Book-Keeping {Accounts} Class 12^{th}

ANSWER IN ONE SENTENCE [Q.1: 5 Marks]

Q. Answer in one sentence only : (1 mark each)

Ch. 1: Introduction to Partnership and Partnership Final Accounts

(1) Why is Partnership Deed necessary?

Ans. Partnership Deed is necessary to prevent disputes or misunderstandings among the partners in future.

(2) If the Partnership Deed is silent, in which ratio, will the partners share the profit or loss?

Ans. If the Partnership Deed is silent, partners will share profits and losses in equal ratio.

(3) What is the Fixed Capital Method?

Ans. Fixed Capital Method is one in which capital balances of the partners remain same at the end of every financial year unless any amount of additional capital is introduced or part of the capital is withdrawn by the partner from the business.

(4) How many partners are required to form a partnership firm?

Ans. Minimum two persons are required to form a partnership firm.

(5) What is Partnership Deed?

Ans. A partnership deed is a written agreement duly stamped and signed document containing the terms and condition of the partnership.

(6) What are the objectives of the Partnership Firm?

Ans. To earn maximum profit is the main objective of the partnership firm.

(7) What rate of interest is allowed on partner's loan in the absence of an agreement?

Ans. 6% is the rate of interest allowed on partner's loan in the absence of an agreement.

(8) What do you mean by pre received income?

Ans. Income which is received by the partnership firm before it is due is called pre received income.

(9) When is Partner's Current Account is opened?

Ans. When fixed capital method is adopted by the firm, Partner's Current Account is opened.

(10) As per which principle of accounting, closing stock is valued at cost price or at market price whichever is less?

Ans. As per Conservatism principle of accounting, closing stock is valued at cost price or at market price whichever is less.

(11) What is the provision of Indian Partnership Act with regard to Interest on Capital, Interest on Drawings, Salary, Commission etc.?

Ans. As per provision of Indian Partnership Act, Interest on Capital Interest on Drawing, Salary, Commission etc. are not to be allowed.

(12) Why is Balance Sheet prepared?

Ans. Balance Sheet is prepared to know the financial position of the business in the form of its assets and liabilities on a particular date.

(13) Why are wages paid for installation of machinery not shown in Trading Account?

Ans. Wages paid for installation of machinery is a capital expenditure and it is not to be recorded in Trading Account.

(14) What do you mean by Indirect Incomes?

Ans. All incomes other than direct incomes are called indirect incomes. [e.g. Interest received on investments, Incomes like discount, commission, dividend, rent, etc, received].

(15) Why is partner's capital treated as long-term liability of business?

Ans. Partner's Capital is not refunded during the existence of partnership firm unless partner is retired or expired.

(16) Define: 'Partnership' as per Indian Partnership Act, 1932.

Ans. As per Indian Partnership Act, 1932, "partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all".

(17) State the two fold capacities of each partner works in a business.

Ans. Each partner works in two fold capacities viz. Principal and Agent in a business.

(18) As per Income Tax Act, 1961, write the dates for Financial or Accounting Year.

Ans. As per Income Tax Act, 1961, Financial or Accounting year starts from 1st April of current year to 31st March of next year [e.g. 01/04/2021 to 31/03/2022].

(19) How many effects for the hidden adjustment given in the Trial balance are to be passed?

Ans. Two effects for every hidden adjustment, given in the Trial balance are to be passed, though no special instruction is given in the problem.

Ch. 2: Accounts of 'Not For Profit' Concerns

(1) What do you mean by 'Not for Profit' concern?

Ans. A concern or organisation which is formed and established to serve its members and society or general public by undertaking various activities without any profit motive is called a 'Not for Profit' concern.

(2) What is Receipts and Payments Account?

Ans. An account which is prepared by a 'Not for Profit Concern' to record summary of all types of cash receipts and cash payments inclusive of bank transactions is called Receipts and Payments Account.

(3) Why Income and Expenditure Account is prepared?

Ans. Income and Expenditure Account is prepared to ascertain, whether the concern has sufficient incomes to meet its expenses, or not.

(4) What is Capital Fund?

Ans. Excess of Assets over Liabilities is known as Capital Fund which also consists of contributions, subscription, entrance fees, surplus income, etc.

(5) What is Surplus?

Ans. Excess of income over expenditure shown by Income and Expenditure Account represents Surplus for the financial year.

(6) What do you mean by Non-recurring Expenses?

Ans. Non-recurring expenses are the expenses which is made for acquisition of fixed assets which gives benefits for a long period.

(7) To which account 'Surplus' or 'Deficit' is transferred?

Ans. 'Surplus' or 'Deficit' is transferred to Balance Sheet by adding it or subtracting it from Capital Fund.

(8) What is 'Deferred Revenue Expenditure"?

Ans. Expenditure which is basically revenue expenditure but benefits of which accrued to the organisation for more than one year is called deferred revenue expenditure.

(9) What is Entrance Fees?

Ans. The fees which is paid by the persons who wish to become a member of the organisation are called Entrance Fees.

(10) What do you mean by Recurring Expenses?

Ans. Recurring expenses are those expenses, benefit of which lasts for a maximum period of one year and is increased on purchase of goods or services, in order to carry out the main activity of the business.

(11) What is Subscription?

Ans. Subscription is the periodical payment made by the members to the 'Not for Profit' concern for maintaining his membership.

Ch. 3: Reconstitution of Partnership (Admission of Partner)

(1) What is Revaluation Account?

Ans. An account opened and operated by any partnership firm for recording changes in the value of assets and liabilities and to ascertain profit or loss made on revaluation of assets and liabilities is called Revaluation Account.

(2) What is meant by Reconstitution of Partnership?

Ans. Reconstitution of partnership means change in the relationship between / among partners and in the form of partnership.

(3) Why is new partner admitted?

Ans. A new partner is admitted to the existing partnership firm to increase the capital resources of the firm and to secure advantages of a new entrant's skill and business connections, i.e. goodwill.

(4) What is Sacrifice Ratio?

Ans. A ratio which is surrendered or given up by the old partners in favour of a newly admitted partner is called sacrifice ratio.

(5) What do you mean by raising the goodwill at the time of admission of a new partner?

Ans. Raising the goodwill at the time of admission of a new partner means debiting Goodwill Account upto the value it is raised and crediting old partners' Capital Accounts in their old ratio in the books of the firm.

(6) What is Super Profit Method of calculation of goodwill?

Ans. Super profit method of calculation of goodwill is a method in which Goodwill is valued at certain number of years' purchases of the super profit of the partnership firm.

(7) When is the ratio of sacrifice calculated for distribution of goodwill?

Ans. The ratio of sacrifice is calculated when the benefits of goodwill contributed by a new partner, in cash, is to be transferred to existing partners' Capital / Current Accounts.

(8) What is the treatment of accumulated profits at the time of admission of a new partner?

Ans. Accumulated profits at the time of admission of a partner are transferred to old partners' Capital/Current Accounts in their old profit sharing ratio.

(9) What is meant by Admission of a Partner?

Ans. A process in which a new person is taken into the partnership firm as a partner is called admission of a partner.

(10) What does the excess of debit over credits in Profit and Loss Adjustment Account indicate?

Ans. The excess of debit over credits in Profit and Loss Adjustment Account indicates loss on revaluation of assets and liabilities.

(11) What is General Reserve or Reserve Fund?

Ans. A fund created by keeping aside a part of profit every year to provide timely finance for unforeseen contingencies like fire, flood, earthquake, change in Government policy, etc. is called General Reserve or Reserve Fund.

(12) Who share the amount of general reserve on admission of a new partner? In which ratio?

Ans. On admission of a new partner, the amount of general reserve is shared by old partners in their old profit-loss sharing ratio.

(13) On what single factor does the valuation of goodwill primarily depend?

Ans. The most important factor of valuation of goodwill is the profit earning capacity of the firm.

Ch. 4: Reconstitution of Partnership (Retirement of Partner)

(1) What is meant by Retirement of a Partner?

Ans. Retirement of a partner refers to a process in which a partner leaves the firm or severe his relations with other partners on account of his old age, continued ill health, loss of interest in the firm, misunderstanding amongst the partners, etc.

(2) What is Benefit Ratio?

Ans. Profit sharing ratio which is acquired by the continuing partners on account of retirement or death of a partner is called Benefit Ratio or Gain Ratio.

(3) How is the amount due to the retiring partner settled?

Ans. The amount due to a retiring partner is settled as per the terms of partnership agreement or otherwise mutually agreed upon either in lumpsum or in instalments.

(4) Why is retiring partner's capital account credited with goodwill?

Ans. Due to joint efforts by all the partners of a firm, firm is able to achieve good reputation/credit in the market, (Goodwill) in which retiring partner also played vital role and hence retiring partner's capital account is credited with Goodwill.

(5) How is Gain ratio calculated?

Ans. Gain ratio is calculated at the time of retirement of a partner by deducting old ratio from new ratio.

(6) To which account, increase in the value of assets are credited at the time of retirement of a partner?

Ans. Increase in the values of assets are credited to Profit and Loss Adjustment A/c or Revaluation A/c at the time of retirement of a partner.

(7) What is New Profit Sharing Ratio?

Ans. The ratio in which profits and losses are shared by the continuing partners after retirement of a partner is called New Profit Sharing Ratio.

(8) To which account is the outstanding amount due to retiring partner transferred?

Ans. The outstanding amount due to retiring partner is transferred to the retiring partner's Loan Account.

Ch. 5: Reconstitution of Partnership (Death of Partner)

(1) To whom you distribute general reserve on death of a partner?

Ans. On death of a partner, general reserve is distributed among all partners in their old profit and loss ratio.

(2) How is death of a partner a compulsory retirement?

Ans. After the death of a partner, business is not able to get any kind of services from deceased partner and so we can say that death of a partner is like a compulsory retirement.

(3) To which account profit is to be transferred up to the date of his death?

Ans. Profit of the deceased partner, up to the date of his death, is transferred to his Legal Heir's/Executor's Account.

(4) How is the share of deceased partner in accrued profit calculated?

Ans. The share of deceased partner in accrued profit is calculated on the assumed basis of average profit of past few years and credited to Deceased Partner's Capital Account.

(5) How is a debit balance of Profit and Loss Account dealt with on the death of a partner?

Ans. On the death of a partner, a debit balance of Profit and Loss Account is adjusted and transferred to all Partners' Capital/Current Accounts in their old profit sharing ratio.

(6) What is Gain Ratio?

Ans. Profit sharing ratio which is acquired by the surviving or continuing partners on account of death of any partner is called Gain ratio or benefit ratio.

Ch. 6: Dissolution of Partnership Firm

(1) What is Dissolution of the Partnership Firm?

Ans. Dissolution of the partnership firm means complete closure of business activities and stoppage of partnership relations among all the partners.

(2) Which accounts are not transferred to Realisation Account?

Ans. Cash/Bank balance, Reserve funds, Profit and Loss A/c balance, Partners' Loan accounts, etc. are not transferred to Realisation Account.

(3) Who is called Insolvent Person?

Ans. A person whose capital A/c shows debit balance and who is not in a position to meet his capital deficiency even from his private property is called an insolvent person.

(4) What is Capital Deficiency?

Ans. The debit balance of insolvent partner's Capital Account which insolvent partner cannot pay is called capital deficiency.

(5) In what proportion is the balance on Realisation Account transferred to Partners' Capital/Current Accounts?

Ans. The balance on Realisation Account is transferred to Partners' Capital/Current Accounts in their profit sharing ratio.

(6) Who should bear the capital deficiency of insolvent partner?

Ans. The capital deficiency of insolvent partner should be borne by the solvent partners.

(7) What is Realisation Account?

Ans. An account which is opened and operated by the firm at the time of its dissolution to determine profit or loss on realisation of assets and payment of liabilities is known as Realisation Account.

(8) Why is Realisation Account opened?

Ans. Realisation Account is opened to find out profit or loss made on sale of assets and discharge of liabilities of the partnership firm.

(9) What are realisation or dissolution expenses?

Ans. The expenses incurred by the firm to realise the assets and to liquidate the liabilities of the firm on its dissolution are called realisation or dissolution expenses.

(10) When is Realisation Account opened?

Ans. Dissolution of partnership firm means complete closure business activities and stoppage of partnership relations among all the partners.

Ch. 7: Bills of Exchange

(1) What do you mean by Bill of Exchange?

Ans. A Bill of Exchange is a written order signed by the drawer, directing to a certain person to pay a certain sum of money on demand or on a certain future date to a certain person or as per his order.

(2) What do you mean by Discounting of a Bill of Exchange?

Ans. Encashment of a bill of exchange with the bank for certain cash which is less than face value of the bill, before its due date by its drawer or holder is called Discounting of a Bill of Exchange.

(3) What is Noting of the Bill?

Ans. Noting of a Bill of Exchange is the recording the facts of its dishonour by a Notary public.

(4) What are Noting Charges?

Ans. Noting Charges are the fees charged by the Notary public for noting the facts of dishonour on the face of the bill and in his official register.

(5) What is relationship between drawer and drawee?

Ans. The relationship between the drawer and the drawee is that of the creditor and debtor.

(6) Who is Payee of the Bill?

Ans. The Payee of a Bill is the person to whom the bill is made payable or in whose favour the bill is drawn.

(7) What do you mean by Rebate?

Ans. Any concession or discount in monetary terms given by the holder of the bill of exchange to the drawee or acceptor, when a bill is retired is called Rebate.

(8) What is Bills Payable on Demand?

Ans. When amount of bill is payable by a drawee on the presentation of a bill, in which time period is not mentioned and grace days are not allowed is known as Bills Payable on Demand.

(9) What is Inland Bill of Exchange?

Ans. A bill of exchange which is drafted, accepted and made payable between the parties from one and the same country is called an Inland bill of exchange.

(10) What is Legal Due Date?

Ans. Date which is arrived at after adding three days of grace to nominal due date is known as legal due date.

(11) Which are the parties to a bill of exchange?

Ans. There are three parties to a bill of exchange, viz., (1) Drawer, (2) Drawee and

(3) Payee.

(12) What is an Acceptance of the Bill of Exchange?

Ans. The act of signing the bill of exchange by the drawee with date to show his nsent to pay the amount of the bill is called an Acceptance of the Bill of Exchange.

(13) What do you mean by Clean or General Acceptance?

Ans. A Clean or General Acceptance is an acceptance where drawee does not make any change in the terms of the bill before accepting it.

(14) What is Qualified Acceptance?

Ans. If the drawee of a bill of exchange accepts it on condition that the time or amount of the bill be changed or adds some other conditions to the bill, his acceptance is called a Qualified Acceptance.

(15) What is Nominal Due Date?

Ans. The date on which the term i.e. the period of a bill of exchange gets expired is called Nominal Due Date.

(16) What is Endorsing of a Bill?

Ans. Endorsing of a Bill is the holder's signing on its back with the intention of transferring its title or ownership to another person.

Ch. 8: Company Accounts: Issue of Shares

(1) What is Preference Shares?

Ans. Preference Shares is a type of a share which enjoys priority or preference over equity share for the repayment of dividend at a predetermined fixed rate and for the repayment of capital.

(2) What is Registered Capital?

Ans. Registered Capital or Authorised Capital means maximum limit up to which a company is authorised to raise share capital.

(3) What is Reserve Capital?

Ans. Reserve Capital is that part of the subscribed capital which is reserved to be called-up only at the time of winding up or liquidation of the company.

(4) What is Over Subscription of Shares?

Ans. When a company receives more applications of shares than those actually offered or issued to the public, is known as Over Subscription of Shares.

(5) What is meant by Discount on Issue of Shares?

Ans. When shareholders are supposed to pay a price lower than the face value of the shares, then the shares are said to be issued at discount.

(6) What is Forfeiture of Shares?

Ans. When a shareholder fails to pay the call money or premium on the shares in spite of repeated reminders and warnings, the company forfeits the shares of such defaulters known as forfeiture of shares.

(7) What is Calls-in-Arrears?

Ans. Non-payment of allotment or call money by the applicants inspite of repeated reminders are called Calls-in-Arrears.

(8) What do you mean by Shares Issued at Premium?

Ans. When shareholders are supposed to pay a price higher than the face value of the shares, then shares are said to be issued at premium.

(9) What is Paid-up Share Capital?

Ans. Part of the called-up capital which is actually paid by the shareholders is called Paid-up Share Capital.

(10) What is Owned Capital?

Ans. The capital collected through issue of shares is known as Owned Capital.

(11) What is Subscribed Capital?

Ans. Subscribed Capital is a part of the issued capital which the company has actually received by way of application from the public and also allotted by the company.

(12) What is Under Subscription?

Ans. When a company receives applications for shares less than those actually offered or issued to the public, the issue is said to be Under Subscribed.

(13) Define: Share.

Ans. The owned capital of a company when divided into a large number of parts having equal face value, each such part is called a 'Share'.

(14) What is Equity Share?

Ans. An equity share is the one which has no special preferential right to dividend or repayment of capital.

(15) Define Securities Premium Account.

Ans. In case of issue of shares at premium, a separate account into which premium amount is deposited is called 'Securities Premium Account'.

Ch. 9: Analysis of Financial Statements

(1) Give the formulae of Current ratio and Quick assets.

Ans. Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

Quick assets = Current assets - (Stock + Prepaid expense).

(2) State three examples of cash in flows.

Ans. Examples of cash inflows are: (1) Interest received, (2) Dividend received, (3) Sale of asset/investment, (4) Rent received.

(3) State three examples of cash out flows.

Ans. Examples of cash out flows are: (1) Interest paid, (2) Loss on sale of asset, (3) Dividend paid, (4) Repayment of short-term borrowings.

(4) Give the formula of Gross Profit Ratio.

Ans. Gross profit ratio = $\frac{\text{Gross profit}}{\text{Net sales}}$ x 100

Where Gross profit = Net sales - Cost of goods sold.

Cost of goods sold = Opening stock + Purchase - Purchase return + Direct expense - Closing stock

Net sales = Sales - Sales return.

(5) Give the formula of Gross profit.

Ans. Gross profit = Net sales - Cost of goods sold.

where, Cost of goods sold = Opening stock + Purchase - Purchase return + Direct expense - Closing stock

Net sales = Sales - Sales return.

(6) State the formula of Cost of goods sold.

Ans. Cost of goods sold = Opening stock + Purchase - Purchase return + Direct expense - Closing stock

(7) State the formula of Average stock.

Ans. Average stock = $\frac{\text{Opening stock of goods + Closing stock of goods}}{2}$

(8) Define : Financial Statements.

Ans. The statements which are prepared by the business to find out profitability, efficiency, solvency, growth of business to judge the financial strength and status are called financial statements.

(9) State the main tools or techniques of financial analysis.

Ans. Main tools or techniques of financial analysis are as follows:

(1) Comparative financial statement, (2) Common size statement and

(3) Cash flow analysis.

(10) Who prepares financial statements?

Ans. The financial statements are prepared by the profit making organisations as well as non-profit concerns or organisations.

(11) What is Financial Ratio?

Ans. Financial ratio is a mathematical number that measures the relationship between two accounting figures.

(12) Write the names of the Balance Sheet ratio.

Ans. Balance Sheet ratios are (i) Current ratio and (ii) Liquid ratio.

Ch. 10: Computer in Accounting

(1) What is CAS?

Ans. CAS means Computerized Accounting System which helps business firms to implement accounting process and makes it user friendly with automation.

(2) Write the steps to create ledger account in tally

Ans. Steps to create ledger account in tally are as follows: (1) From Gateway of Tally Screen, click on accounts info. (2) Path gateway to Tally → Accounts Info → Ledgers →Single ledger →Chooses create.

(3) How to view reports in Tally?

Ans. For viewing accounting reports in accounting software to click on report option and select the display option.

(4) Write the steps to create a Company.

Ans. Following are the steps to create a company :

(1) After entering into Accounting software Tally, double click on the option, create company, under company information. Then follow navigation path.

Gateway of Tally > Company Info > Create Company

(2) Fill the detail information in the company creation form, displayed on the screen - Company creation window.

(5) Write the components which form Computerised Accounting System.

Ans. Hardware, Software and company Personnel are the components which form Computerised Accounting System.

(6) Write the names of equipment that are included in Hardware.

Ans. Electronic equipment like computers, hard disks, monitors, printers and the network that connects with them, etc. are included in Hardware.

(7) State the names of Accounting Packages.

Ans. Ready to use, Customized, Tailored and Free and Open source are the different names of Accounting Packages.

(8) State the names of Accounting Software.

Ans. Legal/Licensed software, Demo software and Pirated software are different accounting softwares.