

Workbook Cum Question Bank with Answers

Accountancy

CLASS-XII (COMMERCE)



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

ACCOUNTANCY
WORKBOOK-CUM-QUESTION BANK
WITH ANSWERS
CLASS - XII (CHSE)
COMMERCE

Compiled by :

Dr. Uma Chand Lal
Reader in Commerce (Retd.)
B.J.B. Autonomous College,
Bhubaneswar



ST & SC DEVELOPMENT DEPARTMENT
GOVERNMENT OF ODISHA

Prepared by
SCHEDULED CASTES SCHEDULED TRIBES
RESEARCH AND TRAINING INSTITUTE
BHUBANESWAR-751003

2022

CONTENTS

Sl. No.	Topics	Page No.
GROUP - A : OBJECTIVE TYPE QUESTIONS		
1.	A. Multiple Choice Questions	01-29
2.	A. Answer Keys	30-34
3.	B. Express / Answer in One Word / Term Each Questions	35-40
4.	B. Answer Keys	41-43
5.	C. Answer in One Sentence Each Questions	44-48
6.	C. Answer Keys	49-56
7.	D. Fill up the Gaps Questions	57-62
8.	D. Answer Keys	63-64
GROUP - B : SHORT TYPE QUESTIONS		
9.	A. Short Questions to be Answered (2 Marks Each)	65-71
10.	A. Answer Keys	72-100
11.	A. Short Questions to be Answered (3 Marks Each)	101-105
12.	A. Answer Keys	106-136
GROUP - C : LONG TYPE QUESTIONS		
13.	A. Long Type Questions	137-164
14.	A. Answer Keys	165-177

GROUP - A

OBJECTIVE TYPE QUESTIONS

UNIT - I

(A) Financial Statements of Sole Trade Organisations

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

1. **Revenue expenditure gives the benefit for :**
 - (a) Previous year
 - (b) Current year
 - (c) Future year
 - (d) First two years only
2. **Land and building of business is known as:**
 - (a) Fixed asset
 - (b) Intangible asset
 - (c) Current asset
 - (d) Floating asset
3. **We receive benefit from capital expenditure during:**
 - (a) Current year only
 - (b) Previous year only
 - (c) Over a number of years
 - (d) Less than one year
4. **Profit on sale of old machine is credited to:**
 - (a) Trading account
 - (b) Profit and Loss account
 - (c) Manufacturing account
 - (d) Balance Sheet
5. **Income tax paid by the business should be:**
 - (a) Credited to the capital account
 - (b) Debited to capital account
 - (c) Credited to drawing account
 - (d) Debited to profit and loss account
6. **Carriage inward is shown on:**
 - (a) Debit side of trading account
 - (b) Credit side of trading account
 - (c) Debit side of Profit and loss account
 - (d) Credit side of Profit and loss account
7. **Carriage outward is shown on:**
 - (a) Debit side of trading account
 - (b) Credit side of trading account
 - (c) Debit side of Profit and loss account
 - (d) Credit side of Profit and loss account

- 8. Heavy advertisement expenditure is:**
- (a) Revenue expenditure
 - (b) Capital expenditure
 - (c) Deferred revenue expenditure
 - (d) Revenue loss
- 9. Wages paid on installation of machine is**
- (a) Revenue expenditure
 - (b) Capital expenditure
 - (c) Deferred revenue expenditure
 - (d) Revenue loss
- 10. Return inward is deducted from:**
- (a) Purchase account
 - (b) Sales account
 - (c) Net profit
 - (d) Capital
- 11. Expenditure on goods manufactured is:**
- (a) Capital expenditure
 - (b) Revenue expenditure
 - (c) Deferred Revenue expenditure
 - (d) Capital loss
- 12. Closing stock recorded in trial balance is transferred to:**
- (a) Only Trading account
 - (b) Only profit and loss account
 - (c) Only Balance-sheet
 - (d) Both Trading account and Balance-sheet
- 13. Balance-sheet reveals:**
- (a) Balance of Gross profit
 - (b) Balance of Net profit
 - (c) Financial position of business
 - (d) Balances of ledger accounts
- 14. An example of intangible asset is:**
- (a) Plant and machinery
 - (b) Furniture and fixture
 - (c) Mines
 - (d) Goodwill
- 15. Income received in advance is:**
- (a) Asset
 - (b) Expenses
 - (c) Liability
 - (d) Income
- 16. Accrued income is:**
- (a) Asset
 - (b) Liability
 - (c) Income
 - (d) Expense
- 17. Prepaid expenses is:**
- (a) Current asset
 - (b) Current liability
 - (c) Intangible asset
 - (d) Fixed asset
- 18. Outstanding expense is an example of:**
- (a) Current asset
 - (b) Current liability
 - (c) Intangible asset
 - (d) Fixed asset
- 19. Which of the following is not recorded in the Balance-sheet?**
- (a) Current asset
 - (b) Contingent liability
 - (c) Intangible asset
 - (d) Fixed asset

- 20. Which of the following will not be deducted from capital?**
- (a) Income Tax
 - (b) Drawing
 - (c) Net loss
 - (d) Interest on loan
- 21. Prepaid insurance which appears in the Trial Balance is shown in:**
- (a) Balance sheet and Profit and loss account
 - (b) Profit and loss account only
 - (c) Trading account and Balance Sheet
 - (d) Balance-sheet only
- 22. An example of fictitious asset is:**
- (a) Copy rights
 - (b) Patent rights
 - (c) Furniture
 - (d) Preliminary expenses
- 23. Goodwill is:**
- (a) Current asset
 - (b) Liquid asset
 - (c) Intangible asset
 - (d) Fictitious asset
- 24. Out of the following which one is the most liquid asset?**
- (a) Sundry debtors
 - (b) Inventory
 - (c) Prepaid Insurance
 - (d) Cash
- 25. Expenditure on construction of cycle shed is:**
- (a) Capital expenditure
 - (b) Revenue expenditure
 - (c) Deferred Revenue expenditure
 - (d) Recurring expenditure
- 26. Which of the following is not a revenue receipt?**
- (a) Commission received
 - (b) Cash sales
 - (c) Discount received
 - (d) Sale of old plant
- 27. Bad debts is deducted from:**
- (a) Drawings
 - (b) Net Profit
 - (c) Debtors
 - (d) Creditors
- 28. Outstanding wage is a:**
- (a) Nominal Account
 - (b) Personal Account
 - (c) Representative Personal Account
 - (d) Real Account
- 29. A manager is entitled to a commission of 10% on net profit of ₹ 3,30,000 after changing such commission is :**
- (a) ₹ 33,000
 - (b) ₹ 30,000
 - (c) ₹ 32,000
 - (d) ₹ 31,000
- 30. A manager is entitled to a commission of 10% on net profit of ₹ 4,50,000 before changing such commission is:**
- (a) ₹40,000
 - (b) ₹ 45,000
 - (c) ₹50,000
 - (d) ₹42,000

- 31. Closing stock is shown in final account at:**
- Cost Price
 - Market Price
 - Cost or market price whichever is higher
 - Cost or market price whichever is lower
- 32. Indirect expenses are shown in:**
- Trading Account
 - Profit and Loss Account
 - Balance-sheet
 - Profit and Loss Account & Balance-sheet
- 33. Direct expenses are shown in:**
- Trading Account
 - Profit and Loss Account
 - Trading Account and Balance-sheet
 - Balance-sheet
- 34. Marshalling of Balance-sheet means:**
- Arranging assets only
 - Arranging liabilities only
 - Arranging both assets and liabilities
 - Totalling of assets and liabilities
- 35. Goods distributed as free sample is credited to:**
- Advertisement Account
 - Profit and Loss Account
 - Purchase Account
 - Sales Account
- 36. Rent paid during the year ₹ 5,500. Rent outstanding ₹500. The amount to be shown in Balance-sheet is :**
- ₹5,500
 - ₹6,000
 - ₹500
 - ₹5,500
- 37. The cost price of closing stock is ₹55,000. The market price of closing stock is ₹60,000. The amount of stock to be shown in trading account is:**
- ₹55,000
 - ₹60,000
 - ₹57,000
 - ₹58,000
- 38. In the trial Balance written loan ₹50,000 (Cr) taken on 1.10.21. Amount to be written in Profit and Loss Account if rate of interest is 10%:**
- ₹5,000
 - ₹10,000
 - ₹2,500
 - ₹4,500
- 39. Business man gives from his stock, goods as charity. Name of Account to be credited is:**
- Drawing account
 - Charity account
 - Purchase account
 - Sales account
- 40. Contingent liability**
- will be paid during current year
 - will be paid during future year
 - will not be paid at all
 - may or may not be paid

B. Financial Statements of Not for Profit Organisations

- 1. The objectives 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) all the above
- 2. Out of the following which is a "not for profit" organisation:**
 - (a) Reliance Industries Ltd.
 - (b) J. K. Tyre Ltd.
 - (c) Tata Steel Ltd.
 - (d) Ramakrishna Mission Charitable Trust
- 3. Receipt and payment account is a :**
 - (a) Personal Account
 - (b) Real Account
 - (c) Nominal Account
 - (d) Cash Account
- 4. Receipt and Payment Account shows:**
 - (a) Receipt of cash and payment in cash
 - (b) Bank Balance
 - (c) Cash Balance
 - (d) Capital Fund
- 5. Receipt and Payment account reveals:**
 - (a) Surplus/ Deficit
 - (b) Net Profit / Loss
 - (c) Cash Balance
 - (d) Balance of Asset
- 6. Income and Expenditure Account is a:**
 - (a) Personal Account
 - (b) Real Account
 - (c) Nominal Account
 - (d) Representative Personal Account
- 7. Income and Expenditure Account is prepared by:**
 - (a) Trading Organisations
 - (b) Manufacturing Organisations
 - (c) Not for Profit Organisations
 - (d) Both Manufacturing and Trading Organisations
- 8. Income and Expenditure Account shows:**
 - (a) Net Profit/ Loss
 - (b) Cash-in- hand and Bank
 - (c) Surplus/ Deficit
 - (d) Balance of Assets
- 9. Income and Expenditure Account is the other name of:**
 - (a) Trading Account
 - (b) Profit and Loss Account
 - (c) Profit and Loss Appropriation Account
 - (d) Balance Sheet

- 10. Income and Expenditure Account contains:**
- (a) Capital Items
 - (b) Revenue items
 - (c) Both Capital and Revenue items
 - (d) None of the above
- 11. Subscription received in advance is:**
- (a) Asset
 - (b) Liability
 - (c) Income
 - (d) Expenses
- 12. Subscription outstanding at the end of the year is:**
- (a) An asset (b) A liability
 - (c) An Income (d) A expense
- 13. Donation received for specific purpose is:**
- (a) Revenue Receipt
 - (b) Capital Receipt
 - (c) Revenue expenditure
 - (d) Capital expenditure
- 14. Life membership fees is a/an:**
- (a) Revenue expenditure
 - (b) Capital Expenditure
 - (c) Capital Receipt
 - (d) Revenue Receipt
- 15. Legacy may be treated as:**
- (a) Revenue Receipt
 - (b) Capital or Revenue Receipt
 - (c) Revenue Income
 - (d) Capital Income
- 16. Sales of Grass in case of sports club is:**
- (a) Capital Receipt
 - (b) Revenue Receipt
 - (c) Revenue Loss
 - (d) An Asset
- 17. Sale of old newspaper is a/an:**
- (a) Revenue Receipt
 - (b) Capital Receipt
 - (c) Capital or Revenue Receipt
 - (d) Revenue Expenditure
- 18. Which of the following items is added to the capital fund?**
- (a) Deficit (b) Surplus
 - (c) Expenses (d) Income
- 19. The day to day transactions are recorded in:**
- (a) Trial Balance
 - (b) Income and Expenditure Account
 - (c) Cash Book
 - (d) Receipt and Payment Account
- 20. The difference between assets and liabilities of opening balance-sheet is:**
- (a) Surplus
 - (b) Capital Fund
 - (c) Reserve Fund
 - (d) Deficit
- 21. Not for profit organisations prepare:**
- (a) Manufacturing Account
 - (b) Profit and Loss Account
 - (c) Profit and Loss Appreciation Account
 - (d) Income and Expenditure Account

- 22. General donation is treated as:**
- Revenue Income
 - Capital Income
 - Revenue income if it is small amount
 - Both Revenue and Capital Income
- 23. Receipt and Payment Account is prepared from:**
- Subsidiary Books
 - Income and Expenditure Account
 - Cash Book
 - Balance-Sheet
- 24. A club purchased an A.C for ₹40,000. Spent ₹2,000 for a stabilizer, ₹1,000 for electric fitting. The A.C cost to be capitalised is:**
- ₹40,000
 - ₹42,000
 - ₹43,000
 - ₹41,000
- 25. Salaries paid during the year ₹40,000. Salaries outstanding in the beginning of the year ₹5,000. Salary prepaid at the end of the year is ₹1,000. Amount to be charged to salary account is:**
- ₹40,000
 - ₹45,000
 - ₹41,000
 - ₹34,000
- 26. Subscription received during the year ₹50,000. Subscription received in advance in the beginning of the year ₹2,000. Subscription outstanding at the end of the year ₹3,000. Amount credited to Income and Expenditure Account is:**
- ₹50,000
 - ₹48,000
 - ₹53,000
 - ₹51,000
- 27. The position of a club in the beginning of the year is : Asset ₹11,50,000, Liability ₹3,50,000 , Credit Balance of Income and Expenditure Account ₹30,000. The opening capital fund is:**
- ₹8,00,000
 - ₹8,80,000
 - ₹11,20,000
 - ₹7,70,000
- 28. The opening balance of prize fund of Agnee Sports Club was ₹55,000. Further donation received during the year ₹20,000. Interest on investment received ₹5,000. Prize distributed ₹10,000. The closing balance of prize fund is:**
- ₹75,000
 - ₹70,000
 - ₹80,000
 - ₹65,000

UNIT-II

A. Accounting for Depreciation

1. **Depreciation is the permanent decreases 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
2. **Depreciation is charged on:**
 - (a) current assets
 - (b) fixed assets
 - (c) fictitious assets
 - (d) liquid asset
3. **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
4. **Depreciation is calculated on the basis of:**
 - (a) cost price
 - (b) market price
 - (c) cost or market price whichever is less
 - (d) average of cost and market price
5. **Under straight-line method of depreciation, the amount of annual depreciation:**
 - (a) Increases every year
 - (b) Decreases every year
 - (c) Remains constant
 - (d) Both increases and decreases
6. **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
7. **Depreciation is a/an:**
 - (a) income
 - (b) loss
 - (c) asset
 - (d) liability
8. **Depreciation is charged to:**
 - (a) Trading Account
 - (b) Profit and Loss Account
 - (c) Profit and Loss Appropriation Account
 - (d) Profit and Loss Adjustment Account
9. **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
10. **The cost of the plant is ₹50,000. Depreciation is provided @10% p.a. on written down value method. The depreciation for 3rd year will be:**
 - (a) ₹5000
 - (b) ₹4000
 - (c) ₹4500
 - (d) ₹4050

11. If the cost of the asset is ₹31,000 and scrap value is ₹1,000; then the amount of depreciation @ 10 % p.a. on written down value method for the 2nd year will be
- (a) ₹3000 (b) ₹2790
(c) ₹3100 (d) ₹2700
12. Which one of the assets given below is presumed not to be depreciated:
- (a) Plant (b) Machinery
(c) Land (d) Mine
13. 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
14. The term 'depletion' is used in relation to:
- (a) Fixed Assets
(b) Wasting Assets
(c) Current Assets
(d) Intangible Assets
15. Depreciation involves a:
- (a) Cash expense
(b) Non-cash expense
(c) Both of these
(d) None of these
16. Depreciation is a process of:
- (a) Valuation of asset
(b) Allocation of cost of asset
(c) Amortisation of the asset
(d) Dilapidation of Asset
17. In Furniture Account, depreciation charged is shown:
- (a) On the debit side
(b) On the credit side
(c) As closing balance
(d) As opening balance
18. Under which method of depreciation, a fixed amount of depreciation is charged:
- (a) Straight line method
(b) Reducing balance method
(c) Either straight line method or Reducing balance method
(d) Both straight line method and Reducing balance method
19. Loss on sale of machinery is shown:
- (a) Debit side of machinery account
(b) Credit side of machinery account
(c) Debit side of depreciation account
(d) Credit side of depreciation account
20. The main objective of providing depreciation is:
- (a) To reduce Income tax payable
(b) To ascertain the true profit
(c) To know the true financial position
(d) All the above

- 21. Straight line method of charging depreciation is also known as:**
- (a) Original Cost method
 - (b) Fixed Instalment method
 - (c) Annual Instalment method
 - (d) All the above
- 22. Depreciation account is a:**
- (a) Personal account
 - (b) Real account
 - (c) Nominal account
 - (d) Representative Personal
- 23. Which method of depreciation is approved by income tax authorities?**
- (a) Straight line method
 - (b) Reducing balance method
 - (c) Either straight line method or Reducing balance method
 - (d) Straight line method and Reducing balance method
- 24. Which of the following is the cause of depreciation?**
- (a) Constant use
 - (b) Pass of time
 - (c) Obsolescence
 - (d) All the above
- 25. Depreciation on diminishing balance method on a machine of ₹20,000 @ 10% p.a. at the third year shall be:**
- (a) ₹14,580 (b) ₹1,458
 - (c) ₹16,200 (d) ₹1,620
- 26. Provision is created for a:**
- (a) Known liability
 - (b) Unknown liability
 - (c) Contingent liability
 - (d) All the above
- 27. Factors considered for calculation of depreciation is:**
- (a) Total cost of the asset
 - (b) Estimated useful life of the asset
 - (c) Estimated scrap value of the asset
 - (d) All the above
- 28. On purchase of asset, account to be debited is:**
- (a) Purchase account
 - (b) Asset account
 - (c) Goods account
 - (d) Profit and loss account
- 29. Depreciation is calculated from the date of:**
- (a) Purchase of asset
 - (b) Receipt of asset at business premises
 - (c) Asset put to use
 - (d) Installation of asset
- 30. Depreciation charged at the end of the year will be credited to:**
- (a) Depreciation account
 - (b) Asset account
 - (c) Goods account
 - (d) Profit and loss account

B. Accounting from Incomplete Records (Single Entry System)

- 1. 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
- 2. 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
- 3. 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
- 4. 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
- 5. Incomplete records are generally prepared by:**
 - (a) Company
 - (b) Sole trader
 - (c) Government
 - (d) Banks
- 6. The other name of incomplete records is:**
 - (a) Single entry
 - (b) Multiple entry
 - (c) Complete records
 - (d) Full entry
- 7. 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
- 8. The closing balance of the capital can be ascertained by preparing:**
 - (a) Capital account
 - (b) Closing balance sheet
 - (c) Closing statement of affairs
 - (d) Cash Account
- 9. 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

- 10. In case of net worth 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 beginning and at the end of the project
 - (c) Balance sheet at the beginning and at the end of the period
 - (d) None of these method
- 11. 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
- 12. Under the single entry system of accounting, arithmetical accuracy:**
- (a) Can be checked
 - (b) Cannot be checked
 - (c) Can be checked by converting the incomplete records to complete records
 - (d) May or may not be checked
- 13. Under the single entry system, true value of the business cannot 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
- 14. The process of maintaining records under single entry system is:**
- (a) Uniform
 - (b) Not uniform
 - (c) As per prescribed method
 - (d) None of these
- 15. 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
- 16. Under single entry system, one has to depend on:**
- (a) Cash and personal transactions
 - (b) Cash transactions
 - (c) Personal Accounts
 - (d) Original vouchers
- 17. 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
- 18. Statement of affairs is prepared always at the:**
- (a) End of the year
 - (b) Beginning of the year
 - (c) Either at the end or beginning of the year
 - (d) Middle of the year

- 19. Under single entry system, there is:**
- (a) No scope of manipulation of accounts
 - (b) Scope for manipulation of accounts
 - (c) Little scope for manipulation of accounts
 - (d) Sometimes no scope for manipulation of accounts
- 20. Under the single entry system, double entry is followed:**
- (a) Fully
 - (b) Partially
 - (c) In a half- hazard manner
 - (d) All of these
- 21. Capital at the end of the period can be ascertained by preparing:**
- (a) Capital account
 - (b) Closing balance sheet
 - (c) Closing statement of affairs
 - (d) Cash Account
- 22. In absence of introduction of fresh capital, when closing capital is more than the opening capital, it indicates:**
- (a) Profit
 - (b) Loss
 - (c) No Profit and No Loss
 - (d) All the above
- 23. From the incomplete records, it is not always possible to prepare:**
- (a) Trial Balance
 - (b) Balance –Sheet
 - (c) Ledger
 - (d) None of the above
- 24. Generally, which of the following account is maintained under single entry system:**
- (a) Expenses Account
 - (b) Income Account
 - (c) Cash Account
 - (d) Asset Account

UNIT-III

A. Accounting for Partnership Firm

1. **Indian Partnership Act was enacted in the year:**
 - (a) 1956
 - (b) 1932
 - (c) 1912
 - (d) 2013
2. **The maximum number of partners in a banking business is:**
 - (a) Two
 - (b) Seven
 - (c) Twenty
 - (d) Ten
3. **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
4. **In the absence of an agreement to the contrary, partners are:**
 - (a) Entitled to 6% interest on loans to firm, only when there is profit
 - (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
5. **The liability of a partner is:**
 - (a) Unlimited
 - (b) Limited
 - (c) Limited by guarantee
 - (d) Limited up to their capital
6. **A partner and his business exists:**
 - (a) Independently
 - (b) Together
 - (c) For others
 - (d) For creditors
7. **Partner's current accounts are opened when their capital accounts are:**
 - (a) Fluctuating
 - (b) Fixed
 - (c) Either Fixed or Fluctuating
 - (d) None of these
8. **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
9. **Interest on capital of partners if allowed, will be paid:**
 - (a) Only out of profit
 - (b) Only out of capital
 - (c) Either out of profit or out of capitals
 - (d) None of these

- 10. Interest on partner's capital account is to be credited to:**
- (a) Partner's capital account
 - (b) Interest account
 - (c) Profit and loss account
 - (d) Profit and loss Adjustment account
- 11. If interest allowed on capital, it is calculated on the:**
- (a) Capital at the end of the year
 - (b) Capital at the beginning of the year
 - (c) Capital at the end less drawings
 - (d) Average capital
- 12. 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
- 13. The items appearing in the Profit and Loss Appropriation Account are:**
- (a) Interest on capital
 - (b) Interest on drawings
 - (c) Salaries or commission to partners
 - (d) All of these
- 14. 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
- 15. 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
- 16. 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

1. **Goodwill is a/an:**
 - (a) Tangible asset
 - (b) Fictitious asset
 - (c) Current assets
 - (d) Intangible asset
2. **The excess of actual profit over normal profit is:**
 - (a) Normal profit (b) Super profit
 - (c) Gross profit (d) Net profit
3. **Profit for last three years were ₹26,000, ₹20,000 and ₹14,000; value of goodwill at two years purchased of average three years profit will be:**
 - (a) ₹20,000 (b) ₹35,000
 - (c) ₹30,000 (d) ₹40,000
4. **Under capitalisation of super profit method, goodwill is calculated by:**
 - (a) (Average Profit) × (Years of Purchase)
 - (b) (Super Profit) × (Years of Purchase)
 - (c) (Super Profit) ÷ (expected rate of return)
 - (d) Total of time value of expected future profit
5. **When incoming partner pays for goodwill in cash, the amount should be debited to:**
 - (a) Cash amount
 - (b) Goodwill account
 - (c) Capital account of incoming partner
 - (d) Capital account of existing partner
6. **A firm enjoying monopoly over the products can have goodwill of:**
 - (a) Higher value (b) Lower value
 - (c) Medium value (d) Lowest value
7. **Higher the degree of risk, the amount of goodwill is:**
 - (a) More (b) Less
 - (c) Equal to risk (d) None of these
8. **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)
9. **If super profit is ₹12,000 and normal rate of return is 15%, the goodwill is:**
 - (a) ₹75,000 (b) ₹1,20,000
 - (c) ₹80,000 (d) ₹88,000
10. **Capital employed is:**
 - (a) Capital + free reserves - fictitious assets (in any)
 - (b) All assets- goodwill- fictitious assets - non trade investments- outsider's liability
 - (c) None of these
 - (d) Both of these
11. **Normal profit is:**
 - (a) $\frac{\text{Total capital employed} \times \text{actual rate of return}}{100}$
 - (b) $\frac{\text{Total capital employed} \times \text{normal rate of return}}{100}$
 - (c) $\frac{\text{Average capital employed} \times \text{actual rate of return}}{100}$
 - (d) $\frac{\text{Average capital employed} \times \text{normal rate of return}}{100}$

C. Reconstitution of Partnership

1. **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
2. **Reconstitution of partnership firms is possible if:**
 - (a) Some partner agree
 - (b) All partners agree
 - (c) At least one partner agrees
 - (d) Majority partners agree
3. **The circumstances 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
4. **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
5. **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
6. **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
7. **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
8. **X and Y sharing profits in the ratio of 3 : 2 and admit Z as a partner with 1/6th share. The ratio of sacrificing of X and Y is:**
 - (a) 3 : 2 (b) 2 : 3
 - (c) 3 : 4 (d) 3 : 5
9. **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 sacrificing of M and N is:**
 - (a) 1 : 2 (b) 2 : 1
 - (c) 1 : 1 (d) 5 : 3
10. **Increase in liability amounts to:**
 - (a) Gain to old partners
 - (b) Loss to old partners
 - (c) Neither gain nor loss
 - (d) Gain to new partner
11. **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
12. **Revaluation Account is a:**
 - (a) Real Account
 - (b) Personal Accounts
 - (c) Nominal Account
 - (d) Contingent Account

- 13. When all the partners including the incoming partner decide not to change the value of the assets and liabilities, they prepare:**
- (a) Revaluation Accounts
 - (b) Suspense Account
 - (c) Profit and Loss Adjustment Account
 - (d) Memorandum Revaluation Account
- 14. 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
- 15. When C is admitted by taking 1/5th share from A, then the sacrifice of A is:**
- (a) 1/5 (b) 2/15
 - (c) 2/5 (d) 2/3
- 16. When the share of goodwill of a new partner is brought in cash, it is shared by:**
- (a) Old partners in old profit sacrificing ratio
 - (b) Old partners in sacrificing ratio
 - (c) Old partners in gaining ratio
 - (d) All the partners in the new ratio
- 17. 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
- 18. At the time of admission of new partner, if there appears goodwill in the books, it is shared among the old partners in:**
- (a) Net profit sharing ratio
 - (b) Old profit sharing ratio
 - (c) Sacrificing ratio
 - (d) Equally
- 19. 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
- 20. 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
- 21. The purpose of profit and loss adjustment accounts is to find out:**
- (a) Gross profit
 - (b) Net profit
 - (c) Financial position
 - (d) Results of revaluation of assets and liabilities

- 22. 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:**
- Old partners in the old profit sharing ratio
 - Old partners in the new profit sharing ratio
 - All the partners in the new profit sharing ratio
 - None of the above
- 23. Increase in the value of assets is credited to:**
- Realisation Account
 - Revaluation Accounts
 - Partner's Capital Account
 - Profit and Loss Appropriation Account
- 24. Decrease in the value of assets is debited to:**
- Realisation Account
 - Partner's Capital Account
 - Profit and Loss Appropriation Account
 - Revaluation Accounts
- 25. Decrease in the liability is credited to:**
- Liability Account
 - Partner's Capital Accounts
 - Revaluation Account
 - Profit and Loss Appropriation Account
- 26. Increase in the liability is debited to:**
- Liability Account
 - Revaluation Account
 - Partner's Capital Accounts
 - Profit and Loss Appropriation Account
- 27. Increase in liability credited to:**
- Revaluation Account
 - Profit and Loss Appropriation Account
 - Partner's Capital Accounts
 - Liability Account
- 28. Decrease in the liability is debited to:**
- Liability Account
 - Partner's Capital Accounts
 - Revaluation Account
 - Profit and Loss Appropriation Account
- 29. When goodwill is raised in the books of the firm, it is credited to old partners' capital accounts at their:**
- Old profit sharing ratio
 - New profit sharing ratio
 - Sacrificing ratio
 - Gaining ratio
- 30. When goodwill is written off, it is debited to:**
- All partners' Capital Account
 - Old partner's Capital Account
 - New partner's Capital Account
 - No partner's Capital Account

D. Miscellaneous Questions

1. **An old partners capital account debited, when there is:**
 - (a) Credit balance in profit and loss Account
 - (b) Debit balance in profit and loss Account
 - (c) General Reserve
 - (d) Capital Reserve
2. **The purpose of profit and loss adjustment account is:**
 - (a) To find out gross profit
 - (b) To find out net profit
 - (c) To know the financial position
 - (d) To find out results of revaluation of assets and liabilities
3. **The interest on capital account of partners under fluctuating capital method is credited to:**
 - (a) Interest Account
 - (b) Profit and loss Account
 - (c) Partner's Capital Account
 - (d) Drawing Account
4. **In the absence of any agreement to the contrary, partners share profit and losses in the:**
 - (a) Ratio of capital in the beginning of the year
 - (b) Ratio of capital at the end of the year
 - (c) Ratio of average capital
 - (d) Equal Ratio
5. **Interest payable on the capital of partners is charged to:**
 - (a) Profit and Loss Account
 - (b) Profit and Loss Adjustment Account
 - (c) Profit and Loss Appropriation Account
 - (d) Realisation Account
6. **Interest on partner's drawing is debited to:**
 - (a) Partner's Capital account
 - (b) Profit and Loss Account
 - (c) Drawing Account
 - (d) None of these
7. **The persons associated with partnership firm are known as:**
 - (a) Partners
 - (b) Active Partners
 - (c) Dormant Partners
 - (d) Partners by estoppel
8. **The capital account of a partner:**
 - (a) will always have a credit balance
 - (b) will always have a debit balance
 - (c) may have debit or credit balance
 - (d) None of the above
9. **The basis of partnership is:**
 - (a) Old agreement
 - (b) Written agreement
 - (c) Oral or written agreement
 - (d) None of the above

- 10. Revaluation account is credited by:**
- The increase in value of assets
 - The decrease in value of assets
 - The increase in amount of liability
 - None of the above
- 11. Revaluation account is debited:**
- For increase in amount of liability
 - For decrease in amount of liability
 - For increase in value of asset
 - None of the above
- 12. Unrecorded Assets and liabilities are recorded in:**
- Revaluation Account
 - Profit and Loss Account
 - Profit and Loss Appropriation Account
 - None of the above
- 13. In absence of agreement, partners are not entitled to receive:**
- Salaries
 - Commission
 - Interest on capital
 - All the above
- 14. When dates of withdrawal are not mentioned, interest on drawing in charged for:**
- 6 ½ months (b) 6 months
 - 5 ½ months (d) 12 months
- 15. When a fixed amount is withdrawn on the 1st day of each month for a period of 12 months, interest on drawing is charged for:**
- 6 ½ months (b) 6 months
 - 5 ½ months (d) 12 months
- 16. When a fixed amount is withdrawn on the last day of each month for a period of 12 months, interest on drawing is charged for:**
- 6 ½ months (b) 6 months
 - 5 ½ months (d) 12 months
- 17. Maximum number of partners in an ordinary partnership firms have:**
- 10 partners
 - 20 partners
 - 50 partners
 - Any numbers of partners
- 18. Which account is prepared by partnership firm for the distribution of profits?**
- Profit and Loss Account
 - Profit and Loss Appropriation Account
 - Income and Expenditure Account
 - Drawing Account
- 19. Which of the following is not recorded in partner's deed?**
- Name of the partners
 - Address of the partners
 - Profit sharing ratio
 - Balance in Personal account
- 20. A very common mean through which reconstitution takes place is:**
- Change in profit sharing ratio
 - Change in salary
 - Change in commission
 - Change in capital account of partners

- 21. The ratio in which a partner surrenders his share in favour of a partner is known as:**
- Gaining Ratio
 - Capital Ratio
 - Sacrifice Ratio
 - New Profit sharing Ratio
- 22. Which of the following is not recorded in revaluation account?**
- Increase in value of stock
 - Decrease in value of furniture
 - Unrecorded asset
 - Increase in value of Goodwill
- 23. A new partner may be admitted in to partnership:**
- With the consent of 2/3 of old partners
 - With the consent of any one partner
 - Without the consent of some old partners
 - With the consent of all old partners
- 24. When a new partner does not bring his share of goodwill in cash, the amount to be debited is:**
- Capital Account of old partners
 - Cash Account
 - Current Account of new partner
 - Premium Account
- 25. If there is some unrecorded liability at the time of admission of a new partner, it will be:**
- Credited to Revaluation Account
 - Debited to Revaluation Account
 - Transfer to all Partner's Capital Account
 - Credited to old Partner's Capital Account
- 26. If at the time of admission of a partner, there is some unrecorded asset, it will be:**
- Credited to Revaluation Account
 - Debited to Revaluation Account
 - Credited to all Partner's Capital Account
 - Debited to old Partner's Capital Account
- 27. Accumulated profit at the time of admission of new partner is transferred to:**
- All Partners' Capital Account
 - Old Partner's Capital Account
 - New Partner's Capital Account
 - Revaluation Account
- 28. Accumulated losses at the time of admission of a partner is:**
- Debited to all Partner's Capital Account
 - Debited to New Partner's Capital Account
 - Debited to Old Partner's Capital Account
 - Debited to Revaluation Account
- 29. Which of the following is debited to Partner's Capital Account at the time of admission of a new partner?**
- Accumulated Profit
 - Accumulated Loss
 - Profit of Revaluation
 - General Reserve
- 30. Number of purchase year is used to calculate:**
- Gaining Ratio
 - Sacrifice Ratio
 - Goodwill
 - Loss on revaluation

UNIT-IV

A. Accounting for Share Capital

1. **Minimum number of shareholders in a private limited company other than one person company is:**
 - (a) 7
 - (b) 2
 - (c) 50
 - (d) 20
2. **Minimum number of shareholders in a public limited company is:**
 - (a) 7
 - (b) 2
 - (c) 50
 - (d) 20
3. **Maximum number of shareholders in a public limited company is:**
 - (a) 500
 - (b) 50
 - (c) Unlimited
 - (d) 700
4. **Maximum number of shareholders in a private limited company is:**
 - (a) 100
 - (b) 200
 - (c) 50
 - (d) Unlimited
5. **As per the Companies Act, 1956 the minimum amount of paid up share capital of public limited company is:**
 - (a) ₹ 5 lakh
 - (b) ₹ 2 lakh
 - (c) ₹ 1 lakh
 - (d) ₹ 10 lakh
6. **The minimum amount of paid up share capital of a private limited company as per the Companies Act, 1956 is:**
 - (a) ₹ 5 lakh
 - (b) ₹ 1 lakh
 - (c) ₹ 2 lakh
 - (d) ₹ 10 lakh
7. **The equity shareholders of a company are:**
 - (a) Debtors
 - (b) Owners
 - (c) Creditors
 - (d) Customers
8. **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
9. **Preference shareholders have preferential right to:**
 - (a) Received dividend
 - (b) Return of capital at the time of liquidation
 - (c) Both of the above
 - (d) Participate in the management
10. **The minimum paid up capital of one Person Company should be:**
 - (a) ₹ 50,000
 - (b) ₹ 90,000
 - (c) No mandatory requirement
 - (d) ₹1,00,000

- 11. The minimum share application money as per Companies Act is:**
- 5 % of the nominal value of shares
 - 10% of the nominal value of shares
 - 25% of the nominal value of shares
 - 25% of the issue price of shares
- 12. When the excess application money is to be adjusted towards allotment, the account to be credited is:**
- Share application account
 - Share capital account
 - Share allotment account
 - Calls-in- advance account
- 13. According to Table F of the Companies Act, 2013 the maximum amount of one call should not exceed:**
- 5 % of the nominal value of shares
 - 25% of the nominal value of shares
 - 25% of the issue price of shares
 - 10% of the nominal value of shares
- 14. The account to be credited at the time of allotment of shares:**
- Share allotment account
 - Share application account
 - Bank account
 - Share Capital account
- 15. A public limited company can raise share capital by issuing:**
- Memorandum of Association
 - Prospectus
 - Article of Association
 - Certificate of Incorporation
- 16. A shareholder gets:**
- Dividend
 - Interest
 - Salary
 - Commission
- 17. A private limited company:**
- Can transfer shares
 - Cannot transfer shares
 - Can transfer shares with the consent of other shareholders
 - None of the above
- 18. Securities premium cannot be utilised for:**
- Issuing fully paid bonus shares
 - Writing off preliminary expenses
 - Writing of discount on issue of debentures
 - Declaration of dividend
- 19. Interest on calls-in- arrear is charged at a maximum rate when articles of Association are silent:**
- 5% p.a.
 - 10% p.a.
 - 12% p.a.
 - 6% p.a.
- 20. Interest on calls-in- advance is payable by the company at:**
- 5% p.a.
 - 10 % p.a.
 - 6% p.a.
 - 12% p.a.
- 21. The profit on reissue of forfeited shares is transferred to:**
- Capital reserve account
 - General reserve account
 - Capital redemption reserve account
 - Securities premium reserve account
- 22. On the forfeiture of shares, the share forfeiture account is credited with:**
- The amount not received on shares forfeited
 - The nominal value of shares forfeited
 - The amount received on such forfeited shares
 - The called up amount on the shares forfeited

23. In the share of ₹10, issued at par, ₹8 has been called up and ₹6 is paid, if the share is forfeited the share capital account is debited with:
- (a) ₹10 (b) ₹8
(c) ₹4 (d) ₹6
24. If a share of ₹100 issued at a premium of ₹20 is forfeited in respect of which the full amount has been called up and ₹80 (including premium) is paid, the share capital is debited with:
- (a) ₹100 (b) ₹120
(c) ₹80 (d) ₹60
25. 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 surplus
26. Nominal share capital is:
- (a) The amount of share capital issued by a company
(b) The amount of share capital subscribed by a company
(c) The amount of share capital actually paid up by company
(d) The maximum amount of capital which a company is authorised to issue
27. The part of share capital which can be called up only in the event of winding up of a company is known as:
- (a) Authorised capital
(b) Issued capital
(c) Subscribed capital
(d) Reserve capital
28. When excess application money is to be adjusted towards allotment, the account to be credited is:
- (a) Share application account
(b) Share allotment account
(c) Share capital account
(d) Calls-in-advance account
29. On allotment of shares, which account is credited?
- (a) Share application account
(b) Share allotment account
(c) Share capital account
(d) Bank account
30. Amount of call-in-advance is:
- (a) Added to the share capital in the Balance Sheet.
(b) Deducted from the share capital in the Balance Sheet.
(c) Shown on asset side of Balance Sheet.
(d) Shown on Equity and Liabilities side of Balance Sheet.
31. A company issued 20,000 shares of ₹10 each for public subscription. Public subscribed 18,000 shares on which ₹8 per share was called up. Amount received on 15,000 shares is ₹8, per share and on balance ₹7 per share. The paid up capital of the company is:
- (a) ₹1,44,000 (b) ₹1,41,000
(c) ₹1,80,000 (d) ₹1,26,000

- 32. On forfeiture of shares, the account to be debited is:**
- Shareholder's account
 - Share forfeiture account
 - Share capital account
 - Capital Reserve account
- 33. Shares can be forfeited:**
- For not attending shareholder's meeting.
 - For not repaying bank loan taken against the security of shares.
 - For not buying the product of the company.
 - For not paying allotment or call money.
- 34. On forfeiture of shares, share capital account is debited with:**
- The amount received on such forfeited shares.
 - The amount not received on such forfeited shares.
 - The nominal value of shares forfeited.
 - The called up amount on forfeited shares.
- 35. X Ltd. forfeited 200 shares of ₹10 each on which ₹10 was fully called up. The shareholder had paid ₹6 per share. The minimum price which the company must charge, if all the forfeited shares are re-issued as fully paid up is:**
- ₹1,200
 - ₹800
 - ₹2,000
 - ₹1,000
- 36. Document required for issue of share capital by a company is:**
- Certificate of incorporation
 - Prospectus
 - Memorandum of Association
 - Article of Association
- 37. If a vendor is issued fully paid equity shares of ₹5,00,000 for net asset of ₹4,50,000, the balance of ₹50,000 will be debited to:**
- Profit and Loss Account
 - Goodwill Account
 - Revenue Reserve Account
 - Capital Reserve Account
- 38. Premium on issue of shares is shown at:**
- Equity and Liabilities side
 - Asset side
 - Credit side of statement of Profit and Loss
 - Credit side of Profit and Loss Appropriation statement.
- 39. A company can issue:**
- Five type of shares
 - Two types of shares
 - Three types of shares
 - Four types of shares
- 40. Right issue of shares is issued to:**
- Directors
 - Employees
 - Existing shareholders
 - Public at large

B. Accounting for Debenture

1. **A debenture is :**
 - (a) owned capital of company
 - (b) borrowed capital of the company
 - (c) director's share in the company
 - (d) none of the above
2. **Debenture holder :**
 - (a) has voting right
 - (b) has no voting right
 - (c) has voting right for their interest
 - (d) has voting right sometimes
3. **Debenture holders are :**
 - (a) debtor at the company
 - (b) customers of the company
 - (c) creditors of the company
 - (d) owner of the company
4. **Debenture holders are entitled to :**
 - (a) interest
 - (b) dividend
 - (c) participate in surplus profit
 - (d) vote in general body meeting
5. **Debenture issued as collatera securities will be debited to :**
 - (a) debenture account
 - (b) debenture suspense account
 - (c) bank account
 - (d) none of the above
6. **Unauthorised portion at discount on issue of debenture's appears in the / on the**
 - (a) asset side of balance sheet
 - (b) liabilities side of balane sheet
 - (c) statement of profit and loss as expenses
 - (d) statement of profit and loss as income
7. **The total amount of discount on issue of debenture is written off :**
 - (a) in the year of redemption of debenture
 - (b) during the term of debenture
 - (c) during the life time of business
 - (d) in the year of issue of debenture
8. **Issue at debenture for consideration other than cash, the account credited is :**
 - (a) vendor's account
 - (b) debtor's account
 - (c) creditor's account
 - (d) debenture account
9. **Discount on issue of debenture is a**
 - (a) revenue loss
 - (b) capital loss
 - (c) deferred revenue expenses
 - (d) current asset

- 10. Premium on redemption at debenture is a :**
- (a) personal account
 - (b) real account
 - (c) nominal account
 - (d) none of the above
- 11. For issue of debenture to the vendor for supplying the goods, the account to be debited is :**
- (a) debenture account
 - (b) goods account
 - (c) vendor's account
 - (d) debtor's account
- 12. Securities premium reserve account is shown on the liabilities side of the balance sheet under the heading :**
- (a) share capital
 - (b) current liabilities
 - (c) non-current liabilities
 - (d) reserve and surplus
- 13. Discount on issue of debenture is written off against :**
- (a) general reserve
 - (b) capital reserve
 - (c) securities premium reserve
 - (d) debenture account
- 14. Maximum rate at discount on issue of debenture is :**
- (a) 75%
 - (b) 10%
 - (c) 15%
 - (d) no restriction on maximum rate
- 15. On issue of debenture at premium, the account to be credited is :**
- (a) securities premium account
 - (b) debenture premium account
 - (c) revenue reserve account
 - (d) capital reserve account
- 16. When company issue debenture at discount or at par which is redeemable at premium the premium on redemption at debenture is treated as :**
- (a) deferred revenue expenditure
 - (b) revenue loss
 - (c) capital loss
 - (d) both revenue and capital loss
- 17. On issue of debenture to vendor, the account to be debited is :**
- (a) debenture account
 - (b) debtor's account
 - (c) creditor's account
 - (d) vendor's account
- 18. Under which head, debentures are shown in the balance sheet.**
- (a) current assets
 - (b) current liabilities
 - (c) non-current liabilities
 - (d) fixed assets
- 19. Premium on redemption of Debenture A/c is :**
- (a) asset
 - (b) liabilities
 - (c) expense
 - (d) revenue

20. Those debenture in which the holders are given the option to partially or fully convert in to equity shares after a special period of time are known as :

- (a) registered debenture
- (b) mortgage debenture
- (c) naked debenture
- (d) convertible debenture

21. The debenture which does mention any specific interest is known as :

- (a) bearer debenture
- (b) registered debenture
- (c) first debenture
- (d) zero coupon rate debenture

22. Debenture can not be issued for :

- (a) cash
- (b) for consideration other than cash
- (c) for collateral security
- (d) for articles of association

23. The discount on issue of debenture is part of :

- (a) preliminary expenses
- (b) borrowing cost
- (c) intangible asset
- (d) investment

24. Interest on debenture is

- (a) charge against profit
- (b) appropriation of profit
- (c) capital gain
- (d) revenue earning

25. The debentures which are repaid before other debentures are known as :

- (a) registered debenture
- (b) secured debenture
- (c) first debenture
- (d) naked debenture

ANSWER KEYS

GROUP - A

A. 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

- | | |
|--|---|
| 1. (b) current year | 20. (d) Interest on loan |
| 2. (a) Fixed Asset | 21. (d) Balance- Sheet only |
| 3. (c) Over a number of years | 22. (d) Preliminary expenses |
| 4. (b) Profit and Loss Account | 23. (c) Intangible asset |
| 5. (b) Debited to Capital Account | 24. (d) Cash |
| 6. (a) Debit side of Trading Account | 25. (d) Capital expenditure |
| 7. (c) Debit side of Profit and Loss Account | 26. (d) Sale of old plant |
| 8. (c) Deferred Revenue Expenditure | 27. (c) Debtors |
| 9. (b) Capital Expenditure | 28. (c) Representative Personal Account |
| 10. (b) Sales Account | 29. (b) ₹ 30,000 |
| 11. (b) Revenue Expenditure | 30. (b) ₹45, 000 |
| 12. (c) Only Balance-sheet | 31. (d) Cost price or market price whichever is lower |
| 13. (c) Financial position of business | 32. (b) Profit and Loss Account |
| 14. (d) Goodwill | 33. (a) Trading Account |
| 15. (c) Liability | 34. (c) Arranging both assets and liabilities |
| 16. (a) Asset | 35. (c) Purchase Account |
| 17. (a) Current asset | 36. (c) ₹500 |
| 18. (b) Current Liability | 37. (a) ₹55,000 |
| 19. (c) Contingent Liability | 38. (c) ₹2,500 |
| | 39. (c) Purchase account |
| | 40. (d) may or may not be paid |

B. Financial Statements of Not for Profit Organisations

1. (c) work without profit motive
2. (d) Ramakrishna mission charitable Trust
3. (b) Real Account
4. (a) Receipt and payment in cash
5. (c) Cash Balance
6. (c) Nominal Account
7. (c) Not for Profit organisation
8. (c) Surplus/ Deficit
9. (b) Profit and Loss Account
10. (b) Revenue items
11. (b) Liability
12. (a) An Asset
13. (b) Capital Receipt
14. (c) Capital Receipt
15. (b) Capital or Revenue Receipt
16. (b) Revenue Receipt
17. (a) Revenue Receipt
18. (b) Surplus
19. (c) Cash Book
20. (b) Capital Fund
21. (d) Income and Expenditure Account
22. (a) Revenue Income
23. (c) Cash Book
14. (c) ₹43,000
15. (d) ₹34,000
16. (d) ₹51,000
17. (d) ₹7,70,000
18. (b) ₹70,000

UNIT-II

A. Accounting for Depreciation

1. (c) Use and lapse of time
2. (b) Fixed Assets
3. (d) All of these
4. (a) Cost Price
5. (c) Remains constant
6. (b) Decreases every year
7. (b) loss
8. (b) Profit and Loss Account
9. (a) Profit and Loss Account
10. (d) ₹4,050
11. (d) ₹2,790
12. (c) Land
13. (c) Depreciation Account
14. (b) Wasting Assets
15. (b) Noncash expenses
16. (b) Allocation of cost of Asset
17. (b) on the credit side
18. (a) Straight line method of Depreciation
19. (b) Credit side of machinery account
20. (d) All the above
21. (d) All the above
22. (c) Nominal Account
23. (b) Reducing Balance method
24. (d) All the above
25. (d) ₹1,620
26. (a) Known liability
27. (d) All the above
28. (b) Asset account
29. (d) Installation of asset
30. (b) Asset Account

B. Accounting from Incomplete Records (Single Entry System)

1. (d) Incomplete Records
2. (b) Useless missing items are ascertained
3. (a) Profit
4. (b) Loss
5. (b) Sole trader
6. (a) Single entry
7. (c) Opening statement of affairs
8. (c) Closing statement of affairs
9. (d) Opening capital – Additional Capital + Drawings
10. (b) Statement of affairs at the beginning and at the end of the period
11. (a) Personal Accounts
12. (c) Can be checked by converting the incomplete records to complete records
13. (a) A precise balance sheet
14. (b) Not uniform
15. (d) All of these
16. (d) Original vouchers
17. (d) Some ledger accounts and estimates
18. (c) Either at the end or beginning of the year
19. (b) Scope for manipulation of accounts
20. (c) In a half-hazard manner
21. (c) closing statement of affairs
22. (a) Profit
23. (d) None of the above
24. (c) Cash Account

UNIT-III

A. Accounting for Partnership Firm

1. (b) 1932
2. (d) Ten
3. (d) Equality
4. (b) Entitled to 6% interest on loans to firm whether these are profit or not
5. (a) Unlimited
6. (a) Independently
7. (b) Fixed
8. (c) May have a debit or credit balance
9. (a) Only out of profit
10. (a) Partner's capital account
11. (b) Capital at the beginning of the year
12. (b) Profit and Loss Account
13. (d) All of these
14. (b) How profit have been utilised and distributed
15. (a) Fixed Capital Method
16. (b) Drawings Account

B. Goodwill

1. (d) Intangible asset
2. (b) Super profit
3. (d) ₹40,000
4. (c) (Super profit) × (years of purchase)
5. (a) Cash account
6. (a) Higher value
7. (b) Less
8. (b) (Average profit) – (Normal profit)
9. (c) ₹80,000
10. (d) Both of these
11. (d) $\frac{\text{Average capital employed} \times \text{normal rate of return}}{100}$

100

C. Reconstitution of Partnership

1. (a) Change in the existing deed
2. (b) All partners agree
3. (d) All of these
4. (c) Old partners in old profit sharing ratio
5. (d) Asset Account
6. (b) 12 : 8 : 5
7. (b) 3 : 2 : 1
8. (a) 3 : 2
9. (c) 1 : 1
10. (b) Loss to old partners
11. (b) Debit balance in the profit and loss account
12. (c) Nominal Account
13. (d) Memorandum Revaluation Account
14. (c) C
15. (a) 1/5
16. (b) Old partners in sacrificing ratio
17. (a) With the consent of all partners
18. (b) Old profit sharing ratio
19. (a) Old partnership is dissolved
20. (a) New profit sharing ratio
21. (d) Results of revaluation of assets and liabilities
22. (a) Old partners in the old profit sharing ratio
23. (b) Revaluation Account
24. (d) Revaluation Account
25. (c) Revaluation Account
26. (b) Revaluation Account
27. (d) Liability Account
28. (a) Liability Account
29. (a) Old profit sharing ratio
30. (a) All partners' Capital Account

D. Miscellaneous Questions

1. (b) Debit balance in Profit and Loss Account
2. (d) To find out result of revaluation of assets and liabilities
3. (c) Partner's Capital Account
4. (d) Equal Ratio
5. (c) Profit and Loss Appropriation Account
6. (a) Partner's Capital Account
7. (a) Partners
8. (c) may have debit or credit balance
9. (c) Oral or written agreement
10. (a) Increase in value of assets
11. (a) For increase in amount of liability
12. (d) None of the above
13. (d) All of the above
14. (b) 6 months
15. (b) 6 ½ months
16. (c) 5 ½ months
17. (c) 50 partners
18. (b) Profit and Loss Appropriation Account
19. (d) Balance in Personal Account
20. (a) Change in Profit sharing ratio
21. (c) Sacrifice ratio
22. (c) Unrecorded asset
23. (d) with the consent of all old partners
24. (c) Current Account of new partners
25. (b) Debited to Revaluation Account
26. (a) Credited to Revaluation Account
27. (b) Old Partner's Capital Account
28. (c) Debited to Old Partner's Capital Account
29. (b) Accumulated loss
30. (c) Goodwill

UNIT-IV

A. Accounting for Share Capital

1. (b) 2
2. (a) 7
3. (c) Unlimited
4. (c) 200
5. (a) ₹5 lakh
6. (b) ₹1 lakh
7. (b) Owners
8. (a) Non-participating preference shareholders
9. (c) both of the above
10. (c) No mandatory requirement
11. (c) 25% of the nominal value of shares
12. (c) Share allotment account
13. (c) 25% of the issue price of shares
14. (d) Share capital account
15. (b) Prospectus
16. (a) Dividend
17. (b) Cannot transfer shares
18. (d) Declaration of dividend
19. (b) 10% p.a.
20. (d) 12 % p.a.
21. (a) Capital reserve account
22. (c) The amount received on such forfeited shares
23. (b) ₹8
24. (a) ₹100
25. (d) Reserve and surplus
26. (d) The maximum amount of capital which a company is authorised to issue
27. (d) Reserve capital
28. (b) Share allotment account
29. (c) Share capital account
30. (d) Shown on the Equity and Liabilities side of the Balance Sheet
31. (c) ₹1,41,000
32. (c) Share Capital Account

33. (d) For not paying allotment/ call money
34. (d) The called up amount on forfeited shares
35. (b) ₹800
36. (b) Prospectus
37. (b) Goodwill Account
38. (b) Equity and liabilities side
39. (b) Two types of shares
40. (c) Existing shareholders

B. Accounting for Debenture

1. (b) borrowed capital of the company
2. (b) has no voting right
3. (c) creditors of the company
4. (a) interest
5. (b) debenture suspense account
6. (a) asset side of balance sheet
7. (b) during the term of debenture
8. (d) debenture account
9. (b) capital loss
10. (a) personal account
11. (c) vendor's account
12. (d) reserve and surplus
13. (c) securities premium reserve
14. (d) no restriction on maximum rate
15. (a) securities premium account
16. (c) capital loss
17. (d) vendor's account
18. (c) non-current liabilities
19. (b) liabilities
20. (d) convertible debenture
21. (d) zero coupon rate debenture
22. (d) for articles of association
23. (b) borrowing cost
24. (a) charge against profit
25. (c) first debenture

GROUP - A

OBJECTIVE TYPE QUESTIONS

B. Express / Answer in One Word / Term Each

UNIT - I

Financial Statements of Sole Trade Organisations

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 example of fictitious asset.
5. Give an example of current asset.
6. From which account, return outward is deducted.
7. From which account return inward is deducted.
8. The difference between asset and liabilities is known as what?
9. Name the account depicting profit/ loss.
10. Where prepaid insurance appearing in Trial balance is shown?
11. Income received in advance is to be shown in which side of balance sheet.
12. If closing stock appears in Trial balance, where it is to be shown in final account?
13. Where will you show in final accounts, if depreciation appears in trial balance?
14. The amount due from customers which cannot be recovered is known as what?
15. Give an example of wasting asset.
16. What does manufacturing account ascertain?
17. Outstanding expense is taken to which side of balance sheet?
18. Where will you show in final accounts the prepaid insurance if appearing in Trail Balance?
19. Where will you show the Income received in advance in Balance sheet?
20. Which item is income to the proprietor but expense to the firm?
21. Which item is an income to the firm but expense to the proprietor?
22. Name the term used for income earned but not received during the accounting year.
23. Write the name of the expense which has been paid during the current accounting period but benefit will be received in subsequent accounting period.
24. To which account you will transfer the debt that cannot be received?
25. In which side of the profit and loss account manager commission payable is shown?
26. Wages paid on installation of machinery is to be debited to which account?

Not for Profit Organisations

27. Name the organization providing service to its member and society without any profit motive.
28. Which type of organisations are Schools, Colleges, Universities, Government Hospitals, Charitable Trusts ?
29. What is the principal source of income of a not for profit organisation ?
30. To which account surplus/deficit is transferred ?
31. Name the fees paid by members of a club of time of admission ?
32. Name the term used for lumpsum amount paid by well-wishers of a not for profit organization.
33. What is the term used to 'not for profit' organization for the amount received as par will of a deceased person.
34. What is the name of the register containing names and addresses of members of a 'not for profit' organization.
35. Name the credit balance of income and expenditure account.
36. Subscription received in advance is shown in which side of the balance-sheet?
37. What is ascertained from receipts and payments account ?
38. Mention the nature of receipts and payments account.
39. Mention the nature of nature of Income and Expenditure account.
40. State the basis of accounting followed in preparing receipts and payments account.
41. State the basis of accounting followed in preparing income and expenditure account.
42. Name the term used for remuneration paid to artist/doctor/lecturer etc. for their service.
43. What is the fund which is not to be spent, but provide regular source of income to the not for profit organisation.
44. Name the book containing the proceedings of meetings.
45. On which side of Balance Sheet, outstanding subscription is shown ?
46. Name the account which shows the summary of cash transactions in a 'not for profit organisation'.

UNIT-II

A. Accounting for Depreciation

47. Name the type of fixed asset on which depreciation is not calculated.
48. Name the asset against which the term 'depletion' is used.
49. Name the account to be debited while charging depreciation.
50. What is the term used for the amount realised on sale of fixed asset after its useful life.

51. Name the method of depreciation which reduces the amount of depreciation year by year.
52. Which specific account is prepared on sale of fixed asset?
53. In which method of charging depreciation, the value of fixed assets become zero at the end of its useful life.
54. Name the type of asset on which depreciation is calculated.
55. Under which method of charging depreciation, the amounts of depreciation remain constant for each year?
56. Name the account to be debited for loss on sale of fixed asset.
57. What is the amount of depreciation on the diminishing balance method on a machinery of 50,000 at the rate of 10% p.a. in the 3rd year of its use?
58. Name the process in which cost of the asset is apportioned over the useful life of the asset.
59. On which cost depreciation is calculated on fixed assets.
60. At which value assets are shown in the Balance- Sheet?
61. Which method of charging depreciation is recognised by Income Tax Authorities?
62. On which side of machinery account, depreciation is recorded?
63. On which side of machinery account, profit on sale of machinery is recorded?

B. Accounting from Incomplete Records (Single Entry System)

64. Which is the other name of incomplete records in book keeping?
45. Under which method of single entry, profit is determined by preparing profit and loss account?
46. Which accounts are only maintained in single entry system?
47. What is the other name of net worth method of single entry?
48. How many methods are there to determine profit in single entry?
49. Single entry system is suitable for which type of business?
70. To know capital at the beginning under the single entry system, which statement /account is prepared?
71. Name the capital under single entry system which is arrived by taking capital at the end + drawings – fresh capital introduced.
72. State whether single entry system of accounting is recognised by law.
73. Whether internal check is possible in accounting for incomplete records?
74. Is it possible to find true financial position of the business under single entry system?
75. Name the term which represents the decrease in closing capital under single entry system?
76. To which item, drawings is added to find out profit under single entry system?

77. Name the term representing increase in closing capital under single entry system.
78. Name the system of accounting followed by business which is not following complete system of Double entry system of Book keeping.
79. Under which system of accounting arithmetic accuracy of accounts cannot be checked.
80. Name one account which is always maintained under single entry system.
88. What is the other name of Partnership Deed?
89. Name the ratio which results in increase in profit sharing ratio?
90. State the nature of Revaluation Account.
91. In which year partnership was enacted?
92. If partnership deed does not specify the rate of interest payable on loan by a partner, at what rate will the interest be paid?
93. If partnership deed does not specify the profit sharing ratio, in what ratio the profit or loss will be shared?

UNIT-III

A. Accounting for Partnership Firm

81. Which is the maximum number of partners for a banking business?
82. Which account is to be opened to record the transactions of a partner with firm when capital is fixed?
83. Under which capital system, only one account is opened in the name of each partner?
84. Name the ratio of surrender of profit sharing ratio.
85. Name one mode of reconstitution of partnership.
86. On which basis partners compensate each other for the change in profit sharing ratio?
87. What is the other name of Revaluation Account?
94. What is the term used for expressing the reputation of a firm in monetary terms?
95. Name the asset which is intangible but not fictitious.
96. Name the term used for writing off of Goodwill.
97. Name the method of calculating Goodwill, when normal profit and average maintainable profit of the firm is given.
98. To which partner's capital account, profit or loss on revaluation is not transferred?
99. Write the name of ratio, which results in old ratio- new ratio.
100. On which side of Revaluation Account, amount realised from unrecorded asset is recorded?

101. On which side of Revaluation Account, amount paid for unrecorded liabilities are recorded?
102. What is the maximum number of partners in an ordinary partnership?
103. On which side of partner's capital account, interest on capital will appear?
104. On which side of partner's capital account, interest on drawings will appear?
105. What balance does a partner's current account show?
106. Which law is applicable to partnership?
107. In absence of partnership deed, what rate of interest will be charge on drawings?
108. Credit balance of partner's current account will appear on which side of the Balance- Sheet?
109. Name the reorganisation or change in the partner's relation of a partnership firm.
110. Name the account which is used to record the change in the values of assets and liabilities at the time of reconstitution of partnership.
111. What does credit balance of Revaluation Account shows?
112. What does debit balance of Revaluation Account shows?

UNIT-IV

Accounting for Share Capital

113. Name the company which has only one person as its shareholder.
114. Name the company which has 200 members as the maximum limit.
115. What is the other name of authorised capital?
116. What balance does call-in- arrear account show?
117. What is the maximum rate of interest allowed on call-in-advance?
118. What is the maximum rate of interest charged on calls-in-arrear?
119. Under which head of balance sheet 'securities premium reserve account' is shown?
120. Under which head of Balance sheet, share forfeited account is shown?
121. What is the nature of share Application Account?
122. What is the minimum gap between two share calls?
123. Which type of shares has voting right?
124. Which type of shares carry preferential right as regards to payment of dividend and repayment of capital?
125. Which company restrict the right to transfer the shares?
126. What is the 1st stage in formation of a company?

127. What do you call maximum amount of share capital of the company?
128. Which type of shareholders has the minimum risk?
129. Name the document which is an invitation to the public for subscription of shares.
130. Name the account to which premium collected on issue of shares is credited.
131. What is the nature of capital account?

Accounting for Debenture

132. Discount on issue of debenture is treated as which asset ?
133. What is the name of debenture issued without security ?
134. What is the name of the debentures which are redeemable only at the time of liquidation of the company ?
135. What type of capital is debenture ?
136. If company issues 12% debenture, state the rate of interest that the company will pay as rate of interest.
137. Why debentures are issue but consideration other than cash, state the account to be credited.
138. Which account is debited on issue of, for issue of debenture for purchase of an asset ?
139. In addition to securities premium account, state the other account to be credited.
140. On which side of balance sheet, unamortised portion of discount on issue of debenture is shown ?
141. On which side of the balance sheet "securities premium reserve appears"?
142. Which portion is enjoyed by the debenture holder of the company ?
143. Name the debenture which can be transferred to mere delivery.
144. Name the debenture which cannot be transferred by mere delivery.
145. Mention the type of return received by debenture holder.
146. Name the type of security for which debenture can be issued.
147. Name the type of debenture on which only a part of the amount is convertible.
148. When debentures are issued for consideration other than cash and if the purchase consideration is less than net assets, then the amount of difference is known as what ?
149. Name the debenture, which are repaid after the payment of first debentures.
150. Whether interest paid on debenture is allowed as an expense or income ?
151. Issue of debenture at par means, debentures are issued at which value ?

ANSWER KEYS

GROUP - A

B. Express / Answer in One Word / Term Each

UNIT-I

A. Financial Statements of Sole Trade Organisations

1. Net profit
2. Net loss
3. Goodwill
4. Preliminary expenses
5. Stock
6. Purchases
7. Sales
8. Capital
9. Profit and Loss Account
10. In Balance Sheet
11. Liability side
12. Balance Sheet
13. Income Statement
14. Bad debts
15. Mines
16. Cost of goods produced
17. Liability side
18. Balance Sheet
19. Liability side
20. Interest on capital
21. Interest on drawing
22. Accrued Income
23. Prepaid expense
24. Bad debt account
25. Debit side
26. Machinery Account

B. Not for Profit Organisations

27. Not for profit organisation
28. Not for profit organisation
29. Members fees/subscription
30. Capital fund
31. Entrance fees
32. Donation
33. Legacy
34. Members register
35. Surplus
36. Liability
37. Closing cash balance
38. Real Account
39. Nominal Account
40. Cash basis
41. Accrual basis
42. Honorarium
43. Endowment Fund
44. Minutes Book
45. Asset side
46. Receipts and Payments Account

UNIT-II

A. Accounting for Depreciation

- 47. Land
- 48. Wasting asset
- 49. Depreciation Account
- 50. Scrap/ salvage value
- 51. Written down value method
- 52. Asset Disposal Account
- 53. Straight line method
- 54. Fixed Asset
- 55. Straight line method
- 56. Profit and loss Account
- 57. ₹4,050
- 58. Depreciation
- 59. Original cost
- 60. Book value
- 61. Written down value method
- 62. Credit side
- 63. Debit side

B. Accounting from Incomplete Records (Single Entry System)

- 64. Single entry
- 65. Conversion method
- 66. Personal accounts
- 67. Statement of affairs methods
- 68. Two
- 69. Small
- 70. Opening statement of affairs
- 71. Adjusted closing capital
- 72. No

- 73. No
- 74. No
- 75. Loss
- 76. Closing capital
- 77. Profit
- 78. Single entry system
- 79. Single entry system
- 80. Cash Account

UNIT-III

A. Accounting for Partnership Firm

- 81. 10
- 82. Current Account
- 83. Fluctuating Capital
- 84. Sacrificing ratio
- 85. Change in profit
- 86. Goodwill
- 87. Profit and loss adjustment account
- 88. Articles of partnership
- 89. Gaining ratio
- 90. Nominal
- 91. 1932
- 92. 6%
- 93. Equally
- 94. Goodwill
- 95. Goodwill
- 96. Amortisation
- 97. Super profit method
- 98. New partner

- 99. Sacrifice ratio
- 100. Credit side
- 101. Debit side
- 102. Fifty
- 103. Credit side
- 104. Debit side
- 105. Either Debit or Credit balance
- 106. Indian Partnership Act-1932
- 107. No interest
- 108. Liability side
- 109. Reconstitution
- 110. Revaluation account
- 111. Profit
- 112. Loss

UNIT-IV

Accounting for Share Capital

- 113. One person company
- 114. Private limited company
- 115. Nominal/ Registered capital
- 116. Debit
- 117. 12 %
- 118. 10 %
- 119. Reserves and surplus
- 200. Share capital
- 201. Representative Personal Account
- 202. One month
- 203. Equity shares
- 204. Preference shares

- 205. Private companies
- 206. Promotion
- 207. Authorised capital
- 208. Preference shareholders
- 209. Prospectus
- 210. Securities Premium Reserve
- 211. Personal account

Accounting for Debenture

- 132. Fictitious asset
- 133. Unsecured debenture/naked debenture
- 134. Irredeemable debenture
- 135. Loan capital
- 136. 12%
- 137. Debenture account
- 138. Vendor's account
- 139. Debenture Account
- 140. Asset side
- 141. Equity and liabilities side
- 142. Creditor's position
- 143. Bearer debenture
- 144. Registered debenture
- 145. Interest
- 146. Collateral security
- 147. Partly convertible debenture
- 148. Capital reserve
- 149. Second debentures
- 150. Expense
- 151. Face value

GROUP - A

OBJECTIVE TYPE QUESTIONS

C. Answer in One Sentence Each

Unit - I

1. Mr. X spends ₹4,00,000 for the advertisement of a new product in the market for five years. What type of expenditure is this?
2. Give a formula to calculate operating profit from net profit.
3. Whether cost of obtaining a licence to carry out a motor transport business is a capital expenditure or revenue expenditure?
4. Where will you show interest in fixed deposit in 'final accounts'?
5. Salary and wages is shown in the trail balance of trader. To which account will he transfer?
6. The valuation of closing stock is base 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 trading and profit and loss account are 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 do you mean by capital expenditure?
14. What do you mean by revenue expenditure?
15. What is meant by deferred revenue expenditure?
16. Why the Balance - Sheet is called position statement?
17. When closing stock is given in the trial balance?
18. What do you mean by doubtful debt?
19. What do you mean credit balance in the Profit and Loss Account?
20. What is the treatment of return inward in Trading Account?
21. State the name of end products of Financial Accounting?
22. Why asset side of the balance sheet represent items with debit balances?
23. State the objective of a 'not for profit organisation'.
24. Which account gives cash information in a 'not for profit' organisation ?

25. On which side of Balance sheet, subscription received in advance is shown ?
26. What are the sources of income of 'not for profit' organisation.
27. Which type of items are shown in Income and Expenditure account ?
28. Receipts and Payments account are prepared on which basis of accounting ?
29. On which basis of accounting, Income and Expenditure account is prepared.
30. Name two financial statements that are prepared by 'not for profit organisation' at the end of the accounting year.
31. How opening capital fund of a 'not for profit' organization can be calculated, if not given in the question.
32. If there is a prize fund, prize distributed will be debited to which account.
33. Subscriptions outstanding in the beginning of the year is debit or credit balance.
34. Subscription received in advance in the beginning of the year is debit or credit balance.
35. How will you show subscription received in advance at the end of the year in the balance sheet at 'not for profit' organization.
36. Where will you credit the general donation of a 'not for profit' organisation ?
37. How would you treat subscriptions due at the beginning of the year.
38. What is the use of a minute book of 'not for profit' organisation ?
39. What is the treatment of sell of old newspapers to a 'not for profit' organisation ?
40. What do you mean by honorarium in case at a 'not for profit' organisation ?
41. Which items are shown in receipts and payments account ?
42. Which side is the receipt side and which side is the payment side of a receipts and payments account ?

UNIT-II

43. State the purpose of providing depreciation.
44. Is depreciation a non-cash expenditure?
45. How will you determine the 'depreciable cost of the asset'?
46. Patanjali Traders charges 10% depreciation on its land because it wants show lesser profit to avoid tax. Is it a right decision?
47. Gitanjali Traders charges depreciation @ 10 % on straight-line method. Will this method be recognised by Income Tax Act?
48. What is single entry system?
49. What is Statement of Affairs?

50. Which methods are followed to ascertain profit/loss under single entry system?
51. What do you mean by Depreciation?
52. Write any one cause of Depreciation?
53. On which type of asset, depreciation is charged?
54. State any one characteristic of depreciation.
55. Give the journal entry for writing off depreciation.
56. Give anyone difference between straight line method and written down value method of depreciation.
57. What do you mean by residual value of an asset?
58. Explain the term 'wear and tear' in depreciation.
59. How will you determine depreciation cost of Asset?
60. Why it is necessary to charge depreciation on the assets to know the true financial position of the business?
61. Do you agree that depreciation is the fixed cost of the asset that has expired?
62. Write any one characteristic of single entry.
63. State any one limitation of single entry system of book- keeping.
64. What is single entry system?
65. Arithmetic accuracy of the accounts maintained under single entry cannot be checked. Explain.
66. Name the different laws of the country which have not recognised single entry system.
67. Mention one common objectives of single entry system.
68. How will you calculate the profit under single entry system?
69. Do you agree that Dual Aspect concept is followed under single entry system?
70. Whether the Balance- Sheet is prepared under single entry system?

UNIT-III

71. What are the two methods of maintaining capital accounts of partners?
72. Why profit and loss appropriation account is prepared?
73. Mention four items appearing on the debit side of a partner's capital account?
74. Mention four items appearing in the debit side of profit and loss appropriation account.
75. What do you mean by reconstitution of partnership firm?
76. What is the sacrificing share?
77. Who are sacrificing and gaining partner?

78. If A and B are partners sharing profit in 3:2 ratio and they agreed to share the profit equally, calculate the sacrifice / gain.
 79. State any one reason of admitting a new partner.
 80. What is Revaluation Account?
 81. Define Goodwill.
 82. State maximum number of partners in a partnership firm.
 83. State whether revaluation account is debited or credited to record the increase in value of building?
 84. State whether revaluation account is debited or credited to record the amount recovered that was earlier written off as bad debt.
 85. State whether partner's capital account will be debited or credited with the transfer of share of General Reserve.
 86. State the ratio in which old partner's share all the accumulated profits, reserves and losses.
 87. Define Partnership.
 88. Mention three essential features of partnership.
 89. Define partnership deed.
 90. Under which method of maintain capital account, current accounts are maintained along with capital accounts?
 91. Write the formula for calculating interest on capital of a partner.
 92. When Goodwill brought by new partner is not recorded in the books of accounts.
 93. What is revaluation account?
 94. How you will calculate new profit ratio of a partner?
 95. Name the methods of valuation of goodwill.
 96. What do you mean by hidden goodwill?
- UNIT-IV**
97. Define a company.
 98. What is meant by private placement of shares?
 99. What is meant by Initial Public Offer?
 100. What is minimum subscription?
 101. What is meant by pro-rata allotment?
 102. What is meant by forfeiture of shares?
 103. What are sweat Equity shares?
 104. What is re-issue of shares?
 105. What is stock?
 106. What is surrender of shares?
 107. What is a share?
 108. What do you mean by redeemable preference shares?
 109. What is the maximum amount of discount which may be allowed on re-issue of share?
 110. What is forfeiture of Preference shares?
 111. What do you mean by over-subscription?
 112. What is under subscription of shares?
 113. What is preferential allotment of shares?

114. State one purpose for which amount of securities premium can be utilised.

115. What is preliminary expenses?

116. What is reserve capital?

117. What do you mean by called up capital?

118. What is meant by allotment of shares?

119. What is issue of shares at premium?

120. What is issued capital?

Accounting for Debentures

121. What is a debenture ?

122. What do you mean by secured or mortgage debenture?

123. What is unsecured debenture ?

124. What is bearer debenture ?

125. What is "Redeemable Debenture" ?

126. What do you mean by "Irredeemable debenture" ?

127. What is meant by convertible debenture ?

128. What do you mean by issue of debenture for consideration other than cash ?

129. Who debentures are less risky than shares ?

130. What is the restrictions for issue of debenture at discount ?

131. What do you mean by issue of debenture at par ?

132. How are debentures classified from the point of security ?

133. What is meant by floating charge ?

134. What are collateral debenture ?

135. What is debenture trust deed ?

136. Name the sources which may be used to write off loss on issue at debenture.

137. What is meant by Bond ?

138. What is zero coupon Bond ?

139. What is meant by coupon rate Bond ?

140. What is nature of interest on debenture ?

141. What is non-convertible debenture ?

ANSWER KEYS

GROUP - A

C. 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. Interests 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/CDr
To Insurance Account
(Being insurance paid in advance)
8. Salary A/CDr
To Outstanding salary Account
(Being salary unpaid)
9. The arrangement of assets and liabilities in Balance sheet either in the order of liquidity or permanency is called marshalling of Balance Sheet.
10. Adjusted purchases = Net purchases + Opening stock - Closing stock.
11. As 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. From capital expenditure, benefit is received over a long period of time.
14. Revenue expenditure is incurred for the day to day conduct of the business.
15. Deferred revenue expenditure is normally treated as revenue expenditure, but benefit is received by the business for more than one accounting year.
16. Balance sheet is called Positional statement as it is a statement of financial position of the business on a particular date.
17. In case of adjusted purchase, closing stock is given in the trial balance.
18. The debtors who are doubtful of realisation are known as doubtful debt.
19. Credit balance in profit and loss account means Profit earned.
20. Return inwards will be shown in credit side of Trading Account by way of deduction from sales.
21. The end product of financial accounting is Trading and Profit and loss Account and Balance-Sheet.

22. Since asset represent the items with debit balances, the asset side of the balance sheet represent debit balances.
23. The primary objective of 'not for profit' organization is to render services to its members and to the society.
24. The receipts and payments account gives information about cash in a 'not for profit' organisation.
25. Subscription received in advance is shown in the liabilities side of the balance sheet.
26. Sources of income of 'not for profit' organization are (i) Entrance fees, (ii) Subscription from members.
27. Items of revenue nature relating to current accounting period one shown in income and expenditure account.
28. Receipts and payments account are prepared on cash basis of accounting.
29. Income and Expenditure account is prepared on Accrual basis of accounting.
30. The two financial statements prepared to 'not for profit' organization are (i) Income and Expenditure Account
(ii) Balance Sheet.
31. Opening Capital Fund can be calculated to preparing opening balance sheet.
32. Prize distributed will be debited to prize fund.
33. Subscriptions outstanding in the beginning of the year show debit balance.
34. Subscriptions received in advance in the beginning of the year show credit balance.
35. Subscription outstanding at the end of the accounting year will be shown on the liabilities side of the closing balance sheet.
36. General donation will be credited to Income and Expenditure Account.
37. Subscription due in the beginning of the accounting year will be shown in the asset side at opening balance sheet. Such due amount will be deducted from the subscription received in the Income and Expenditure account.
38. Minutes book records the proceeding of the meeting of Executive Committee, Governing Body, or any other body as may be named.
39. Sale of old new papers and periodicals are treated as revenue receipt and credited to Income and Expenditure Account.
40. Honorarium is the amount paid to the invitees, guest lecturer, doctors, artists etc. for their voluntary services.
41. Cash receipts and cash payments including banking translations are recorded in the receipts and payments account.
42. Left side is the Receipts side and right side is the payment side of the receipts and payments account.

UNIT-II

43. The purpose depreciation is to ascertain the true amount of profit.
44. Yes, it is a non-cash expenditure because it does not involve cash outlay.
45. Depreciable cost is determined by deducting the salvage value of the asset from its cost price.
46. No, it is not a right decision to depreciate land. Land is not depreciable asset as its useful life is not limited to years.
47. No, Income Tax Act recognises only written down value/ diminishing value method of depreciation.
48. The incomplete double entry system of keeping accounting records is called single entry system.
49. Statement of affairs is a balance sheet prepared under single entry system on a particular date.
50. Statement of affairs and conversion method are two alternative methods of ascertain profit/ loss under single entry system.
51. Depreciation is allocation of the depreciable amount of an asset over the estimated useful life of the asset.
52. Value of fixed asset reduces because of constant use, passage of time.
53. Depreciation is charged on fixed assets over its useful life.
54. Depreciation is continuous reduction in the value of asset till the entire cost is exhausted.
55. Depreciation A/CDr
To Asset Account
(Being Depreciation provided on asset)
56. Under straight line method amount of depreciation remain the same throughout the life of the asset. Under written down value method rate of depreciation remain the same but amount of depreciation goes on reducing year after year.
57. Estimated realisable value of the asset at the end of its useful life is known as residual value of the asset.
58. Wear and tear is normal depreciation of the fixed asset because of constant use and passage of time.
59. Depreciation cost of asset = Cost of the asset- Scrap value of the asset
60. It is necessary to charge depreciation on fixed assets to know the true financial position because if depreciation is not charged, both profit and fixed asset will be shown at a higher value.
61. Yes, depreciation is the fixed cost of asset that has expired.
62. Under single entry system only personal accounts are maintained.
63. Under single entry system true profit of the business cannot be ascertained.

64. In single entry system accounting records are not completed according to double entry principle.
65. Under single entry system trial balance cannot be prepared in absence of full information. Hence, arithmetic accuracy of the accounts cannot be checked.
66. The legal authorities like Income tax authorities, courts, other tax authorities etc. does not recognise this system.
67. The common objective of both the systems is to ascertain the profit or loss of the business for a specific period of time.
68. Profit = Closing capital + Drawings - Additional capital employed - Opening capital.
69. No, Dual aspect system is not followed under single entry system as it does not record both the aspects of the transaction.
70. No, Balance sheet is not prepared under single entry system. Statement of affairs is prepared instead of Balance sheet.
73. (a) drawings made during year
(b) Interest on drawings
(c) Share of loss if any and
(d) closing balance
74. (a) interest on capital
(b) partner's salary
(c) partner's commission and
(d) partner's share of profit
75. Whenever there is a change in the partnership agreement and the firm continues, it is called reconstitution of the partnership firm.
76. The sacrificing share is that ratio in which partners sacrifice / forgo their share of profit in favour of other partner.
77. Sacrificing partner is one whose share of profit is decreased and a gaining partner is one whose share of profit is increased due to change in profit sharing ratio.
78. B gain by 1/10th share and A sacrifices by 1/10th share.
79. When necessity is felt for more capital to expand the business, new partner is admitted.

UNIT-III

71. The two methods to maintain capital accounts of partners are fixed capital and fluctuating capital.
72. 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) is prepared.
80. 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.
81. Goodwill is the value of reputation of a firm in respect of the profit expected in future over and above the normal profits earned by other similar firms of a particular industry.

82. Maximum partners in a partnership firm is 50.
83. Revaluation account is credited for the increase in value of building.
84. Revaluation account will be credited with the amount of bad debt recovered.
85. Partner's capital account is credited for transfer of his share of General Reserve to his capital account.
86. The old partners share accumulated profit, reserves and losses in old profit sharing ratio.
87. Partnership is the relationship between two or more persons who have agreed to share the profit of a business carried on by all or any of them acting for all.
88. Three essential features of partnership are
- (i) Two or more persons
 - (ii) sharing of profit or loss
 - (iii) Agreement among partners
89. A partnership deed is a document in writing containing important terms of agreement among partners
90. Under fixed capital method, both the capital account and current account of each partner is maintained.
91. Formula for calculating interest on capital of a partner is:
- $$\frac{\text{Amount of capital} \times \text{Rate} \times \text{Time}}{100}$$
92. Goodwill paid privately by the new partner to the old partner is not recorded in the books of the partnership firm.
93. Revaluation account is a nominal account prepared to record increase or decrease in the book value of the assets and liabilities of the partnership firm and to transfer profit or loss arising out of such increase or decrease.
94. New profit sharing ratio of a partner = Old profit sharing ratio - sacrifice ratio
95. Methods of valuation of Goodwill are
- (i) average profit method
 - (ii) super profit method
 - (iii) Capitalisation method
96. Hidden goodwill is the excess of desired total capital of the partnership firm over the actual combined capital of all partners.

UNIT- IV

97. 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.
98. Private placement of shares means issue of shares to a selected group of persons.
99. Making an offer to general public, inviting them to subscribe for the shares of the company for the first time through a stock exchange is known as initial public offer.

100. Minimum subscription refers to the minimum amount of capital must be subscribed by the public before the company proceeds for allotment.
101. 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.
102. If a shareholder 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 shareholders.
103. Shares issued by the company to its employees or directors at a discount for providing know-how or making available right to use intellect property is known as sweat equity shares.
104. Forfeited shares being the property of the company can be offered to new shareholders at any price either at par or at premium or discount, which is known as reissue of shares.
105. A fully paid share can be converted into a stock. It can be transferred both in whole number and fraction.
106. Surrender of shares means the voluntary return of shares to the company by a shareholder who is unable to pay money due on subsequent calls.
107. Shares may be defined as an interest in the company entitling the owner to receive proportion part of the profit and proportion part of the asset at the time of liquidation.
108. Redeemable preference share is the share whose capital is returned by the company to the shareholder after a specific period of time.
109. Maximum amount of discount on re-issue of forfeited shares is equal to amount previously received towards capital on these forfeited shares.
100. Forfeiture of preference shares means cancellation of shares for non-payment of amount due on allotment or call on preference shares.
111. If applicants apply for more than the number of shares offered to the public, the issue is said to be oversubscribed.
112. If number of shares applied by the public is less than number of shares offered by the company, the issue is said to be undersubscribed.
113. Preferential allotment means allotment of shares at a pre-determined price to pre-determined people having strategic stake in the company like Promoters, financial institutions etc.
114. The securities premium can be utilised for issue of fully paid bonus shares to the shareholders.

115. Expenses incurred for formation of the company is known preliminary expenses.
116. A company by a special resolution can decide to keep a certain portion of capital as reserve to be issued only at the time of emergency, which is known as reserve capital.
117. Called up capital is that portion of subscribed capital which has been called up by the company.
118. Share allotment is a process of accepting the offer of the applicant for purchase of shares.
119. Issue of shares at premium means issue price is more than the face value of share.
120. Issued capital means capital issued by the company from time to time for subscription.
124. Bearer debentures are those debentures which are transferred by mere delivery and company does not keep any record of the debenture holders.
125. Redeemable debentures are debentures which are repayable by the company on the expiry of the fixed period at time either in lump sum or in annual installments.
126. Irredeemable debentures are those debentures which are not repayable during the life time of the company.
127. The holders of convertible debentures have the option to convert these in to shares at the stated rate of exchange after a specific period of time.
128. Sometimes a company purchases assets from a vendor or acquire a running business without paying cash it issues debentures for discharging purchase consideration which is known as purchasing debenture for consideration other than cash.

Accounting for Debentures

121. A debenture is a written acknowledgement of a debt by a company under its common seal.
122. Secured or mortgage debentures are those debentures which are secured by charge on the assets of the company.
123. Unsecured or naked debentures are those debentures which are issued without any security in respect of interest or repayment of interest.
129. Debentures are less risky than shares because debenture holders have a preference over the shareholders in getting the interest and principal amount back.
130. There is no restrictions regarding maximum limit for discount amount on debentures as par Companies Act, 2013.

131. When debentures are issued at face value or nominal value, it is said debentures are issued at par.
132. From the security point of view, debentures are classified as unsecured / naked debentures and secured / mortgage debenture.
133. Floating charge is a charge created on all assets except those who are charged by fixed charge. They have a priority over unsecured creditors for their claim.
134. Collateral debentures are those debentures which are issued by way of security to addition to certain other security for availing the loan.
135. Debenture trust deed is a document created by the company to protect the interest of the debenture holders before offering for public subscription.
136. Loss on issue to debenture can be written off against securities premium reserve account or statement of profit or loss.
137. A bond is like a debenture it is an acknowledgement of debt where the rate of interest is not predetermined.
138. Debentures issued without a predetermined rate of interest are called zero coupon bond or Deep Discount Bond.
139. Debentures are normally issued at a specified rate of interest. Such specified rate is known as coupon rate Bond.
140. Interest on debenture is a charge against statement of profit and loss.
141. Non-convertible debentures are those debentures which cannot be converted into shares or other securities.

GROUP - A

OBJECTIVE TYPE QUESTIONS

D. Fill up the Gaps

UNIT-I

- All the direct expenses are shown in _____.
- Assets and liabilities are shown in the balance sheet in the order of _____ or permanency.
- Income received in advance is a _____ for the business.
- Provision for doubtful debts is calculated on the amount of debtors after deducting _____.
- Accrued income is considered as _____ for the business.
- Manager's commission payable is shown on _____ side of balance sheet.
- Interest on drawings is shown on the _____ of the profit and loss account.
- _____ refers to those expenses which are still payable but the benefits of them have been already enjoyed.
- _____ refers to those expenses that have been paid in the current accounting period, but their benefit shall only be realised in the next accounting period.
- Royalties on sale is charged to _____ account.
- Royalties on production is charged to _____ account.
- All indirect expenses are taken to _____ account.
- Bad debt is a _____.
- Discount received from creditor is _____.
- An expenditure incurred in achieving economy in operation is a _____ expenditure.
- Expenditure incurred on colouring a new factory is a _____ expenditure.
- Bad debts recovered are transferred to _____ side of profit and loss account.
- Depreciation is charged on _____ Assets.
- If prepaid expenses are shown in the trial balance, it will be shown only in the _____.
- When closing stock appears in the Trail Balance, it is shown only in _____.
- _____ and Profit and Loss Account are part of the financial statement.
- Purchases return and sales return are shown in _____ account.
- Copy right is _____ asset.

24. Gross Profit is shown in _____ side of the Profit and Loss account.
25. Net Profit _____ to the capital of the proprietor.
26. The balance of Trading Account is transferred to _____ Account.
27. The opening balance of Receipts and Payments Account is _____.
28. Receipts and Payments account records revenue and _____ items.
29. Expenditures are shown on the _____ side of Income and Expenditure Account.
30. _____ represents excess of assets over liabilities.
31. Payment of honorarium is treated as _____ expenditure.
32. The difference between two sides of Income and Expenditure account is _____.
33. Life membership fees received to a club will be shown in the _____.
34. Endowment Fund yields _____ Income.
35. Receipt of legacy is treated as a _____.
36. Lumpsum amount received from well-wishers is known as _____.
37. Endowment Fund is shown on _____ side of the Balance Sheet.
38. Subscription due but not received are shown in _____ side of Balance Sheet.
39. Subscriptions received in advance are shown in _____ side of Balance Sheet.
40. Income and Expenditure account does not show any _____ balance.
41. Income and Expenditure Account is prepared on _____ basis.
42. Receipts and Payments Account is prepared on _____ basis.
43. In 'not for profit' organisation purchase and sale of fixed assets is ascertained from _____ Accounts.
44. Entrance Fees received from members every year is treated as _____ receipt.
45. Building Fund Investment is shown on the _____ side of Balance Sheet.
46. Non-recurring entrance fee is treated as a _____ receipt.

UNIT-II

47. The term 'depreciation' is derived from the Latin word _____.
48. The realised estimated value at the time of discarding fixed asset is known as _____.
49. Obsolescence is the technical term used as the reason of discarding _____ asset.
50. Depreciation is a _____ expense.
51. _____ Method of depreciation is approved by income tax authorities.
52. Depreciation is shown on the _____ side of machinery account.
53. Capital at the end of the year is ascertained by preparing _____ at the end of the year.

54. In a single entry system, there are _____ methods to find out profit.
55. Under single entry system, information regarding expenses must be ascertained from the analysis of _____.
56. In single entry, a _____ picture of all transactions will be available.
57. Increase in adjusted closing capital represents _____.
58. Decrease in adjusted closing capital represents _____.
59. Permanent decrease in value of asset is known as _____.
60. Total cost of Fixed Asset = Purchase Price _____ Installation expenses.
61. Depreciation refers to _____ in the value of fixed asset.
62. _____ is the only asset which is usually not depreciated.
63. Depreciation is the process of apportionment of the cost of asset over its _____.
64. Under _____ method, depreciation is charged at a fixed percentage on the original cost of the asset.
65. The book value of the asset cannot be zero under _____ method of depreciation.
66. Discarding of old plant and machinery because of new invention is called _____.
67. _____ system of accounting is not based on dual concept of accounting.
68. Single entry system maintains _____ and _____ accounts.
69. Single entry system does not maintain _____ account except cash account.
70. Single entry system does not record both _____ and _____ aspects of a transaction.
71. In case of single entry system, a _____ picture of all the transactions will be available.
72. If closing capital is ₹50,000, drawings ₹5,000, profit ₹10,000, then opening capital is _____.
73. If closing capital is ₹1,50,000, drawing ₹20,000, opening capital is ₹1,00,000, then profit is _____.

UNIT-III

74. In the absence of partnership deed, profit are shared in _____ ratio.
75. Partners are collectively called _____.
76. Partner's current accounts are prepared when capital accounts are _____.
77. Under _____ capital method, capital at the beginning and capital at the end will be different.
78. In the absence of agreement, interest _____ paid on capital.
79. A partner _____ entitled to salary if he works more than others.
80. Excess of actual adjusted profit over normal profit is called _____ profit.
81. Negative super profit indicates that there is no _____ of business concern.

82. The number of methods of goodwill / valuation is _____.
83. When a business is taken over by another business, the excess of purchase price over its net value is referred as _____.
84. Appreciation in the value of investment is _____ to the Revaluation Account.
85. A partner, whose share is increased due to change in profit sharing ratio, is called _____.
86. Share of goodwill brought in cash by new partner is also called _____.
87. Decrease in provision for doubtful debts will be _____ to Revaluation Account.
88. _____ asset are debited to old partner's capital accounts at the time of admission of partners.
89. If memorandum of Revaluation Account is opened and its first portion shows a profit, then its second portion will show _____.
90. Profits on revaluation is credited to old partners in _____ ratio.
91. For any decrease in the value of liability, the revaluation account is to be _____.
92. A new partner, instead of bringing cash for his share of goodwill, may bring some _____.
93. In absence of partnership deed, the partners share profit in _____ ratio.
94. The document containing the term of an agreement of a partnership is known as partnership _____.
95. Partnership deed is a _____ agreement among partners.
96. When date of drawing is not given, interest for _____ months is calculated on total drawings during the period.
97. When partner takes goods for private use, _____ account is credited by the firm.
98. Salary to a partner is an _____ of profit.
99. Goodwill is an _____ asset.
100. Appreciation in value of investment is _____ to Revaluation Account.
101. Revaluation of asset is necessary because book value of asset may be _____ from present value.
102. If all the partners decide that assets and liabilities in the new balance sheet is to be shown at the same old figure after reconstitution of the firm, then _____ revaluation account is to be prepared.
103. Partnership firm is regulated by Partnership Act _____.
104. Change in _____ is one of the mode of reconstitution of partnership firm.
105. Generally, the _____ partner compensates the _____ partner by proportionate amount of goodwill.
106. _____ and _____ are revalued at the time of reconstitution of partnership firm.
107. _____ in the value of plant and machinery is recorded in the credit side of revaluation account.

108. Profit on revaluation is _____ to partner's capital account.
109. Reserve and surplus are _____ to partner's capital account.
110. Deferred revenue expenditure is _____ to partner's capital account.
111. Profit or loss on revaluation is transferred to partner's capital account in _____ ratio.
121. Discount on issue of shares is a _____ loss.
122. A notice of _____ days is must for the payment of calls on shares.
123. Maximum number of shareholders in a private limited company is _____.
124. Minimum number of shareholders in a public limited company is _____.
125. The part of share capital which can be called up only in the event of winding up of a company is known as _____ capital.

UNIT-IV

112. The minimum application money is _____ % of the issue price of shares as per SEBI guidelines.
113. The amount of calls-in-advance is a _____ of the company.
114. When shares are forfeited, share _____ account is debited for the amount already called up on shares forfeited.
115. The company cannot proceed with the allotment of shares, unless it receives _____ subscription.
116. If any shareholder fails to pay the allotment or calls money within the stipulated period, the company may _____ his shares.
117. When shares are forfeited, the unpaid call account is _____.
118. Profit on reissue of forfeited shares is transferred to _____ account.
119. A new company cannot issue shares at _____.
120. Securities Premium Reserve Account is shown under the heading _____.
126. When allotment money is due, share _____ account is credited.
127. As per Table _____ of Schedule I of the Companies Act, 2013, a company may pay maximum 12% interest on call-in- advance.
128. The company cannot proceed with the allotment of shares, unless it receives _____ subscription.
129. As per SEBI guidelines, minimum subscription has been fixed at _____ % of the issued amount.
130. The liability of each shareholder is _____.
131. Process of allotment of shares must be completed within _____ days of the issue of prospectus.
132. Shares which are not equity shares are called as _____ shares.
133. Share application account is a _____ account.
134. Premium on issue of shares is a _____ profit to the company.

Accounting for Debentures

135. Debenture is a written _____ at debt by a company.
136. Premium on redemption of debenture is a _____ account.
137. Debenture holders are _____ of the company.
138. When debentures are issued to vendors _____ account is credited.
139. The unamortised portion of discount on issue of debenture is shown on the _____ side of the Balance Sheet.
140. If price paid to vendors is more than the net assets purchased, the difference is to be credited to _____ account.
141. Discount on issue of debenture is treated as a _____ asset.
142. A debenture is a _____ capital of the company.
143. A debenture holder is entitled to interest at a _____ rate.
144. Debentures are shown under the head _____ liabilities on the equity and liabilities side of the Balance sheet.
145. No company is allowed to issue debentures having a maturity period of more than _____ years other than a company engaged in infrastructure project.
146. _____ debentures are secured by a charge on the assets of the company.
147. When issue price of the debentures are equal to nominal value, the debentures are said to be issued at _____.
148. When issue price at debenture is more than the normal value, the debenture is said to be issued at _____.
149. If price payable to vendor is more than the net asset purchased, the difference is to be debited to _____ account.
150. Securities Premium Reserve is a _____ profit.
151. On issue of debenture as a collateral security, _____ account is credited.
152. On issue of debenture as collateral security, debenture _____ account is debited.
153. Debentures which are transferred by mere delivery are _____ debentures.
154. Unsecured debentures have _____ security.
155. Debentures are defined under section _____ of Companies Act 2013.
156. _____ debentures offer the investors an option to convert their debentures into shares.
157. _____ debentures do not carry any specific rate of interest.

ANSWER KEYS

GROUP - A

D. Fill up the Gaps

UNIT-I

- | | | |
|-------------------------|----------------------------|--------------------------|
| 1. Trading Account | 25. Added | 50. Non- cash |
| 2. Liquidity | 26. Profit and Loss | 51. Written down value |
| 3. Liability | 27. Cash in hand / at bank | 52. Credit |
| 4. Further bad debt | 28. Capital | 53. Statement of affairs |
| 5. Asset | 29. Debit | 54. Two |
| 6. Liabilities | 30. Capital Fund | 55. Cash book |
| 7. Credit side | 31. Revenue | 56. Partial |
| 8. Outstanding expenses | 32. Surplus / Deficit | 57. Profit |
| 9. Prepaid expenses | 33. Balance sheet | 58. Loss |
| 10. Profit and Loss | 34. Regular | 59. Depreciation |
| 11. Manufacturing | 35. Capital | 60. Plus |
| 12. Profit and loss | 36. Dotation | 61. Reduction |
| 13. Loss | 37. Liability | 62. Land |
| 14. Income | 38. Assets | 63. Useful life |
| 15. Capital | 39. Liabilities | 64. Straight line |
| 16. Capital | 40. Opening | 65. Reducing balance |
| 17. Credit | 41. Accrual | 66. Obsolescence |
| 18. Fixed | 42. Cash | 67. Single entry |
| 19. Balance Sheet | 43. Receipts and Payments | 68. Cash, personal |
| 20. Balance Sheet | 44. Revenue | 69. Real |
| 21. Trading Account | 45. Assets | 70. Debit, Credit |
| 22. Trading | 46. Capital | 71. Partial |
| 23. Intangible | | 72. ₹ 45,000 |
| 24. Credit | | 73. ₹70,000 |

UNIT-II

UNIT-III

- 74. Equal
- 75. Firm
- 76. Fixed
- 77. Fluctuating
- 78. is not
- 79. is not
- 80. super
- 81. goodwill
- 82. Three
- 83. goodwill
- 84. credited
- 85. Gaining
- 86. premium
- 87. credited
- 88. Fictitious
- 89. loss
- 90. old
- 91. credited
- 92. assets
- 93. Equal
- 94. deed
- 95. written
- 96. six
- 97. purchase
- 98. appropriation
- 99. intangible
- 100. Credited
- 101. different

- 102. Memorandum
- 103. 1932
- 104. Profit sharing ratio
- 105. Gaining, sacrificing
- 106. assets, liabilities
- 107. increase
- 108. credited
- 109. credited
- 110. debited
- 111. Profit sharing ratio

UNIT-IV

- 112. 25
- 113. Debt
- 114. capital
- 115. minimum
- 116. forfeit
- 117. credited
- 118. capital reserve
- 119. Discount
- 120. Reserve and surplus
- 121. capital
- 122. 14
- 123. 200
- 124. 7
- 125. Reserve
- 126. capital
- 127. F
- 128. minimum
- 129. 90%

- 130. limited
- 131. 120
- 132. Preference
- 133. Personal
- 134. capital
- 135. Acknowledgement
- 136. Personal
- 137. Creditors
- 138. Debentures
- 139. Assets
- 140. Capital Reserve
- 141. Fictitious
- 142. Borrowed
- 143. Fixed
- 144. Non-current
- 145. Ten
- 146. Secured or Mortgage
- 147. Par
- 148. Premium
- 149. Goodwill
- 150. Capital
- 151. Debentures
- 152. Suspense
- 153. Bearer
- 154. No
- 155. 2 (30)
- 156. Convertible
- 157. Zero Coupon rate

GROUP - B

SHORT TYPE QUESTIONS

A. SHORT QUESTIONS TO BE ANSWERED (2 MARKS EACH)

UNIT-I

Final Accounts of Sole Trade from of Organization

1. Distinguish between revenue expenditure and capital expenditure.
2. What is cost of goods sold?
3. What are the direct expenses of business?
4. Differentiate between Trial Balance and Balance Sheet.
5. What are the ways/methods of arranging of the items in Balance Sheet?
6. Distinguish 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 appearing 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 asset?
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 are 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 a 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 of provision for bad and doubtful debts in Final Account.
33. What is the treatment of bad debts in Final Account?
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?
42. What are direct expenses?
43. Give three examples of deferred revenue expenditure.
44. What are financial statements?
45. What is the primary objective of preparing final accounts?
46. When does a Trading Account shows gross loss?
47. Why contingent liability is not shown in balance-sheet?
48. What is the effect of bad debts on net profit?
49. How will you show the amount of ₹10,000 received as rent for the next accounting year in the final accounts?
50. What entry is passed for making a provision for discount on debtors?
51. Ascertain the cost of goods sold from the following:
Opening stock ₹12,000, Purchases ₹1,12,000, Direct expenses ₹6,000, Indirect expenses ₹8,000, Closing stock ₹15,000.
52. What is the treatment of life insurance premium paid by business in final accounts?
53. What do you mean by not for profit organisation ?
54. Name the financial statements prepared by 'not for profit' organisation.
55. Explain the term life membership fees.
56. What is honorarium ?
57. What do you mean to capital fund ?
58. State the objectives of 'not for profit' organisation.
59. What is the necessity of preparing general statements of 'not for profit organisation'.
60. Explain the treatment of life membership fees received to a 'not for profit organisation'.
61. Show the treatment of legacy by a 'not for profit organisations'.
62. Explain accounting treatment of specific donation in a 'not for profit' organization.
63. Give the treatment of sale of fixed assets at the time of preparing Income and Expenditure Account ?
64. How does donation differs from subscription ?
65. Define Receipts and Payments Account.
66. Define Income and Expenditure Account.
67. Why is the Receipts and Payments Account prepared ?
68. How does Receipts and Payments account differs from Cash Bank ?
69. State the features of Receipts and Payments account.
70. State the features at Income and Expenditure account.

71. Calculate the subscription Income and show it in the income and expenditure Account subscription received during 2022 ₹ 30,000.

	01.01.2022	31.12.2022
Subscription account	5000	7000
Subscription received in advance	4000	3000

72. Ascertain the rest expenses and show in Income and Expenditure Account.

Rent paid during the year 2021-22	₹ 32,000
Rent prepaid as 01.04.2021	₹ 5,000
Rent outstanding as 01.04.2021	₹ 3,000
Rent Prepaid as 31.03.2022	₹ 4,000
Rent outstanding as 31.03.22	₹ 2,000

UNIT-II

Accounting for Depreciation

73. What is depletion?
74. What is amortisation?
75. What is salvage / scrap value of fixed asset?
76. Write any two differences between straight line and written down-value method of depreciation.
77. What are the causes of depreciation?
78. Why is asset shown in the Balance Sheet at its original cost under 'Provision for depreciation' method?
79. What is the need for charging depreciation?
80. What do you mean by 'diminishing balance method' of depreciation?
81. Why straight line method of depreciation is so named?
82. Write two characteristics of depreciation.
83. Give the factors for determination of depreciation.
84. Write the formula for calculating depreciation under straight line method. Explain with an example.
85. What do you mean by obsolescence?
86. State two merits of straight line method of depreciation.

Accounting from Incomplete Records

87. Define single entry system of accounting.
88. What do you mean by "Statement of Affairs"?
89. What do you mean by "Incomplete accounting records"?
90. "Arithmetic accuracy of the accounts maintained under the single entry system cannot be checked", why?
91. Why true profit of the business cannot be ascertained under single entry?
92. Name the different laws of the county/ India which do not recognize single entry system.
93. Why single entry system is not so popular?
94. Write two differences between single entry and double entry system.

95. Give some reasons of maintaining incomplete records.
96. State any two limitations of single entry system.
97. How can opening capital be ascertained from incomplete records?
98. How can closing capital be ascertained from incomplete records?
99. Enumerate the names of methods to ascertain profit/ loss from incomplete records?
100. Why goodwill cannot be valued under single entry system?
101. Why internal check is not possible under single entry system?
102. State two difference between statement of affairs and balance sheet.
103. Explain the characteristics of single entry system.
112. Which transactions are recorded in fluctuating capital account?
113. How many accounts are opened under fluctuating capital account method?
114. Explain interest on drawings of partners.
115. Give two situations in which fixed capital of partners may change.
116. Mention five items appearing on the debit side of capital accounts of a partner when capitals are fluctuating.
117. Mention five items appearing on the credit side of capital accounts of a partner when capitals are fluctuating.
118. What is drawings?
119. Explain the interest on capitals of partners.
120. Explain the interest on loan by a partner.
121. What do you mean by goodwill?
122. What is the nature of goodwill?

UNIT-III

Accounting for Partnership firm

104. What is partnership?
105. How many persons are required for partnership?
106. Which Act governs the partnership business in India?
107. Why profit and loss appropriation account is prepared?
108. State Fixed Capital.
109. Define current account.
110. Which accounts are opened under fixed capital account methods?
111. What is fluctuating capital account?
123. Give any four factors affecting goodwill.
124. What are the methods of valuation of goodwill?
125. Explain average profit.
126. Explain the average profit method of goodwill.
127. What is the need of valuing goodwill?
128. What do you mean by super profit?
129. What is super profit method of goodwill?
130. What is capital employed?
131. What is average capital employed?
132. What is capitalization method of goodwill valuation?

133. Explain average profit method for valuation of goodwill.
134. Explain the super profit method for valuation of goodwill.
135. Give at least two differences between average profit and super profit.
136. What is reconstitution of partnership?
137. What are the circumstances for reconstitution of partnership?
138. What is sacrificing ratio?
139. What is gaining ratio?
140. Define Revaluation account.
141. What is the revaluation of assets and liabilities?
142. Why is revaluation necessary?
143. What is the effect of revaluation?
144. What is Memorandum Revaluation Account?
145. Write any three features of Revaluation Account.
146. How distributed reserves and accumulated profits / losses are treated on the change of constitution of partnership?
147. What is hidden goodwill?
148. What is the effect of memorandum Revaluation Account on partner's Capital Account?
149. Explain the A.S-26 with regard to treatment of goodwill.
150. What is the premium method of goodwill?
151. Pass journal entries when a new partner is unable to bring his share of goodwill in cash.
152. On admission of a partner, which journal entry to be passed for increase in asset?
153. On admission of a partner, which journal entry to be passed for increase in liability?
154. Give the accounting entry for new partner bringing his share of goodwill/ premium in cash and it is retained in the business.
155. Give the accounting entry for new partner bringing his share of goodwill in cash and it is withdrawn by old partners.
156. What is the accounting treatment for goodwill if paid privately?
157. Estimate goodwill if A and B shares equally having capital of ₹20,000 each. C is admitted with 1/4th of profits in the firm and contributed ₹24, 000 as his share.
158. 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.
159. What is the accounting treatment for new partner, bringing only a portion of goodwill in cash?
160. How do you calculate interest on drawing, if no date of drawing is given? Explain with illustration.
161. What is maximum number of partners under different situations?
162. Is it essential that each partner should contribute capital? Explain.

163. Is it necessary to have a written agreement?
164. Can a minor be admitted as a partner?
165. What do you mean by a partnership firm?
166. Explain essential characteristics of partnership.
167. Mention five important provisions of the Indian Partnership Act, 1932, which apply in the absence of partnership deed.
168. What is the purpose of opening current account of a partner?
169. What do you mean by change in profit sharing ratio?
170. Mention four factors affecting goodwill valuation.
171. Define hidden goodwill with calculation.
172. What is the necessity of revaluation of assets and liabilities at the time of change in profit sharing ratio among the existing partners?
182. Explain two utilizations of securities premium?
183. What is the prohibition on issue of shares at discount?
184. Write two conditions for issuing shares at discount.
185. What is over subscription of shares?
186. What is prorata allotment of shares?
187. What is calls in arrear?
188. What is calls in advance?
189. What do you mean by share?
190. What is share capital?
191. What is authorized capital?
192. What is Initial Public Offer?
193. What is preferential allotment?
194. What is share certificate?
195. Write any two features of a joint stock company.
196. Write any two features of a private limited company.
197. Write any two features of a public limited company.
198. What are the types of shares a company can issue?
199. What is one person company/ OPC?
200. What is a small company?
201. What are preference shares?
202. What are equity shares?
203. What is cumulative preference share?
204. What is mean by reserve capital?
205. What is capital reserve?

UNIT-IV

Accounting for Companies

173. What is sweat equity shares?
174. What is book-building process?
175. What is ESOP?
176. Explain issued of shares by a company.
177. What is minimum application money?
178. What is allotment of shares?
179. What is the effect of allotment of shares?
180. What do you mean by share call?
181. What is issue of shares at a premium?

206. What is forfeiture of shares?
207. What is re-issue of shares?
208. What is stock?
209. What is the accounting effect of reissue of shares?
210. What is surrender of shares?
211. What is issue of shares for cash by private placement?
212. State the issue of shares for consideration other than cash.
213. What is the accounting entry for forfeiture of shares issued at par?
214. What is under subscription of shares?
215. What is Lien on shares?
216. What is Share Application Account?
217. What do you mean by redeemable preference share?
218. What is participating preference share?
219. What do you mean by convertible preference shares?
220. What is meant by preliminary expenses?
221. Why is prospectus issued by company?
222. Write any two special features of an equity share.
223. Is there any legal restriction on the issue of shares at premium?
224. "Securities Premium Reserve Account" is shown under which heading?
225. What is the distinction between cumulative and non-cumulative preference shares?

Accounting for Debentures

226. What is Debenture ?
227. What is Debenture stock ?
228. What is naked debenture ?
229. What is secured debentures ?
230. What is floating debentures ?
231. What is debenture interest ?
232. What is redeemable debenture ?
233. What is irredeemable debenture ?
234. What is convertible debenture ?
235. What is registered debenture ?
236. What are various forms of issue of debenture ?
237. Explain debentures issued at discount.
238. Classify debentures from priority point of view.
239. What are collateral debentures ?
240. What are second debentures ?
241. Give journal entry for providing interest on debenture.
242. From which source discount on issue of debenture is written off.
243. Why debentures are less risky than shares ?

ANSWER KEYS

GROUP - B

A. SHORT QUESTIONS TO BE ANSWERED (2 MARKS EACH)

UNIT-I

Final Accounts of Sole Trade from of Organization

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 capital expenditure will continue for more than one accounting period.
2. Cost of goods sold is the sum total of net purchases, stock at the beginning and direct expenses on purchases less closing stock. Symbolically:
$$\text{Cost of goods sold} = \text{Net purchases} + \text{stock at the beginning} + \text{Direct expenses on purchases} - \text{Stock at the end.}$$

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

$$\text{Cost of goods sold} = \text{Net sales} - \text{Gross Profit}$$
3. Direct expenses are incurred in order to make the goods ready and fit for sale. The various direct expenses debited to trading account are wages/ wages and salaries, carriage/ freight inward, import and dock dues, Motive power, coal, gas, water, manufacturing expenses, consumables stores, royalty and packaging's are also debited to trading account if manufacturing account is not opened.
4. Trial Balance is statement of real, personal and nominal accounts whereas 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 whereas the objective of Balance Sheet is to ascertain the financial position of the business.
5. The assets and liabilities are arranged either in order of liquidity or in the order of permanence. The presentation of items in any of these two methods is called marshaling 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 whereas 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 whereas 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 whereas 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 debit side of the Profit and Loss Account. Interest, Commission, discount can be on either side of Profit and Loss Account.
10. The difference between selling price and purchasing price is called gross profit. In other words, 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 opening stock, net purchases and direct expenses and in the credit side net sales and closing stock are recorded.
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 recorded
14. Indirect expenses are incurred to make the goods available to consumers. Indirect expenses may be selling and distribution expenses, management expenses, financial expenses, extra ordinary expenses and losses to maintain the assets in working order. These are recurring in nature.
15. Fixed assets are acquired and held permanently in the business. These are used for more than one accounting period to carry on the business and not meant for sale. Fixed assets can be tangible and 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 examples of the fixed assets.
17. Intangible fixed asset are those fixed assets having no physical existence, shape and size but can be used in the business for more than one 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 assets is not a real asset. Past accumulated losses or expenses being capitalized, 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 business are called current liabilities. Examples of current liabilities are sundry creditors, bills payable, outstanding expenses, bank overdrafts etc. They are paid out of 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 ₹2,000 of 2021 is received in 2020. 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 marshaling/ 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 examples of wasting assets.
24. Outstanding expenses refer to those expenses which are incurred but not paid during the accounting year. The benefit of the expenses have already been received. For example wages amounting ₹1,000 for 2021 will be paid in 2022.
25. A Prepaid expense is an expense which is paid in advance before enjoying its benefit. For example insurance premium is paid in 2019 of ₹5,000 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 the happening of a certain event is called a contingent liability. For example, a case pending in the court may be a liability if judgment goes against the business. Similarly, a discounted bills of exchange may be a liability if it is dishonored 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 a 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 fail to pay the debt, then amount of debt is treated as bad debts. The bad debt is a loss for the business.
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. It is calculated as a percentage on sundry debtors.
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 adjustment, it is debited 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 the 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 Trial Balance is debited to Profit and Loss Account (shown in the debit side of the P & L A/c). When depreciation is given in the adjustment, it is first debited to Profit and Loss Account and then deducted from concerned asset in the assets side of Balance Sheet.
38. Provision for depreciation given in the Trial Balance is to be shown in the liabilities 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 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 Trial Balance is to be shown in the liabilities side of the 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 costs of goods manufactured is called Manufacturing Accounts. Small manufacturing concerns 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 in 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.

42. Direct expenses are those expenses incurred from the stage of purchasing of raw material to the stage of bringing the goods in salable conditions. These expenses are incurred to make the goods fit for sale. It includes expenses like wages, carriage/ cartage / freight-inward, import duty, octroi, manufacturing expenses.

43. Examples of deferred revenue expenditure are:

- (i) Huge amount of advertising expenses incurred to introduce a new product.
- (ii) Cost of research and experiments- Benefit is received over a number of years.
- (iii) Preliminary expenses incurred to form a company which will give benefit in future.

44. Final statements are summary of accounts showing result of operation and financial position of the business enterprise. It includes Trading account, Profit and Loss account, balance sheet. Modern concept include cash flow statement.

45. Primary objectives of preparing final accounts are:

- a) To present a true and fair view of profitability of business in financial terms
- b) To present true and fair view of financial position of business.

46. Trading account is prepared to ascertain the gross profit/ gross loss by matching net sales with cost of goods sold. If cost of goods sold is more than the net sales, it will result in gross loss.

47. The liability which depends on the occurrence of future uncertain event is called contingent liability. If uncertain events occurs, the contingent liability becomes a liability. As contingent liability is not a real liability, it is not shown in the balance sheet.

48. Amount which cannot be recovered from the debtors is known as bad debts. Bad debt is debited to profit and loss account. Hence, bad debt reduces the profit of the business.

49. Rent received in advance is unearned income. This rent relates to income of future year. Its accounting treatment is as follows:

- | | | | |
|------|--------------------------------------|--------------------------|---------|
| (i) | Treatment in Profit and Loss Account | In credit side | |
| | | By Rent received | |
| | | Less Advance rent | ₹10,000 |
| (ii) | Treatment in Balance Sheet | In liabilities side | |
| | | Rent received in advance | ₹10,000 |

50. Businessman usually allow cash discount to the debtors for prompt payment. The adjustment entry is as follows:

Profit and Loss Account.....Dr
 To Provision for discount on Debtors Account
 (Being provision for discount on Debtors created)

51. Cost of goods sold = opening stock + Purchases + Direct expenses - Closing stock
 = ₹12,000 + ₹1,12,000 + ₹6,000 - ₹15,000
 = ₹1,30,000 - ₹15,000 = ₹1,15,000

52. Life insurance premium is personal expenses of the proprietor. If paid out of business cash, it is not to be debited to Profit and Loss Account. It is to be debited to drawing account and deducted from capital in the Balance-Sheet.

5.3 'Not for profit' organisations are those organisations whose main objective is not to earn profit. It renders service to its members and the society as large. These organisations have to promote art, science, culture, religion, charity etc.

54. Not for profit organization mostly carry out business in cash. So they prepare a cash book known as Receipts and Payments account. In addition to it they prepare Income and Expenditure account and Balance Sheet at the end of the accounting period.

55. Life membership fees is a lumpsum amount received only once from its members for the whole life. The members enjoy the benefit for the whole life. He is not required to pay periodic (yearly / half yearly / monthly etc.)

56. The remuneration paid to the invitees, guest lecturers, doctors, artists, singers, dancers etc. For their voluntary services is called honorarium. Honorarium is paid in honor of those invitees for their visit and providing service to the public. It is revenue expenditure and debited to Income and Expenditure Account.

57. Excess of assets over total outside liabilities is called capital fund of a 'not for profit' organisation. It is also called General Fund. It is shown in the liabilities side of the Balance Sheet.
58. The primary objectives of 'not for profit' organization to render service to members and to the society of large. The other objectives are :
- i) to work without profit motive.
 - ii) to promote art, culture, religion
 - iii) to promote health and education in remote, hilly and mountain areas.
 - iv) to promote and protect socio economic status of its members.
 - v) to provide entertainment and charity.
59. The aim of 'not for profit organisation' is not to earn profit. They simply render service to the members and public. Their service of income is member's subscription, donation, government grants etc. These are chances of mismanagement and fraud of cash and valuables. So an executive committee, governing body or trust is formed to manage the activities and funds of the organization. So it becomes essential to maintain the records and books of accounts regularly. From the records / books financial statements are prepared.
60. Life membership fee is a capital receipt. It is non-recurring in nature. It may be shown in the liabilities side of the balance sheet as an independent item. It can also be added to Capital Fund in the liabilities side of the balance sheet.
61. Legacy is the amount received from the property at the deceased person as per his will i.e. the amount of legacy is very small and not for any specific purpose, it is treated as revenue receipt and credited to Income and Expenditure account i.e. the amount of legacy is significantly large and for a specific purpose, it is a capital receipt and credited to capital fund in the balance sheet.
62. A donation received for a specific purpose is treated as 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.
63. Income and Expenditure Account is debited with the loss on sale of fixed assets and credited with the profit on such sale. Depreciation is calculated after deducting the asset sold from the relevant asset of the previous year. The amount of depreciation is to be calculated after adjustment of sale of fixed assets. Income and Expenditure account is to be debited with the amount of depreciation.

64. Donation is an amount received to the 'not for profit' organization normally from the outsider. Subscription is a periodical contribution of specific amount by the members at 'not for profit' organisation. The purpose of donation may be either general or specific. It is not received regularly. But subscription is regular / recurring income of the club / society. It may be collected from members quarterly / half yearly / annually.

General donation is small amount treated as revenue income and credited to Income and Expenditure Account. Significantly large donation is treated as capital receipt and credited to capital fund. Specific donation is treated as capital receipt and credited to that specific capital fund. But subscription is treated as revenue receipt and credited to Income and Expenditure account.

65. Receipts and Payments Account is a Real Account. It is a summary of cash book (cash and bank transactions). It records after certain period of time, maltose and classify under suitable heading. All receipts are recorded in the debit (receipts) side and all payments are recorded in the credit (payments) side.
66. Income and Expenditure Account is a nominal account. It is a summary of revenue incomes and revenue expenditures of a 'not for profit' organization in an accounting period. All expenses and losses of revenue nature are recorded on the debit side and all incomes and gains are recorded on the credit side. It is prepared on accrual basis.
67. Receipts and Payments Account is prepared at the end of each accounting period. It is simply a summary of cash book. The total amount of an item recorded in the Receipts and payments account. For example salary paid to employees are recorded on different dates in the cash book. But total salary is recorded in the payments side of Receipts and Payments account. We can know the receipts and payments under suitable heading. We can also form on idea about different heads of receipts and payments. For this reason receipts and payments account is prepared.
68. Receipts and Payments account is a ledger account whereas cash book is both a Journal and ledger account. Receipts and payments account is prepared by 'not for profit' organisation. But cash book is prepared by trading and manufacturing organisations with profit motive.

Left hand side is the receipt and right hand side is the payment side is receipts and payments account. But left hand side is the debit and right hand side is the credit side of the cash book. In receipts and payments account there is only one column for recording both cash and bank transactions. But in cash book there is separate column for cash, bank and discount transactions.

69. The main features at Receipts and Payments Account are as follows :

- (i) It is a Real Account. It is based on golden rule of double entry system of book-keeping i.e. debit what comes in and credit what goes out.
- (ii) It starts with opening balance cash / bank of the beginning at accounting period and ends with closing balance at cash / bank at the end of the accounting period.
- (iii) It is a summary of cash book. It represents total at all cash transactions under suitable heads.
- (iv) All receipts are recorded on the debit side and payments on the credit side.
- (v) It does not record non-cash items like depreciation outstanding expenses, occurred income etc.

70. Features of Income and Expenditure Account are as follows :

- (i) It is a nominal account.
- (ii) It records only income and expenditure of current accounting period.
- (iii) It records both cash and non-cash items like depreciation, bad debt, outstanding expenses, accrued income etc.
- (iv) The balance at the end of the accounting period is either surplus or deficit.
- (v) It is prepared on accrual basis.

71. Income and Expenditure Account for the year ending 31.12.2022

Dr.			Cr.
Expenditure	₹	Income	₹
		By subscription	₹30,000
		Add : Accrued on 31.12.2022	₹7,000
		Add : Advanced received as on 01.01.2022	₹4,000
			₹41,000
		Lesss : Accrued on 01.01.2022 (-) ₹5,000	
		Advance on 31.12.2022 (-) ₹3,000	₹8,000
			33,000

72. Income and Expenditure Account for the year ending 31.03.2022

Dr.		Cr.	
		₹	₹
To Rent	₹32,000		
Add : Outstanding (on 31.03.2022)	₹2,000		
Prepaid on 01.04.2022)	₹5,000		
	₹39,000		
Less : Prepaid (on 31.03.2022) (-)₹4,000			
Outstanding (on 01.04.2022) (-)₹3,000	₹7,000	32,000	

UNIT-II

Accounting for Depreciation

73. The method of charging depreciation on wasting assets is called Depletion. The wasting assets are mines, quarries, oil wells etc.
74. 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 period of life and must be written over their life span.
75. It is 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.
76. The amount of depreciation remains the same under the straight line method and the amount of depreciation goes on reducing year after year under written down value method. Depreciation is calculated on the original cost of the asset under straight line method while amount of depreciation is calculated on the written down value or book value of the asset under written down value method.
77. The cause of depreciation are physical wear and tear, passage of time, exhaustion, obsolescence 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.
78. 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. In case of sale of asset this account (Relating to asset sold) is transferred to asset account.

79. 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.
80. This method is based on the assumption that the efficiency of the assets goes on diminishing as the assets grows older. So the amount of depreciation goes on diminishing every year. The depreciation is charged at a fixed percentage on the written down value of the asset.
81. Under this method depreciation is charged at a fixed percentage on the original/ acquisition 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 is plotted on the graph, it will give a straight line.
82. Depreciation is a non-cash expense as the businessman pays nothing for depreciation. Depreciation is applicable only to fixed assets. It is charged against profit.
83. The calculation of depreciation usually depends on three factors: acquisition / origin cost, scrap value and estimated useful life of the asset. The estimated useful life of the asset is expressed in terms of the number of calendar years, total number of units to be produced, total number of working hours to work or run.
84. Formula for calculating depreciation under straight line method:

$$\text{Depreciation} = \frac{\text{Cost of the asset} - \text{Residual value}}{\text{Estimated life period}}$$
For example, cost of the asset ₹2,0,000. Its life period is 10 years. Residual value after 10 years ₹10,000.

$$\text{Depreciation} = \frac{₹2,10,000 - ₹10,000}{10} = ₹20,000$$
85. Obsolescence means asset become obsolete or out dated. The assets are discarded though these are in existence and in working condition. For example a new asset has come to market with more efficiency, and low running cost. The old asset becomes uneconomical for use. So old asset is discarded.
86. Two merits of straight line method of depreciation.
- (i) Since same depreciation is charged every year, comparison of income of every year will be easy.
 - (ii) The value of the asset will be zero at the end of its life.

Accounting from Incomplete Records

87. Single entry system of accounting 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.
88. A 'Statement of Affairs' is a 'Balance Sheet' prepared under the single entry system on a particular date. Complete information about assets and liabilities is not available from it.
89. The accounting records not completed as per the double entry principles are called 'incomplete accounting records'. The principles of double entry system are followed in 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.
90. Under single entry system, Trial Balance cannot be prepared. Full information is not available. So, there are chances of fraud and misappropriation in the business. Arithmetic accuracy cannot be maintained without Trial Balance.
91. Trial Balance cannot be prepared under single entry system. Complete information regarding the purchases, sales and other expenses is not available. Trading and Profit and Loss Account cannot be prepared to ascertain the true profit earned or loss suffered by the business.
92. No law of the country/ India recognizes single entry system of accounting. The legal authorities like Income Tax, Goods and Service Tax, Courts do not recognize the records of the system.
93. Single entry system is not popular because of its limitations: arithmetic accuracy of the records cannot be checked, trial balance cannot be prepared, audit and internal check is difficult etc.
94. Under single entry, trial balance cannot be prepared whereas it can be prepared under double entry. Single entry system is accepted only in non-corporate forms of business organisations whereas double entry is universally accepted.
95. Accounting records may remain incomplete due to any one or more of the reasons given below:
 - (a) The businessman 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.
96. The limitations are:
 - (a) Arithmetic accuracy of the accounts cannot be checked;
 - (b) True financial performance (P & L A/C) cannot be ascertained;
 - (c) True financial position (B/S) cannot be determined.

97. Opening capital can be ascertained from incomplete records by preparing the statement of affairs of the business at the beginning of the accounting period. The difference between the total assets and liabilities at the beginning of the accounting period is called the opening capital of business.
98. Closing capital of a business can be ascertained from incomplete records by preparing the statement of affairs of the business at the end of the accounting period. The difference between assets and liabilities at the end of the accounting period is the closing capital.
99. 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 method
 - (b) Final Accounts system or conversion method. It is also called quasi single entry method.
100. It is difficult to ascertain the net worth of business. Financial performance (profit/ loss) and financial position are not true. So goodwill cannot be valued.
101. Internal check is a system where by work of one employee is automatically checked by another employee. Internal check is possible when there are sufficient staff, division of work, rotation of duties, automatic machines etc. But under single entry system, such facilities are not available. So internal check is not possible.
102. (i) Statement of affairs is prepared under single entry system. But balance sheet is prepared under double entry system.
- (ii) Statement of affairs is prepared on the basis of ledger accounts and estimates. But balance sheet is prepared on the basis of trial balance.
103. The characteristics of single entry system are:
- (i) It maintains only personal accounts and cash book. It ignores real accounts and nominal accounts.
 - (ii) No uniformity system is followed.
 - (iii) This is suitable only for small organisations.
 - (iv) One has to depend on original vouchers for information.

UNIT-III

Accounting for Partnership firm

104. 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 or any one of them acting for all.
105. 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 numbers of partners in a partnership firm must not exceed 50.
106. 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.
107. 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 transactions between the firm and the partners are mainly recorded in this account. It is an extension of the Profit and Loss Account.
108. A partnership firm can maintain the capital account of partners on the method of fixed capital. In this method, the capital of partner's remains unchanged mainly the opening and closing balances in the capital account remain the same. If additional capital is introduced, then closing balance of capital will be different from the opening balance of capital.
109. Under the fixed capital account method, the transactions between the partners are recorded in a separate account. That account is called current account. The transactions between the firm and the partner recorded in the partner's current account are salary, fees, commission, interest on capital, shares in profit, reserves, goodwill, drawings, interest on drawings and share of losses.
110. Two accounts are maintained for each partner i.e. partner's capital account and partner's current account. Capital introduced at the beginning and if during the year, are recorded in capital account. Other current transaction like salary, fee and drawings are recorded in current account.
111. 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. All transactions of a partner are recorded in the capital account. Balance in capital account fluctuates with every transaction.

112. In fluctuating capital account of partner's all the transactions like salary, fee, interest on capital, drawings, interest on drawings are recorded along with opening balance of capital and additional capital introduced.
113. Two accounts are opened under fluctuating capital account method. These are partner's capital account and partner's drawing account.
114. 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.
115. The fixed capital of partners may change (i) when the partners invest additional capital and (ii) withdraw the excess amount of capital with mutual consent.
116. The five items are opening (debit) balance of capital, drawings, interest on drawings, profit and loss account debit balance and closing balance of capital.
117. 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 Balance Sheet.
118. 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 Balance Sheet.
119. 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 profit.
120. 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.
121. Goodwill is the reputation of a firm which is acquired in the course of time. As per the time value of money, goodwill may be defined as the present value of firm's anticipated excess earnings. It is the excess of expected future profit over the normal profit of the firm.
122. Goodwill is an intangible asset, which cannot be seen or touched. But it has an intrinsic value. It is an attractive force which brings in customers to old place of business.
123. 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.

124. By taking profit as the basis, goodwill is valued in any of the three methods: (i) average profit method, (ii) super profit method and (iii) capitalisation of profit method.
125. 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 totaled. Then the total profit is divided by the numbers of years agreed.
126. The average of the normal profits is multiplied by the number of year's 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.
127. 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.
128. 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.
129. Super profit is calculated by deducing 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 goodwill.
130. 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 current liabilities
 - (iii) proprietor's net capital employed means total assets less outside liabilities.
131. The capital employed in the beginning 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 capital employed at the beginning.
132. Average profit or super profit is capitalized 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.
133. Average profit is capitalized 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.

134. 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 goodwill. Super profit can also be capitalised to get goodwill.
135. 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.
136. Any change in the existing agreement of partnership, it is called reconstitution 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.
137. 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.
138. When there is change in the profit sharing ratio, some existing partners are to surrender some of their shares in favor of others. The ratio of surrender of the share of profit is called sacrificing ratio.
- Sacrificing ratio = Old share - New share
139. 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
140. 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.
141. 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 reconstitution of the firm.
142. 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.
143. An increase in the value of assets and decrease in the value of liabilities is gain to the firm. Similarly, a 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 profit sharing ratio.

144. 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.
145. 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 to gain to the partnership firm, credited to Revaluation Account and vice versa.
146. Any undistributed reserves, accumulated profits shown in the existing balance sheet are credited to old partner's capital account in the old profit sharing ratio if there is a change in constitution of the firm. Accumulated losses are debited to old partners in old profit sharing ratio.

The reserves and accumulated profit/ losses will not appear in Balance sheet.

147. 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.
148. 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.
149. Goodwill should be recorded in the books only when the new partner brings money or money's worth over and above his hare 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.
150. This method is adopted when the new partner brings his share of goodwill in cash. The old partners shares such cash paid by new partner in their sacrificing ratio.
151. The new partner's capital account is debited with his share of goodwill and old partner's capital accounts are credited in their sacrificing ratio.

New Partners Capital A/c.....Dr
 To Old partner's Capital A/c
 (Being share of new partner's goodwill shared by old partners)

152. Various Assets A/c.....Dr
 To Revaluation A/c
 (Being increase in assets credited to Revaluation Account)

153. Revaluation A/c.....Dr

To various Liabilities A/c

(Being increase in various liabilities debited to Revaluation Account)

154. (i) Cash A/c.....Dr

To Premium /Goodwill A/c

(Being goodwill brought in cash)

(ii) Premium A/c.....Dr

To Old partner's Capital A/c

(Being goodwill credited in sacrificing ratio)

155. In addition to the two journal entries given above in Q. No. 134, another entry for withdrawal is given below.

Old Partner's Capital A/c.....Dr

To Bank A/c

(Being goodwill withdrawn by old partners)

156. Goodwill is a way for compensating the old partner's 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.

157. C's Capital $\frac{1}{4}$ th the share = ₹24,000

(i) Estimated total capital of the firm = $24000 \times \frac{4}{1} = ₹96,000$

(ii) A and B's share profit = $24,000 \times 3 = ₹72,000$

(iii) Both combined capital of A and B = ₹40,000

(iv) Goodwill : (i) - (ii) = ₹72,000 - ₹40,000 = ₹32,000

158. Old ratio $\rightarrow P : Q :: 3 : 2$, 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 doesn't sacrifice. Only P sacrificed for R by $\frac{3}{5} - \frac{2}{5} = \frac{1}{5}$ th share

159. (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.....Dr (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)

160. If the date of drawings by a partner is not given, total drawing during the period is given, then the interest on drawing is calculated at the agreed rate for a period of six months. The assumption is that drawing is made uniformly throughout the year. For example a partner draws ₹50,000, the rate of interest being 6%.

$$\text{Interest on drawings} = ₹50,000 \times \frac{6}{100} \times \frac{1}{2} = ₹1,500$$

161. The minimum number of partners in a partnership firm is two. Maximum number of partners in a partnership firm is 50. But in banking partnership firm, maximum number of partners is 10.

162. A person can be a working partner without contributing any capital. He will receive his share of profit or loss with or without remuneration. However, it is possible if such proposition is provided in limited liability partnership agreement.

163. Partnership arises out of contractual relationship among partners. The contract or agreement among the partner may be oral or written. But always it is advisable to have the agreement in black and white.

164. A minor is not a partner in true sense of partnership. He can be admitted to the benefit of partnership with the consent of all partners. He is not personally liable for firm's debt. His property is only liable.

165. The persons who have entered into partnership with one another are individually called partners and collectively a firm. The partnership firm has no separate legal entity. It is merely a collective name for the members composing it. The business is carried on under the name of the firm.

166. Essential characteristics of partnership are:

- Partnership is an association of two or more persons.
- Partnership arises because of agreement among partners.
- Partnership carries out some business.
- Partners share the profit of the business.

167. (i) No remuneration as salary or commission is payable to any partner.

(ii) Profit and losses are to be shared equally.

(iii) No interest is payable on capital.

(iv) Interest @ 6 % p.a. is payable on loan/ advances given by a partner.

(v) No interest is to be charged on drawings made by partners.

168. When fixed capital account method is followed, a separate current account is opened for each partner in addition to capital account. Fixed capital means capital remains unaltered. Current account record transactions like interest on capital, interest on drawings, salary or commission to a partner, share of profit or loss.
169. Change in profit sharing ratio among the existing partners means reconstitution of the firm with admission/ retirement/ death of a partner. In such situation one or more partner(s) acquire share of profit from another partner(s) in a business. Aggregate gain by one (or more) partner(s) is equal to aggregate amount of sacrifice by other partners(s). In other words share of profit share of some partner(s) increases and other partner(s) decreases.
170. Factors affecting goodwill valuation are:
- (i) Nature of Business- Firm dealing with quality product earn more profit and more goodwill.
 - (ii) Suitable location- Business situated in central location earns more profit and more goodwill.
 - (iii) Management talent- A well-managed firm earns more profit and acquires more goodwill.
 - (iv) Degree of competition- If firm enjoy monopoly over product in market, it earns more profit leading to higher goodwill value.
171. Hidden goodwill means the value of goodwill is not specified at the time of admission of a partner. Hidden goodwill is the excess of desired capital of the firm over the actual combined capital of all partners.

Calculation of Hidden Goodwill

- A. Net worth (including goodwill) on the basis of capital brought in by incoming partner)
(Incoming partner's capital × Reciprocal of share of incoming partner)
 - B. (-) Net worth excluding goodwill (excluding goodwill of reconstituted firm, including incoming Partner's Capital Account)
 - C. Value of Goodwill = A - B
172. The reason for revaluation of assets and liabilities is that any increase or decrease in value of assets and liabilities upto the date of change in profit sharing ratio should be shared by the partners in their old profit sharing ratio. For this purpose a revaluation account is opened. Profit and Loss on revaluation is transferred to partner's capital account.

UNIT-IV

Accounting for Companies

173. 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 and employees.
174. It is a technique used for marketing a public offer of equity shares of a company. It is a way of raising more funds from the market.
175. Employees stock option (ESOP) means the option given to the whole time directors, officers or employees of a company to purchase or subscribe shares at a future date at a pre-determined price.
176. 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. The issue price of shares can be received by the company either in one/ more installments.
177. 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 cannot be less than 5 % of nominal value of shares.
178. 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 proceeds to allot shares.
179. 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 stipulated date.
180. The Board of Directors ask for the balance amount due on shares after receiving application and allotment money in a number of installments. Each installment is called a call or share call. The first installments is called share first call, and so like.
181. 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.
182. Securities premium can be utilized for
- (i) writing off the preliminary expenses of the company,
 - (ii) writing off the expenses of the commission paid / discount allowed on any issue of debentures.

183. As per Sec 53 of the Companies Act, 2013, there is a prohibition on issued 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.
184. The issued must be authorized by a special resolution passed by the company. The resolution must specify the numbers 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.
185. 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.
186. In case of over subscription, prorata allotment may be made. In a prorata allotment, no application is refused and no applicant is allotted the shares in full. Each applicant receives the shares in some proportion of his application.
187. If any amount has been called by the company either as allotment or call money and a shareholder 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.
188. If any call has been made by the company, the shareholders pay the calls money and some shareholders 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.
189. 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 forms or non- physical form. Now a days share is issued in electronic form.
190. 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 total capital of a company is divided in to shares. So it is called share capital.
191. This is 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.
192. 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 recognized stock exchange.
- An IPO is also commonly known as 'going public'.

193. When a company makes a bulk allotment to 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 at a pre-determined price.
194. Share certificate is a document issued by a company signifying the ownership of number of shares mentioned there 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.
195. 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.
196. A private limited company should have no minimum paid up share capital. The members have no right to transfer share. The maximum number of shareholders is limited to 200. It cannot invite public to subscribe to its shares and debentures.
197. A public limited company have no minimum paid up capital. It must have a minimum of seven members. There is no restricted on transfer of shares and number of members.
198. 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.
199. 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.
200. A small company should be private limited company. Its maximum paid up capital is of ₹50 lakhs or such higher amount as prescribed. Its turnover should not exceed ₹2 crores or higher amount as prescribed.
201. Shares carrying preferential rights as regards payment of dividend and repayment of capital are called preference shares. Preference shareholders generally do not possess voting rights. But they can vote when their interests are affected.
202. 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, debentures holders and other creditors. They will get the dividend after preference share.

203. 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.
204. 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.
205. It is the accumulated capital profits such as profit on sales of fixed assets, gain on forfeited shares etc. All such capital gains/ profits are transferred to one account called capital reserve account.
206. 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.
207. The forfeited shares become the property of the company. Such forfeited shares can be issued to new shareholders either at par or at a premium or at discount. It is called reissue of shares / forfeited shares.
208. 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.
209. The profit on reissue of forfeited shares is transferred to an account known as capital reserve account. This account is shown in liability side of balance sheet under the head 'Reserves and Surplus'. Capital reserve can be used for writing off capital losses.
210. After 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 as forfeiture of shares.
211. When a public limited company is confident of raising capital through private's sources, it does not invite the public for subscription of shares. Rather, it issue shares to selected group of persons or institutional investors and is known as private placement of shares.
212. 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'.

213. Share Capital A/c.....Dr (with the called up amount)
 To Share Allotment A/c (Amount due but not paid on allotment)
 To Share Call A/c (Amount due but not paid on call)
 To Share Forfeiture A/c (Amount paid)
 (Being Forfeiture of.....shares for non-payment of)
214. An issue is called under subscription of shares when the public application 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.
215. Lien on shares is an equitable charge on shares to secure any debt. The debt may be recovered from shareholders of the company. The effect of lien is that the company is given complete freedom to sell the shares under lien.
216. 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.
217. Redeemable Preference Shares are redeemable (repayment of capital) after a stipulated period of time according to term of issue. The fully paid preference shares are only redeemed. Preference shares are redeemed out of profit or out of fresh issue of share capital.
218. Participating Preference Shares are those shares, the holder of which get dividend in addition to preference dividend at a fixed rate. He is entitled to get a share in the surplus profit after paying dividend to equity shares shareholders at a particular rate.
219. Convertible Preference shares are those shares, the holders of which have a right to convert their holding into equity shares after a specific period of time. This right of conversion must be authorised by articles of association.
220. Expenses incurred on formation of company is known as preliminary expenses. It includes legal expenses, registration fees paid etc. upto getting certificate of incorporation of business. Such expenses are written off against statement of profit and loss, securities premium.
221. A public limited company issue prospectus to the public for inviting applications to subscribe to its shares. It contains the information like name and address of the registered office of the company, name and address of the directors, objects of the company, consent of SEBI for issue of shares, date of opening and closing of issue etc.

222. Equity shareholders participate in the divisible profits after payment of dividend to preference shareholders. They are the real owner of the company. They have voting right in the meeting of the company. At the time of liquidation, equity shareholders get back their capital after paying to preference shareholders.
223. When shares are issued at a price more than the face value or nominal value of shares, it is said to be issued at premium. If face value of share ₹10, shares issued at ₹15, shares are issued at a premium of ₹5. The amount of premium is credited to securities premium account. As per Companies Act, 2013 there is no restrictions on issue of shares at premium and amount of premium.
224. The amount of securities premium is credited to a separate account called 'Securities Premium Account' or 'Securities Premium Reserve Account'. As per schedule III of the Companies Act, 2013, securities premium Reserve will be shown under subhead 'Reserve and Surplus' under the head shareholder's fund. Securities Premium is capital profit.
225. Cumulative Preference shares are those shares the holder has the right to receive arrears of dividend before any dividend paid to equity shareholders. Non-cumulative preference share are those shares, the holder of which is not entitled to get arrear dividends out of the profit of subsequent years.

Accounting for Debentures

226. Debenture is a written acknowledgement of a debt by a company under its common seal. The debenture holder is entitled to a fixed rate of interest. Debenture holders are the creditors of the company.
227. When debentures are issued in one lot for the sake of convenience, it is called debenture stock. It is a loan contract issued by a company specifying on obligation to return borrowed fund and pay interest. Stock certificate is issued by the lender.
228. The debentures issued without any security is called naked/unsecured debentures. It does not carry any security in respect of repayment of principal or interest. Such debentures are not common these days.
229. Secured or mortgage debentures are those debentures which are secured by a charge against the assets of the company. If debentures are secured by specific assets, these are called secured debentures having fixed charge. If all assets are given as security, it is called floating charge secured debenture.

230. The debentures which are transferred to mere delivery are called bearer debenture. The company does not keep any record of names and addresses of the debenture holders. Interest is paid irrespective of identity.
231. The debenture holders get interest at a predetermined fixed rate on their investment on debentures. It is payable at certain intervals i.e. half yearly or annually. Payment of interest is not affected by profitability of the company interest on debenture is a revenue expenditure and charged against statement of profit and loss.
232. Redeemable debentures are those debentures which is repaid by the company after a specified period of time. It is repayable either in lump sum or in installments. It is repayable during life time of the company.
233. Irredeemable or perpetual debentures are those debentures which are not repaid during the life time of the company. Such debentures are repaid into at the liquidation of the company. As per Companies Act, 2013, no company is allowed to issue such type of debentures.
234. Convertible debentures are those debentures which are convertible into equity shares or other securities after a specified period of time of the option at the debenture holders. It is converted at a stated rate of exchange. Convertible debenture may be fully convertible or partly convertible debenture.
235. Registered debentures are those debentures which are registered in the name of the holder in the books of the company. Name and address of the holders of registered debenture are recorded in the register of the company. Such debentures are not freely transferable.
236. Various forms of issue of debentures are :
- (i) Issue of debenture for cash
 - (ii) Issue of debenture for consideration other than cash.
 - (iii) Issue of debenture as collateral security.
237. When debentures are issued at a price less than the face value or nominal value, it is said debenture issued at discount. For example issue of debenture of Rs. 100 each issued at Rs.90 per debenture. There is no restrictions regarding maximum limit for discount on debentures of the company.
238. From the priority point of view debentures are classified as first debentures and second debentures. First debentures are those debentures which are repayable prior to other debentures. Second debentures are those debentures which are repayable only after the redemption of first debentures.

239. Collateral debentures are those debentures which may be issued to banks and financial institutions in addition to principal security. The lenders can exercise their right as debenture holders, if the company fails to repay the loan or the principal security falls short. Such debentures are issued on temporary basis. The banker refund the debentures after the repayment of loan.

240. The debentures which will be repaid after the first debentures are redeemed are known as second debentures. For example a company has issued first debentures amounting ten lakh rupees and second debentures amounting Five lakh rupees. The second debenture amounting five lakh rupees will be repaid after payment of first debenture amounting ten lakh rupees.

241. Date	Particulars if	Amount Dr. ₹	Amount Cr. ₹
	When interest is due :- Debenture Interest A/c Dr. To Debenture holders A/c (Being interest due to debenture holder) On payment of interest :- Debenture holder's A/c Dr. To Bank A/c (Being debenture interest paid)		

242. Discount on issue of debenture is a capital loss. It can be written off against Securities Premium Reserve Account or Statement of Profit and Loss. Discount on issue of debentures is recorded usually at the time of allotment by debiting discount on issue of Debenture Account ?

243. Debenture holders are lender / creditor of the company. Shareholders are owner of the company. Debenture holders will get the interest at a specified rate irrespective of Profit / Loss shareholders will get divided only out of profit. Debenture holders have priority over shareholder in getting back the principal amount. Hence debenture holders are more secure in comparison to shareholders.

GROUP - B

SHORT TYPE QUESTIONS

B. SHORT QUESTIONS TO BE ANSWERED (3 MARKS EACH)

UNIT-I

Final Accounts of Sole Trade from of Organization

1. What are the characteristics of Balance Sheet?
2. What is the purpose of Balance Sheet?
3. A Balance Sheet always agrees- why?
4. Explain the ways of arranging assets and liabilities in the Balance Sheet.
5. What are the various types of liabilities?
6. Which items are shown on the debit side of Trading Account?
7. What is the 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 adjustments?
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 adjustments?
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 bad debts recovered later?
22. Narrate the current assets.
23. Why Balance Sheet is called '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. Explain the difference between capital expenditure and revenue expenditure.
27. Explain the difference between capital receipt and revenue receipt.
28. What is the difference between capital profit and revenue profit?

29. Distinguish between capital loss and revenue loss.
30. How is manager's commission on net profit calculated while preparing final account?
31. Give the accounting treatment of goods destroyed by fire under different situations with suitable example.
32. Show the treatment of goods used for personal purpose of proprietor.
33. Show the treatment of goods as free sample in final accounts with suitable example.
34. How can you ascertain cost of goods sold? Explain with an example.
35. What is adjusting entry?
- Not for Profit Organisations**
36. Name the books maintain by 'not for profit' organization.
37. Differentiate between Receipts and Payments Accounts and Income and Expenditure Accounts.
38. Write differences between Income and Expenditure Account and Profit and Loss Account.
39. Explain treatment of donations in the financial statement of 'not for profit' organization.
40. How special fund is treated in the final accounts of 'not for profit' organization.
41. What do you mean by subscription ? Show its accounting treatment in the books at 'not for profit' organization.
42. Show the calculation of Capital Fund with an example.
43. What is an Endowment Fund ?
44. Which is government grants ? Show its accounting treatment.
45. From following information of Moon Club show the treatment in the income and expenditure account and balance sheet.

Receipts and Payments Account for year ending 31.03.2022

Dr.		Cr.	
Receipts	₹	Income	₹
		By Sports Material	6,500
Balance Sheet as on 01.04.2021			
Liabilities	₹	Assets	₹
Creditors for Sport Material	1,100	Sports Material	700

Additional Information : Sports materail on hand on 31.03.2022 was valued at ₹1,500.

UNIT-II

Accounting for Depreciation and for Incomplete Records (single entry)

46. Write the advantages of straight line method of depreciation.
47. What are the disadvantages of straight line method of depreciation?
48. Write the advantages of diminishing balance method of depreciation.
49. What are disadvantages of diminishing balance method of depreciation?
50. Distinguish between Depreciation Account and Provision for Depreciation Account.
51. Write the important features of depreciation.
52. State the main causes of depreciation.
53. Which factors determine the amount of depreciation?
54. What are the needs for providing depreciation?
55. Distinguish between straight line method and written down value method of depreciation.
56. Show the calculation of depreciation under reducing balance method of depreciation for three years with an imaginary example.
57. Show the calculation of profit on sale of depreciable asset with an imaginary example.
58. State the objectives for providing depreciation.
59. Explain the characteristics of depreciation.
60. What do you mean by cost of an asset and working life of an asset?
61. What do you mean by accounting from incomplete records or single entry system?
62. Give some examples of incomplete records.
63. State the features of single entry system.
64. What are the limitations of single entry system?
65. Give three differences between single entry and double entry.
66. Give three differences between Balance Sheet and Statement of Affairs.
67. How is profit ascertained by Single entry system?
68. How profit is determined under net worth method?
69. Give the proforma of a Statement of Affairs.
70. Give a format for ascertaining profit under single entry.
71. Explain the advantages of single entry.
72. Explain the limitations of single entry system of accounting.

UNIT-III

Accounting for Partnership firm

73. What do you mean by 'Fixed Capital' system?
74. What is 'Fluctuating Capital' system?
75. What do you mean by 'Current Account' in partnership?
76. What is 'Revaluation Account' or 'Profit and Loss Adjustment Account'?
77. When and why 'Memorandum Revaluation Account' is opened?
78. What do you mean by sacrificing ratio?
79. What do you mean by 'Profit and Loss Appropriation Account'?
80. Give three factors affecting the value of goodwill.
81. What do you mean by 'gaining ratio'?
82. Give a note on 'Average Profit Method' of valuation of goodwill.
83. What is super profit method of valuation of goodwill?
84. Give the circumstances where valuation of goodwill is necessary.
85. Why a new partner is admitted into a continuing partnership firm?
86. How accumulated profit is treated on the admission of a new partner?
87. How accumulated losses will be treated at the time of admission of a new partner?
88. Give six contents of Partnership Deed.
89. Narrate the provisions of Partnership Act, 1932 in the absence of a Partnership Deed.
90. Distinguish between Fixed Capital System and Fluctuating Capital System.
91. Distinguish between Profit and Loss Account and Profit and Loss Appropriation Account.
92. State the nature of goodwill.
93. How will you compute the commission payable to a partner based on net profit?
94. Mention item that may appear on the credit/ debit side of the current account of a partner when capitals are fixed.
95. Distinguish between revaluation account and memorandum revaluation account.
96. Distinguish between sacrificing ratio and gaining ratio.
97. Name the situation when reconstitution of partnership takes place.
98. Give a specimen of revaluation account.
99. X and Y are two partners, drew for private use ₹2,00,000 and ₹1,00,000 respectively. Interest chargeable is 10% p.a. on drawings. What is the total interest chargeable to X and Y?
100. X advanced a loan of ₹2,00,000 to the partnership firm, without any agreement with his co-partner Y on 01.07.2020. Calculate the amount of interest on loan payable by the firm to X for the year ending 31st March 2021.

UNIT-IV

Accounting for Companies

101. What do you mean by equity shares?
102. What do you mean by preference shares?
103. What do you mean by stock?
104. Distinguish between shares and stock.
105. How securities premium be used by the company?
106. What are the provisions of Section 53 of the Companies Act, 2013 regarding issue of shares at discount?
107. State the different methods of issuing Sweat Equity Shares.
108. What is the treatment of forfeiture of shares issued at premium?
109. Give three differences between preference shares and equity shares.
110. What is reissue of forfeited shares?
111. State any three differences between private limited company and public limited company.
112. Explain the difference between calls-in-arrear and calls-in-advance.
113. State the provision of Table F of Schedule I of the Companies Act, 2013 which is applicable in absence of the Articles of Association.
114. State the provision of Joint application.
115. Explain the provision relating to 'Rejection of express applications'.

Accounting for Debentures

116. Explain debentures issued at premium.
117. What are the accounting treatment for issue of debenture at discount ?
118. What is meant by "debentures issued for consideration other than cash".
119. Write the name of different types of debentures ?
120. State three difference between share and debenture ?
121. Explain the debentures on the basis of convertibility.
122. What are the main features of debentures ?
123. Explain briefly issue of debenture at par at discount and at premium with imaginary examples.
124. Give the journal entry for debentures issued at discount but redeemable at premium. Also show the redemption entry.
125. Pass journal entry for issue 10 debentures of Rs.100 each at par but redeemable at 10% premium.

ANSWER KEYS

GROUP - B

B. SHORT QUESTIONS TO BE ANSWERED (3 MARKS EACH)

UNIT-I

Final Accounts of Sole Trade from of Organization

1. The characteristics of a Balance Sheet are as follows:
 - Balance Sheet is a Statement not an account.
 - It is a summary of balances of assets 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 nature 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 cannot 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 cannot 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.
 - Long term liability like debentures of a company, mortgage loan.
 - Current liability like sundry creditors, bills payable and bank overdrafts 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:

$$\text{Cost of goods sold} = \text{Opening stock} + \text{Net purchases} + \text{Direct expenses} - \text{Closing stock}$$

8. The closing entries in the Trading Account are:

- In the debit side
 - Trading A/c.....Dr
 - To Opening Stock A/c
 - To Purchase A/c
 - To Direct Expenses A/c
 - To Sales Return A/c
- In the credit side
 - Sales A/cDr
 - Closing Stock A/cDr
 - To Trading A/c
- If gross profit
 - Trading A/c.....Dr
 - To Profit and Loss A/c
- If gross loss
 - Profit and Loss A/c.....Dr
 - To Trading A/c

9. The closing entries in the Profit and Loss A/c are:

- In the debit side
 - Profit and Loss A/c.....Dr
 - To indirect Expenses & Losses

- In the credit side
Revenue Income/ gains A/c.....Dr
 To Profit and Loss A/c
- For net profit
Profit and Loss A/c.....Dr
 To Capital A/c
- For net loss
Capital A/cDr
 To Profit and 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 expenses in the debit side of Trading A/c (if it is direct expenses) 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 sundry debtors may not pay their debt in full. The total credit sales cannot 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 deducted 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 subtracted from sundry creditors in liabilities side of Balance Sheet. The adjustment entry is:

Provision/ Reserve for Discount on Creditors Ac.....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 information 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 accounting period.
15. When the size of a manufacturing undertaking is small, it is unable to install cost accounting procedures. So that undertaking wants to know the cost of goods produced by preparing manufacturing 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 asset 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 the Profit and Loss Account, accrued income is added to the particular income and again it is shown in the assets side of the 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 is shown in the assets side of the 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 the Balance Sheet. If it is given in the Trail Balance, it is to be shown in the liabilities side of the 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 required 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, bills, 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 partner's / proprietor. It is gain to the business and credited to Profit and Loss Account. Interest on drawings is added to drawings and deducted from capital.

25. Assets acquired 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. Capital expenditure improves the earning capacity of the business. Revenue expenditure is incurred to maintain the earning capacity.

Capital expenditure is incurred to acquire fixed assets for operation of business. Revenue expenditure is incurred for day to day operation of business.

Capital expenditure is non-recurring in nature. Revenue expenditure is recurring in nature.

Capital expenditure gives the benefit for more than one accounting period. Revenue expenditure gives benefit during one accounting year.

27. Capital receipt implies an obligation to return the money or sale of fixed asset. For example, capital invested in the business, long term loan, sale of fixed assets are capital receipt.

But revenue receipt does not imply obligation to return money or is not inform of sale of fixed assets. For example money received on sale of goods, interest, commission etc.

Capital receipts are reflected in the balance sheet. Revenue receipts are transferred to profit and loss account.

28. Profit earned on sale of fixed assets, premium on issue of shares and debentures, profit on re-issue of forfeited shares, profit prior to incorporation of the company are capital profits. Profit earned during normal course of business is called revenue profit.

Capital profits are usually shown as capital reserve on the liabilities side of the balance sheet. Revenue profit earned is not transferred to capital account. It is kept in a separate account known as surplus account.

Capital profits are non-recurring in nature. Revenue profits are recurring in nature.

29. Loss incurred on sale of fixed asset, discount on issue of debentures, premium on redemption of preference shares or debentures are called capital losses. Revenue losses are incidental to the day to day business operation. These are excess of revenue expenditure over the revenue income, loss of stock by fire, bad debts, misappropriation of goods are treated revenue loss.

Capital losses are non-recurring in nature. Revenue losses are recurring in nature.

30. Manager's commission is calculated as percentage of profit either before charging such commission or after charging such commission.

Commission payable (Before charging such commission):

$$\text{Manager's commission} = \frac{\% \text{ of commission}}{100} \times \text{Net Profit before charging such commission}$$

Commission payable (After charging such commission):

$$\text{Manager's commission} = \frac{\% \text{ of commission}}{(100 + \% \text{ of commission})} \times \text{Net Profit before charging such commission}$$

31. Goods lost by fire ₹2,00,000. Give accounting treatment in final accounts-
- a) If goods were not insured.
 - b) If goods were fully insured.
 - c) If goods were partially insured. (70 %)

Accounting Treatment
Treatment in Trading Account

Dr.

Cr.

Particulars	(₹)	Particulars	(₹)
		By loss by fire A/c (If goods not insured)	₹ 2,00,000
		By Loss by fire (If goods fully insured)	₹ 2,00,000
		By Loss by fire (Goods partially insured)	₹ 2,00,000

Treatment in Profit and Loss Account

Dr. Profit and Loss Account

Cr.

Particulars	(₹)	Particulars	(₹)
To loss by fire A/c (Goods not insured)	₹ 2,00,000		
No Entry (Goods fully insured)			
To Loss by fire (Goods partially insured- 70 %)	₹ 60,000		

Treatment in Balance Sheet

Dr. Balance Sheet

Cr.

Liabilities	(₹)	Assets	(₹)
		No Entry (If goods not insured)	
		Insurance claim (Goods fully insured)	₹ 2,00,000
		Insurance claim (70 % of ₹ 2,00,000)	₹ 1,40,000

32. Goods used by proprietor for private use is called drawing of goods by proprietor.

The Adjustment entry is as follows:

Drawing Account.....Dr
 To Purchase Account

(Being goods withdrawn for personal use)

Accounting Treatment

(i)	Treatment in Trading Account	Shown as deduction from purchase account
(ii)	Treatment in Balance Sheet	Deducted from Capital Account as drawings of goods

33. Goods distributed as free sample ₹10,000. The adjustment entry for goods distributing as free sample.

Advertisement Account.....Dr 10,000

Or

Free Sample Account.....Dr 10,000

To Purchase Account.....10,000

Accounting Treatment

(i)	Treatment in Trading Account	Shown as deduction from Purchase Account ₹10,000
(ii)	Treatment in Profit and Loss Account	Shown advertisement expenses on the debit side ₹10,000

34. Given : Opening stock ₹30,000, Purchases ₹1,20,000, Purchase return ₹10,000, Sales ₹1,80,000, Sales Return ₹20,000, Direct expenses on purchase ₹20,000, Closing stock ₹40,000.

Cost of goods sold = Opening Stock + Net Purchases + Direct Expenses on Purchase - Closing Stock

$$\begin{aligned} \text{Cost of goods sold} &= ₹30,000 + (₹1,20,000 - ₹10,000) + ₹20,000 - ₹40,000 \\ &= ₹30,000 + ₹1,10,000 + ₹20,000 - ₹40,000 \\ &= ₹1,60,000 - ₹40,000 = ₹1,20,000 \end{aligned}$$

35. An adjusting entry is simply an adjustment in the books of accounts to make the financial statement more accurately reflect the income and expenses. This can be at the end of the month or at the end of the year. For example salary outstanding ₹10,000.

Adjustment entry for recording outstanding salary:

Salary Account.....Dr	10,000
To Outstanding Salary	10,000

(Being outstanding salary recorded)

Accounting Treatment

(i)	Treatment in Profit and Loss Account	Add to salary on the debit side ₹10,000
(ii)	Treatment in Balance Sheet	Shown in liabilities side outstanding salary ₹10,000

36. Most transactions of 'not for profit' organization are in cash. So they maintain Receipts and Payments of Cash. This is known as Receipts and Payments Account. Besides this book, they maintain member's Register, Personal Ledger like Collection Register, Donor's Register, Stock Register, Minutes Book etc. At the end of each accounting period they prepare Income and Expenditure Account and Balance Sheet.

37. Receipts and Payments is a real account whereas Income and Expenditure Account is a Nominal Account.

The objectives at Receipts and Payments Account is to give a Summary of Cash receipts and Cash Payments. But the objective of Income and Expenditure Account is to ascertain the surplus or deficit of its financial operation.

Receipts and Payments Account starts with opening balance of Cash-in-hand / at Bank. But Income and Expenditure Account has no opening balance.

Receipts and Payments Account records all receipt and payments of Cash both revenue and capital. But Income and Expenditure Account records revenue expense / losses and revenue incomes.

38. Income and Expenditure Account is prepared to 'not for profit' organisation. Profit and Loss Account is prepared to Trading and Commercial Organisation.

Income and expenditure account is prepared on the basis of receipts and payments account. Profit and loss account is prepared on the basis of Trial Balance.

The objective at income and expenditure account is to ascertain the surplus or deficit. The objective of Profit and Loss Account is to ascertain net profit or net loss.

Closing balance of income and expenditure account is transferred to Capital fund. Closing balance of profit and loss is transferred to Capital Account.

39. All specific donations are to be capitalized. These are written on the liabilities side of the Balance sheet i.e. general donation is considerably and large amount, it is to be capitalized and added to Capital Fund in the Balance Sheet i.e. general donation is considerably small amount, it is treated as an ordinary revenue income. It is credited to income and expenditure account.
40. The special fund is normally invested in bank or an government securities. Any income accrued to such special fund is added to it and any expenditure on this fund is subtracted from such special fund. The special fund is shown in the liabilities side of the balance sheet.
41. Subscription is a periodical contribution of a specific amount to the members to a 'not for profit' organization. It is regular / recurring income of the club or society. It is the main source of income of the organization. The income and expenditure of the organisation is credited with the subscription amount of current accounting period whether received or not. For example subscription received i.e. ₹25,000. Subscription outstanding at the end of the year is ₹4,000. Subscription received in advance at the end of the year is ₹2,000. The income and expenditure account is credited with ₹27,000 (i.e. ₹25,000 + ₹4,000 - ₹2,000). Subscription amounting ₹4,000 outstanding will be shown as asset in the balance sheet. Subscription amounting ₹2,000 received in advance will be shown in the balance sheet as liabilities.
42. Capital Fund is the excess of assets over the total outside liabilities. It is shown in the liabilities side of the balance sheet. For example the position of assets and liabilities an a particular date is Land and Building ₹2,00,000. Machinery ₹50,000, Furniture ₹30,000. Subscription outstanding ₹5,000, cash in hand ₹6,000, cash at bank ₹22,000, subscription received in advance ₹3,000.

Capital Fund will be educated as follows :

Balance Sheet as on

Liabilities	₹	Assets	₹
Subscription received		Land and Building	2,00,000
in advance	3,000	Machinery	50,000
Capital Fund	3,10,000	Furniture	30,000
(Balancing figure)		Subscription Outstanding	30,000
		Cash in hand	6,000
		Cash at bank	22,000
	3,13,000		3,13,000

43. Endowment Fund is a permanent fund created to the 'not for profit' organisation. It is created out of request or gift etc. It is a capital receipt. It is shown in the liability side of the balance sheet. It represent permanent source of income to a 'not for profit' organization. Any interest received from endowment fund investment is credited to income and expenditure account.
44. Grant from state government, central government, national and international agencies is a source of income for 'not for profit' organization grants are received for maintenance and development. The grants for maintenance is meant for stay to expense of the organization. It is treated as revenue income and credited to income and expenditure account. Grants for development purpose are non-recurring in nature and are capital receipt. These are shown in liabilities side of balance sheet.

45. **Income and Expenditure Account for the year ending 31.03.2022**

Dr.		Cr.	
Expenditure	₹	Income	₹
To consumption of raw materials			
Opening stock	700		
Add : Purchase of sports material	6,500		
	<u>7,200</u>		
Less : Creditors paid for previous year	1100		
Less Closing Stock (as on 31.3.2022)	1500		
	2,600		
	4,600		
Liabilities	₹	Assets	₹
		Sports Material	1,500

UNIT-II

Accounting for Depreciation and For Incomplete Records (single entry)

46. Advantages of straight line method of depreciation 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 book 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.

47. The disadvantages of straight line method are as follows:

- This method wrongly assumes that the asset has same utility in different accounting periods. But the efficiency of the asset is reduced every year.
- The repairs and maintenance cost go on increasing as the assets grew older and its depreciation 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 recognized by Income Tax Department.

48. 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 recognized by Income Tax Department.

49. Disadvantages of diminishing balance method of depreciation 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.

50. 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 depreciation 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 Balance Sheet.
- iii) At the time of charging depreciation provision for depreciation account is credited.
- iv) Provision for Depreciation A/c always shows credit balance.

51. The features of depreciation are:

- Depreciation is the decrease in the value of a fixed asset.
- It is a non-cash/ non-monetary expenses.
- Depreciation 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 estimation is made for charging depreciation of fixed assets.

52. The main cause 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 because of exhaustion of stock. For examples - mines, quarries, oil wells get exhausted after every ton of minerals raised/ extracted.
- Obsolescence- Due to technological development and new invention, the value of an existing asset may decrease.
- Accident- An accident will reduce the value of the asset.

53. These following factors determine the amount of depreciation:

- Cost of the assets: 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 or 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.

54. The need for/ objectives of providing depreciation are:

- To ascertain the true profit/ loss.
- To show the correct financial position.
- To facilitate the replacement of the existing fixed asset.
- To save Income Tax.

55. Distinction between straight line method and written down value method of depreciation.

Straight Line Method

- (i) The rate and amount of depreciation remain the same year after year.
- (ii) Depreciation is calculated as 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 assets life.

Written down value Method

- (i) The rate remains same but amount of depreciation 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.

56. For example cost of an asset is ₹2,00,000. Rate of depreciation is 10%. Under reducing balance method, the depreciation is calculated as under:

	₹
Cost of the asset	2,00,000
Less: Depreciation for 1 st year (10 % of ₹2,00,000)	20,000
Written down value in the beginning of 2 nd year	1,80,000
Less : Depreciation for 2 nd year (10 % of ₹ 1,80,000)	18,000
Written down value in the beginning of 3 rd year	1,62,000
Less: Depreciation for 3 rd year (10% of ₹1,62,000)	16,200
Written down value at the end of 3 rd year	1, 45,800

57. A vehicle is purchased for ₹5,00,000. Depreciation is provided @10% p.a. on straight line method. The vehicle is sold for ₹3,80,000. The date of purchase is 1st January 2019. The date of sale is 31st December 2021.

Calculation of Profit on Sale

	₹
A. Total cost of the vehicle	5,00,000
B. Depreciation from the date of purchase to date of sale (₹ 5,00,000 × $\frac{10}{100}$ × 3)	1,50,000
C. Book value on the date of sale	3,50,000
D. Selling Price	3,80,000
E. Profit on sale (D- C)	30,000

58. The objective of providing depreciation are as follows:
- a) True profit of the business cannot be ascertained without providing the depreciation.
 - b) True and fair view of the financial position of the business will not be revealed as asset will be overstated.
 - c) Depreciation is to be provided to replace an old asset with a new one.
 - d) Depreciation is charged at a fixed rate prescribed by Income Tax. Profit and losses are calculated after charging depreciation to calculate tax liability.
59. The characteristics of depreciation are as follows:
- a) Depreciation is a non-cash expense.
 - b) The term depreciation is applicable to fixed assets.
 - c) Depreciation is a charge against profit.
 - d) Depreciation is charged on the asset whether the asset is used for full year or part of the year.
 - e) Depreciation is a continuous fall in the value of asset till its entire cost is exhausted.
60. Cost of an asset implies cost incurred in acquisition of the asset and cost incurred to put the asset into useful condition. For example, a machinery is purchased for ₹5,00,000, transportation cost incurred ₹10,000, Installation expenses ₹30,000. For the purpose of depreciation, the cost of the asset is ₹5,40,000. Working life of an asset means either number of year the asset is expected to be used or number of units to be produced or number of working hours of asset during its lifetime. It can also be number of kilometer to run during useful life.
61. 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.

62. 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 writing of depreciation, deferred revenue expenditure is not at all recorded in the books of account.
63. The features of single entry system are:
- Maintenance of personal accounts.
 - Maintenance of cash book in crude/ raw form.
 - Dependency of original vouchers.
 - No uniformity.
 - Suitable to small business units.
64. The limitations are:
- Arithmetic accuracy cannot be checked.
 - True profit cannot be ascertained.
 - True financial position cannot 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 recognized by law.
65. 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.

66. The differences are:

Balance Sheet

- (i) It is prepared under double entry system.
- (ii) It is prepared 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 beginning of the accounting period.

67. 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 beginning and at the end of the accounting period. In conversion method first of all single entry is converted/ changed into double entry by determining the missing items. Then profit/ loss is ascertained by preparing Trading, Profit and Loss Account.

68. Profit under net worth method is determined as follows:

- Prepare statement of affairs at the beginning of the accounting period to find out capital at the beginning.
- 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 beginning capital is the profit or loss.

69. The proforma of a Statement of Affairs is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry creditors	?	Cash in Hand	?
Bills Payable	?	Cash in Bank	?
Outstanding Expenses	?	Sundry Debtors	?
Bank Overdraft	?	Bills Receivable	?
Income Received in Advance	?	Stock	?
Loans	?	Prepaid Expenses	?
Capital (Balancing figure)	?	Accrued Income	?
		Fixed Assets	?

70. Format for showing profit/ loss for the period ending:

Capital at the end of the accounting Period	?
Add : Drawings (whether cash /kind)	(+) <u>?</u>
Less: Adjusted capital introduced during the period	?
Adjusted capital at the end of the period	(-) <u>?</u>
Less: Capital at the beginning of the period	?
Profit/Loss for the accounting period	<u>?</u>

71. Maintaining the accounts under double entry system involves a lot of expenditure. Again the accountant must have clear knowledge about the system. The small business units cannot afford for it. So the businessman maintains the cash book in a rudimentary form and personal accounts of debtors and creditors. So it is better to follow single entry and earn livelihood.

72. Following are the limitations of single entry system:

- a) Trial Balance cannot be prepared. Hence arithmetic accuracy of the accounts cannot be checked.
- b) In the absence of complete information true profit or loss of the business cannot be ascertained.
- c) True financial position of the business cannot be ascertained as correct profit cannot be ascertained and correct assets and liabilities cannot be ascertained.
- d) Legal authorities like Income Tax, Court, other Tax authorities do not recognise the records under this system.
- e) Goodwill of the business cannot be valued as it is not possible to ascertain the net worth of the business.

UNIT-III

Accounting for Partnership firm

73. In 'fixed capital' system two accounts are opened for each partner such as 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.

74. In 'fluctuating capital' system one account for each partner is opened called partner's capital account. All entries relating to partner's 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 beginning of the accounting period. Partners drawing account may be opened for drawings in cash or kind and interest on drawings which are debited to partner's capital account.
75. In fixed capital system, partner's current account is opened for each partner in addition to partner's 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 account. Current account is subjected to fluctuation and may show either a credit or debit balance. But the capital accounts of partners will always show credit balance.
76. 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 whenever 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 the 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 partner's capital/ current accounts in their old profit sharing ratio.
77. If all the partners including the newly admitted partners 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 to 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.
78. 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.
79. This account 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 interest on capital, salary commission etc. are debited and items like interest on drawings are credited to this account. The balance of profit in this account at the end of the accounting period is distributed among partners in the profit share ratio or equally.

80. The following factors affect the value of goodwill:
- (i) Location- A favorable location of a business has positive effect on the value of goodwill.
 - (ii) Time- A business continuing over a period of time has more goodwill since it has more patronized customers.
 - (iii) Nature of business - The nature of a business such as trading in goods, risk involved, monopolistic competition etc. will affect the value of goodwill.
81. 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 sharing ratio or may be some other ratio. In other words, gaining ratio is the proportion in which a partner receives an increased 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
82. Under this method, the average annual profit 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 foreseeable 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 etc.
83. 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 calculated by this method as follows:
- Goodwill = Super profit × Number of years purchases. Sometimes super profit is also capitalized.
84. 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.

85. 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.

86. 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 accumulated profit account and those will be shown in the new Balance Sheet as entry is passed.

Gaining Partner's capital AccountDr (with his shares)

To sacrificing Partner's Capital Account

87. 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 partner's capital 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 AccountDr (with his share)

To Gaining Partner's Capital Account

88. The six contents are:

- Name of the firm
- Name and address of the 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

89. 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.
90. The distinctions are:
- Fixed Capital system
- (i) Normally the balance in the capital accounts remains unchanged unless further capital 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.
91. 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 extension of Profit and Loss Account.
92. 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.
93. Commission may be allowed to partners at the partnership firm as a percentage on net profits earned by the firm. It may be calculated as a percentage of net profit before charging such commission or after charging such commission.

Commission on Net Profit before charging commission

$$\text{Commission} = \text{Net Profit before commission} \times \frac{\text{Rate of commission}}{100}$$

Commission on Net Profit after charging commission

$$\text{Commission} = \text{Net Profit before commission} \times \frac{\text{Rate of commission}}{100 + \text{Rate of commission}}$$

94. Current accounts are maintained to record transactions other than introduction of capital and withdrawal of capital such as interest on capital, interest on drawings, salary or commission payable to partners, share of profit and losses etc. Balance of current account fluctuates with every transaction with the partner.

Current account of each partner is debited with:

Drawings made by him, interest on drawings, share of loss

Current account of each partner is credited with:

Interest on capital, salary or commission, share of profit.

95. (a) Revaluation account is prepared to record effect of revaluation of assets and liabilities when these appear at their revised figures. Memorandum revaluation account is prepared to record the effect of revaluation of assets and liabilities which appear at their old figures.
- (b) Revaluation account is not divided into two parts. Memorandum revaluation account is divided into two parts. First part to record the change in the value of assets and liabilities and the second part to neutralize the changes recorded in the first part.
- (c) The balance in revaluation account is transferred to the old partner's capital account in old profit sharing ratio. The balance in first part is transferred to old partner's in old profit sharing ratio. The balance (profit/ loss) in the second part is transferred to the capital account of all partners in new profit sharing ratio.
96. At the time of change in profit sharing ratio, one or more existing partner's surrenders a portion of their old share in favour of one or more partners. The partner(s) surrendering are sacrificing partner(s). The partner(s) who gain in profit sharing ratio is known as gaining partner(s).

Sacrificing ratio = Old profit sharing ratio - New profit sharing ratio

Gaining ratio = New profit sharing ratio - Old profit sharing ratio

The sacrificing ratio determines the compensation to be paid by gaining partners.

Objective of calculating gaining ratio is same as sacrificing ratio.

97. The various situation leading to reconstitution of partnership takes place

- (i) Change in profit-sharing ratio.
- (ii) Admission of a new partner.
- (iii) Retirement of a partner.
- (iv) Death of a partner.
- (v) Insolvency of a partner
- (vi) Amalgamation of two partnership firms.

98. Specimen of Revaluation Account

Dr

Cr

Particulars	(₹)	Particulars	(₹)
To Assets Account Individually (Decrease in value on revaluation)		By Assets A/c (Individually) (Increase in value)	
To liabilities (individually) (Increase in reassessment)		By Liabilities A/c (Individually) (Decrease in reassessment)	
To Partner's Capital Accounts (Individually) (Profit on revaluation)		By Partner's capital Account (Individually) (Loss on revaluation)	

99. If the date of drawing by a partner is not given and total amount of drawing during the period is given, the interest on drawing is calculated at the agreed rate for a period of six months. The assumption is that drawings is made by the partner's uniformly throughout the year.

Interest on drawing

$$X = ₹2,00,000 \times \frac{10}{100} \times \frac{6}{12} = ₹10,000$$

$$Y = ₹1,00,000 \times \frac{10}{100} \times \frac{6}{12} = ₹5,000$$

100. As per Partnership Act, 1932, in absence of any agreement to the effect of interest on loan, interest @ 6 % p.a. is payable to the partner.

$$\text{Interest payable on loan to X} = ₹2,00,000 \times \frac{6}{100} \times \frac{9}{12} = ₹9,000$$

UNIT-IV

Accounting for Companies

101. 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 guaranteed. The rate of dividend is not fixed. The equity shares have not any preferential right as to dividend and return of capital.
102. Preference shares are those shares which carry preferential right with regard to repayment of capital and payment 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.
103. 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 share. The value of stocks depends upon the number of fully paid up shares being consolidated. A company cannot make an original issue of stock. Articles of Association gives permission for conversion of shares to stock.
104. 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.
- Stocks
- (i) A stock is always fully paid.
 - (ii) A stock has no nominal/ face value.
 - (iii) Stock can be transferred in fraction.
 - (iv) Stock does not have a distinct number.
 - (v) Stocks cannot be directly issued to public.
105. The securities premium may be utilized for the following purposes only:
- In writing off preliminary expenses of the company, or
 - In writing off the expenses, commission, discount on issue of shares or debentures of the company, or
 - For issuing fully paid bonus shares to existing shareholders of the company, or

- For providing premium payable on redemption 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.

106. Under Sec. 53 of the Companies Act 2013, companies 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 fine not less than one lakh rupees. The fine may be extended to ₹5 lakh and every officer in default will get imprisonment for a term extending upto six months or fine of ₹1 to ₹5 lakh or both.

107. 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

108. 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.

109. 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 for refund of capital and payment dividend, whereas as equity shares 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 cannot be redeemed.

110. 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 Director think fit. The Directors are at liberty to reissue the forfeited shares at par or at a premium or at discount. But if the forfeited shares are issued at discount, the amount of discount allowed cannot exceed the amount previously received on these forfeited shares.

111. The minimum number of shareholder in a private limited company is two whereas in public limited company seven.

The maximum number of shareholders of a private limited company is 200. But in public limited company there is no such limit as regards to number of shareholders.

Private limited company cannot issue prospectus to the public inviting application for subscription of shares. Public limited company can invite people to subscribe for shares.

112. If a shareholder fails to pay the amounts due on allotment or calls within a specified period, the amount not so paid by the shareholders, is called calls-in-arrear.

If shareholders pays in excess of the amount called up, the excess amount so received is calls-in-advance.

The amount of calls-in-arrear shows debit balance. It is shown in the Equity and liabilities side of the Balance Sheet by way of deduction from the called up capital.

The amount of calls-in-advance shows credit balance. It is the debt of the company till call is made. It is shown in Equity and Liabilities side of the company under the head current liabilities.

Interest on calls in arrear can be charged at a maximum rate of 10% p.a. Maximum rate of interest payable on calls-in- advance is 12%.

113. (i) The amount to be called up either on application or allotment or any call shall not exceed 25% of total issue price.

(ii) Total amount due on shares be fully called up within a period of 12 months from the date of allotment.

(iii) There must be interval of at least one month between two calls.

(iv) At least 14 days' notice must be given to the shareholder for paying the amount of call.

(v) Call must be made on uniform basis on all shares within same class of share.

114. It has been a common practice to open only one account for application and allotment instead of opening two accounts. In such a case, a joint account named 'Share Application and Allotment Account' is opened. All entries relating to application and allotment are made in this account.

115. In a situation of oversubscription, some applications are allotted in full and excess applications are rejected. Application money for rejected applications is to be refunded. For example, a company invited 1,00,000 applications. But public subscribed for 1,20,000 shares. Application for excess shares i.e. 20,000 shares are rejected. The application money for these excess shares must be refunded within 15 days of the expiry of 60 days from date of receipt of application money. If company fails to refund the application money within the aforesaid period, it is liable to repay the money with interest @12% per annum from the expiry of 60 days.

Accounting for Debentures

116. When debentures are issued at a price more than the face value or nominal value of debentures, it is said to be issued at premium. If the face value or nominal value of debenture is ₹100 and such debentures are issued at ₹110 each, the debentures are said to be issued at a premium. The premium amount is ₹10 per debenture. The amount of premium is credited to a separate account called "securities premium reserve account."

117. Accounting Treatment of Discount on issue of Debenture :

The discount on issue of debenture is a capital loss. The discount on issue of debenture can be written off :

- (i) From securities premium reserve
- (ii) From statement of profit and loss

Journal entry for written off discount on issue of debenture

Securities Premium Reserve	Dr.
----------------------------	-----

and / or

Statement of Profit and Loss	Dr.
------------------------------	-----

To Discount on issue of Debenture Account

(Being discount on issue of debenture written off)

In absence of any information, journal entries for issue of debenture at the time of allotment is passed as follows :

- (i) For allotment money due :

Debenture Allotment Account	Dr.
-----------------------------	-----

Discount on issue of Debenture A/c	Dr.
------------------------------------	-----

To -% Debenture Account

(Being the allotment money due with discount)

- (ii) On receipt of allotment money

Bank Account	Dr.
--------------	-----

To Debenture Allotment Account

(Being the allotment money received)

(iii) For written off discount on issue of debenture.

Securities Premium Reserve Account Dr

And / or

Statement of Profit and Loss Dr

To Discount on issue of Debenture

(Being discount on issue of Debenture written off)

118. Sometimes company purchase assets from vendors or acquire a running business. The company may decide to debenture res instead of paying cash. Such issue of debentures to vendors is known as debenture issued for other than cash. Such debenture may be issued at par, at discount or at premium.

Journal entry for issue of debenture as consideration

Vendor's Account Dr. (with purchase price)

Discount on issue at Debenture Account Dr. (with discount on issue, if any)

To Debentures Account (with nominal value of debenture issued)

To Securities Premium Reserve Account (with Premium on issue of debenture, if any)

119. Name of different types of Debentures are :

- Redeemable Debentures
- Irredeemable Debentures
- Naked / Unsecured Debentures
- Secured Debentures
- Registered Debentures
- Bearer Debentures
- First Debentures
- Second Debentures
- Convertible Debentures
- Nonconvertible Debentures

120. Three differences between shares and debentures are :

Shares

- (i) It is owned capital
- (ii) Share-holders are owner of the company.
- (iii) Dividend is payable to shareholders when company earns profit.

Debentures

- (i) It is borrowed / Debt capital
- (ii) Debenture holders are the creditors of the company.
- (iii) Interest is paid to debenture holders whether the company earn profit or not.

121. On the basis of convertibility, debentures are :

Convertible debentures : The debentures which are convertible into shares or other securities after a certain period of time at the option of debenture holders are known as convertible debenture. These may be converted into equity shares, preference shares or other class of debenture.

Non-convertible debentures : The debenture which cannot be converted into either equity shares or other securities are called non-convertible debentures.

122. The main features of debentures are :

- It is a document acknowledging the debt by the company.
- It is issued under the seal of the company.
- It carries fixed rate of interest.
- Usually debenture creates floating charge on the asset of the company.
- Debenture holder being creditors, have no right to vote in the meeting of the company.
- It is usually repaid after a specific period of time.

123. Debentures issued of their face value are known as issue of debenture at par. For example a debenture with face value of ₹100 issued for ₹100. This is an issue of debentures of par. When debentures are issued at a price less than their face value, the debentures are said to be issued at discount. For example a debenture with nominal value of ₹100 is issued for ₹90. This is an issue of Debenture at discount. When debentures are issued at a price more than their book value, they are said to be issued at premium. For example a debenture with face value of ₹100 issued at ₹110. He ₹10 is the premium.

124. On issue of debentures :

- (i) Bank Account Dr. (with the amount received on application)
 To Debenture Application
 and Allotment Account
 (Being receipt of application money on issue of debenture)
- (ii) Debenture Application and Allotment Account Dr. (with the application money received)
 Loss on issue of Debenture Account Dr. (with the total amount of discount allowed on issue plus Premium payable on redemption)
 To Debenture Account (with the nominal value of debenture issued)
 To Premium on Redemption of Debenture Account (with premium payable on redemption)
 (Being transfer of application money)

On redemption of debentures :

- (i) Debenture Account Dr (with the nominal value of debenture redeemed)
 Premium on redemption of Debenture Account Dr. (with the premium payable on redemption)
 To Debenture-holders (with the amount payable on redemption)
 (Being amount due to debenture holder on redemption)
- Debenture holder's A/c Dr. (with the amount paid on redemption)
 To Bank Account
 (Being the amount paid to Debenture holders)

125. Bank account	Dr.	₹1,000
To 10% Debenture application and Allotment Account		₹1,000
(Being application money received on issue of 10% Debenture)		
10% Debenture Application and Allotment A/c.	Dr.	1,000
Less on issue of debenture A/c	Dr.	100
To 10% Debenture Account		₹1,000
To premium on redemption of debenture account		₹100
(Being transfer of debenture application and allotment money to 10% debenture account issued at par but redeemable at premium)		

GROUP - C

LONG QUESTIONS

UNIT - I

(A) Financial Statements of Sole Trade 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 fire under different situations with suitable examples.
6. From the following Trial Balance prepare Trading account and Profit and Loss Account and Balance Sheet as on 31.03.2021.

Closing Stock as on 31.03.2021 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 31.03.2021, you are required to prepare Trading, Profit and Loss Account and Balance Sheet as on the date:

Debit Balance	(₹)	Credit Balance	(₹)
Opening Stock	12,000	Sales	80,000
Purchases	38,000	Return Outward	600
Return Inward	900	Miscellaneous Income	6,000
Productive Wages	6,000	Rent and Tenants	2,000
Dock and Cleaning Charges	4,000	Capital	40,000
Donation and Charity	600	Sundry Creditors	8,000
Delivery Van Express	6,000		
Lighting	500		
Goods and Service 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		
Total	1,36,600		1,36,600

Closing Stock ₹15,000.

8. From the following Trial Balance of Ajay as on 31.03.2021, prepare the final accounts:

Particulars	Debit ₹	Credit ₹
Cash in Hand	13,800	—
Purchases	2,62,500	2,000
Purchases Return	—	—
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 Inwards	2,600	—
Opening Stock	40,000	—
Building and Land	3,00,000	—
Machinery	1,00,000	—
Salaries	12,500	—
Trademark	35,000	—
Total	9,00,500	9,00,500

Adjustments :

- (a) Closing stock ₹85,000
- (b) Salaries Outstanding ₹2,500
- (c) Insurance Prepaid ₹1,200
- (d) Depreciation on 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 31.03.2021:

Debit Balance	(₹)	Credit Balance	(₹)
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		
Total	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 31.03.2021 and Balance Sheet on the date from the given data:

Debit Balance	(₹)	Credit Balance	(₹)
Drawings	20,000	Sales	2,76,000
Bad Debts	1,000	Return 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
Return 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		
Total	5,69,400		5,69,400

Adjustments:

- Closing stock ₹45,000
- Provision for Bad debts is to be made @ 5% on debtors
- Depreciation on Furniture and Fixtures @ 5% p.a., Plant and Machinery @ 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 31.03.2021 and Balance Sheet as on the 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 (1.4.2020)	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 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 31.03.2021 and the Balance Sheet as on that date:

Debit Balances	Amount (₹)	Credit Balance	Amount (₹)
Opening Stock	8,000	Sales	37,000
Purchases	20,000	Returns Outward	1,455
Return & Inwards	1,350	Capital	30,000
Wages	1,000	Sundry Creditors	20,000
Carriages	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:

- Wages Outstanding ₹300
 - Goods destroyed by fire ₹2,000; Insurance claim was not admitted for the loss
 - Depreciation machinery by 5% p.a.
 - Closing Stock was ₹18,000.
13. From the following Balance of Shivam, prepare final accounts for the year ending 31.12.2021.

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:

- Closing Stock ₹35,000
- Wages due ₹2,000
- Create a reserve for discount @ 5% on creditors.

14. From the following extract of the Trial Balance as 31st March, 2021, pass necessary journal entries and show the treatment of bad debts and provision for bad and doubtful debts in the relevant accounts and in the 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 Doubtful Debts is to be maintained at 10% on Sundry Debtors.
15. Following are the items shown in the Trial Balance of Hira Kohli on 31st March 2021.

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 doubtful debts at 5% on sundry debtors as on 31.03.2021.
16. M/s Nexto & Co. maintains a Reserve for discount @ 4% on creditors which on 1st April 2019 was ₹4,000. Their Balances on 31.03.2020 and 31.03.2021 were given as below:

	31.03.2020 (₹)	31.03.2021 (₹)
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 2019-20 and 2020-21.

17. From the extract of a Trial Balance as on 31.03.2021 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. What 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.
22. Show the treatment of goods used for personal use of proprietor, goods distributed as free sample and also for charity in Final Accounts with suitable examples.
23. Is it necessary to pass two entries for every adjustment? Explain with suitable adjustment.
24. How will you calculate the provision for discount on debtors when further bad debts and provision for doubtful debts are also given as adjustments? Show with the help of imaginary figures.
25. What is Balance Sheet? Discuss its features. What is the purpose of preparing Balance Sheet?
26. On 01.04.2019, a provision for Doubtful Debts showed a credit balance of ₹9,500. During the year bad debts amounted to ₹6,000. The debtors on 31.03.2020 amounted to ₹2,00,000 and a provision of 5% for doubtful debts was to be maintained from 1.04.2020 - 31.03.2021, bad debts amounted to ₹2,000. Debtors on 31.03.2021 amounted to ₹1,40,000. On this amount a provision of 5 % for bad and doubtful debts was to be maintained.

Pass Journal Entries; Prepare Provision for Doubtful Debt Account. Also show the items in Profit and Loss Account and Balance Sheet.

27. Calculate Gross Profit from the following information extracted from Trial Balance of Mr. X for the year ending 31.03.2021.

	(₹)		(₹)
Opening Stock	25,000	Return inwards	3,000
Purchases	1,45,000	Direct Expenses	12,000
Purchase Return	5,000	Closing Stock	30,000
Sales	1,80,000		

28. Ravi provides the following information:

Particulars	Debit (₹)	Credit (₹)
Machinery	5,00,000	—
Building	10,00,000	—
Capital Account	—	5,00,000
Drawing account	40,000	—

Provide depreciation @ 10% p.a. on fixed assets. Charge ₹1,500 interest on drawings. You are required to show fixed assets, capital account and drawing account in Final accounts of Ravi.

29. From the Trial Balance of Mr.Susmit, prepare Trading, Profit and Loss Account for the year ending 31st March 2021 and the Balance Sheet as on the date

Debit Balances	Amount (₹)	Credit Balance	Amount (₹)
Opening Stock	7,000	Sales	37,000
Purchases	21,000	Returns Outward	1,455
Return Inwards	1,350	Capital	30,000
Wages	750	Sundry Creditors	20,000
Carriage	750		
Salaries	1,500		
Printing and Stationery	1,000		
Drawings	3,000		
Machinery	32,000		
Cash	105		
Sundry Debtors	20,000		
	88,455		88,455

Adjustments:

- Wages Outstanding ₹300
 - Goods destroyed by fire ₹2,000; No insurance claim was admitted.
 - Depreciation machinery by 5% p.a.
 - Closing Stock ₹20,000
30. From the Trial Balance of Pandit& Sons, prepare Final Accounts for the year ending 31.03.2021 and Balance Sheet as on that date.

Trial Balance as on 31.03.2021

Debit Balances	Amount (₹)	Credit Balance	Amount (₹)
Opening Stock	20,000	Capital	1,60,000
Purchases	2,60,000	Return Outwards	4,000
Plant and Machinery	1,30,000	Sundry Creditors	20,900
Sundry Debtors	50,000	Sales	3,41,000
Furniture	25,000	Rent Received	4,000
Customs Duty	4,500	Loan from Bank @ 10%	29,000
Life Insurance Premium	3,000		
Carriage Inward	2,000		
Carriage Outward	1,500		
Trade Expenses	2,200		
Return Inward	3,500		
Discount Allowed	2,000		
Office Expenses	4,000		
Bank Interest	500		
Cash in Hand	5,700		
Salaries	45,000		
	5,58,900		5,58,900

Adjustments:

- (a) Closing Stock was ₹55,000
- (b) Stock of ₹5,000 was burnt by fire. It was fully insured and insurance company admitted the claim in full.
- (c) Goods worth ₹3,000 were distributed as free sample and goods worth ₹1,000 were taken by proprietor for personal use.
- (d) Maintain a reserve of 2% on Sundry Creditors.
- (e) Provide a depreciation of 10% on Plant and Machinery.

31. Following is the Trial Balance of Naresh Brothers. Prepare Trading and Profit and Loss Account for the year ending 31.03.2021 and Balance Sheet as at date:

Debit Balance	(₹)	Credit Balance	(₹)
Drawings	20,000	Provision for Bad debts	8,000
Carriage Inwards	7,000	Sundry Creditors	70,000
Wages	8,000	Purchase Returns	4,500
Power	3,200	Sales	3,95,500
Advertisement	25,000	Capital	2,00,000
Plant and Machinery	70,000		
Opening Stock	20,000		
Purchases	3,88,000		
Return Inward	3,500		
Cash-in- Hand	16,000		
Cash at Bank	16,000		
Salaries	14,000		
Rent and Insurance	18,500		
Prepaid Insurance	1,200		
Goods and Service Tax	6,700		
Bad Debts	900		
Sundry Debtors	60,000		
Total	6,78,000		6,78,000

Adjustments:

- (a) Closing Stock was ₹1,00,700.
- (b) Depreciate Machinery by 10%.
- (c) Write off advertisement by 20%.
- (d) Further bad debts ₹2,000 and make a provision for bad debts by 5%.
- (e) Charge 10% manager's commission on net profit after charging such commission.

(B) Not for Profit Organisation

32. Define not for Profit Organisation with suitable examples. Distinguish between Receipts and Payments Account and Income and Expenditure Account.
33. Define Receipts and payments account. State the procedure of preparing Income and Expenditure Account from it.
34. What is not for Profit Organisation ? Distinguish between Receipts and Payments Account and cash book.
35. Explain the treatment of the following items while preparing find accounts of 'not for profit' organisation.
 - (i) Entrance fees, (ii) Capital fund, (iii) Subscription, (iv) Legacy, (v) Life membership, (vi) Donations, (vii) Honorarium, (viii) Government grants, (ix) Capital fund, (x) Sale of Assets.
36. What do you mean to 'not for profit' organization. What are its objections ?
37. From the following Receipts and Payments Account and addition information, prepare Income and Expenditure Account and Balance sheet of sunshine due.

Receipts and Payments Account for the year ending 31.03.2022

Receipts	₹	Payments	₹
To Balance b/d	41,100	By General expenses	8,400
To subscriptions		By News papers	5,700
For 2020-21 4,400		By Salaries	9,200
For 2021-22 55,000		By Electricity	6,000
For 2022-23 5,000	64,400	By Investment @ 10% p.a.	60,000
To Locker Rent	6,000	By Rent	11,000
To Sale of old news paper	500	By Printing and Stationery	6,600
To Sale of Old Furniture	8,400	By Furniture	40,000
(Book value ₹12,000)		By Balance c/d	14,400
To Interest on Investment	900		
To Grant from Government	40,000		
	1,61,300		1,61,300

Additional Information

- (i) Subscription outstanding on 31.03.2022 ₹4,000
- (ii) Salary outstanding on 31.03.2022 ₹2,800
- (iii) Rent ₹1,400 has been paid in advance.
- (iv) On 01.04.2021, the club had Furniture with ₹30,000.

38. From the extract of Receipts and Payments and additional information given below, calculate the amount of subscription and show how they would appear in the Income and Expenditure Account for the year ending 31.03.2022 and in the Balance Sheet as on that date.

Receipts and Payments Account for the Year ending 31.03.2022

Receipts	₹	Payments	₹
To subscriptions	88,000		

Additional Information

- (i) Subscription Outstanding as on 31.03.2021 ₹2,700
- (ii) Subscription Outstanding as on 31.03.2022 ₹6,400
- (iii) Subscription received in advance as on 31.03.2021 ₹1,900
- (iv) Subscription received in advance as on 31.03.2022 ₹2,500

39. From the extracts of Receipts and Payments account and additional information for the year ending 31.03.2022, show the treatment of subscription in the final accounts.

Receipts and Payments Account for the Year ending 31.03.2022

Dr.

Cr.

Receipts	₹	Payments	₹
To subscriptions	₹		
For 2020-21	11,200		
For 2021-22	77,400		
For 2022-23	17,000		

Additional Information :

- (i) Subscription outstanding on 31.03.2022 ₹ 8,800
- (ii) Subscription outstanding on 31.03.2021 ₹13,800
- (iii) Subscription received in advance on 31.03.2021 ₹ 4,800

40. From the following Receipts and Payment Account and additional information prepare income and expenditure account for the year ending 31.03.2022 and the balance sheet as on that date.

Receipts and Payments Account for the Year ending 31.03.2022

Dr.

Cr.

Receipts	₹	Payments	₹
To Balance b/d	23,000	By Charities	15,000
To Subscriptions	40,000	By Salaries	7,000
To Donations	5,400	By Printing	1,000
To Legacies	30,000	By Postage	600
To Dividend on Shares	1,600	By Telephones	1,400
To Sale of old news papers	400	By Rates and Taxes	3,600
To Interest on Investment	5,200	By Furniture	20,000
		By Insurance	2,000
		By Investment	40,000
		By Balance c/d	16,000
	1,05,600		1,05,600

Additional Information :

- (i) Donations are treated as revenue receipts.
- (ii) 60% of legacies is treated as capital receipt and 40% as revenue receipt
- (iii) Insurance prepaid ₹280.

41. The following is the receipts and payments account of Moonshine Club for the year ending 31.03.2022. Prepare Income and Expenditure Account of the society for the year ending 31.03.2022 and Balance Sheet as on that date.

Receipts and Payments Account

Dr.

Cr.

Receipts	₹	Payments	₹
To Balance b/d		By Charities	34,000
Cash-in-hand	9,400	By Stationery	7,000
Cash in bank	10,600	By Insurance	9,000
To Subscriptions	80,000	By Repairs	4,000
To Sale of old Furniture	1,600	By Salaries	46,500
(Book value ₹2,400)		By Help to Poor Students	20,000
To Donations	20,000	By Audit Fees	3,000
To Interest on Investments	5,600	By Balance b/d	
		Cash-in-hand 1,200	
		Cash at Bank 1,000	2,200
	1,27,200		1,27,200

Additional Information :

- (i) Subscription for March 2022 is outstanding ₹14,000 and for March 2021, it was due ₹18,000
- (ii) Investment as on 31.03.2021 were ₹50,000. (Rate of interest 12% p.a.)
- (iii) Insurance prepaid was ₹1,000
- (iv) Depreciate machinery @10% p.a.

UNIT - II

Accounting for Depreciation

42. What is depreciation? Discuss the causes and objectives for providing depreciation.
43. Define depreciation. Discuss its characteristics.
44. Explain the straight line method of depreciation.
45. Explain written down value method of depreciation. Also explain its advantages and disadvantages.
46. Give the journal entries for charging depreciation under simple method with imaginary example. Show the treatment in balance sheet also.
47. Write up journal entries for depreciation under provision for depreciation method with imaginary example. Show the treatment in the balance sheet also.
48. Ajay purchased a machinery on 01.01.2018 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 2021.
49. A manufacturer acquires a machine on 01.04.2018 for ₹80,000. He spent ₹2,000 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.
50. Mr. Ram purchased a machine for ₹3,00,000 on 1st January 2018. 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 2018 to 31st March 2021 assuming that accounts are closed on 31st March every year.
51. X purchased a machinery on 1st April for ₹12,00,000. On 1st April 2019, a part of the machine purchased on 01.04.2018 for ₹2,00,000 was sold for ₹1,70,000. Another machine was purchased on 1st April 2020 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 2018-19 to 2020-2021 assuming that:
 - (a) Provision for depreciation account is not maintained.
 - (b) Provision for depreciation account is maintained.
52. What do you mean by recording depreciation when provision for depreciation account is maintained? Distinguish between depreciation and provision for depreciation account.
53. Mr. Janmejaya purchased a machinery for ₹1,00,000 on 1st April 2017. He purchased another machine on 31st December 2019 for ₹1,20,000. Depreciation is provided at 10% p.a. under straight line method. Write up machinery account and depreciation account from 2017-18 to 2020-21 assuming that accounts are closed on 31st March every year.

54. On 1st Jan 2018 'X' purchased an asset for ₹1,28,000. On 31st March 2021, it was sold for ₹80,400. Depreciation is provided @10% p.a. on original cost each year. Prepare asset account till 31.03.2021, assuming that the books are closed on 31st March every year.
55. Ramesh bought a machinery on 1st April 2018 costing ₹5,80,000. It was installed at a cost of ₹20,000. It was decided to charge depreciation @15% p.a. on diminishing balance. Show machinery account and depreciation account for the year 2018-19 to 2020-21 assuming that accounts are closed on 31st March every year.
56. A plant was purchased for ₹10,00,000 on 1st April 2016. It was depreciated @5% p.a. on reducing balance method. Due to change in technology the plant became obsolete on 31st March 2021 and was scrapped. The scrap realized ₹2,00,000. Show the plant account from 2016-17 to 2020-21 assuming that accounts are closed on 31st March every year.
57. Mr. Jamuna Lal purchased a machine for ₹1,50,000 on 1st January 2018. He spent ₹10,000 on installation of the machine. He purchased another machine on 1st April 2019 at a cost of ₹1,20,000. Again another machine was purchased on 1st April 2020 for ₹1,00,000. Show machinery account and depreciation account from 1st January 2018 to 31st March 2021 assuming that accounts are closed on 31st March every year. Depreciation is calculated @ 10% p.a. on original cost of the machine.

Accounting from Incomplete Records

58. What is single entry system? What are its limitations?
59. Discuss the characteristics and limitations of single entry system.
60. What do you mean by single entry system? Differentiate between single entry system and double entry system of book keeping.
61. Differentiate between Balance Sheet and Statement of Affairs.
62. Discuss in brief with suitable example the ascertainment of profit/ loss under Statement of Affairs method.
63. Ascertain the opening and closing capital from the following balances:

Particulars	01.04.2020	31.03.2021
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

64. Following incomplete information is available from the record maintained by M/s Y & Co:

Particulars	01.04.2020	31.03.2021
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 ₹2,000 p.m.

From the above information, prepare a statement showing the Profit or Loss made by him for the year ending 31st March 2021.

65. A trader does not keep proper books of accounts. However, he can provide you the following information.

Particulars	31.03.2020	31.03.2021
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 ₹2,000. Charge interest on drawings ₹500, Rent prepaid ₹500, Salary Outstanding ₹1,000.

Prepare a statement showing profit/loss for the year ending 31st March 2021.

66. Prepare the statement of affairs and ascertain the profit / loss from the following information:

Particulars	01.04.2020	31.03.2021
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

67. Jayant keeps his accounts records incomplete. His position on 31st March 2020 was as follows:

Cash in Hand ₹15,200. Cash at Bank ₹6,300. Sundry Debtors ₹7,600, Sundry Creditors ₹9,600; 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 2021 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; Furniture and Fixtures ₹18,000.

Prepare Statement of Affairs and Statement of Profit / Loss for the year ending 31st March 2021.

68. Mr. Himansu who maintains his accounts under single entry system , supplies you the following information.

Particulars	31.03.2020 (₹)	31.03.2021 (₹)
Cash in Hand	30,000	35,000
Cash at Bank	3,90,000	4,77,000
Sundry Debtors	2,80,000	2,64,000
Stock	4,50,000	5,52,000
Furniture	3,00,000	3,00,000
Sundry Creditors	3,80,000	2,86,000
Loan from Mrs. Himansu	3,00,000	3,00,000

He withdrew @ ₹25,000 per month from the business to meet his private expenses. He had sold a private investment for ₹3,00,000 and invested the amount in the business.

Adjustments:

Interest on Mrs. Himansu @12% p.a. is not paid.

Depreciate furniture by 10% p.a.

Prepare statement of affairs showing the Profit and Loss made by him for the year ending 31.03.2021.

69. Narendra, a trader does not keep his books of accounts under double entry system. He furnishes the following informations:

Particulars	31.03.2020(₹)	31.03.2021(₹)
Cash at Bank	45,000	60,000
Cash in Hand	3,000	10,000
Stock-in-Trade	4,00,000	4,50,000
Debtors	1,20,000	2,00,000
Office Equipment	50,000	50,000
Furniture	40,000	40,000
Sundry Creditors	3,00,000	2,00,000

During the year he introduced further capital of ₹60,000. He withdrew ₹40,000 for private use. Write off depreciation on furniture at 10% and on office equipment at 5%.

Prepare a statement showing the profit or loss made by him for the year ended 31st March 2021.

70. Mr. Ratikanta keeps his books under single entry system. From the following informations, prepare a statement showing profit and loss for the year ended 31st March 2021.

Particulars	31.03.2020 (₹)	31.03.2021 (₹)
Cash	30,000	35,000
Bank	4,10,000	1,60,000
Debtors	3,14,000	3,20,000
Bills Receivable	70,000	80,000
Sundry Creditors	1,80,000	1,10,000
Investments	2,20,000	-
Furniture (30.09.2020)	-	1,80,000
Plant and Machinery	4,00,000	4,00,000
Bills Payable	1,75,000	-
Stock	4,72,000	5,24,000

During the year he withdrew ₹2,00,000 for personal use. He introduced further capital of ₹2,10,000.

Adjustments:

- (i) Debtor include ₹10,000 from a customer who became insolvent. The amount is irrecoverable.
- (ii) Depreciate furniture by 10% p.a.
- (iii) Depreciate plant and machinery by 5% p.a.

UNIT - III

Accounting for Partnership

71. What is 'Partnership Deed'? Discuss its important clauses.
72. Define Partnership. Discuss its essential characteristics.
73. Discuss and distinguish between fixed and fluctuating capital.
74. X and Y started a partnership on 01.04.2020 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 March, 2021 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 Partner's Capital Account.

75. A, B and C are in a partnership with respective fixed capitals of ₹40,000, ₹30,000 and ₹20,000. B and C are entitled to annual salaries of ₹2,000 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. On the profit earned during the 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 March 2021 was ₹20,100 after debiting partner's salaries but before changing interest on capital. The drawings during the year were, A- ₹8,000, B - ₹7,500 and C- ₹4,000. The balance on partner's current account on 1st April 2020 :
- A - ₹3,000 (Cr.), B- ₹500 (Cr.) and
C- ₹1,000 (Dr.)

Prepare Profit and Loss Appropriation Account and Partner's Capital Account for the year 2020-21.

76. Define goodwill. What are the nature of goodwill ?
77. What do you mean by goodwill? Describe the factors affecting goodwill.
78. 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 ₹3,05,100.
- (iv) Fair remuneration to the partners for their services for the firm is ₹36,000 p.a.

79. The following particulars are available in respect of a firm carried on by X and Y:

- (i) Profit earned 2018-19 - ₹50,000; 2019-20 - ₹60,000; 2020-21 - ₹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 capitalization of super profit method.

80. 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.

81. What is Revaluation Account? How does it differ from a Memorandum Revaluation Account?

82. Pass necessary journal entries relating to revaluation of assets and liabilities on the reconstitution of a firm.

83. A, B and C are partners sharing profit and losses in the ratio of 2:1:1. They decided that with effect from 1st April 2021, A shall receive 1/4th share in the profits.

On 31st March 2021, their Balance Sheet stood as follows:

Balance Sheet of B and C as on 31.03.2021

Liabilities	(₹)	Assets	(₹)
Creditors	20,000	Bank	10,000
Capital A/c's:		Debtors	35,000
A 50,000		Stock	15,000
B 25,000		Land	60,000
C 25,000	1,00,000		
	1,20,000		1,20,000

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 necessary journal entries in the books of the firm regarding the revaluation of assets and prepare Revaluation Account.

84. X and Y are partners in a firm sharing profits and losses in the ratio of 2:1. Their Balance Sheet as on 31st March, 2021 stood as follows:

Balance Sheet as on 31.03.2021

Liabilities	(₹)	Assets	(₹)
Capital Accounts		Cash in Hand	1,000
X	30,000	Plants and Machinery	16,000
Y	15,000	Cash at Bank	
Bills Payable	3,000	Stock	7,250
Creditors	12,000	Debtors	11,750
			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.
85. A and B carrying on business in partnership and sharing profits and losses in the ratio of 3:2 respectively, admitted C on 31st March 2021 when their Balance Sheet stood as follows:

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 ₹50,000 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, Partner's Capital Account and the Balance Sheet of the new firm.

86. P and Q were partners having equal ratio to share profits and losses. On 31st March 2021, there Balance Sheet was as follows:

Balance Sheet as on 31.03.2021

Liabilities	(₹)	Assets	(₹)
Capitals:		Buildings	12,000
P 10,000		Furniture's and Fittings	600
Q 5,000	15,000	Stock	5,400
-----		Sundry Debtors	3,400
Sundry Creditors	4,300	Cash	350
Bills Payable	2,450		
	21,750		21,750

On 1st April 2021, 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 re re-valued as follow:

Increase in the value of Building by 10%,

Decrease in the value of stock by 5% 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.

87. What do you mean by past adjustments? How would you deal with them,
- a) before closing the accounts
 - b) after closing the accounts?
88. Explain with the help of examples, circumstances on which the reconstitution of partnership firm takes place.
89. Why is it necessary to revalue the assets and reassess the liabilities on the reconstitution of a partnership firm? Explain briefly.
90. How general reserve and balance of 'Profit and Loss Account' as shown in the Balance Sheet treated on change in the profit-sharing ratio of the existing partners? Explain briefly with the help of examples.

91. X and Y are partners in a firm. X is to get a commission of 10% of net profit before charging any commission. Y is to get a commission of 10% of net profit after charging all commissions. Net profit for the year ended 31st March 2021 before charging any commission was ₹11,00,000.

Find the commission of X and Y, Also show the distribution of profits.

92. A, B and C are partners, sharing profits and losses in the ratio of 5:3:2, after providing for interest at 5% per annum on their capitals, which are A ₹5,00,000, B ₹3,00,000, C ₹2,00,000. Salary was allowed to B and C at ₹50,000 each per annum. During the year 2020-21 A has drawn ₹1,00,000, B ₹75,000 and C ₹10,000 in addition to their salaries. The profit during the year before charging interest on capital and partner's salaries amounted to ₹4,50,000. On 1st April 2020, the balances in the current account of partners were A ₹45,000 (Cr.), B ₹10,000 (Dr.) and C ₹25,000 (Cr.). Show the profit and loss appropriation account, partner's capital account and current accounts on 31st March 2021.

93. Expected average profit of Harapriya & Co. is ₹6,00,000. Normal rate of return of similar type of business firm is 10%. Calculate goodwill of the firm if average capital employed is ₹40,00,00. Use,

(i) Super profit method on the basis of two years purchase.

(ii) Capitalization of super profit method.

94. A and B are partners in a partnership firm. They admit C into partnership. For this purpose goodwill is to be calculated at two year purchase of three years average normal profit of past three years. Profit of last three years were:

2018-2019 - Profit ₹6,00,000 (including profit on sale of asset ₹1,00,000)

2019-2020 - Loss ₹1,50,000 (including loss by fire ₹2,50,000)

2020-2021- Profit ₹8,00,000 (including profit on sale of investments ₹50,000, Insurance claim ₹1,50,000.

95. i) Profit of last 5 years ending 31st March 2021 are : 2016-17 ₹1,70,000, 2017-18 ₹1,90,000, 2018-19 ₹2,20,000, 2019-20 ₹2,50,000, 2020-21 ₹2,70,000.

ii) Capitalisation rate 10%

iii) Net asset of the firm ₹18,00,000.

From the above information, calculate value of goodwill, by applying capitalisation of Average Profit method.

96. A and B are two partners showing profits and losses in the ratio of 3:2. On 31.03.2021 they had ₹1,20,000 in general reserve and ₹80,000 in profit and loss account.
- They decided to change the profit sharing ratio 1:1 with effect from 01.04.2021. Pass necessary journal entry if:
- (i) They decided not to show the accumulated profits in the balance sheet.
 - (ii) They decided to show the accumulated profits in the balance sheet.
97. A, B, C were sharing profits and losses in the ratio of 5:3:2. They decided to share future profits and losses in the ratio of 2:3:5 with effect from 01.04.2021. They also decided to record the effect of the following , without affecting their book values:
- (i) General Reserve ₹1,20,000
 - (ii) Accumulated loss ₹30,000
- Pass necessary adjustment entry.

UNIT - IV

Accounting for Companies

98. Define a joint stock company. Discuss the essential features of a joint stock company.
99. What is share capital? Explain the different classes of share capital. How are they shown in the Balance Sheet?
100. Can the shares be issued at a premium? State the purpose for which securities premium reserve can be utilised?
101. Can the shares be issued at a discount? Outline the guidelines of the Companies Act, 2013.
102. 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; 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 realized 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.
103. 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 Directors. 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.

104. 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 shares as fully paid.

Show the necessary journal entries in the books of the company.

105. XYZ Ltd. invited for 1,00,000 Equity shares at ₹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.

Journalise the above transactions.

106. X Ltd. purchase Plant & Machinery worth ₹10,00,000 from Naresh Machinery Ltd. X Ltd. issued equity shares of ₹100 each fully paid up in full satisfaction of their claim. Pass journal entries in the books of X Ltd. assuming that:
- i) Share issued at par.
 - ii) Shares issued at a premium of ₹2.50 per share.
107. M Ltd. purchased the business from Sibsankar with the following assets and liabilities. It issued 3,00,000 fully paid up equity shares of ₹10 each in full satisfaction of claim.

Particulars	₹
Plant and Machinery	10,00,000
Land and Building	20,00,000
Stock	20,000
Sundry Debtors	80,000
Sundry Creditors	1,20,000
Bills Payable	80,000

Journalise the above transactions.

108. X Ltd. purchased a business from Namura & Sons with the following assets and liabilities for ₹30,00,000. It issued fully paid equity shares worth ₹27,00,000 and balance by account payee cheque of ₹3,00,000.

Particulars	₹
Plant and Machinery	3,90,000
Land and Building	21,00,000
Stock	1,50,000
Bills Receivable	1,80,000
Sundry Debtors	4,20,000
Bills Payable	90,000
Sundry Creditors	60,000

Pass necessary journal entries in the books of X Ltd.

109. A Ltd. issued 1,00,000 shares of ₹10 each to the public for subscription . Amount payable ₹2 on application, ₹5 on allotment, ₹3 on 1st call. All shares fully subscribed. Company also received the full amount. Pass necessary journal entries in the books of the company.

110. Sunshine Ltd. offered for public subscription 1,00,000 Equity shares of ₹10 each and 50,000 12% preference shares of ₹10 each, payable as follows:

	For Equity shares	For Preference shares
On Application	₹3	₹4
On Allotment	₹5	₹3
On First and Final call	₹2	₹3

Public subscribed for 1,20,000 equity shares and 60,000 Preference shares. The company rejected application for 20,000 equity shares and 10,000 Preference shares. Remaining applications were accepted in full. All the calls were duly made and full money was duly received.

Prepare cash book and pass necessary journal entries in the books of Sunshine Ltd.

Accounting for Debentures

111. What is debenture ? Describe different type of debenture.
112. What do you mean by issue of debentures at par, at discount and at premium ? Give journal entries in each case with imaginary examples.
113. What do you mean by issue of debentures for consideration other than cash ? Give journal entry with imaginary example.
114. What do you mean by, "issue of debenture as collateral security ? Explain the accounting entries with imaginary examples.
115. A ltd. Invited applications for issue of ₹1,000, 12% debentures of ₹100 each at par. The full amount is to be payable on application. All debentures were fully subscribed and allotted. Pass journal entries in the books of A ltd.
116. B ltd. Invited applications for issue of ₹1,000, 12% of debentures of ₹100 each at a premium of 10%. The full amount is to be paid on application. Applications were received for ₹1,500 debentures. Applications for ₹500 debentures were rejected and money refunded. The remaining applications were duly allotted.
Pass journal entries in the books of B ltd.
117. C ltd. Invited application for ₹1,000, 12% debentures of ₹100 each at a discount of 5%. The full amount is to be paid on application. The company received application for pay debentures. All applications were duly allotted. Pass journal entries in the books of C ltd.
118. D ltd. Issued ₹10,000, 12% debentures of ₹100 each for public subscription. The amount is payable as follows :
- | | |
|-------------------------|-----|
| On application | ₹30 |
| On allotment | ₹50 |
| On first and final call | ₹20 |
- Applications for ₹10,000 debentures were received. The applications were accepted and company allotted the debenture in full pass journal entries in the books of D ltd.
119. M ltd. Invited applications for ₹10,000, 12% debentures of ₹100 each at a premium of 10%. The amount payable is ₹40 on application, ₹50 on allotment including premium, ₹30 on first and final call. Applications were received for 12,000 debentures. Debentures were allotted on prorata basis. Pass necessary journal entries.

120. Mk Ltd. Issued ₹10,000, 12% debentures of ₹100 each at par. The amount payable is ₹40 on application, ₹50 on allotment ₹10 on first and final call. Applications were received for ₹12,000 debentures. Applications for ₹2,000 debentures were rejected. Debentures were allotted in full for balance 10,000 applications.

Pass necessary journal entries.

121. Sunshine Ltd. Purchased the following assets and liabilities from Moon Ltd. It issued required numbers of 14% debentures of 100 each.

	₹
Land and Building	12,00,000
Plant and Machinery	3,50,000
Furniture and Fixtures	2,20,000
Stock in trade	1,20,000
Debtors	80,000
Sundry Creditors	70,000
Bills Payable	30,000

Pass journal entries in the books of Sunshine Ltd.

ANSWER KEYS

GROUP - C

UNIT-I

Final Accounts of Sole Trade from of Organization

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 prepared at regular intervals; Balance Sheet is prepared once at the end.
 - (iv) Trial Balance is prepared before the final account; Balance Sheet is the last stage of final account.
 - (v) Closing stock does not appear always in Trial Balance whereas 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 & Balance Sheet Total ₹5,70,000.
9. Gross Profit ₹95,500, Net Profit ₹61,000 & B/S Total ₹2,70,000.
10. Gross Profit ₹97,000, Net Profit ₹72,500 & B/Sheet Total ₹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 Bad 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 2019-20 was credited to P & L A/c and ₹100 was charged to P & L A/c for 2020-21.
17. Provision 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:

- (a) Trading A/c Dr.
 To Opening Stock
 To Purchases (Net)
 To Direct Expenses
- (b) Sales A/c (Net) Dr.
 Closing Stock Dr.
 To Trading A/c
- (c) (i) For Gross Profit (Transferring)
 Trading Account Dr.
 To Profit and Loss Account
- (ii) For Gross Loss transferring
 Profit and Loss Account Dr.
 To Trading Account

The Closing entries for Profit and Loss Account are:

(To close indirect expenses)

- (a) Profit and Loss Account Dr
 To Salaries
 To Rent
 To Insurance etc. (Individually)
- (b) Commission received Dr.
 Interest received etc. (Individually)Dr.
 To Profit and Loss Account
- (To close accounts of indirect income and gains)
- (c) To close profit and loss account
 - (i) For Net Profit
 Profit and Loss Account Dr.
 To Capital Account
 - (ii) For Net Loss
 Capital Account 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 horizontally or vertically. Better give the horizontal proforma in 'T' shape and show the assets and liabilities arranged either in order of liquidity or in the order of permanence.

22. Goods used for personal use is drawing. Goods distributed as free sample and charity to be recorded at debit side of profit and loss account. In all cases purchase account will be credited. Refer to 3 marks question no. 32 and 33.

23. Refer to 3 marks question no 35.

24. Sundry Debtors (as per trial balance) - Bad Debts (as per adjustment) - Provision for Bad Debts (calculated as a percentage after deducting bad debts as per adjustment) - Provision for discount on debtors (calculated as a percentage).

25. Refer 3 marks question number 1,2,3.

26. 31.3.2020 Profit and Loss Account debited ₹6,500; on 31.03.2021 Profit and Loss Account credited ₹1,000.

27. Gross Profit ₹30,000.

28. Amount of depreciation machinery ₹50,000, Building ₹1,00,000, Capital Account ₹3,08,500.

29. Gross Profit ₹29,305, Net Profit ₹23,205, Balance Sheet Total 70,505.

30. Gross Profit ₹1,19,000, Net Profit ₹49,818, Balance Sheet Total 2,57,700.

31. Gross Profit ₹71,000, Net Profit ₹20,000 , Balance Sheet Total 2,72,000.

Not for Profit Organisation

32. For definition - refer 2 mark Question No. 53 for difference between Receipts and Payments account - refer 3 mark Question No. 37.

33. For definition of Receipts and Payments account refer 2 mark Question No. 65. Procedure for preparing Income and Expenditure account from Receipts and Payments Account is as follows :

(i) Ignore opening balance and closing balance of cash.

(ii) Ignore all capital receipts and capital expenditures.

(iii) Ascertain the revenue increases 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 on sole of fixed assets and transfer those to income and expenditure account.
 - (v) Ascertain Profit/Loss on small trading activities if any like restaurants, bar, canteen etc. separately and transfer those to Income and Expenditure Account.
 - (vi) Find out the difference between credit side and debit side. It may be surplus or deficit as the case may be it will be transfer to capital fund.
34. For meaning refer 2 mark Question No. 53. For difference between receipts and payments account and cash book refer 2 marks Question No. 68.
35. (i) Entrance fees is received at the time of admission into the organization. It is non-recurring in nature. So it is a capital receipt and shown in the liability side of balance sheet.
- Some accountants are of the view that entrance fees are received regularly from the members. So it is recurring in nature. It is treated as revenue income and credited to Income and Expenditure account.
- (ii) Capital Fund - Refer to 2 mark Question No. 57.
 - (iii) Subscription - Refer to 3 mark Question No. 41.
 - (iv) Legacy - Refer to 2 mark Question No. 61.
 - (v) Life membership fees - Refer Question No. 55 and 60 (2 mark question)
 - (vi) Donations - Refer 3 mark question No. 39.
 - (vii) Honorarium - Refer 2 mark Question No. 56.
 - (viii) Government Grants - Refer 3 mark Question No. 44.
 - (ix) Capital Fund - Refer 2 mark Question No. 57.
 - (x) Sale of Assets - Refer 2 mark Question No. 63.
36. Meaning of not for profit organization - Refer 2 mark Question No. 53. Objectives - Refer 2 mark Question No. 58.
37. Surplus ₹59,600, B.S. ₹1,42,900
38. Income and Expenditure account to be credited for subscription ₹91,000. In the balance sheet outstanding subscription amount ₹6,400 will appear in the asset side, subscription received in advance amounting ₹2,500 will appear in the liabilities side of Balance Sheet.
39. Income and expenditure amount will be credited - By subscription received ₹77,400 Add outstanding for 2021-22 { ₹ 8,800 - (₹13,800 - ₹11,200) Add received in advance in 2021-22 ₹4,800 = ₹88,400.

Balance Sheet - Subscription received in advance ₹17,000 (liabilities side).

Assets side - Subscription outstanding for 2021-21 ₹13,800 - ₹11,200 = ₹2,600.

For 2021-22 ₹8,800 - (₹13,800 - (₹13,800 - ₹11,200)) = ₹6,200.

Total subscription outstanding (Asset side) ₹8,800.

40. Opening Capital Fund ₹23,000. Surplus ₹35,200, Balance Sheet ₹76,200.

41. Opening Capital Fund ₹90,400, Surplus ₹7,800. Balance ₹98,200.

Unit -II

Accounting for Depreciation

42. Depreciation is the decrease in the value of fixed assets. It is charged to the income either directly or 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.

43. Depreciation is the allocation of depreciable amount of an asset over the estimated useful life. It is 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 cannot exceed 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.

44. A fixed percentage of the original cost of 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 recognized by Income Tax Department.

45. Depreciation is calculated at a fixed percentage on the written down value every year. The amount of depreciation 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; recognized 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 cannot 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.

46. 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 transferring to profit and loss account very year.

The entries can be made for addition of new fixed assets, sale of fixed asset profit/ loss on sale of fixed asset etc.

47. Under this method, provision for depreciation account is opened; depreciation is not a direct charge against the asset. Throughout the lifetime of the asset, it is shown on the asset side of the 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 the balance sheet at an increased value every year.

The journal entries can be made for providing depreciation, transferring depreciation to P & L A/c, transferring provision for depreciation account on sale of fixed asset, profit/ loss on sale of assets etc.

48. Balance of Machinery Account ₹54,000.

49. Balance of Machinery Account ₹70,000.

50. Balance of Machinery Account ₹2,13,232.

51.	a)	(i)	Balance of Machinery Account	₹8,19,000
		(ii)	Loss on sale of Machinery	₹10,000
	b)	(i)	Balance of Machinery Account	₹11,00,000
		(ii)	Balance of Provision for Depreciation A/c	₹ 2,81,000

52. Under this method of depreciation is debited to Profit and Loss Account and credited to Provision for Depreciation Account. The asset will appear in the asset side of the balance sheet at its original cost. Provision for depreciation account appears in the liabilities side of the balance sheet. At the time of sale of asset provision for depreciation account (relating to asset) is transferred to asset account. Profit or loss on sale is transferred to profit and loss account.

Difference between Depreciation Account and Provision for Depreciation Account:

At the time of charging depreciation account is debited and asset account is credited. But under provision for depreciation, depreciation account is debited and provision for depreciation account is credited.

Under depreciation method, at the end of the accounting year, depreciation account is closed by transferring to profit and loss account. Under provision for depreciation account, it is shown in the liabilities side of the balance sheet. At the time of sale of asset, it is closed by transferring to particular asset account.

Under depreciation account method asset is shown at written down value in the balance sheet. Under provision for depreciation method asset is shown at original cost in the balance sheet.

Depreciation account does not appear in balance sheet. But provision for depreciation account is shown in the liabilities side of the balance sheet.

53. Balance on Machinery Account ₹1,65,000.
54. Loss on sale ₹6,000.
55. Machinery Balance ₹3,68,475.
56. Loss on sale of plant ₹5,73,781.
Depreciation ₹50,000, ₹47,500, ₹45,125, ₹42,869, ₹40,725.
57. Balance in Machinery Account ₹2,94,000.

Accounting from Incomplete Records

58. Records completed not as per double entry system of book keeping is called Single entry system of book keeping.

Limitations: Arithmetic accuracy cannot be checked, true profit/ loss cannot be checked, 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 cannot be valued accurately etc.

59. 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.48. For meaning refer to Q. 48.

60. For differentiation refer to 2 marks Q. 74 and 3 marks Q. 55.
61. Refer to 3 mark Q. 56.
62. Steps:
- (i) Find closing capital by preparing statement of affairs 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 beginning 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/partner's salary, depreciation on fixed assets, provision for doubtful debts etc.
63. Opening capital ₹75,900, Closing capital ₹91,900.
64. Opening capital ₹51,800, Closing capital ₹49,100, Profit earned during the year ₹11,300.
65. Opening capital ₹1,63,800, Closing capital ₹1,86,400, Gross Profit ₹32,600, Net Profit ₹26,100.
66. Opening Capital ₹93,000, Closing Capital ₹1,11,100, Profit ₹18,100.
67. Opening Capital ₹42,900, Closing Capital ₹48,000, Profit ₹2,100.
68. Opening Capital ₹7,70,000, Closing Capital ₹10,42,000, Profit ₹2,06,000.
69. Opening Capital ₹3,58,000, Closing Capital ₹6,10,000, Profit ₹2,25,500.
70. Opening Capital ₹15,61,000, Closing Capital ₹15,89,000, Net Loss ₹21,000.

Unit -III

Accounting for Partnership

71. 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.
72. 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, good faith, implied agency, no separate legal entity, unlimited liability.

73. 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.

74. Share of Profit: A- ₹39,000 ; B - ₹26,000; Capital: A-₹1,02,600, B- ₹84,800.

75. Profit: A- ₹7,200, B- ₹4,800, C-₹3,600; Current Account: A- ₹4,200 (Cr.), B -₹1,300 (Cr.), C - ₹1,100 (Cr.)

76. 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 realized 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.

77. Meaning - refer to Q. 66.

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 and other factors like general economic conditions, political stability, government policy, money market conditions, trade cycle etc.

78. ₹3,16,800

79. ₹2,20,000

80. ₹4,00,000

81. 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 Revaluation Account in 2nd part will show loss for the same amount and debited to partner's Capital Account.

Entries of Revaluation Account are reverse in the 2nd part of Memorandum Revaluation Account.

82. Refer to Text Book.

83. Profit on Revaluation ₹28,000.

84. Revaluation Profit: ₹1,650 - X's share ₹1,100, Y's share ₹550; Capital: X- ₹31,100; Y- ₹15,550; Z- ₹13,350, B.S Total ₹75,000.
85. 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.
86. Profit of Revaluation ₹640; Capital: P- ₹10,720; Q- ₹5,720; R- ₹4,000; Balance Sheet Total ₹27,190.
87. For appropriation of divisible profit of the firm among the partners, agreement as per partnership deed is to be considered. Interest on capitals, interest on drawings, partner's salary, partner's commission, profit sharing ratio etc. are to be considered for appropriation of profit.

In case of omission of any of the items in appropriation of profit, the distribution of profit will be incorrect. So adjustment of partner's capital account is required to rectify the errors. This rectification can be i) after the closing of the accounts and ii) before the closing of the accounts.

Rectification of Errors after closing partnership accounts:-

Step 1 - Calculate the amount which should have credited on account of interest on capitals, interest on drawings, salary, commission, profits etc.

Step 2 - Calculate the amount already credited on account of interest on capital, salary, commission, share of profit and debit for interest on drawing.

Step 3 - Calculate the difference between amount of Step 1 and Step 2.

Step 4 - Calculate amount received excess and amount received short.

Step 5 - Pass the adjustment entry.

The entry is

Gaining partner's capital account Dr.

 To sacrificing partner's capital account

Rectification of errors before closing partnership accounts- If errors are discovered before closing the accounts such error must be rectified before closing the accounts. Explain with examples.

88. Refer 2 mark Q. 117
89. Refer 2 marks Q. 122
90. Refer 2 marks Q. 126
91. X's commission ₹1,10,000, Y's commission ₹90,000. Profit X ₹4,50,000, Y ₹4,50,000.

92. Profit A ₹1,50,000, B ₹90,000, C ₹60,000.
 Capital account A ₹5,00,000, B ₹3,00,000, C ₹2,00,000.
 Current account A ₹1,20,000 (Cr.), B ₹70,000 (Cr.), C ₹1,35,000 (Cr.)
93. Goodwill- Super profit method ₹4,00,000
 Capitalisation of Super profit method- ₹20,00,000
94. Goodwill ₹8,00,000.
95. Goodwill ₹4,00,000.
96. A sacrifice $\frac{1}{10}$ profit, B gain = $\frac{1}{10}$ Profit
 Adjusted amount $\frac{1}{10} \times 2,00,000 = ₹20,000$
 So for 2nd part A will be credited and B will be debited.
 For 1st part- A and B will be credited in their old profit sharing ratio. A's capital credited ₹1,20,000. B's capital account credited ₹80,000.
97. The amount to be adjusted ₹1,20,000 - ₹30,000 = ₹90,000.
 Sacrificing or Gaining ratio : A - $\frac{3}{10}$ (sacrifice) , B- No effect , C- $\frac{3}{10}$ (Gain)
 Adjustment entry-
 C's capital A/c Dr. 27,000
 To A's Capital A/c 27,000
 (Being adjustment entry for change in profit sharing ratio)

Unit -IV

Accounting for Companies

98. 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.
99. Total capital of a company divided into a number of shares of equal value is called share capital.
 Types of share capital: Authorised / Registration/ Nominal Capital, Issued Capital, Subscribed Capital, Called up Capital, Uncalled Capital, Paid up Capital, Reserve Capital etc.

100. 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 share or debentures; or
- (v) For buyback of Company's own shares and other securities as per section 68 of the Companies Act 2013.

101. 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.

102. Calls in Advance ₹2000, B/S Total ₹9,02,000.

103. Securities Premium A/c debited for ₹10,000 for 500 shares, Share Forfeited A/c (Cr.) ₹15,000 for 500 shares.

104. Capital Reserve A/c ₹21,000.

105. Capital Reserve Account ₹12,000.

106. i) No of equity shares to be issued at par 1,00,000.

ii) No of shares to be issued at premium 80,000.

107. Goodwill ₹1,00,000 (Excess of Sundry Creditors + Bills payable + Equity share over assets)

108. Capital Reserve ₹90,000- Balancing figure (excess of assets over liabilities and capital)

109. Total cash received ₹10,00,000.

110. Bank Balance ₹15,00,000.

Accounting for Debentures

111. Refer 2 marks question number 226, 3 marks question number 119.

112. Refer 3 marks question number 123.

113. Refer 1 mark question number 128.

114. Refer 2 marks question number 239.

Question Number 115-121. Pass Journal entries. Refer the book.
