DEDICATED TO
MY FATHER AND
MOTHER
PREFACE

I first thank MR. ASOKAN M.COM, M.PHIL, M.ED, retired Govt teacher who is my Guru to inspire and write these material.

I also thank my parents who motivated me to write these material.

This material is prepared with intension of new pattern for xii students for writing exam at 90 marks. The material is prepared with the help of various commerce teachers consultation. This book gives full confidence that children of xii can score centum marks in accountancy i.e 100 marks.

Problems given in this material is very important in the point of view of examination. Theory questions also given, fill up is given of course that is not our pattern but by studying this fill up, it will help to attend interior objective questions can be easily answered.

In simple this is a simplified material for students of PLUS TWO to score centum.

I wish the students to score high marks by using this material.

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PLUS TWO ACCOUNTS
STUDY MATERIAL
LESSON-1  FINAL ACCOUNTS

ONE MARK QUESTION

1. Net Profit is transferred from Profit and loss account to ________ account.
2. Closing stock is valued at Cost Price or ________ price whichever is lower.
3. Outstanding expenses are shown on the ________ side of the balance sheet.
4. Prepaid expenses are shown on the ________ side of the balance sheet.
5. Income accrued but not received will be shown on the ________ side of the Balance sheet.
6. Income received in advance will be shown on the ________ side of the Balance sheet.
7. Interest on capital is debited in ________ account.
8. Interest on drawings is credited in ________ account.
9. Interest on loan borrowed unpaid is shown on the ________ side of the Balance sheet.
10. Depreciation is deducted from the concerned ________ in the Balance sheet.
11. Provision for Bad and a Doubtful debt is deducted from ________ in the Balance sheet.
12. Provision for discount on creditors is deducted from ________ in the Balance sheet.
13. Debts which are not recoverable from Sundry debtors are termed as ________.
14. Returns inwards are deducted from__________
15. The Profit and Loss account shows__________
16. Rent outstanding is__________
17. Closing stock is shown in__________
18. Opening stock is shown in__________
19. Gross Profit is transferred to __________
20. Interest on capital is added to ______

2 & 3 marks (Important Theory questions)

1. What is an outstanding expense?
Expenses which have been incurred but not yet to be paid during the accounting period are called as outstanding expenses,

Example: Salary outstanding

ADJUSTING ENTRY
Salary a/c Dr.
To salary outstanding a/c

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

Example: Prepaid insurance

ADJUSTING ENTRY
Prepaid Insurance a/c Dr.
To insurance a/c

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

Example: Accrued commission

ADJUSTING ENTRY
Accrued commission a/c Dr.
To commission

4. What is Income received in advance?
Income receive during a particular accounting period for the work to be done in future period is called as income received in advance.
ADJUSTING ENTRY
Rent a/c Dr.
To Rent received in advance a/

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STUDENTS MOTIVATIONAL SPEAKER

5. What is bad debts?

   i. Debts which cannot be recovered from debtors are called bad debts
   ii. It is a loss for the business.

ADJUSTING ENTRY
Bad debts a/c Dr.
To Sundry debtors a/c

TRANSFER ENTRY
Profit/loss a/c Dr.
To bad debts a/c

6. What is adjusting entry?

   i. All unadjusted items which need to be brought into books of account at
     the time of preparing final accounts are called ‘adjustments’
   ii. Journal entries passed to effect the required adjustment are known as adjusting
     entry

ADJUSTING ENTRY
Wages a/c Dr.
To wages outstanding a/c

7. What is provision for bad and doubtful debts?

   i. Sundry debtors figure is to be shown correctly in the Balance sheet it must be
      adjusted.
   ii. Provision for bad and doubtful debts is generated.

TRANSFER ENTRY:

Profit/ loss a/c Dr.
To Provision for bad and doubtful debts a/c
8. **What is provision for discount on debtors?**

   i. To motivate the debtors to make payments, cash discount may be allowed to them.

   ii. Sundry debtors - Bad debts - Doubtful debts = Good debtors

   iii. In this provision may have to be created at certain percentage on Good debtors

   **TRANSFER ENTRY:**

   Profit/ loss a/c Dr.

   To Provision for discount on debtors

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**2 MARKS PROBLEMS**

1. Give adjusting entry and transfer entry for interest on Drawings Rs. 5,000

2. Give adjusting entry and transfer entry for the following adjustments:
   
a) Interest on drawings Rs. 5,000.
   
b) Depreciation on machinery Rs. 4,000.
   
c) Write-off bad debts Rs. 2,000.

3. Pass necessary adjusting entries for the following adjustments:
   
a) Closing stock Rs. 6,00,000.
   
b) Provide 6% interest on capital of Rs. 16,00,000
   
c) Rent received in advance Rs. 5,000
   
d) Interest accrued on investments Rs. 2,000
   
e) Insurance premium prepaid Rs. 1,000
   
f) Wages outstanding Rs. 15,000.

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**3 MARK PROBLEM**

1. Trial balance as on 31.03.2005 shows Rs. 40,000 as insurance premium paid. Unexpired insurance premium Rs. 5,000. Show how his item will appear in the final accounts?
2. Rent received shown in the Trial Balance as on 31st March 2003 Rs.10,000. Rent received in advance is Rs.1,000. You are required to show how it appears in the Profit and Loss account and Balance sheet.

3. The trial balance shows the value of furniture on 31.3.2009 as Rs. 55,000
   Adjustment: Furniture is to be depreciated at 10%
   Give adjusting entry and transfer entry.

4. The trial balance shows the following as on 31.3.98
   - Capital Rs. 10,00,000
   - Drawings (1.7.97) Rs. 1,00,000
   - Charge interest on drawings @ 5%.
   Pass adjusting and transfer entry. Show how this item will appear in the Final accounts.

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5. Trial Balance (31.3.05) shows salaries paid Rs.1,50,000. Salary for March 2005 Rs.4,000 not yet paid. Pass adjusting entry and show how this item will appear in the Final accounts.

6. Trial Balance as on 31.3.05 shows Rs.40,000 as Insurance premium paid unexpired insurance premium Rs.5,000.
   Pass adjusting entry and show how this item will appear in the Final accounts.

3 MARKS AND 5 MARKS PROBLEM

1. The following information extracted from the trial balance on
   - Sundry debtors Rs. 2,00,000
   - Bad debts Rs. 10,000
   - Bad and doubtful debts Rs. 14,000
   **Adjustments:**
   1. Bad debts written off Rs.20,000
   2. Provide 5% bad and doubtful debts on sundry debtors.
   3. Provide 2% discounts on sundry debtors.
   Pass necessary entry and show it in the balance sheet.
2. The trial balance shows on 31.03.2004, Sundry debtors Rs. 65,000

**Adjustments:**

i. Bad debts written off Rs. 5,000.

ii. Provide @ 5% provision for bad and doubtful debts and @ 2% provision for discount on debtors.

Show how these item will appear in the final accounts.

3. The following balances have been extracted from the trial balance of Mrs. Anjali as on 31.3.2002.

   **Trial Balance of Mrs. Anjali as on 31st March, 2002**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>Rs.</td>
</tr>
<tr>
<td>Debtors</td>
<td>2,01,200</td>
<td>-</td>
</tr>
<tr>
<td>Bad debts</td>
<td>9,400</td>
<td>-</td>
</tr>
<tr>
<td>Provision for bad &amp; doubtful debts</td>
<td>-</td>
<td>24,000</td>
</tr>
<tr>
<td>Provision for Discount on debtors</td>
<td>-</td>
<td>1,200</td>
</tr>
<tr>
<td>Discount allowed</td>
<td></td>
<td>18000</td>
</tr>
</tbody>
</table>

   **Adjustments:**

1. Write off additional bad debts Rs. 4,800

2. Create Provision of 10% for bad & doubtful debts on debtors.

3. Create Provision of 2% for discount on debtors.

Show how these items will appear in the Profit and Loss Account and Balance Sheet.

4. The Trial Balance shows on 31.3.2002, Sundry debtors Rs. 1,25,000.

   **Adjustment:**

1. Bad debts to be written off Rs. 5,000.

2. Provide @ 5% Provision for bad and doubtful debts and...

3. Provide @ 2% Provision for discount on debtors.
Pass entries and show how these items will appear in the Final accounts.

IMPORTANT ILLUSTRATIONS: 5,6,7,8
IMPORTANT BIG PROBLEMS: 23, 26, 27, 28, 30, 32

THINKS TO REMEMBER:
Wages/salaries- Trading a/c, salary/wages- Profit/loss A/c
Income tax deducted in capital
Preliminary expense-Asset side of B/S
Bank overdraft-Liability side

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CHAPTER-2 ACCOUNTS FROM INCOMPLETE RECORDS
(Single entry)

ONE MARK QUESTION:

1. Incomplete records are those records which are not kept under ______ system.

2. Statement of affairs method is also called as ______ method.

3. Capital can be found by preparing a statement of affairs at the…Beginning of the year.

4. A statement of affairs resembles a _______.

5. Closing capital can be found by preparing a statement affairs at the ______ of the year

6. In …….. system, only personal and cash accounts are opened.

7. Credit purchase can be ascertained as the balancing figure in the ……..______.

8. The excess of assets over liabilities is ………...______.

9. The total assets of a proprietor are Rs.5,00,000. His liabilities Rs.3,50,000 Then his capital in the business is………______.

10. A firm has assets worth Rs.60,000 and capital Rs.45,000. Then it’s liabilities…

TWO MARK QUESTIONS:


According to KOHLER “ Single Entry System is a system of book Keeping in which as a rule, only records of cash and personal accounts are maintained. It is always incomplete double entry varying with circumstances.

10. What is statement of affairs?

i. Statement of affairs is prepared when accounts are keeps under single entry

ii. Its prepared for find out the capital
iii. It resembles a Balance sheet

11. What is Conversion method?
If it is desired to calculate profit or loss by preparing Trading and profit and loss account under single entry then it is called conversion method.

Step 1 -> Opening statement of Affairs
Step 2 -> Other Accounts : (i) Total Debtors account and (ii) Total Creditors account
Step 3 -> Total sale and Totalpurchas
Step 4-> Final Account

12. What is Net worth method?
Net worth method Is one of the method of finding the profit or loss under the single entry system. It’s otherwise called statement of affairs method or capital comparison method.

13. What is the limitation of single entry system?
• Trial balance cannot be prepared
• Difficult to local frauds
• Incomplete and unscientific method
• Performance of the business cannot be ascertained
• True financial position cannot be ascertained.

14. What are the features of single entry?
• Suitable for sale trading and partnership firms.
• Only personal accounts and cash account are kept
• True financial position cannot be ascertained
• Not accepted by Tax authorities
15. What is a statement of affairs method?

Statements of affairs method or Net worth method or Capital comparison method are adopted to calculate profit or loss by comparing the opening and closing capital.

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TWO MARK OR THREE MARK QUESTIONS

STATEMENT OF AFFAIRS PROBLEM:

MISSING FIGURE PROBLEM:

Opening capital Rs. 1,60,000
Closing capital Rs. 1,80,000
Drawing Rs. 36,000
Additional Capital Rs. 10,000

Calculate the missing information when there is no drawings:

Capital at the end Rs. 91,000
Capital in the beginning Rs. 35,000
Profit made during the year Rs. 14,000

Calculate the missing information:

Closing capital Rs. 1,63,800
Additional Capital Rs. 42,300
Drawings Rs. 25,200
Loss Rs. 12,600

Calculate the missing information:

Capital in the beginning 24,000
Profits made during the year 9,000
Capital introduced during the year 12,000
Capital at the end 39,000

Calculate the missing information:

Drawings Rs. 50,000
Additional Capital Rs. 10,000
Opening Capital                  Rs.  1,00,000
Profit made during the year      Rs.   25,000

**FORMAT FOR FINDING MISSING FIGURE:**

<table>
<thead>
<tr>
<th>Capital at the end</th>
<th>xxx</th>
<th>Capital in the beginning</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawings</td>
<td>Xxx</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss</td>
<td>xxx</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The balances appear in Bharanidharans’ books which are kept on single entry basis:

<table>
<thead>
<tr>
<th></th>
<th>1st April 2000</th>
<th>31st March 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Stock</td>
<td>5,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>6,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Cash</td>
<td>10,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>2,000</td>
<td>3,500</td>
</tr>
<tr>
<td>Bills receivable</td>
<td>1,000</td>
<td>500</td>
</tr>
<tr>
<td>Loan (Dr)</td>
<td>—</td>
<td>1,000</td>
</tr>
<tr>
<td>Investment</td>
<td>—</td>
<td>4,000</td>
</tr>
</tbody>
</table>

His drawings during the year were Rs.2,000. Depreciate furniture by 10% and provide a reserve for bad and doubtful debts at 5% on Sundry debtors.

Prepare a statement showing profit for the year.

**CONVERSION METHOD:**

*From the following, find out credit sales:*

- Opening Sundry debtors: Rs.50,000
- Cash received from Sundry debtors: Rs.80,000
- Discount allowed to Sundry debtors: Rs.2,000
- Sales Return: Rs.5,000
- Closing Sundry debtors: Rs.70,000
From the following details, find out credit sales

Opening Sundry creditors
75,000

Closing Sundry creditors 90,000
Cash paid to Sundry creditors 22,500
Discount received 15,000
Purchased returns 7,500

From the following, find out Sundry creditors at the end.

Rs.
Opening Sundry creditors 19,000
Cash paid to Sundry creditors 40,000
Discount received 1,000
Return outwards 4,800
Credit purchases 51,200

Find out total purchases and total sales from the following details by preparing necessary accounts

Opening Sundry debtors 1,00,000
Opening Sundry creditors 65,000
Cash received from Sundry debtors 5,90,000
Discount received 3,000
Cash paid to Sundry creditors 40,000
Discount allowed 5,000
Returns outward 10,000
Returns inward 6,000
Closing Sundry debtors 70,000
Closing Sundry creditors 50,000
Cash sales 50,000
Cash purchases 25,000
THINKS TO REMEMBER:
BANK (CR) - LIABILITY
LOAN (Dr) - ASSET

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CHAPTER - 3

DEPRECIATION ACCOUNTING

ONE MARK QUESTIONS

1. All assets whose benefit is derived for a ______ period of time are called as Fixed Assets.

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

3. ______ method of depreciation is calculated on the original cost of assets.

4. Under ______ method, depreciation is calculated on the book value of the asset each year.

5. ______ method of depreciation is used in the case of Lease.

6. Under insurance policy method, cash is paid by way of ______ every year.

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

TWO MARK OR THREE QUESTIONS:

Carter defines depreciation as “the gradual and permanent decrease in the value of an asset from any causes.”

17. Write notes on revaluation method of depreciation?
Under this method, the assets like loose tools are revalued at the end of the accounting period and the same is compared with the value of the assets at the beginning of the year. The difference is considered as depreciation.

18. What do you mean by Insurance Policy method of depreciation?
   i. Insurance policy is taken for the amount of the asset to be replaced
   ii. A sum equal to the amount of depreciation is paid as premium every year
   iii. The amount so received is used for purchase new asset, replacing the old one.
19. What are the different methods of providing depreciation?

1. Straight line method
2. Written down method
3. Annuity method
4. Insurance policy method
5. Sinking fund method
6. Revaluation method

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

21. What is Annuity method of depreciation?
i. The annual amount of depreciation is determined with the help of annuity table
ii. This method is used for leasing of the assets.

22. What is fixed Asset?
All assets whose benefit is derived for a long period of time, usually more than one year period are called as Fixed Assets.
Example: Land, Building, Machinery

23. What is obsolescence?
The old asset will become obsolete (useless) due to new inventions, improved techniques and technological advancement.
TWO OR THREE MARK SUM: STRAIGHT LINE METHOD

A company purchased Furniture for Rs.28,000. Depreciation is to be provided annually according to the Straight Line Method. The useful life of the furniture is 5 years and the residual value is Rs.2,000.

You are required to find out the amount of depreciation.

From the following particulars, find out the rate of depreciation, under Straight Line Method.

<table>
<thead>
<tr>
<th>Cost of Fixed Asset</th>
<th>Rs. 50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual Value</td>
<td>Rs. 5,000</td>
</tr>
<tr>
<td>Estimated Life</td>
<td>10 years</td>
</tr>
</tbody>
</table>

A Plant has the original value of Rs.5,00,000. The scrap value in 10 years time is expected to be Rs.20,000. Determine the rate of depreciation when the management wants to depreciate it by Straight Line Method.

A machine costing Rs.3,00,000 is estimated to have a life of 10 years and estimated scrap value is Rs.20,000 at the end of its life. Calculate the rate of depreciation under the Straight Line Method.

A machine was purchased for Rs.2,40,000 on 1.1.2000. This is expected to last for five years. Estimated scrap at the end of five years is Rs.40,000. Find out the rate of depreciation under the Straight Line Method.

FIVE MARK PRACTISE PROBLEM: SLM

Sudha & Co., purchased a Machinery for Rs.64,000 on 1 April 1996. They spent Rs.28,000 on the repairs and installed the same. Depreciation is writtenoff at 10% p.a. on the Straight Line Method. On 30 June, 1998 the machinery was found to be unsuitable and sold for Rs.52,000. Assume that the accounts are closed on 31 December every year.

Pass the journal entries and prepare Machinery account and Depreciation account for three years.
Sunil & Co. purchased a fixed asset on 1.4.2002 for Rs.5,00,000. Depreciation is to be provided at the rate of 15% annually according to the Straight Line Method. The books are closed on 31 March every year.

Pass the necessary journal entries, prepare Fixed asset account and Depreciation account for the first three years.

M/s. Shankar & Co. purchased a Machinery on 1.1.2002 for Rs.10,00,000. The firm writes off depreciation at 10% on the original cost every year. The books are closed on 31 March every year.

Pass the necessary journal entries, prepare Machinery account and Depreciation account for the first three years.

Ganesh & Co. purchased a Machinery worth Rs.3,00,000 on 1st October 2000. They spent Rs.20,000 on it’s erection. The firm writes off depreciation at the rate of 10% on the original cost every year. The books are closed on 31st March of every year.

Prepare Machinery account and Depreciation account for three years.

A garment company purchased a Plant on 1 April 2001 for Rs.1,00,000. After having used it for three years it was sold for Rs.80,000. Depreciation is to be provided at the rate of 10% per annum on Fixed Instalment Method. Accounts are closed on 31st March every year.

Find out the Profit or Loss on sale of Plant.

**FIVE MARK PRACTISE PROBLEM: WDM OR RBM OR DBM**

Akbar & Co. purchased a plant for Rs.80,000 on 1.4.2001. It is depreciated at 10% p.a. on reducing balance method for three years. Accounts are closed on 31st March every year.

Pass the Journal entries, prepare Plant account and Depreciation account for three years.
Bhaskar & Brothers purchased a Machinery on 1.12.2002 for Rs.5,70,000. The firm writes off depreciation at 10% on reducing balance method. The books are closed on 31st March every year.
Pass the necessary journal entries, prepare Machinery account and Depreciation account for the first three years.

Abdul purchased a Machinery on 1st April 2001 for Rs.2,00,000. After having used it for three years it was sold for Rs.1,60,000. Depreciation is to be provided at the rate of 10% p.a. on Diminishing Balance Method. Accounts are closed on 31st March of every year.
Find out the Profit or Loss on sale of machinery.

A firm bought a machinery on 1.1.2002 for Rs.5,00,000. On 31.12.2003 the machinery was sold for Rs.3,90,000. The firm charges depreciation at the rate of 10% per annum on Diminishing Balance Method. The books are closed on 31st March every year.
Pass journal entries. Prepare Machinery account and Depreciation account.

On 1st January 2003, Ramesh & Co., purchased plant worth Rs.1,00,000 was sold away on 31st December 2004 for Rs.50,000. Depreciation was provided at 20% p.a. on the written down value every year. Accounts are prepared on 31st March every year.
Show the plant account and depreciation account for three years.

Alexander Company Limited purchased a plant for Rs.1,80,000 on 1st January 2003. They spent Rs.20,000 for installation expenses. Depreciation is to be provided @ 10% p.a. on the diminishing value method. Prepare plant account and depreciation account for three years ending 31st March every year.

THINKS TO REMEMBER:
SHORT CUT CLUE FOR CHAPTER: D.R.U.M
D-DATE
R-RATE D,R,M DONE BY U
M-METHOD
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ACCOUNTING RATIO

ONE MARK QUESTIONS:

1. ______ is a mathematical relationship between two items expressed in quantitative form.

2. Ratio helps in ______ forecasting.

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

4. ______ are those assets which are easily convertible into cash.

5. Bank overdraft is an example of ______ liability.

6. Liquid ratio is used to assess the firm’s ______ liquidity.

7. Liquid assets means current assets less ______ and ______

8. ______ ratio is modified form of liquid ratio.

9. Liquid liabilities means current liabilities less ______.

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

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

12. Stock turnover ratio is otherwise called as ______.

13. 100% - Operating profit ratio is equal to ______ ratio.

14. When total sales is Rs.2,00,000, cash sales is Rs.65,000, then credit sales will be Rs ______.

15. Liquid ratio is otherwise known as ______.
Define the ratio?

**Ratio** is an expression of one number in relation to another.

Kennedy and Mc Millan defines “The relationship of an item to another expressed in simple mathematical form is known as a ratio

What are the significance of Financial Statement Analysis?

Judging the earning capacity or profitability of a business concern.

Analysing the short term and long term solvency of the business concern

Helps in making comparative studies between various firms Assists in preparing budgets.

What is current Ratio?

This ratio is used as assess the firm’s ability to meet its current liabilities.

The relationship of current assets to current liabilities is known as current ratio.

Current Ratio = current assets / current liabilities

What is operating expenses?

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

28. What is Debtors Turnover Ratio?

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

Debtors turnover Ratio = Credit Sales / Average Accounts

Receivable
Calculate liquid ratio

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>20,000</td>
</tr>
<tr>
<td>Stock</td>
<td>3,000</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>1,000</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>6,000</td>
</tr>
</tbody>
</table>

From the following information find out Capital turnover ratio:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash sales</td>
<td>2,00,000</td>
<td></td>
</tr>
<tr>
<td>Credit sales</td>
<td>1,75,000</td>
<td></td>
</tr>
<tr>
<td>Sales return</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Equity share capital</td>
<td>1,00,000</td>
<td></td>
</tr>
<tr>
<td>Long term loan</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>25,000</td>
<td></td>
</tr>
</tbody>
</table>

From the following information find out Stock turnover ratio.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Opening stock</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Closing stock</td>
<td>3,00,000</td>
</tr>
</tbody>
</table>

Calculate creditors turnover from the following information

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Purchases</td>
<td>1,75,000</td>
</tr>
<tr>
<td>Cash Purchases</td>
<td>20,000</td>
</tr>
<tr>
<td>Purchases Return</td>
<td>5,000</td>
</tr>
<tr>
<td>Opening Creditors</td>
<td>36,000</td>
</tr>
<tr>
<td>Closing Creditors</td>
<td>24,000</td>
</tr>
</tbody>
</table>

From the following information find out debt equity ratio.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Bank loan</td>
<td>1,00,000</td>
</tr>
<tr>
<td>6% debenture</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>25,000</td>
</tr>
</tbody>
</table>
5 MARKS PROBLEM

From the following, you are required to calculate liquidity ratios.

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor</td>
<td>5,000</td>
<td>Creditors</td>
<td>4,000</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>4,000</td>
<td>Bills payable</td>
<td>3,000</td>
</tr>
<tr>
<td>Cash at Bank</td>
<td>6,000</td>
<td>Outstanding expenses</td>
<td>250</td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>2,000</td>
<td>Bills receivable</td>
<td>3,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,000</td>
<td>Closing stock</td>
<td>8,000</td>
</tr>
</tbody>
</table>

From the following, calculate Operating profit ratio and Operating ratio, Gross profit ratio and Net profit ratio.

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,00,000</td>
<td>Dividend received</td>
<td>400</td>
</tr>
<tr>
<td>Gross profit</td>
<td>30,000</td>
<td>Net profit</td>
<td>26,600</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling expense</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on sale of investments</td>
<td>800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IMPORTANT PROBLEMS: 25, 26, 27, 28

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LESSON-5  CASH BUDGET

ONE MARK QUESTIONS:
The term ‘cash’ in cash budget stands for _________ and _________.
Cash budget is also called as _________.
There are _________ methods by which a cash budget is prepared.
Cash budget is a useful tool for
The closing balance of one month will be the _________ balance of the next month.
Budget is an estimate relating to _________ period.
Budget is expressed in terms of _________.
Cash budget deals with ______________.
Purchase of Furniture is an example for ___________.
The opening balance of cash in January is Rs.9,000. The estimated receipts are Rs.14,000 and the estimated payments are Rs.10,000. The opening balance of cash in February will be _________.
A sole trader business is owned and managed by _________ person.

2 & 3 marks (Important Theory & problem questions)
Define the Budget.
“An account of the probable future income and expenditure”.
- Longman’s Dictionary of Business English

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

Write notes on cash budget?
Cash budget is one of the most important budgets prepared by a business concern as every transaction directly or indirectly deals with cash.
**Cash budget** shows the estimate of cash receipts and cash payments from all sources over a specific period.

This is also called as ‘**Finance Budget**’.

**What are the advantages of cash Budget?**

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

Thus, in short cash budget is an useful tool

**Enumerate the steps in the preparation of cash budget?**

**Step 1**: Take opening cash balance

**Step 2**: Add the estimated total cash receipts for the month

**Step 3**: Calculate the total cash available for the month

**Step 4**: Less the estimated total cash payments during the month

**Step 5**: Calculate the closing cash balance

**Give few examples for Cash Receipts**

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

**Give few example for Cash Payments**

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

**TWO OR THREE MARK PROBLEMS:**

The opening balance of cash on 1.1.2006 was Rs. 1,00,000. Estimated receipts during the month were Rs. 60,000 and the estimated payments for the month were Rs. 40,000. Determine the closing balance as on 31.1.2006

The Opening balance of cash in July = Rs. 10,000
Receipts during the month estimated = Rs. 18,000
Payments during the month estimated = Rs. 12,000

What is the closing balance of cash for July?

The Opening balance of cash in January = Rs. 9,000
Receipts during the month estimated = Rs. 14,000
Payments during the month estimated = Rs. 10,000

What is the closing balance of cash for February?

The opening balance of cash is April is Rs1250. Total cash receipts are Rs. 4,300 and the estimated cash payments are Rs. 3,750. What is the closing balance for April?

The opening balance of cash is April is Rs1250. Total cash receipts are Rs. 4,300 and the estimated cash payments are Rs. 3,750. What is the closing balance for April?
From the following information, prepare cash budget for June 2005.

Cash in hand 1.6.2005 10,000
Cash purchases for June, 2005 70,000
Cash sales for June, 2005 1,00,000
Interest payable in June, 2005 1,000
Purchase of Office furniture in June, 2005 2,500

5 MARKS PROBLEM
Prepare a cash budget for the month of January, February and March 2005 from the following information.

<table>
<thead>
<tr>
<th>Month &amp; Year</th>
<th>Credit purchases</th>
<th>Credit sales</th>
<th>Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2004</td>
<td>2,00,000</td>
<td>2,50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>December 2004</td>
<td>3,00,000</td>
<td>3,50,000</td>
<td>60,000</td>
</tr>
<tr>
<td>January 2005</td>
<td>3,00,000</td>
<td>4,50,000</td>
<td>60,000</td>
</tr>
<tr>
<td>February 2005</td>
<td>4,00,000</td>
<td>2,00,000</td>
<td>80,000</td>
</tr>
<tr>
<td>March 2005</td>
<td>5,00,000</td>
<td>3,50,000</td>
<td>70,000</td>
</tr>
</tbody>
</table>

1. Expected Cash balance on 1.1.2005 is Rs.75,000
2. Suppliers allowed a credit period of two months
3. A credit period of two months is allowed to customers
4. Lag in payment of wages is one month.
Prepare a cash budget for October, November and December 2004 from the following information.

<table>
<thead>
<tr>
<th>Month</th>
<th>Sales</th>
<th>Purchases</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2004</td>
<td>Rs. 10,00,000</td>
<td>Rs. 8,00,000</td>
<td>Rs. 1,10,000</td>
</tr>
<tr>
<td>October 2004</td>
<td>Rs. 12,00,000</td>
<td>Rs. 12,00,000</td>
<td>Rs. 1,30,000</td>
</tr>
<tr>
<td>November 2004</td>
<td>Rs. 14,00,000</td>
<td>Rs. 8,00,000</td>
<td>Rs. 1,50,000</td>
</tr>
<tr>
<td>December 2004</td>
<td>Rs. 16,00,000</td>
<td>Rs. 10,00,000</td>
<td>Rs. 1,70,000</td>
</tr>
</tbody>
</table>

1. All sales are for cash.
2. The period of credit allowed by the suppliers is one month.
3. Lag in payment of expenses is one month.
4. Opening balance of cash on 1.10.04 is Rs.90,000.
5. In December, an asset for Rs.4,00,000 is to be purchased.

Prepare a cash budget for the month of March, April and May 2005 from
1. Expected Cash balance on 1.3.2005 is Rs.80,000
2. Suppliers allowed a credit period of two months
3. A credit period of one month is allowed to customers
4. Expenses are paid in the same month.
5. Sale of fixed asset Rs. 25,000 in April.
6. Purchase of fixed asset in May Rs.20,000

<table>
<thead>
<tr>
<th>Month</th>
<th>Credit purchases Rs.</th>
<th>Credit sales Rs.</th>
<th>Selling expens Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>75,000</td>
<td>1,50,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>February</td>
<td>1,00,000</td>
<td>1,35,000</td>
<td>1,35,000</td>
</tr>
<tr>
<td>March</td>
<td>85,000</td>
<td>1,75,000</td>
<td>65,000</td>
</tr>
<tr>
<td>April</td>
<td>1,25,000</td>
<td>1,20,000</td>
<td>70,000</td>
</tr>
<tr>
<td>May</td>
<td>90,000</td>
<td>1,40,000</td>
<td>80,000</td>
</tr>
</tbody>
</table>

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Chapter – 6 PARTNERSHIP ACCOUNTS- BASIC CONCEPTS

ONE MARK QUESTION

1. A sole trader business is owned and managed by ....._person.
2. Indian Partnership Act was enacted in the year........ ________.
3. Mutual and ..... agency is the essence of a partnership.
4. The profits and losses of the business will be shared among the partners in the_......._ratio.
5. Under fluctuating capital method, profit or loss in a year, will be transferred to the respective ......_ accounts.
6. The capital accounts of partners may be ......_ or fluctuating.
7. Under ....capital arrangement, current accounts will not be maintained.
8. The debit balance of the current account, will be shown in the .....side the balance sheet.
9. Interest on partners’ capital is allowed, only when the...._specifically provides for it
10. Money lent to the business by a partner is credited to his ...account not his capital account
11. Interest on partners’ loan should be paid, even if there is no .....__ in a ye
12. Goodwill is an...... asset.
13. The excess of average profit over normal profit is .........
14. In the absence of partnership deed, no interest is to be charged on.... _____
15. A partnership can be formed only for a .... business.
16. The persons who entered into partnership are collectively known as ..... 

TWO MARK OR THREE MARK QUESTIONS:

35. Define Partnership.
The Indian Partnership Act 1932, Section 4, defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”.

38
36. what is Goodwill?

- Goodwill is the value of the reputation of the firm.
- the business builds up the goodwill by its efficient service to customers and quality of its products.
- Goodwill is the present value of firm’s anticipated excess earnings in future.
- It is an intangible assets but not a fictitious asset.

37. What is super profit?
The excess of average profit over normal profit is called super profit.

Step 1: Calculate the average profit - partners remuneration
Step 2: Calculate the normal profit on capital employed
Step 3: Calculation of super profit,
Super profit = Average Profit - Normal Profit
Step 4: Calculation of Goodwill, Goodwill = Super Profit x No. of Years of purchase

38. Who is Outgoing partner?

A person who is retired from the firm is known as an Outgoing Partner or a retiring Partner. A retiring partner will be held liable for the debts incurred by the firm before his retirement, But he will not be responsible for the firms acts after the retirement.

40. Who is Incoming Partner?

A Person who is admitted to the firm is known as an incoming or a new partner, On admission of a new partner, the existing partnership comes to an end and a new partnership comes into effect.
TWO OR THREE MARK SUMS:

INTEREST ON CAPITAL:

Manjula and Vennila started business on 1st April 2004 with capitals of Rs.60,000 and Rs. 50,000 respectively. On 1st July 2004 Manjula withdrew Rs.8,000 from his capital. Vennila introduced additional capital Rs.10,000 on 30.9.2004. Calculate interest on capital at 5% for the year ending 31st March 2005.

Prince, Queen and King had capitals of Rs. 80,000, Rs.60,000 and Rs.40,000 respectively on 1.4.2004. Queen withdrew Rs.8,000 from his capital on 30.9.2004, King introduced additional capital Rs.12,000 on 31.12.2004. Calculate interest on capital at 6% for the year ending 31st March 2005.

INTEREST ON DRAWINGS:

Sundar and Shanmugam are two partners sharing profits and losses equally. Sundar drew regularly Rs.2,000 at the end of every month during the year. Shanmugam draws Rs.4,000 regularly at the beginning of every month during the year. Calculate interest on their drawings at 10%p.a.

Pasupathi and Valayapathi are partners. Pasupathi draws Rs.900 regularly in the middle of each month during the year 2004. Valayapathi draws Rs.5,400 at the end of each half year. Calculate interest on their drawings at 5% p.a

Matheswaran draws Rs.3,000 regularly at the end of every month during the year 2004. Calculate interest on their Drawings at 6% p.a.
**Valuation of Goodwill:**

Goodwill is to be valued at three years purchase of five year’s average profits.

The profits for the last five years of the firm were:

- 2000 - Rs. 4,200;
- 2001 - Rs. 4,500;
- 2002 - Rs. 4,700;
- 2003 - Rs. 4,600 and 2004 - Rs. 5,000.

Calculate the amount of goodwill on the basis of two year’s purchase of the last four years average profits. The profits for the last four year’s are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit/Loss</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Loss</td>
<td>Rs. 10,000</td>
</tr>
<tr>
<td>II</td>
<td>Profit</td>
<td>Rs. 26,000</td>
</tr>
<tr>
<td>III</td>
<td>Profit</td>
<td>Rs. 34,000</td>
</tr>
<tr>
<td>IV</td>
<td>Profit</td>
<td>Rs. 50,000</td>
</tr>
</tbody>
</table>

Goodwill is to be valued at three years purchase of four years average profits. The profits for the last four years of the firm were:

- 2001 - Rs. 12,000,
- 2002 - Rs. 18,000,
- 2003 - Rs. 16,000;
- 2004 - Rs. 14,000.

Calculate the amount of goodwill.

**FIVE MARK PROBLEMS**

A firm earned net profits during the last three years as follows:

- I Year Rs. 36,000
- II Year Rs. 40,000
- III Year Rs. 44,000

The Capital investment of the firm is Rs.1,20,000. A fair return on the capital having regard to the risk involved is 10%.
Calculate the value of goodwill on the basis of three year purchase of Super profits.

From the following information, calculate the value of goodwill at three years’ purchase of super profit.

i) Average Capital employed in the business Rs.6,00,000.
ii) Net trading profits of the firm for the past three years were Rs.1,07,600, Rs.90,700 and Rs.1,12,500.
iii) Rate of interest expected from capital having to the risk involved is 12%.
iv) Fair remuneration to the partners for their service Rs.12,000 p.a.

Amuthan and Raman are partners in a firm showing Profits and Losses in the ratio 3:2. Their capitals on 1.4.2003 were Rs.1,60,000 and Rs.1,20,000 respectively. The Net Profit of the firm for the year ended 31st March 2004 before making adjustments for the above items was Rs.60,000. Drawings of the partners during the year were, Amuthan Rs.12,000 and Raman Rs.8,000. Their Partnership Deed provided for the following:

1. Interest on Capital at 5% p.a.
2. Interest on Drawings at 6% p.a.
3. Amuthan and Raman to get a salary of Rs.10,000 each per annum.
4. Amuthan to get a commission of 10% on the Net Profit before charging such commission.

Show the Profit and Loss Appropriation Account and Capital Accounts of the partners.
Write up the Capital and Current Accounts of the partners, Kannagi and Vasugi, from the following details:

<table>
<thead>
<tr>
<th></th>
<th>Kannagi</th>
<th>Vasugi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital on 1.4.2003</strong></td>
<td>1,00,000</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Current A/c on 1.4.2003</strong></td>
<td>3,000 (Dr.)</td>
<td>2,000 (Cr.)</td>
</tr>
<tr>
<td><strong>Drawings during 2003-04</strong></td>
<td>8,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Interest on Capital</strong></td>
<td>5,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Interest on Drawings</strong></td>
<td>240</td>
<td>150</td>
</tr>
<tr>
<td><strong>Share of Profit 2003-04</strong></td>
<td>12,000</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Partner’s Salary</strong></td>
<td>4,000</td>
<td>---</td>
</tr>
</tbody>
</table>

Show how the following items will appear in the Capital Accounts of the partners, Ramu and Somu, when their capitals are

(a) Fluctuating and (b) Fixed.

<table>
<thead>
<tr>
<th></th>
<th>Ramu</th>
<th>Somu</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital on 1.4.2004</strong></td>
<td>90,000</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Drawings during 2004-05</strong></td>
<td>18,000</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Interest on Drawings</strong></td>
<td>500</td>
<td>300</td>
</tr>
<tr>
<td><strong>Share of Profit for 2004-05</strong></td>
<td>12,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Interest on Capital</strong></td>
<td>5,400</td>
<td>3,600</td>
</tr>
<tr>
<td><strong>Partner’s Salary</strong></td>
<td>6,000</td>
<td>---</td>
</tr>
</tbody>
</table>

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Chapter – 7 PARTNERSHIP ACCOUNTS – ADMISSION

ONE MARK QUESTIONS:

1. In the event of admission of a new partner, legally there is ________ of old partnership.

2. At the time of admission of a new partner, ________ profit ratio should be found out.

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

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

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

6. The balance of revaluation account shows ________ on revaluation.

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

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


10. At the time of admission, when goodwill is raised, the old partners capital account will be credited in the ________ ratio.

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

12. Under ________ goodwill account is raised by crediting the old partners capital accounts in the old profit sharing ratio.

TWO OR THREE MARKS QUESTIONS:

1. What is meant by admission of a partner?

2. Who is an incoming partner?

3. What are the adjustments to be made in connection with admission?

4. What is new profit ratio on admission of a partner?
5. What is Sacrifice Ratio?
6. What is revaluation account?
7. Why revaluation account is to be prepared

**TWO OR THREE MARKS PROBLEM:**

**Calculation of New Profit Ratio and Sacrificing Ratio:**

Sheela and Neela were sharing profits in the ratio of 4:3. Kamala was admitted with 1/5th share in profits of business. Calculated the New Profit Ratio and the sacrificing ratio.

Kokila and Mala were sharing profits in the ratio of 4:3. Chandra was admitted in the business as a partner with 3/7th share in the profits of the firm which she takes 2/7th from Kokila and 1/7th from Mala. Find out New Profit Ratio and the sacrificing ratio.

Anandan and Baskaran were partners in a firm sharing profit and loss in the ratio of 3:2. They admit Chandran into the partnership to 1/3rd share, the old partners sacrificing equally. Calculate the new profit - ratio and the sacrificing ratio.

Kundran and Kumaran are partners sharing profit and losses in the ratio of 9:7. Kugan is admitted as partners; he acquires 3/16 of the profit entirely from Kundran. Calculate the new profit ratio and the sacrificing ratio.

Eswari and Ranikumari are partners sharing profits and losses in the ratio of 3/16. They agree to admit Chitra into partnership. Eswari surrenders 1/7th of her share and Ranikumari 1/5th of her share in favour of Chitra. Calculate the New Profit Ratio and the sacrificing ratio.

Ramesh and Suresh are sharing profits in the ratio of 4:3. Mahesh joins and the new ratio among Ramesh, Suresh and Mahesh is 7:4:3. Find out the sacrificing ratio.
Adjustment for Reserve and Undistributed Profit & Loss

Amala and Vimala were partners of a firm sharing profit and losses in the ratio of 5:3. On 1.4.2004, the firm’s book showed a reserve fund of Rs.48,000. On the above date they decided to admit Komala into the partnership. Pass entry.

Treatment of Goodwill

Jabeen and Kathija were partners in a firm sharing profits and losses in the ratio of 2:1. They admitted Sultana as a partner and the new profit sharing ratio was 3:2:1. Goodwill did not appear on the date of the above admission in the partnership books and it was valued at Rs.36,000.

Show the journal entry for the treatment of goodwill under the revaluation method.

Ponmalar and Thenmozhi were partners in a firm sharing profits and losses in the ratio of 7:3. They decided to admit Kanimozhi into the firm to one sixth share of profits. Goodwill account stood in their books at Rs.60,000 and it was on that above date of the admission valued at Rs.40,000.

What is the entry for the goodwill account to its agreed value?

FIVE MARKS QUESTION:

The following is the Balance Sheet of Lion and Tiger sharing profits and losses as to Lion - 65% and Tiger - 35% as at 1st May 2004:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry creditors</td>
<td>25,000</td>
<td>Cash</td>
<td>2,000</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>13,000</td>
<td>Debtors</td>
<td>30,000</td>
</tr>
<tr>
<td>Profit and Loss A/c</td>
<td>14,000</td>
<td>Stock</td>
<td>20,000</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td>Furniture</td>
<td>8,000</td>
</tr>
<tr>
<td>Lion :40,000</td>
<td></td>
<td>Land and Buildings</td>
<td>50,000</td>
</tr>
</tbody>
</table>
Tiger : 30,000  
70,000  
1,22,000  

Goodwill  
12,000  
1,22,000  

They agree to take Leopard into the partnership to 1/10th share on the following terms:

(a) Leopard shall bring in a capital of Rs. 30,000.
(b) The goodwill of the firm be increased to Rs.15,000
(c) A provision of Rs.1,000 be made for outstanding repairs bill.
(d) The value of land and buildings be brought upto Rs.60,000 being their present worth.

Prepare the Revaluation account, Capital accounts, Bank account and the Balance Sheet of the New Firm.

Lakshmi and Saraswathi are partners of a firm sharing profits and losses in proportion to capital. Their Balance Sheet as on 31st March 2005 is as under:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry creditors</td>
<td>60,000</td>
<td>Bank</td>
<td>12,000</td>
</tr>
<tr>
<td>Bills payable</td>
<td>40,000</td>
<td>Sundry debtors</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stock</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plant</td>
<td>90,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Furniture</td>
<td>18,000</td>
</tr>
</tbody>
</table>

Capital accounts:

Lakshmi : 60,000
Sarwathi : 40,000, 1,00,000

2,00,000  

2,00,000
They decided to admit Sulochana into the partnership with effect from 1st April, 2005 on the following terms.

(a) Sulochana shall bring in a capital of Rs.50,000 for 1/5th share of profits.

(b) Goodwill is to be valued at Rs.40,000.

(c) Plant and furniture was to be depreciated by 5%.

(d) Provision for doubtful debts be created at 1½% on sundry debtors.

Show revaluation account, capital accounts, bank account and balance sheet of the reconstituted partnership.

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PRESIDENT (MADURAI SOUTH)

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Chapter – 8  PARTNERSHIP ACCOUNTS -RETIREMENT

ONE MARK QUESTION:

1. The retiring partner should be paid off or the amount due to him, will be treated as his…… to the firm.

2. At the time of retirement of partners, the existing partners stand to…..

3. If the value of liabilities decrease, it results in … item.

4. At the time of retirement, the increase in the value of goodwill will be transferred to the ….. side of the capital accounts of all the partners.

5. At the time of retirement, the profit on revaluation of assets and liabilities will be transferred to the…… side of the capital accounts of all the partners.

6. At the time of retirement, the revaluation profits of business will be shared by… partners.

7. In the absence of any specific agreement between the partners, partners loan to the firms will carry an interest at the rate of ........percentage.

8. The accumulated reserves will be transferred to the old partners Capital accountin the ……. ratio at the time of his retire

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

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

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

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

TWO OR THREE MARK QUESTION_____________ .

1. What do you mean by retirement of a partner?

2. Who is an outgoing partner?

3. How can a partner retire from the firm?

4. What is new profit ratio on retirement of a partner
5. What is gaining ratio?

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

7. Distinguish between sacrificing ratio and gaining ratio.

**TWO OR THREE MARK PROBLEMS:**

**Determination of New Profit Ratio**

1. The Old profit sharing ratio of A, B and C was 4:3:2. Calculate the new ratio and the gaining ratio when (i) A retires (ii) B retires (iii) C retires.

Mani, Nagappan and Ulaganathan are partners sharing profits in the ratio of 4:3:3. Ulaganathan retires and his share is taken up by Mani and Nagappan in the ratio of 3:2. Calculate the new ratio.

Sabapathi, Thirumalai and Umapathi are partners sharing profits in the ratio of 3:2:1. Thirumalai retires and his share is taken up by Sabapathi and Umapathi equally. Calculate the new ratio.

Roja, Meena and Shobana are partners sharing profits in the ratio of 5:4:3. Roja retires and her share is taken up entirely by Meena. Calculate the new ratio.

P, Q and R sharing profits in the ratio of 2:2:1. Q retires and the new profit ratio agreed between the continuing partners P and R is 4:3. Calculate gaining ratio.

A, B and C were partners sharing profit and losses in the ratio of 4:3:2. On 31st March, 2005, the firm’s books showed general reserve at Rs.45,000. ‘B’ wanted to retire from 1.4.2005. Pass entry to transfer the entire reserve to the capital accounts of the partners.

**Treatment of Goodwill**

O, P and Q were partners of a firm sharing profit and losses in the ratio of 7:5:3. In view of ‘P’ s’ retirement, they valued their goodwill at Rs.45,000 and decided to raise the goodwill account which did not exist before. Pass entry.
A, B and C were partners of a firm sharing profit and losses in the ratio of 5:3:2. Goodwill account stood in their books at Rs.36,000. ‘C’ wanted to retire and in view of that the partners decided to update the value of goodwill to Rs.50,000. Pass entry.

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Chapter - 9  
COMPANY ACCOUNTS

ONE MARK QUESTION:

1. Companies have been defined in Section…….of the Companies Act, _____.

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

3. The management of a company is done by …_________.

4. The liability of shareholders are …… in a company.

5. Audit of accounts are done by practicing chartered accounts who are appointed by at the _________.

6. _______ is the maximum amount of capital that can be issued by a company.

7. Nominal capital is the capital mentioned in the _______ of the company.

8. The part of the authorised capital not offered for subscription to the public is ……… known as _________.

9. Reserve capital can be issued only at the time of . .. _________

10. A public issue can not be kept open for more _______ days.

11. Minimum subscription that should be received by the company is _________ % of the issued capital.

12. When excess application money is adjusted towards allotment it is called as __________ allotment.

13. There should be a time gap of …… between two calls.


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

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

TWO OR THREE MARK QUESTION:

What is capital reserve?

- The balance if any in the forfeited share account is a capital profit and will be transferred to ‘Capital reserve account’.
The entry for transferring the balance in the Shares Forfeited Account is

\[
\begin{align*}
\text{Forfeited Shares A/c Dr} & \quad xxx \\
\text{To Capital Reserve A/c} & \quad xxx
\end{align*}
\]

What are the different types of shares that can be issued by company?
What is allotment?
What is prorata allotment?
What do you understand by calls-in-arrears?
What is meant by calls-in-advance

**TWO OR THREE MARK PROBLEM:**

Vinod Company Ltd. issued 40,000 Preference shares of Rs.10 each at premium of Rs.3. Give journal entry.
Sridhar Ltd., issued 20,000 shares of Rs.100 each at discount of 10%. Give journal entry.

On 1.1.98 Alpha Ltd., issued 1,00,000 shares of Rs.10 each payable Rs.2 On application. The company received applications for 1,20,000 shares. The excess applications were rejected and money refunded. Pass necessary entries.

Gani Ltd. forfeited 20 shares of Rs.10 each fully called up, held by Santha for non-payment of final call of Rs.4 per share. These shares were re-issued to Josephin for Rs.8 per share as fully paid up. Give journal entries for the forfeiture and re-issue of shares.

The Directors of a company forfeited 200 Equity Shares of Rs.10 each fully called
up on which the final call of Rs.2 has not been paid. The shares were re-issued upon payment of Rs.1,500. Journalise the above transactions.

The directors of Sheela Ltd. forfeited 2000 shares Rs.10 each for non-payment of final call of Rs.2.50. 1,800 of these shares were re-issued for Rs.6 per share fully paid up. Give the necessary Journal entries.

Meenakshi Limited forfeited 100 equity shares of face value of Rs.10 each, for non-payment of final call of Rs.2 per share. The forfeited shares were subsequently reissued @ Rs.7 each as fully paid. Give necessary entries in company’s Journal.

**FIVE MARK PROBLEM:**

A company issued 10,000 shares of the value of Rs.10 each, payable Rs.3 on application, Rs.3 on allotment and Rs.4 on the first and final call. All cash is duly received except the call money on 100 shares. These shares are subsequently forfeited by directors and are reissued as fully paid for Rs.500. Give the necessary Journal entries for the transactions.

Saraswathi Ltd. having an authorised capital of Rs.20,00,000 in shares of Rs.100 each invited applications for 10,000 shares payable as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>On Application</td>
<td>Rs. 30</td>
</tr>
<tr>
<td>On Allotment</td>
<td>Rs. 20</td>
</tr>
<tr>
<td>On First Call</td>
<td>Rs. 25</td>
</tr>
<tr>
<td>On Final Call</td>
<td>Rs. 25</td>
</tr>
</tbody>
</table>

The company received applications for 12,000 shares. Applications for 10,000 shares were accepted in full and the money on 2000 applications rejected was returned.

All money due as stated above was received with the exception of the final call of 250 shares. Half of these shares were forfeited and re-issued as fully paid at Rs.90 per share. Pass necessary journal entries.
Sriram Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:
Rs. 25 on application; Rs. 45 on allotment (including premium); Rs. 20 on first Call; and Rs. 30 on final Call.

9,000 shares were applied for and allotted. All money was received with the exception of first and the final calls on 200 shares held by Ram. These shares were forfeited.

Give the Journal entries and important ledger Accounts.

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