash or kind is called acquired goodwill.
 - It is also called purchased goodwill.
3. What is super profit?
 - It is the excess of average profit over the normal profit of a business.
 - Super Profit = Average Profit - Normal Profit
4. What is normal rate of return?
 - It is the rate at which profit is earned by similar business entities in the industry under normal circumstances.
5. State any two circumstances under which goodwill of a partnership firm is valued.
 - Admission of a partner
 - Retirement or death of a partner

SHORT ANSWER QUESTIONS

6. State any six factors determining goodwill.
 - Profitability of the firm.
 - Favorable location of the business enterprise.
 - Good quality of goods or services offered.
 - Efficiency of management.
 - Degree of competition.
 - Tenure of the business enterprise.
7. How is goodwill calculated under the super profits method?
 - Average Profit = $\frac{\text{Total Profits}}{\text{Number of years}}$
 - Normal Profit = Capital Employed X Normal Rate of Return
 - Super Profit = Average Profit – Normal Profit
 - Goodwill = Super Profit X No. of years of Purchase

PROBLEMS WITH SOLUTIONS

8. Compute average profit from the following information. 2016: ₹8,000; 2017: ₹10,000; 2018: ₹9,000

Ans:

Average profit = $\frac{\text{Total Profit}}{\text{Number of years}}$

$$= \frac{8,000+10,000+9,000}{3} = 9,000$$

Average profit = ₹9,000

9. Calculate the value of goodwill at 2years purchase of average profit when average profit is ₹15,000.

Ans:

Goodwill = Average profit × Number of years of purchase
= 15,000 × 2
= 30,000

Goodwill = ₹ 30,000

10. The following are the profits of a firm in the last five years: 2014: ₹10,000; 2015: ₹11,000; 2016: ₹12,000; 2017: ₹13,000 and 2018: ₹14,000. Calculate the value of goodwill at 2years purchase of average profit of five years.

Step1: Goodwill = Average profit × Number of years of purchase

Step2: Average profit = $\frac{\text{Total Profit}}{\text{Number of years}}$

$$= \frac{10,000+11,000+12,000 + 13,000 + 14,000}{5} = \frac{60,000}{5} = ₹12,000$$

Step3: Number of years of Purchase = 2

Step 4: Goodwill = 12,000 × 2 = 24,000

Goodwill = ₹24,000

11. From the following information, calculate the value of goodwill on the basis of 3years purchase of average profits of last four years.

Year	Result	Amount ₹
2015	Profit	5,000
2016	Profit	8,000
2017	Loss	3,000
2018	Profit	6,000

Step1: Goodwill = Average profit × Number of years of purchase

step2: Average profit = $\frac{\text{Total Profit}}{\text{Number of years}}$

$$= \frac{5,000+8,000-3,000+6,000}{4} = \frac{16,000}{4} = 4,000$$

Step3: Number of years of Purchase = 3

Step 4: Goodwill = 4,000 X 3 = ₹12,000

Goodwill = ₹ 12,000

12.A partnership firm earned net profits during the last three years as follows: 2016: ₹20,000; 2017: ₹17,000 and 2018: ₹23,000. The Capital investment of the firm throughout the above mentioned period has been ₹80,000. Having regard to the risk involved, 15% is considered to be a fair return on capital employed in the business. Calculate the value of goodwill on the basis of 2years purchase of super profit.

Ans:

Step1: Goodwill = Super profit X Number of years purchase.

Step2: Super Profit= Average Profit - Normal Profit

a) Average Profit = $\frac{\text{Total Profit}}{\text{Number of Years}}$

$$= \frac{20,000 + 17,000 + 23,000}{3}$$

Average total Profit = ₹20,000

b) Normal Profit= Capital Employed × Normal Rate of Return

$$= 80,000 \times \frac{15}{100}$$

Normal Profit = ₹12,000

Super Profit = 20,000 - 12000

$$= ₹8,000$$

Step3: Number of years purchase = 2 years

Step4: Goodwill= $8000 \times 2 = 16,000$

Goodwill= ₹16,000

UNIT – 5 : ADMISSION OF A PARTNER

VERY SHORT ANSWER QUESTIONS

1. What is meant by revaluation of assets and liabilities?
 - When a partner is admitted into the partnership, the assets and liabilities are revalued as the current value may differ from the book value.
 - Determination of current value of assets and liabilities is called revaluation of assets and liabilities.
2. What is sacrificing ratio?
 - Sacrificing Ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.
 - Share sacrificed= old share - New Share.
3. State whether the following will be debited or credited in the revaluation account.
 - a. Depreciation on assets
 - b. Unrecorded liability
 - c. Provision for outstanding expenses
 - d. Appreciation of assets

ANS:

- | | | |
|---------------------------|---|----------|
| a. Depreciation on assets | - | Debited |
| b. Unrecorded liability | - | Debited |
| c. Outstanding expenses | - | Debited |
| d. Appreciation of assets | - | Credited |

SHORT ANSWER QUESTIONS

4. What are the adjustments required at the time of admission of a partner?
 - Distribution of accumulated profits, reserves and losses.
 - Revaluation of assets and liabilities
 - Determination of new profit-sharing ratio and sacrificing ratio
 - Adjustment for goodwill
 - Adjustment of capital on the basis of new profit sharing ratio
5. Write a short note on accounting treatment of goodwill.
 - i). When new partner brings cash towards goodwill.

- ii). When the new partner does not bring goodwill in cash or in kind.
 iii). Existing goodwill.

PROBLEMS WITH SOLUTIONS

6. Arul and Anitha are partners sharing profits and losses in the ratio of 4:3. On 31.3.2018, Ajay was admitted as a partner. On the date of admission, the book of the firm showed a general reserve of ₹42,000. Pass the journal entry to distribute the general reserve.

ANS:

General Reserve = 42,000 → 4:3

Arul	Anitha
$42000 \times \frac{4}{7}$	$42000 \times \frac{3}{7}$
= ₹24,000	= ₹18,000

Journal entry

Date	Particulars	LF	Debit ₹	Credit ₹
2018 Mar 31	General Reserve A/c Dr. To Arul's Capital A/c To Arun's capital A/c (General Reserve Transferred)		42,000	24,000 18,000

UNIT – 6 : RETIREMENT AND DEATH OF A PARTNER

VERY SHORT ANSWER QUESTIONS

1. What is meant by retirement of a partner?

- When a partner leaves from a partnership firm, it is known as retirement.
- A Partner who retires from the firm is called an outgoing partner or a retiring partner.

2. What is gaining ratio?

- The continuing partners may gain a portion of the share of profit of the retiring partner.
- Gaining ratio is the proportion of the profit which is gained by the continuing partners.
- Share gained = New share - Old share

3. What is the journal entry to be passed to transfer the amount due to the deceased partner to the executor of the deceased partner?

Date	Particulars	LF	Debit ₹	Credit ₹
	Deceased partner's capital A/C Dr. To Deceased partner's executor A/C (Deceased partner amount transferred to capital account)		xxx	xxx

SHORT ANSWER QUESTIONS

4. List out the adjustments made at the time of retirement of a partner in a partnership firm.
- Distribution of accumulated profits, reserves and losses
 - Revaluation of assets and liabilities
 - Determination of new profit sharing ratio and gaining ratio
 - Adjustment for goodwill
5. Distinguish between sacrificing ratio and gaining ratio.

s.no	Basis	Sacrificing ratio	Gaining ratio
1	Meaning	A share of profit sacrificed by the old partner to new partner.	A share of profit gained by existing partner from retiring partner.
2	Time	Admission of a partner	Retirement of a partner
3	Formula	Sacrificing Ratio = Old ratio – New ratio	Gaining Ratio = New ratio – Old ratio

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

The amount due to the retiring partner may be settled in one of the following ways:

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

PROBLEMS WITH SOLUTIONS

7. Roja, Neela and Kanaga are partners sharing profits and losses in the ratio of 4:3:3. On 1st April 2017, Roja retires and on retirement, the following adjustments are agreed upon.

- (i) Increase the value of building by ₹ 30,000.
(ii) Depreciate stock by ₹5,000 and furniture by ₹12,000.
(iii) Provide an outstanding liability of ₹1,000
Pass journal entries and prepare revaluation account.

ANS:

JOURNAL ENTRIES

Date	Particulars	LF	Debit ₹	Credit ₹
2018 APRIL 1	Building A/c Dr. To revaluation A/c (Profit items recorded)		30,000	30,000
1	Revaluation A/c Dr. To Stock A/c To furniture A/c To Outstanding liability A/c (Loss items recorded)		18,000	5,000 12,000 1,000
1	Revaluation A/c Dr. To Roja's capital A/c To Neela's capital A/c To Kanaga's capital A/c (Gain on revaluation transferred)		12,000	4,800 3,600 3,600

Dr.		Revaluation Account				Cr.
Particulars	₹	₹	Particulars	₹	₹	
To Stock A/c		5,000	By Buildings A/c		30,000	
To Furniture A/c		12,000				
To Outstanding Liability A/c		1,000				
To Partner's capital A/c						
Roja	4,800					
Neela	3,600					
Kanaga	3,600	12,000				
		30,000			30,000	

UNIT – 7: COMPANY ACCOUNTS

VERY SHORT ANSWER QUESTIONS

1. What is a share?

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

2. What is Over-subscription?

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

3. What is meant by calls in arrear?

The amount called up but not paid is called calls in arrears.

4. Write a short note on securities premium account.

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

5. Why are the shares forfeited?

If the shareholders fail to pay the amount due on allotment or on calls, shares may be forfeited.

SHORT ANSWER QUESTIONS

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

S.no	Basis	Preference shares	Equity Shares
1	Preferential Rights	Towards the payment of dividend and repayment of capital.	Do not enjoy any preferential rights.
2	Rate of dividend	Fixed	Variable
3	Voting rights	They can vote on any resolutions affecting the Rights.	They can vote on all resolutions.

7. Write a brief note on calls in advance.

- The excess amount paid over the called up value of a share is known as calls in advance.
- It is the excess money paid on application or allotment or calls.

8. What is reissue of forfeited shares?

- Shares forfeited can be reissued by the company.
- The shares can be reissued at any price.
- It cannot be less than the amount unpaid on forfeited shares.

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

i). Authorized Capital:

- It means such capitals as is authorised by the memorandum of association.
- It is the maximum amount which can be raised as capital.
- It is also known as Registered capital or Nominal capital

ii). Reserve Capital:

- The company can reserve a part of its subscribed capital to be called up only at the time of winding up.
- It is called Reserve Capital.

10. What is meant by issue of shares for consideration other than cash?

A company may issue equity shares either for cash or for consideration other than cash.

A company may also issue shares as consideration for

- the purchase of business
- to promoters for their services and
- underwriters for their commission

PROBLEMS WITH SOLUTIONS

11. Progress Ltd. issued 50,000 ordinary shares of ₹10 each, payable ₹2 on application, ₹4 on allotment, ₹2 on first call and ₹2 on final call. All the shares are subscribed and amount was duly received. Pass journal entries.

Ans:

In the books of Progress Ltd. Journal entries

Date	Particulars	LF	Debit ₹	Credit ₹
(50,000×2)	Bank A/c Dr. To Equity share application A/c (Application money received)		1,00,000	1,00,000
(50,000×2)	Equity share application A/c Dr. To Equity share capital A/c (Transfer of share application money to share capital)		1,00,000	1,00,000
(50,000×4)	Equity share allotment A/c Dr. To Equity share capital A/c (share allotment money due)		2,00,000	2,00,000
(50,000×4)	Bank A/c Dr. To Equity share allotment A/c (Allotment money received)		2,00,000	2,00,000
(50,000×2)	Equity share first call A/c Dr. To Equity share capital A/c (share first call money due)		1,00,000	1,00,000
(50,000×2)	Bank A/c Dr. To Equity share first call A/c (share first call money received)		1,00,000	1,00,000
(50,000×2)	Equity share final call A/c Dr. To Equity share capital A/c (share second and final call money due)		1,00,000	1,00,000
(50,000×2)	Bank A/c Dr. To Equity share final call A/c (share second and final call money received)		1,00,000	1,00,000

12. Lalitha Ltd. offered 30,000 equity shares of ₹10 each to the public payable ₹ 2 per share on application, ₹3 on share allotment and the balance when required. Applications for 50,000 shares were received on which the directors allotted as:

Applicants for 10,000 shares- Full

Applicants for 35,000 shares- 20,000 shares (excess money will be utilised for allotment)

Applicants for 5,000 shares - Nil

All the money due was received. Pass journal entries upto the receipt of allotment.

Ans:

1. Received share amount $50,000 \times 2 = ₹1,00,000$
2. Issued share amount $30,000 \times 2 = ₹60,000$
3. Refund share amount $5,000 \times 2 = ₹10,000$
4. Allotment adjustment amount $15,000 \times 2 = ₹30,000$

**In the books of Lalitha Ltd.
Journal entries**

Date	Particulars	L.F	Debit ₹	Credit ₹
(50,000×2)	Bank A/c Dr. To Equity share application A/c (Application money received)		1,00,000	1,00,000
(30,000×2)	Equity share application A/c Dr. To Equity share capital A/c (share application money transferred)		60,000	60,000
(5,000×2)	Equity share application A/c Dr. To Bank A/c (Excess application money refunded)		10,000	10,000
(15,000×2)	Equity share application A/c Dr. To share allotment A/c (Excess share application money utilised for allotment)		30,000	30,000
(30,000×3)	Equity share allotment A/c Dr. To Equity share capital A/c (share allotment money due)		90,000	90,000
(90,000- 30,000)	Bank A/c Dr. To Equity share allotment A/c (allotment money received)		60,000	60,000

13. Goutham Ltd. forfeited 500 equity shares of ₹10 each issued at par held by Ragav for nonpayment of the final call of ₹2 per share. The shares were forfeited and reissued to Madhan at ₹8 per share. Show the journal entries for forfeiture and reissue.

Ans:

**In the books of Goutham Ltd.
Journal entries**

Date	Particulars	L.F	Debit ₹	Credit ₹
(500×10) (500×2) (500×8)	Equity share capital A/c Dr. To Equity share final call A/c To Forfeited shares A/c (500 shares forfeited)		5,000	1,000 4,000
(500×8) (500×2) (500×10)	Bank A/c Dr. Forfeited shares A/c Dr. To Equity share capital A/c (forfeited share reissued)		4,000 1,000	5,000
(4,000- 1,000)	Forfeited shares A/c Dr. To Capital reserve A/c (Gain on forfeited shares account transferred)		3,000	3,000

14. Viswanath Furniture Ltd. invited applications for 20,000 equity shares of ₹10 each at a premium of ₹2 per share payable.
₹2 on application
₹ 5 (including premium) on allotment
₹ 5 on first and final call
There was over subscription and applications were received for 30,000 shares and the excess applications were rejected by the directors. All the money due were received. Pass the journal entries.

Ans:

**In the books of Viswanath Furniture Ltd.
Journal entries**

Date	Particulars	L.F	Debit ₹	Credit ₹
(30,000×2)	Bank A/c Dr. To Equity share application A/c (Application money received)		60,000	60,000
(20,000×2)	Equity share application A/c Dr. To Equity share capital A/c (share application money transferred)		40,000	40,000
(10,000×2)	Equity share application A/c Dr. To Bank A/c (money refunded for rejected applications)		20,000	20,000
(20,000×5) (20,000×3) (20,000×2)	Equity share allotment A/c Dr. To Equity share capital A/c To securities premium A/c (Share allotment money due)		1,00,000	60,000 40,000
(20,000×5)	Bank A/c Dr. To Equity share allotment A/c (allotment money received)		1,00,000	1,00,000

(50,000×2) (20,000×5)	Equity share first and final call A/c To Equity share capital A/c (Share first and final call money due)	Dr		1,00,000	1,00,000
	Bank A/c To Equity share first and final call A/c (first call money received)	Dr		1,00,000	1,00,000

UNIT – 8 : FINANCIAL STATEMENT ANALYSIS

VERY SHORT ANSWER QUESTIONS

1. What are financial statements?
 - Financial statements are the statements prepared by the business concerns at the end of the accounting period to ascertain the operating results and the financial position.
2. List the tools of financial statement analysis.
 - Comparative statement
 - Common size statement
 - Trend analysis
 - Fund flow analysis
 - Cash flow analysis
3. What is working capital?
 - The term 'fund' refers to working capital.
 - Working capital refers to the excess of current assets over current liabilities.
 - Working Capital = Current Asset – Current Liabilities

SHORT ANSWER QUESTIONS

4. Write a short note on cash flow analysis.
 - It is concerned with Preparation of cash flow statement.
 - It shows the inflow and outflow of cash and cash equivalents in a given period of time.
 - Cash includes cash in hand and demand deposits with banks.
5. Briefly explain any three limitations of financial statements.
 - i). Record of historical data:**
 - Financial statements are prepared based on historical data.
 - ii). Ignore price level changes:**
 - Adjustments for price level changes are not made in the financial statements.
 - Hence, financial statements may not reveal the current position.
 - iii). Lack of consistency:**
 - Different business concerns may use different accounting methods.
 - Hence, comparison between two business concerns becomes difficult.

PROBLEMS WITH SOLUTIONS

6. From the following particulars, prepare comparative income statement of Barani Ltd.

Particulars	2016-17 ₹	2017-18 ₹
Revenue from operations	30,000	45,000
Other income	4,000	6,000
Expenses	10,000	15,000
Income tax	30%	30%

ANS:

**Comparative income statement of Barani Ltd., for the years ended
31stMarch 2017 and 31stMarch 2018**

Particulars	2016-17	2017-18	Absolute amount of increase(+) or decrease (-)	Percentage Increase (+) or Decrease (-)
	₹	₹	₹	%
(1)	(2)	(3)	(4)	(5)
Revenue from Operations	30,000	45,000	+15,000	+50
<u>Add:</u> Other income	4,000	6,000	+2,000	+50
Total revenue	34,000	51,000	+17,000	+50
<u>Less:</u> Expenses	10,000	15,000	+5,000	+50
Profit before tax	24,000	36,000	+12,000	+50
<u>Less:</u> Tax (30%)	7,200	10,800	+3,600	+50
Profit after tax	16,800	25,200	+8,400	+50

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

7. Prepare common-size income statement for the following particulars of Raja Ltd. for the year ended 31st March, 2017

Particulars	2016-17
	₹
Revenue from operations	4,50,000
Other income	67,500
Expenses	1,35,000

ANS:

**Common-size income statement of Raja Ltd.
for the year ended 31st March, 2017**

Particulars	Absolute amount	Percentage Of Revenue from operations %
	₹	
Revenue from Operations	4,50,000	100
<u>Add:</u> Other income	67,500	15
Total revenue	5,17,500	115
<u>Less:</u> Expenses	1,35,000	30
Profit before tax	3,82,500	85

8. From the following particulars, calculate the trend percentages of Kala Ltd.

Particulars	₹ in thousands		
	2015-16	2016-17	2017-18
Revenue from operations	400	500	600
Other income	100	150	200
Expenses	200	290	350

Ans:

Trend analysis for Kala Ltd.

Particulars	₹ In thousands			Trend Percentage%		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Revenue from operations	400	500	600	100	125	150
Add: other income	100	150	200	100	150	200
Total Revenue	500	650	800	100	130	160
Less: Expenses	200	290	350	100	145	175
Profit	300	360	450	100	120	150

9. From the following particulars, calculate the trend percentages of Anu Ltd.

Particulars	₹ in thousands		
	Year1	Year2	Year3
I EQUITY AND LIABILITIES			
Share holders' Fund	500	550	600
Non-current liabilities	200	250	240
Current liabilities	100	80	120
Total	800	880	960
II ASSETS			
Non-current assets	600	720	780
Current assets	200	160	180
Total	800	880	960

ANS:

Trend analysis for Anu Ltd.

Particulars	₹ In Lakhs			Trend percentage %		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
I EQUITY AND LIABILITIES						
Shareholders fund	500	550	600	100	110	120
Non-current liabilities	200	250	240	100	125	120
Current liabilities	100	80	120	100	80	120
Total	800	880	960	100	110	120
II ASSETS						
Non-current assets	600	720	780	100	120	130
Current assets	200	160	180	100	80	90
Total	800	880	960	100	110	120

UNIT – 9 : RATIO ANALYSIS

VERY SHORT ANSWER QUESTIONS

1. What is meant by accounting ratios?

- When ratios are calculated on the basis of accounting information, these
- are called 'accounting ratios'.
- It is the numerical relationship between two items.

2. What is quick ratio?

- Quick ratio gives the proportion of quick assets to current liabilities.
- It is otherwise called as liquid ratio or acid test ratio.
- It is calculated as follows:

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

3. What is meant by debt equity ratio?

- It is calculated to assess the long term solvency position.
- It expresses the relationship between long term debt and shareholders
- funds.
- It is computed as follows:

$$\text{Debt equity ratio} = \frac{\text{Long term debt}}{\text{Shareholders' Funds}}$$

4. State any two limitations of ratio analysis.

- Ratios are only means.
- Accuracy of financial information.
- Changes in price level.

SHORT ANSWER QUESTIONS

5. How is operating profit ascertained?

1. Operating Profit = Revenue from operations – Operating Cost

- a) Operating Cost = Cost of Revenue from Operations + Operating Expenses
b) Operating Expenses = Administration Expenses + Selling & Distribution Expenses + Employee Benefit Expenses

2. Operating Profit = Gross Profit - Operating Expenses

6. State any three advantages of ratio analysis.

i. Measuring financial solvency:

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

ii. Facilitating investment decisions:

- It helps the management in making effective decisions

iii. Analysing the profitability:

- It helps to analyse the profitability of a business.

PROBLEMS WITH SOLUTIONS

7. Calculate quick ratio: Total current liabilities ₹2,40,000; Total current assets ₹4,50,000; Inventories ₹70,000; Prepaid expenses ₹20,000

ANS:

$$(i) \text{ Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

(ii) Quick Assets:

Total Current Assets	4,50,000
(-) Inventories	70,000
	3,80,000
(-) Prepaid Expenses	20,000
Quick assets	3,60,000

(iii) Current Liabilities: = ₹2,40,000

$$(iv) \text{ Quick Ratio} = \frac{3,60,000}{2,40,000} = \frac{3}{2} = \frac{1.5}{1}$$

Quick Ratio = 1.5 :1

8. The credit revenue from operations of Velavan Ltd, amounted to ₹10,00,000. Its debtors and bills receivables at the end of the accounting period amounted to ₹1,10,000 and ₹1,40,000 respectively. Calculate trade receivables turnover ratio and also collection period in months.

ANS:

(a) Trade Receivables Turnover Ratio :

$$(i) \text{ Trade Receivables Turnover Ratio} = \frac{\text{Credit Revenue from Operations}}{\text{Average Trade receivables}}$$

$$(ii) \text{ Credit Revenue from Operations} = ₹10,00,000$$

(iii) Average Trade Receivables:

Debtors	1,10,000
(+) Bills Receivable	1,40,000
	2,50,000

$$(iv) \text{ Trade Receivables Turnover Ratio} = \frac{10,00,000}{2,50,000} = 4 \text{ times}$$

$$(b) \text{ Debt collection period} = \frac{\text{Number of Months in a year}}{\text{Trade receivables turnover ratio}} = \frac{12}{4} = 3 \text{ months}$$

Trade Receivables Turnover Ratio = 4 times

Debt collections Period = 3 months.

9. From the following information of Geetha Ltd., calculate fixed assets turnover ratio

(i) Revenue from operations during the year were ₹55,00,000.

(ii) Fixed assets at the end of the year ₹5,00,000.

ANS:

$$(i) \text{ Fixed Assets Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Average Fixed Assets}}$$

$$(ii) \text{ Revenue from Operations} = ₹55,00,000$$

$$(iii) \text{ Average Fixed Assets} = ₹5,00,000$$

$$(iv) \text{ Fixed Assets Turnover Ratio} = \frac{55,00,000}{5,00,000} = 11 \text{ times}$$

Fixed Assets Turnover Ratio = 11 times

10. Calculate gross profit ratio from the following:
Revenue from operations ₹2,50,000, Cost of revenue from operations ₹2,10,000 and Purchases ₹1,80,000.

Ans:

- Gross profit ratio = $\frac{\text{Gross profit}}{\text{Revenue from operations}} \times 100$
- Gross profit = Revenue from operations - Cost of revenue from operations
= ₹2,50,000 - ₹2,10,000 = ₹40,000

• Revenue from operation = ₹ 2,50,000

• Gross profit ratio = $\frac{40,000}{2,50,000} \times 100 = 16\%$

Gross profit ratio = 16%

UNIT – 10 : COMPUTERISED ACCOUNTING SYSTEM - TALLY

VERY SHORT ANSWER QUESTIONS

1. What is automated accounting system?

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

2. What are accounting reports?

- It is a compilation of accounting information that are derived from the accounting records of a business concern.
- Accounting reports may be classified as Routine Reports and Special Purpose Reports.

3. State any five accounting reports.

- Day books / Journal
- Ledger
- Trial balance
- Income statement
- Balance sheet
- Cash flow statement

4. What is Accounting Information System (AIS)?

- AIS collects financial data, process them and provides information to the various users.
- To provide information AIS requires data from other information system that is manufacturing, marketing and human resources.

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

- In Tally, a Group is a collection of ledgers of the same nature.
- Groups are categorised as primary Groups and sub-Groups.

SHORT ANSWER QUESTIONS

6. Write a brief note on accounting vouchers.

- Voucher is a document which contains details of transactions.
- Transactions are to be recorded through voucher entries.
- Tally has a set of predefined vouchers such as Purchase, Sales, Payment, Receipt and Contra.

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

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

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

- Receipt Voucher F6
- Payment Voucher F5
- Contra Voucher F4
- Purchase Voucher F9
- Sales Voucher F8
- Journal Voucher F7

9. Explain any five applications of computerised accounting system.

1. **Maintaining accounting records:** In CAS, accounting records can be maintained easily and efficiently for long time period.
2. **Inventory management:** CAS facilitates efficient management of inventory.
3. **Pay roll preparation:** CAS records the attendance of employees, computes the amount of salary, makes deductions such as provident fund, income tax, etc.
4. **Report generation:** CAS helps to generate various routine and special purpose reports.
5. **Data import/export:** Accounting data and information can be imported from or exported to other users within the organisation as well as outside the organisation.
6. **Taxation:** CAS helps to compute various taxes and to deduct these and deposit the same to the Government account.

PRACTICAL PROBLEMS WITH SOLUTIONS

10. Record the following transactions in Tally.

- (i) Robert commenced a transport business with a capital of ₹1,00,000
- (ii) An account was opened with State Bank of India and deposited ₹30,000
- (iii) Purchased furniture by paying cash ₹10,000
- (iv) Goods purchased on credit from Mohaideen for ₹20,000
- (v) Cash sales made for ₹8,000
- (vi) Goods purchased from Rathinam for ₹5,000 and money deposited in CDM
- (vii) Goods sold to Rony on credit for ₹60,000
- (viii) Money withdrawn from bank for office use ₹9,000
- (ix) Part payment of ₹10,000 made to Mohaideen by cheque
- (x) Rony made part payment of ₹5,000 by cash
- (xi) Salaries paid to staff through ECS ₹6,000
- (xii) Wages of ₹3,000 paid by cash
- (xiii) Purchased stationery from Pandian Ltd. On credit ₹4,000

Ans:

Recording transactions in Tally

Sl. No.	Particulars		Debit ₹	Credit ₹	Voucher type	Group
1	Cash A/c To Robert's Capital A/c	Dr.	1,00,000	1,00,000	Receipt Voucher	Cash-in-Hand Capital Account
2	State Bank of India A/c To Cash A/c	Dr.	30,000	30,000	Contra Voucher	Bank Accounts Cash-in-Hand
3	Furniture A/c To Cash A/c	Dr.	10,000	10,000	Payment Voucher	Fixed Assets Cash-in-Hand
4	Purchases A/c To Mohaideen A/c	Dr.	20,000	20,000	Purchase Voucher	Purchase Accounts Sundry Creditors
5	Cash A/c To Sales A/c	Dr.	8,000	8,000	Sales Voucher	Cash-in-Hand Sales Accounts
6	Purchases A/c To Cash A/c	Dr.	5,000	5,000	Purchase Voucher	Purchase Accounts Cash-in-Hand
7	Rony A/c To Sales A/c	Dr.	60,000	60,000	Sales Voucher	Sundry Debtors Sales Accounts
8	Cash A/c To Bank A/c	Dr.	9,000	9,000	Contra Voucher	Cash-in-Hand Bank Accounts
9	Mohaideen A/c To Bank A/c	Dr.	10,000	10,000	Payment Voucher	Sundry Creditors Bank Accounts

10	Cash A/c To Rony A/c	Dr.	5,000	5,000	Receipt Voucher	Cash-in-Hand Sundry Debtors
11	Salaries A/c To Bank A/c	Dr.	6,000	6,000	Payment Voucher	Indirect Expenses Bank Accounts
12	Wages A/c To Cash A/c	Dr.	3,000	3,000	Payment Voucher	Direct Expenses Cash-in-Hand
13	Stationery A/c To Pandian Ltd. A/c	Dr.	4,000	4,000	Journal Voucher	Indirect Expenses Sundry Creditors

11. The following balance sheet has been prepared from the books of Bright on 1-4-2018.

Liabilities	₹	Assets	₹
Capital	2,26,000	Machinery	1,00,000
Sundry creditors		Furniture	10,000
Ramesh A/c	24,000	Stock	20,000
		Sundry debtors	
		Shankar	50,000
		Cash in hand	15,000
		Cash at bank	55,000
	2,50,000		2,50,000

During the year the following transactions took place:

- Wages paid by cash ₹2,000
- Rent paid by cheque ₹5,000
- Cash purchases made for ₹3,000
- Good purchased on credit from Senthamarai ₹15,000
- Goods sold on credit to Pushparaj ₹25,000
- Payment made to Senthamarai by cheque ₹5,000
- Cash received from Shankar ₹30,000
- Cash sales made for ₹6,000
- Depreciate machinery at 10%
- Closing stock on 31.03.2019 ₹15,000

You are required to prepare trading and profit and loss account for the year ended 31-03-2019 and a balance sheet as on that date using Tally.

Ans:

1. To create company

Company Info > Create Company

2. To maintain accounts only

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

3. To create ledger accounts with opening balances

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

Creation of	Name	Under	Opening balance ₹	Accept
Bright's Capital A/c	Bright's Capital A/c	Capital Account	2,26,000	Yes
Ramesh A/c (Sundry creditors)	Ramesh A/c	Sundry Creditors	24,000	Yes
Machinery A/c	Machinery A/c	Fixed Assets	1,00,000	Yes
Furniture A/c	Furniture A/c	Fixed Assets	10,000	Yes
Opening stock	Opening stock	Stock-in-Hand	20,000	Yes
Shankar A/c (Sundry debtors)	Shankar A/c	Sundry Debtors	50,000	Yes
Cash in hand	Cash	Cash-in-Hand	15,000	Yes
Cash at bank	Bank	Bank Accounts	55,000	Yes

4. To create ledger accounts for transactions

Creation of	Name	Under	Accept
Wages A/c	Wages A/c	Direct Expenses	Yes
Rent A/c	Rent A/c	Indirect Expenses	Yes
Purchases A/c	Purchases A/c	Purchases Accounts	Yes
Senthamarai A/c	Senthamarai A/c	Sundry Creditors	Yes
Sales A/c	Sales A/c	Sales Accounts	Yes
Pushparaj A/c	Pushparaj A/c	Sundry Debtors	Yes
Depreciation A/c	Depreciation A/c	Indirect Expenses	Yes

5. To enter transactions through vouchers

Gateway of Tally > Transactions > Accounting Vouchers

To view reports

(i) To view Profit and Loss Account

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

(ii) To view Balance Sheet

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

1. OTHER QUESTIONS

VERY SHORT ANSWER QUESTIONS

1. Why is Profit and Loss appropriation account prepared?
2. How are accumulated profits and losses distributed among the partners at the time of admission of a new partner?
3. Give the journal entry for writing off existing goodwill at the time of admission of a new partner.
4. What is the purpose of calculating gaining ratio?
5. When is trend analysis preferred to other tools?
6. What does return on investment ratio indicate?

SHORT ANSWER QUESTIONS

1. State the procedure for calculating profit or loss through statement of affairs.
2. How annual subscription is dealt with in the final accounts of not-for-profit organizations?
3. How the following items are dealt with in the final accounts of not-for-profit organizations?
a) Sale of Sports materials b) Life membership fees
c) Tournament Fund
4. Jayaraman is a partner who withdrew ₹10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December, 2018.
5. How is the value of goodwill calculated under the capitalization method?
6. What are the journal entries to be passed on revaluation of assets and liabilities?
7. 'Financial statements are prepared based on the past data' Explain how this is a limitation.
8. Explain the steps involved in preparing Comparative Statement.
9. Explain the procedure for preparing Common-Size statement.
10. Explain the objectives of ratio analysis.
11. What is inventory conversion period? How is it calculated?
12. Bring out the limitations of ratio analysis.
13. Explain how to view profit and loss statement in Tally.ERP 9.
