Unit 1 - Accounts From Incomplete Records

II Very Short Answer Questions

1. **What is meant by incomplete records?**

When accounting records are not strictly maintained according to double entry systems, these records are called incomplete accounting records. (OR)

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.

2. **State the accounts generally maintained by small sized sole trader when double entry accounting system is not followed.**

Cash account and the personal accounts of customers and creditors are maintained fully and other accounts are maintained based on necessity.

3. **What is a statement of affairs?**

A statement of affairs is a statement showing the balances of assets and liabilities on a particular date. It is prepared when accounts are maintained under single entry system to find out the capital of the business.

III Short Answer Questions

1. **What are the features of incomplete records?**

Following are the features of incomplete records:

(i) Nature: It is an unscientific and unsystematic way of recording transactions. Accounting principles and accounting standard are not followed properly.

(ii) Type of accounts maintained: In general, only cash and personal accounts are maintained fully. Real accounts and nominal accounts are not maintained properly. Some transactions are completely omitted.

(iii) Lack of uniformity: There is no uniformity in recording the transactions among different organisations. Different organisations record their transactions according to their needs and conveniences.

2. **What are the limitations of incomplete records?**

(i) Lack of proper maintenance of records: It is an unscientific and unsystematic way of maintaining records. Real and Nominal accounts are not maintained properly.

(ii) Difficulty in preparing trial balance: As accounts are not maintained for all items, the accounting records are incomplete. Hence, it is difficult to prepare trial balance to check the arithmetical accuracy of the accounts.

(iii) Difficulty in ascertaining true profitability of the business: Profit is found out based on available information and estimates. hence, it is difficult to ascertain true profit as the trading and profit and loss account cannot be prepared with accuracy.

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3. **State the differences between double entry system and incomplete records.**

Basis of distinction	Double entry system	Incomplete records
. Recording of transactions	Both debit and credit aspects of all the transactions are recorded.	Debit and credit aspects of all the transactions are not recorded completely. For some transactions both aspects are entered, some transactions are partially recorded and some transactions are omitted to be entered.
2. Type of accounts maintained	Personal, Real and Nominal accounts are maintained fully.	In general, only personal and cash accounts are maintained fully. Real and Nominal accounts are not maintained fully.
3. Preparation of trial balance.	Trial balance can be prepared to check the arithmetical accuracy of the entries made in the books of accounts.	It is difficult to prepare the trial balance to check arithmetic accuracy of entries made in the books of accounts as the accounts are incomplete.

4. **State the procedure for calculating profit or loss through statement of affairs.**

Under this method, by comparing the capital (net worth) at the beginning and at the end of a specified period profit or loss is found out. Any increase in capital (net worth) is taken as profit while a decrease in capital is regarded as loss.

Capital at the beginning and at the end can be found out by preparing statement of affairs in the beginning and at the end of an accounting year respectively.

The difference between the closing capital and the opening capital is taken as profit or loss of the business. Due adjustments are to be made for any withdrawal of capital from the business and for the additional capital introduced in the business.

Closing Capital + Drawings - Additional Capital - Opening Capital = Profit / Loss

5. **Differentiate between statement of affairs and balance sheet.**

Basis of distinction	Statement of Affairs	Balance sheet
Objective	Statement of affairs is generally prepared to find out the capital of the business.	Balance sheet is prepared to ascertain the financial position of the business.
Accounting system	Statement of affairs is prepared when double entry system is not strictly followed.	Balance sheet is prepared when accounts are maintained under double entry system.

Basis of preparation	It is not fully based on ledger balances. Wherever possible ledger balance are taken. Some items are taken from some source documents and some items are mere estimates.	It is prepared exclusively on the basis of ledger balances.
4. Reliability	It is not reliable as it is based on incomplete records	It is reliable as it is prepared under double entry system.

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

For ascertaining the amount of credit sales, the total debtors account should be prepared. The specimen of total dr's A/c is given below.

Dr			**Cr**
	Total Debtors A/c		
To Bal b/d	Xxxx	By Cash A/c (received)	Xxx
To Sales A/c (credit sales)	Xxx	By Bank A/c (cheques received)	Xxx
To Bank A/c (cheque dishonoured)	Xxx	By Discount allowed A/c	xxx
To Bills receivable A/c(bills dishonoured)		By Sales returns A/c	Xxx
		By Bad debts A/c	Xxx
		By Bills receivable A/c(bills received)	Xxx
		By Balance c/d(Closing Balance)	Xxx

Unit 2 - Accounts of Non-For-Profit Organistation

II Very Short Answer Questions

1. **State the meanting of not-for-profit organisation.**

Some organisations are established for the purpose of rendering servies to the public without any profit motive. They may be created for the promotion of art, culture, education, sports, etc. These organisations are called not-for-profit organisation.

2. **What is receipts any payments account?**

Receipts and Payments account is a summary of cash and bank transactions of not-for-profit organisations prepared at the end of each financial year. It is a real account in nature

3. **What is Legacy?**

A gift made to a not-for-profit organisation by a will, is called legacy. It is a capital receipt.

4. **Write a short note on life membership fees.**

Amount received towards life membership fee from members is a capital receipt as it is non-recurring in nature

5. **Give four examples for Capital receipts of not-for-profit organisation.**
Life membership fees, Legacies Specifi, Specific donatins,
Sale of fixed assets, Special funds, Tournament fund prize

6. **Give four examples for revenue receipts of not-for-profit organisation?**
Subscription, Interest on investment, Interest on fixed deposit
Sale of (old) sports materials, Sale of (old) newspapers

III Short Answer Questions

1. **What is income and expenditure account?**

Income and expenditure account is a summary of income and expenditure of a not-for-profit organisation prepared at the end of an accounting year. It is prepared to find out the surplus or deficit pertaining to a particular year.

It is a nominal account in nature in which items of revenue receipts and revenue expenditure, relating to the current year alone are recorded. It is prepared following the accrual basis of accounting.

2. **State the differences between Receipts and Payments Account and Income and Expenditure Account.**

S.No	Basis	**Receipts and Payments Account**	**Income and Expenditure Account.**
1	Cash and non-cash transactions	It is prepared on a cash basis and only actual cash payments and receipts are reflected here.	It is prepared on an accrual basis and includes both cash and non-cash transactions.
2	Capital and revenue items	Items of both capital and revenue nature are reflected here.	Items of only revenue nature are reflected here.
3	Compulsory or not	It's preparation is not compulsory.	Its preparation is compulsory.
4	Preparation	It is prepared using information from cash book maintained by the entity.	It is prepared by using information from receipt and payment account and from other relevant sources.
5	Use of double entry system	The double entry bookkeeping system is not followed while its preparation	Double entry bookkeeping system is followed strictly while its preparation

3. **How annual subscription is dealt with in the final accounts of not-for-profit organisation?**

Expenditure	₹	Income	₹	₹
		By Subscription	Xxx	
		Less Subscription for the previous year	xxx	
			xxx	
		Less Subscription for the Subsequent year	xxx	
			xxx	
		Add: **Outstanding subscription for the current year**	xxx	
			XXX	

		Add: **Received in advance during the previous year for the current year**	XXX	
			Xxx	XXX

Balance sheets as on....

Liabilities	₹	Assets	₹	₹
ubscription received in advance for the subsequent year	XXX	**Outstanding subscription for the :**		
		Current year		XXX
		Previous year		XXX

4. **How the following items are dealt with in the final accounts of not-for-profit organisation? (a) Sale of sports materials (b) Life membership fees (c) Tournament fund**

(i) Sale of sports materials: Shown on the credit side of Income & Edpenditure A/c.

(ii) Life membership fees: being capital receipt, will be shown on the liability side of the B/s.

(iii) Tournament Fund: being capital receipt, will be shown on the liability side o f the B/s.

Unit 3 - Accounts Of Partnership Firms Fundamentals

II Very Short Answer Questions

1. **Define partnership.**

According to section 4 of the Indian Partnership Act, 1932, partnership is defined as, ‘‘the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

2. **What is partnership deed?**

Partnership deed is a document in writing that contains the terms of the agreement among the partners.

3. **What is meant by fixed capital method?**

Under fixed capital method, the capital of the partners is not altered and it remains generally fixed. Two accounts are maintained for each partner namely (a) Capital account and (b) Current account. The transactions relating to initial capital introduced, additional capital introduced and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

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

For providing interest on capital

Date	Particulars	L.F.No	Debit ₹	credit ₹
	Interest on capital A/c Dr.		Xxx	
	To Partner's capital /current A/c			xxx

5. **Why profit and loss appropriation account prepared?**

The profit and loss appropriation account is an extension of profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners. It is nominal account in nature. It is credited with net profit, interest on drawings and it is debited with interest on capital, salary and other remuneration to the partners. The balance being the profit or loss is transferred to the partners' capital or current account in the profit sharing ratio.

III Short Answer Questions

1. **State the features of partnership?**

Following are the essential features of partnership.

1 Partnership is an association of two or more persons. The maximum number of partners is limited to 50.

2 There should be an agreement among the persons to share the profit or loss of the business. The agreement may be oral or written or implied.

3 The agreement must be to carry on a business and to share the profits of the business.

4 The business may be carried on by all the partners or any of them acting for all.

2. **State any six contents of a partnership deed.**

Contents of partnership deed.

Generally, partnership deed contains the following:

1. Name of the firm and nature and place of business.
2. Date of commencement and duration of business.
3. Names and addresses of all partners.
4. Capital contributed by each partner.
5. profit sharing ratio

3. **State the differences between fixed capital method and fluctuating capital method.**

Differences between fixed capital method and fluctuating capital method.

S.No	FIXED CAPITAL METHOD	FLUCTUATING CAPITAL METHOD
1	Two accounts are prepared: Capital Account and Current Account	Only a single account is prepared: Capital Account
2	The capital balance remains unchanged	Capital balance fluctuates
3	Both Capital and Current Accounts appears in the Balance sheet.	Only Capital Account appears in the Balance Sheet.
4	Fixed Capital Account will always show a Credit Balance	Fluctuating Capital account may show debit balance as well.

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

Applications of the provisions of the Indian Partnership Act, 1932 in the absence of partnership deed.

(i) Remuneration to partners

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

(ii) Profit sharing ratio

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

(iii) Interest on capital

No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [Section 13 (c)]

(iv) Interest on loans advanced by partners to the firm

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

(v) Interest on drawings.

No interest is charged on the drawings of the partners.

5. **Jayaraman is a partner who withdrew 10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December, 2018.**

$$Interest\ on\ Drawing = Amount\ with\ drawn\ X \frac{rate}{100}\ X\ \frac{average\ period}{12}$$

$$Interest\ on\ Drawing = 10000X\frac{12}{100}\ X\ \frac{6}{12} = Rs.300$$

Unit 4 - Goodwill in Partnership Accounts

II Very Short Answer Questions

1. **What is goodwill?**
   Goodwill is the good name or reputation of the business which brings benefit to the business. It enables the business to earn more profit. It is the present value of a firm's future excess earnings. It is an intangible asset as it has no physical existence.

2. **What is acquired goodwill?**
   Goodwill acquired by making payment in cash or kind is called acquired or purchased goodwill. When a firm purchases an existing business, the price paid of purchase of such business may exceed the net assets (Assets - Liabilities) of the business acquired. The excess of pruchase consideration over the value of net assets acquired is treated as acquired goodwill.

3. **What is super profit?**

Super profit is the excess of average profit over the normal profit of a business.

Super Profit = Average Profit - Normal Profit

4. **What is normal rate of return?**

Normal rate of return = It is the rate at which profit is earned by similar business entities in the industry under normal circumstrances.

5. **State any two circumstances under which goodwill of a partnership firm is valued.**

(i) When there is a change in the profit sharing ratio

(ii) When a new partner is admitted into a firm

(iii) When an existing partner retires from the firm or when a partner dies.

(iv) When a partnership firm is dissolved.

III Short Answer Questions

1. **State any six factor determing goodwill.**

(i) Profitability of the firm

(ii) Favourable location of the business enterprises

(iii) good quality of goods or services offered

(iv) Tenure of the business enterprises

(v) Efficiency of management.

(vi) Degree of Competition

2. **How is goodwill calculated under the super profits method?**

Under these methods, super profit is the base for calculation of the value of goodwill. Super profit is the excess of average profit over the normal profit of a business.

Super profit = Average profit - Normal profit

Average profit is calculated by dividing the total of adjusted actual profits of certain number of year by the total number of such years. Normal profit is the profit earned by the similar business firms under normal conditions.

Normal profit = Capital employed × Normal rate of return

Capital employed = Fixed assets + Currents assets - Current liabilities.

3. **How is the value of goodwill calculated under the capitalisation method?**

Under these methods, super profit is the base for calculation of the value of goodwill. Super profit is the excess of average profit over the normal profit of a business.

Goodwill = Total capitalised value of the business - Actual capital employed

The total capitalised value of the business is calculation by capitalising the average profit on the basis of the normal rate of return. \

Capitalised value of the business = $\dfrac{\text{Average profit}}{\text{Normal rate of return}} \times 100$

Actual capital employed = Fixed assets (excluding goodwill) + Current assets - Current liabilities

4. **Computer average profit from the following information.**

2016: ₹ 8,000; 2017: ₹ 10,000; 2018: ₹9,000

Average profit = Total profit /No.of Years

= 8,000 + 10,000 + 9,000 /3

Averge Profit = **Rs. 9,000**

5. **Calculate the value of goodwill at 2 Years purchase of average profit when average profit is ` 15,000.**

Goodwill = Average profit × No. of years of purchase

Goodwill = 15,000 × 2 Years

= **Rs. 30,000**

Unit 5 - Admission of A Partner

II Very Short Answer Questions

1. **What is meant by revaluation of assets and liabilities?**

When a partner is admitted into the partnership, the assets and liabilities are revaled as the current value may differ from the book value. Determination of currrent values of assets and liabilities is called revaluation of assets and liabilities.

2. **How are accumulated profits and losses distributed among the partner at the time of admission of a new partner?**

The following and the adjustment are necessary at the time of admission of partner.

1. Distribution of accumulated profits, reserves and losses
2. Revaluation of assets and liabilities
3. Determination of new profit - sharing ratio and sacrificing ratio
4. Adjustment for goodwill
5. Adjustment of capital on the basis of new profit sharing ratio (if no agreed).

3. **What is sacrificing ratio?**

Sacrificing ratio tis the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.

The share sacrificed is calculated by deducting the new share from the old share.

Share sacrificed = Old share - New share

1. **Give the journal entry for writing off existing goodwill at the time of admission of a new partner.**

Old partner's capital /current A/c (in old ratio) Dr. To G/W A/c

4. **State whether the following will be debited or credited in the revaluation account.**

(a) Depreciation on assets - Debited (b) Unrecorded liability - Debited

(c) Provision for outstanding expenses - Debited (d) Appreciation of assets - Credited

III Short Answer Questions

1. **What are the adjustments required at the time of admission of a partner?**

The following adjustment are necessary at the time of admission of a partner:

1. Distribution of accumulated profits, reserves and lossed
2. Revaluation of assets and liabilities
3. Determination of new profit-sharing ration and sacrificing ratio
4. Adjustment for goodwill
5. Adjustment of capital on the basis of new profit sharing ratio (if so agreed)

2. **What are the journal entries to be passed on revaluation of assets and liabilities?**

Following are the journal entries to be passed to record the revaluation of assets and liabilities:

Date	Particulars		L.F.No	Debit ₹	credit ₹
	1. For increase in the value of asset				
	Concerned asset A/c	**Dr.**		XXX	
	To Revaluation A/c				XXX
	2. For Decrease in the value of asset				
	Revaluation A/c	**Dr.**		XXX	
	To Concerned Liability				XXX
	3. For increase in the amount of liabilities				
	Revaluation A/c	Dr		XXX	
	To Concerned liability A/c				XXX
	4. For decrease in the amount of liability				
	Concerned liability A/c	Dr.		XXX	
	To Revaluation A/c				XXX
	5. For recording an unrecorded asset				
	Concerned asset A/c	Dr.		XXX	
	To Revaluation A/c				XXX
	6. For recording an unrecorded liability				
	Revaluation A/c	Dr.		XXX	
	To Concerned liability A/c				XXX
	7. For transferring the balance in revaluation A/c				

	(a) If there is profit on revaluation			
	Revaluation A/c Dr.		XXX	
	To Old partners' capital A/c (individually in old ratio)			XXX
	(b) If there is loss on revaluation			
	Old partners' capital A/c (individually in old ratio) Dr.		XXX	
	To Revaluation A/c			XXX

3. Write a short note on accounting treatement of goodwill.

Accounting treatment for goodwill on admission of a partner is disccussed below:

1. When new partner brings cash towards goodwill

When the new partner brings cash towards goodwill in addition to the amount of capital, it is distributed to the existing partners in the sacrificing ratio

2. When the new partner does not bring goodwill in cash or in kind

If the new partner does not bring goodwill in cash or in kind, his share of goodwill must be adjusted through the capital accounts of the partners.

3. When the new partner brings only a part of the goodwill in cash or in kind

Sometimes the new partner may bring only a part of the goodwill in cash or assets. In such a case, for the cash or the assets brought, the respective account is debited and for the amount not brought in cash or kind, the new partner's capital account is debited.

4. Existing goodwill

If goodwill already appears in the books of accounts, at the time of admission if the partners decide, it can be written off by transferring it to the existing partners' capital account / current account in the old profit sharing ratio

Unit 6 - Retirement And Death of a Partner

II Very Short Answer Questions

1. What is meant by retirement of a partner?

When a partner leaves from a partnership firm, it is known as retirement. The reasons for the retirement of a partner may be illness, old age, better opportunity elsewhere, disagreement with other partners. etc. On retirement of a partner, existing agreement comes to an end. The firm is reconstituted.

2. What is gaining ratio?

The continuing partners may gain a portion of the share of profit of the retiring partner. The gain may be shared by all the partners or some of the partners. Gaining ratio is the proportion of the profit which is gained by the continuing partners.

3. What is the purpose of calculating gaining ratio?

The purpose of finding the gaining ratio is to bear the goodwill to be paid to the retiring partner.

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

To transfer the amount due to the deceased partner to the executor or legal representative of the deceased partner.

Date	Particulars	L.F.No	Debit ₹	credit ₹
	Decased partner's capital A/c Dr.		XXX	
	To Deceased partner's executor's A/c			XXX

III Short Answer Questions

1. List out the adjustments made at the time of retirement.

The Following adjustments are necessary at the time of retirement of a partner:
1. Distribution of accumulated profits, reserves and losses
2. Revaluation of assets and liabilities
3. Determination of new profit sharing ratio and gaining ratio
4. Adjustment for goodwill
5. Adjustment for current year's profit or loss up to the date of retirement.
6. Settlement of the amount due to the retiring partner

2. Distinguish between sacrificing ratio and gaining ratio.

S.NO	BASIS	SACRIFICING RATIO	GAINING RATIO.
1	Meaning	It is the proportion of the profit which is sacrificed by the old partners in favour of a new partner.	It is the proportion of the profit which is gained by the continuing partners from the retiring partner
2	Purpose	It is calculated to determine the amount to be adjusted towards goodwill for the sacrificing partners.	It is calculated to determine the amount to be adjusted towards goodwill for the gaining partners
3	Time of calculation	It is calculated at the time of admission of a new partner	It is calculated at the time of retirement of a partner.
4	Method of calculation	It is the difference between the old ratio and the new ratio Sacrificing ratio = Old profit sharing ratio – New profit sharing ratio	It is the difference between the new ratio and the old ratio. Gaining ratio = New profit sharing ratio - Old profit sharing ratio

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

The amount due to the retiring partner may be settled one of the following ways:
1. Paying the entire amount due immediately in cash
2. Transfer the entire amount due to the loan account of the partner
3. Transfer the entire amount immediately in cash and transferring the balance to the loan account of the partner

Unit 7 - Company Accounts

II Very Short Answer Questions

1. What is a share?

The capital of companies is divided into small units called shares.

2. What is Over-Subscription?

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

3. What is ment by calls in arrears?

When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears. In other words, the amount called up but not paid is calls in arrear.

4. Write a short note on securities premium account.

When a company issues shares at a price more than the face value (nominal value), the shares are said to be issued at premium. The excess is called as premium amount and is transferred to securities premium account.

Securities premium account is shown under reserves and surplus as a separate head in the Note to Account to the balance sheet.

5. Why are the shares forfeited?

When a shareholder defaults in making payment of allotment and/or call money, the shares may be forfeited

III Short Answer Questions

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

S.NO	BASIS	PREFERENCE SHARES	EQUITY SHARES.
1	Rate of Dividend	Paid at fixed rate	May vary , depending upon the profits
2	Arrears of Dividend	Get accumulated for cumulative preference shares	No accumulation
3	Preferential Rights	Before Equity shares	After
4	Winding up	Have a right to return of capital before equity shares . This means they are safer.	Only paid when preference share capital is paid fully
5	Voting Rights	No voting rights	Voting rights
6	Right to participate in Management	Have NO right	Have right

2. Write a brief note on calls in advance.

The excess amount paid over the called up value of a share is knwon as cells in advance. It is the excess money paid on application or allotment or cells. Such excess amount can be returned or adjusted towards future payment. If the company decides to adjust such amount towards future payment, the excess amount is transferred to a separate account called calls in advance account.

Calls in advance does not form part of the company's share capital and no dividend is payable on such amount.

As per Table F of the Indian Companies Act, 2013, interest may be paid on calls in advance if Articles of Association so provide not exceeding 12% per annum.

3. What is reissue of forfited shares?

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

When forfeited shares are reissued at a loss, such loss is to be debited to forfeited shares account. when forfeited shares are reissued at a premium, the amount of such premium will be credited to securities premium account.

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

(i) Authorised capital

It means such capital as is authorised by the memorandum of association. It is the maximum amount which can be raised as capital. It is also known as registered captal or nominal capital.

(ii) Reserve capital

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

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

A company may issue shares for consideration other than cash when the company acquires fixed assets such as land and buildings, machinery, etc. Under such situation, the following journal entries are to be passed.

Date	Particulars		L.F.No	Debit ₹	credit ₹
	(i) For purchase of asset				
	Respective asset A/c	Dr.		XXX	
	To Vendor A/c				XXX
	(ii) For issue of shares				
	Vendor A/c	Dr.		XXX	
	To Equity share capital A/c				XXX
	To Securities premium A/c (if issued at premium)				XXX

A company may also issue shares as consideration for the purchase of business, to promoters for their services and to brokers and underwriters for their commission.

Unit 8 - Financial Statement Analysis

1. **What are financial statements?**
   Financial statements are the statements prepared by the business concerns at the end of the accounting period to ascertain the operating results and the financial position. The basic financial statements prepared by business concerns are income statement and balance sheet.

2. **List the tools of financial statement analysis.** Comparative statement

   Common size statements

   Trend analysis

   Funds flow statement

   Cash flow analysis

3. **What is working capital?**

The term "`fund` refers to working capital. Working capital refers to the excess of current assets over current liabilities.

4. **When is trend analysis preferred to other tools?**
   Trend refers to the tendency of movement. Trend analysis refers to the study of movement of figures over a period. The trend may be increasing trend or decreasing trend or irregular. When data for more than two years are to be analyses, it may be difficult to use comparative statement. For this purpose, trend analysis may be used.

III Short Answer Questions

1. **'Financial statements are prepared based on the past data'. Explain how this is a limitation.**

Financial statements are prepared based on historical data. They may not reflect the current position. Balance sheet is prepared on historical record of the value of assets. It is just possible that assets may not have the same value Financial statements are prepared according to certain convention's at a point of time, whereas the investor is concerned with the present & future of the company. Which is not reflected in the financial statements. It is a major limitation for the users of financial statements.

2. **Write a short note on cash flow analysis?**

Cash flow anaysis is concerned with preparation of cash flow statement which shows the inflow and outflow of cash and cash equivalents in a given period of time. Cash includes cash in hand and demand deposits with banks. Cash equivalents denote short term investments which can be realized easily within a short period of time, without much loss in value. Cash flow analysis helps in assessing the liquidity and solvency of a business concern.

3. **Briefly explain any three limitations of financial statements.**

(i) Lack of qualitative information: Qualitative information that is non-monetary information is also important for business decisions. For example, efficiency of the employees, efficiency of the management, etc. But, this is ignored in financial statements.

(ii) Record of historical data: Financial statements are prepared based on historical data. They may not reflect the current position.

(iii) Ignore price level changes: Adjustments for price level changes are not made in the financial statements. hence, financial statements may not reveal the current position.

4. **Explain the steps involved in preparing comparative statements?**

Following are the steps to be followed in preparation of the comparative statement:

(i) Column 1: In this column, particulars of items of income statement or balance sheet are written.

(ii) Column 2: Enter absolute amount of year 1.

(iii) Column 3: Enter absolute amount of year 2.

(iv) Column 4: Show the difference in amounts between year 1 and year 2. If there isan increase in year 2, put plus sign and if there is decrease put minus sign.

(v) Column 5: Show percentage increase or decrease of the difference amount shown in column 4 by dividing the amount shown in column 4 (absolute amount of increase or decrease) by column 2 (year 1 amount). That is,

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

5. **Explain the procedure for preparing common - Size statement.**

Following are the steps to be followed in preparation of common-size statement:

(i) Column 1: In this column, particulars of items of income statement or balance sheet are written.

(ii) Column 2: Enter absolute amount.

(iii) Column 3: Choose a common base as 100. For example, revenue from operations can be taken as the base for income statement and total of balance sheet can be taken as the base for balance sheet. Work out the percentage for all the items of column 2 in terms of the common base and enter them in column 3.

Unit 9 - Ratio Analysis

II Very Short Answer Questions

1. **What is meant by accounting ratios?**

Ratio is a mathematical expression of relationship between two related or interdependent items. When ratios are calculated on the basis of accounting information, these are called `accounting ratios'.

2. **What is quick ratio?**

Quick ratio gives the proportion of quick assets to current liabilities. It indicates whether the business concern is in a position to pay its current liabilities ans and when they become due, out of its quick assets.

1. **What is meant by debt equity ratio?**

Debt equity ratio is calculated to assess the long term solvency position of a business concern. Debt equity ratio expresses the relationship between long term debt and shareholders' funds.

1. **What does return on investment ratio indicate?**

Return on investment shows the proportion of net profit before interest and tax to capital employed (shareholders' funds and long term debts). This ratio measures how efficiently the capital employed is used in the business. It is an overall measure of profitability of a business concern.

1. **Statement any two limitations of ratio analysis.**

(i) Ratios are only means: Ratios are not end in themselves but they are only means to achieve a particular purpose. Analysis of related items must be done by the management or experts with the help of ratios.

(ii) Accuracy of financial information: The accuracy of a ratio depends on the accuracy of information taken from financial statements. It the statements are inaccurate, ratios computed based on that will also be inaccurate.

III Short Answer Questions

1. **Explain the objectives of ratio analysis.**

Following are the objectives of ratio analysis:

(i) To simplify accounting figures

(ii) To facilitate analysis of financial statements

(iii) To analyse the operational efficiency of a business

(iv) To help in budgeting and forecasting.

(v) To facilitate intra firm and inter firm comparison of performance.

2. **What is inventory conversion period? How is it calculated?**

Inventory conversion period is the time taken to sell the inventory. A shorter inventory conversion period indicates more efficiency in th management of inventory. It is computed as follows:

$$\text{Inventory conversion period (in days)} = \frac{\textit{NUMBER OF DAYS IN YEAR}}{\textit{INVENTORY TURNOVER RATIO}}$$

$$\text{Inventory conversion period (in Months)} = \frac{\textit{NUMBER OF MONTHS IN YEAR}}{\textit{INVENTORY TURNOVER RATIO}}$$

3. **How is operating profit ascertained?**

Operating profit = Revenue from operations - Operating cost

Cost of revenue from operations = Purchases of stock - in - trade + Change in inventories of stock in trade + Direct expenses.

Operating expenses = Administrative expenses + Selling and distribution expenses.

Operating cost = Cost of revenue from operations + Operating expenses.

4. **State any three advantages of ratio analysis.**

Following are the advantage of ratio analysis:

(i) Measuring operational efficiency: Ratio analysis helps to know operational efficiency of a business by finding the relationship between operating cost and revenues and also by comparison of present ratios with those of the past ratios.

(ii) Measuring financial solvency: Ratio analysis helps to ascertain the liquidity or short term solvency and long term solvency of a business concern.

(iii) Facilitating investment decisions: Ratio analysis helps the management in making effective decisions regarding profitable avenues of investment.

(iv) Analysing the profitability: Ratio analysis helps to analyse the profitability of a business in terms of sales and investments.

(v) Intra firm comparison: Comparison of efficiency of different divisions of an organisation is possible by comparing the relevant rations.

(vi) Inter firm comparison: Ratio analysis helps the firm to compare its performance with other firms.

5. **Bring out the limitations of ratio analysis:**

(i) Consistency in preparation of financial statements: Inter firm comparisons with the help of ratio analysis will be meaningful only if the firms follow uniform accounting procedures consistently.

(ii) Non-availability of standards or norms: Ratios will be meaningful only if they are compared with accepted standards or norms. Only few financial ratios have universally recognized standards. For other ratios, comparison with standards is not possible.

(iii) Change in price level: Ratio analysis may not reflect price level changes and current values as they are calculated based on historical data given in financial statements.

Unit 10 - Computerised Accounting System –Tallly

II Very Short Answer Questions

1. **What is automated accounting system?**

Automated accounting is an approach to maintain up-to-date accounting records with the aid of accounting software. Under manual accounting system entries are made in different books of accounts while accounting software packages allow manual entry in one field or one place. From that field or place, the software automatically relates the transaction to all other relevant records within the software package.

2. **What are accounting reports?**

Accounting report is a comilation of accounting information that are derived from the accounting records of a business concern. Accounting reports may be classified as routine reports and special purpose reports.

3. **State any five accounting reports.**

Routine accounting reports include

(a) Day books / Journal

(b) Ledger

(c) Trial balance

(d) Income statement

(e) Balance sheet

(f) Cash flow statement

Special purpose report is a report other than the routine accounting reports which is prepared according to the requirement of the user.

4. **What is Accounting Information System (AIS)?**

Accounting Information System (AIS) collects financial data, processes them and provides information to the various users. To provide information AIS requires data from other information system that is manufacturing, marketing and human resources. Similarly, other information systems require data from Ais in order to provide information.

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

In Tally, a Group is a collection of ledgers of the same nature. There are predefined groups of accounts which are widely used in accounts of many organisations. These predefined groups comply with the basic accounting principles of classifying various account heads into Assets, Liabilities, Income and Expenses.

III Short Answer Questions

1. **Write a brief note on accounting vouchers.**

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

To view the list of voucher types:

Gateway of Tally → Masters →Accounts Info→ Voucher Type →Display

As per the requirements of users, additional voucher type can be created.

Following are some of the major accounting vouchers used in an organisation:

(i) Receipt Voucher
(ii) Payment Voucher
(iii) Contra Voucher
(iv) Purchase Voucher
(v) Sales Voucher
(vi) Journal Voucher

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

In Tally, to record transactions, the transactions are to be identified with the related ledger accounts. Tally has two predefined legers, Cash and Profit & Loss A/c.

3. **Mention the commonly used voucher types in Tally.ERP 9?**

Following are some of the major accounting vouchers used in an organisation:

(i) Receipt Voucher

(ii) Payment Voucher

(iii) Contra Voucher

(iv) Purchase Voucher

(v) Sales Voucher

(vi) Journal Voucher

4. **Explain how to view profit and loss statement in Tally ERP 9?**

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

(or)

Gateway of Tally > Reports > Profit & Loss A/c > AltF1 (detailed)

5. **Explain any five applications of computerised accounting system.**

Application of accounting software - Tally

(1) Starting Tally:

Tally can be started in either of the ways given below:
Click on Start > All programs . Tally.ERP 9 > Tally.ERP 9 icon

(Or)

Click Tally.ERP. 9 icon (shortcut) on the desktop

(2) Creation of a company:

It is essential to enter the particulars of the company for which accounts are to be maintained in Tally. In order to create a company, the following steps are to be fellowed:

Company Info>Create Company

(3) Gateway of Tally:

After creation of a company and whenever Tally is started a screen Gateway of Tally appears. It shows the company selected under List of Selected Companiess on the left pane.

Gateway of Tally is shown on the right pane which contains menu options such as Transactions and Reports. The shortcut key for each menu option is a letter from the option's name, which will be highlighted in red.

Vertical button bar is placed on the extreme right of screen which contains buttons such as F1 and F2 for quick interaction with Tally.ERP 9.

Bottom horizontal information panel displays details of product, version, licence, configuration and calculator.

(4) Closing Tally

The following are the two ways for closing Tally:

Press Esc Key > Press Enter or Y or Click on yes

(or)

Press Ctrl + Q

(5) Select a company

If multiple companies are created, to choose a particular company, aftaer opening Tally, click F1 (Select Cmp) on the vertical button bar. Tally.ERP 9 displays the Select Company screen, with a list of companies that are already created. Select the company for which accounting has to be done.