

# PRINCIPLES OF ACCOUNTING

## Short Questions/Answers

## I.Com (XII-Year)

### SINGLE ENTRY SYSTEM



**1. What is single entry System of book keeping?**

Single entry System may be defined as a system in which accounting records are not kept strictly according to the double entry principles of book keeping.

**2. What is meant by Pure Single Entry System?**

The system under which only personal accounts are kept no records are kept for real and nominal accounts are called pure single entry system.

**3. What is simple single entry system?**

Under this system Personal account Cash books are kept.

**4. What do you understand by quasi single entry System?**

5. The system under which personal accounts, Cash book and Some other Subsidiary books are kept is called Quasi single entry system

**6. Write down the formula for determining the net profit under net worth method?**

The Formula for determining the net income may be put as follows:

Net Profit = [Capital at the end+ Drawings - Additional Capital introduced - Capital in the beginning]

**7. Define the characteristics of single entry System?**

The following are Characteristics of Single Entry system.

- This system is a mixture of (a) double entry (b) single entry and (c) no entry.
- It is suitable for small businesses.
- In this system generally personal accounts are kept
- Real and nominal accounts are ignored.
- This system is lightly changeable and flexible.

**8. What are the limitations of single entry system?**

Limitations of Single Entry System:

- Since no trial balance can be prepared.
- The arithmetical accuracy of the books of cannot be checked.
- This system invites frauds and miss appropriations.
- The proper estimation of the financial position of the business is not possible
- It is legally restricted for Joint stock companies.

**9. Write down the fundamental balance sheet equation?**

The fundamental balance sheet equation, as under

- Capital == Assets - liabilities,

**10. What do you meant by Statement of Affairs under net worth method?**

A statement of affairs like balance sheet is a statement of all assets and liabilities & capital prepared from incomplete records.

**11. Under net worth method of single entry system why drawings are added to closing capital?**



The drawings are added to the capital at the end because drawings made during the year will reduce the capital at the end.

**12. Differentiate between Statement of Affairs and balance sheet?**

A statement of Affairs is a statement of the assets liabilities and capital prepared from incomplete records whereas a balance sheet is a statement of assets, liabilities and capital prepared from trial balance.

**13. What is the major difference between the single entry System and double entry system?**

Under double entry system both debit and credit aspects of all the transactions are recorded whereas under Single entry system some transactions are not recorded at all while some transactions are recorded in only one of their aspect either debit aspect or credit aspect.

## **COMPANY ACCOUNT**



**1. Define the joint stock company?**

Company is an artificial person created by law having perpetual succession with common seal.

**2. Define the joint stock company according to the companies' ordinance 1984?**

A company has been defined in the ordinance as "a company formed and registered under this ordinance or an existing company"

**3. What is meant by the common seal of company?**

The official signature of the company is termed as 'Common Seal' of the company.

**4. Define the unlimited company?**

An unlimited company is that in which the liability of its members is unlimited.

**5. Define the company limited by guarantee?**

A company limited by guarantee is one in which each member gives a guarantee to contribute a specified sum to the company in event of its being wound up.

**6. Define the company limited by Shares'?**

A company limited by shares in which the liability of its members is limited to the extent of the amount of their shares.

**7. Define the Chartered Company?**

The company which is incorporated by the royal order is called chartered company.

**8. Define the Statutory Company?**

The company which is formed by the order of Governor General, President or prime Minister or by the special act is called statutory company.

**9. Define the term Promoter?**

A Promoter is one who undertakes the responsibility of bringing a company into existence.

**10. Give anyone of the main reason of difference between the Private and a Public company?**

A Private Company Cannot invite public to subscribe for its shares or debentures but a public company can do so.

**11. What is certificate of incorporation?**

If the registrar is satisfied in all matters then a certificate is issued by him is termed as "certificate of incorporation.

**12. Define the Memorandum of Association?**

A document in which external rules and regulation of company are written is called memorandum of Association.

**13. Define the Articles of Association?**

A document in which internal rules and regulation of company are written is called memorandum of Association.

**14. What is the major difference between the Memorandum of Association and the Articles of Association?**

Memorandum is the document which defines the external rule and regulation of the company. Where as Articles



is the document which defines the internal rules and regulations.

**15. What is a Prospectus?**

A document issued to the public to subscribe for the shares is termed as Prospectus

**16. What is meant by the statement in Lieu of Prospectus?**

Where a Public company does not issue a prospectus it must deposit a statement with registrar instead of prospectus is called statement in Lieu of Prospectus.

**17. What is the Certificate of Commencement of business?**

The Registrar will check all the documents, if he is satisfied he will issue a certificate of commencement of business. It proof that public limited company can start its business.

**18. What is meant by Minimum subscription?**

The amount fixed by the Directors and stated in the Articles of Association and the Prospectus as the amount which should be subscribed by the public is termed as minimum subscription.

**19. Define the Preliminary Expenses?**

The expenses which are incurred in the formation of the company is known as Preliminary expense.

**20. Define the Underwriter?**

Underwriter is a person who guarantees that the shares or debentures offered by the company to the public for subscription if not taken up he would be responsible to take those shares or debentures.

## **SHARES**

**21. Define the term Share?**

The capital of a company is divided into several small units and each such unit is called a share.

**22. What are the preference Shares?**

Those shares which enjoy a right to receive of fixed rate of dividend before the ordinary share are called preference shares.

**23. Define the term Share Capital?**

The sum total of the nominal value of shares of a Company is called as its share capital.

**24. What is Authorized Capital?**

It represents the total amount of the share capital authorized by the memorandum of association by which company is registered.

**25. Define Issued capital?**

Shares offered to the general public for consideration are known as shares issued and the total par value of such shares is called issued capital?

**25. Define Subscribed capital?**

It is that part of the issued capital as has been taken up or subscribed by the public and the vendors.

**26. Define called up capital?**

It is that portion of the subscribed that has been called by company is termed as called up capital of the company.

**27. What is paid up capital?**

It denotes the portion of the called-up capital that has been actually paid-up by shareholders.

## **DEBENTURES**

**28. Define the term Debentures?**

A certificate issued by a company under its seal that showing a debt due by company to its holders is known as debentures.



**29. Define the Naked debentures?**

These are the debentures which do not carry any charge on the assets of the company. The holders of such debentures are unsecured creditors of the Company.

**30. What are the Mortgage debentures?**

These are the debentures which are secured by a charge upon the whole or portion of the assets of the Company.

**31. Define the Redeemable debentures?**

The debenture which is redeemed or the payment of which is made after a specified time is termed as redeemable debentures.

**32. Define the Irredeemable debentures?**

Irredeemable debentures are such as are never repayable during the existence of the company

**33. Define the Bearer debentures?**

The debentures which are payable to holder of debenture are known as bearer debentures,

**34. Define the Registered debentures?**

These are the debentures in which the names of the holder are registered in the books of the company.

**35. What are the convertible debentures?**

These are debentures which are convertible into shares of the company as per terms of their issue.

**36. Define the non-convertible debentures?**

Debentures not convertible into Shares of the company are termed as non-convertible debentures.

**37. What is the main difference between the share holder and a Debenture holder?**

A share-holder is an owner or Partner in the company whereas a Debenture holder is a loan creditor of the company.

**38. What is meant by Collateral security?**

A company may borrow money from a bank or other person and may give debenture of the company as an additional security besides giving any other property of the company by way of security is said to be debentures collateral security.

**39. What is under writing commission?**

The commission which is paid to underwriter to take the risk of share offered to the public is called underrating commission.

**40. What is Reserved Capital?**

It is the portion of subscribed capital which the company through a special resolution, reserve to call the event to winding up

**41. Define par value of share.**

The value which is assigned to a unit of share is called par value of share. It is also known as nominal value or faced value.

**42. Define book value of share.**

The value of share according to the books of company is called book value of share.

**43. Define Market value of share.**

The value of share as quoted on the stock exchange is said to be Market value of share.

Or

The Price at which the buyer is willing to purchase and seller is willing to sell is called market value of share.

**44. Explain Issue of shares at Premium.**

When a share issued by the company for amount more than face value, the share is said to be issued at premium.

**45. Define Ordinary Share**

Ordinary shares are also called equity shares. The equity share capital cannot be redeemed during the existence of the company.



**46. Deferred Share:**

Deferred shares are also called founders shares were used to be issued to the promoters of the company

**47. Define the term Director**

The person or group of person who managed and direct the routine matters of the company are called director.

**48. General Reserve: (Free Reserve)**

Reserve which is created not for any specific purpose but general purpose is known as general reserve e.g. Reserve Fund, Contingency fund etc.

**49. Specific Reserve:**

Reserve which is created for any special purpose is known as specific Reserve e.g Dividend Equalization fund, Debenture sinking fund etc.

**50. Revenue Reserve:**

The reserve which is created out of profit earned in the normal activities of business is called Revenue.

**51. Capital Reserve:**

The reserve which is created out of profit earned other than normal activities of business is called Capital Revenue.

**52. Why General reserve is created:**

General reserve is created for the following purpose:

- To strengthen the financial position of business.
- To increase working financial position of business.
- To meet future contingencies.
- To meet any unknown liability or loss.

**53. Public Limited Company:**

A company in which.

- The minimum number of members is 7 and there is no minimum limit
- It can issue shares to general public.
- Its members can transfer their shares.
- These companies must use the word limited (Ltd) as a part of its name.

**54. Private limited company :**

A company is which.

- The maximum number of member is and minimum number of member is 2.
- It can not issue to general public.
- Its members cannot transfer their shares.
- These companies must use the word private limited (PVT. Ltd) as a part of its name.

**55. Under Subscription & Over Subscriptions:**

If the number of application is less than the shares offered to the public by the company. it is known as under subscription.

If the number of application is more than the shares offered to the public by the company, it is known as under subscriptions.

## **Consignment Account**

**1. Define the Consignment?**

The act of sending goods by its owner to his agent for the purpose of sale is called as consignment.

**2. Who is consignor?**

In the case of consignment the person who sends his goods for sale is known as the consignor



**3. Who is Consignee?**

In the case of consignment the person to whom the goods are sent is known as the consignee.

**4. Define Outward Consignment?**

When the goods are dispatched by the consignor to the consignee it will be a consignment outward from consignor's point of view.

**5. Define Inward Consignment?**

When the goods are dispatched by the consignor and received by consignee it will be a Consignment inward from consignee's point of view.

**6. Distinguish between a sale and a Consignment?**

In case of a sale ownership of goods is transferred to the buyer along with the transfer of goods whereas in case of a consignment goods remains the property of the consignor until the time they are sold by the consignee.

**7. What is an account sale?**

An account sale is a document prepared by the consignee which showing the details of goods sold, expenses incurred and his own commission. It is sent by consignee to consignor regularly.

**8. Define the term Commission in case of consignment?**

The remuneration given to consignee for selling the goods of the consignor is termed as commission.

**9. Define the term Del-credere commission?**

An additional commission paid to a consignee who agree to bear bad debts on credit sale is called del-credere commission.

**10. Define the term Overriding Commission?**

A Commission paid to the consignee by consignor for introducing a new product in the market is called overriding commission.

**11. What is a Performa Invoice?**

When the consignor sends the goods to the consignee, he forwards a statement showing the detail such as quantity, quality, price of goods, etc this statement is called Performa invoice.

**12. What is meant by Normal loss?**

The loss arises due to natural causes such as evaporation, drying, breaking in bulk, etc is called normal loss.

**13. Which type of loss is called 'Abnormal loss'?**

The loss arises in consignment transactions such as loss of goods in transit, thefts, goods damaged or destroyed by fire etc, is said to be abnormal loss

**14. What is the nature of consignment account?**

Consignment account is by nature a profit & loss account. All expense and incomes related to the consignment are recorded to consignment account.

**15. What is documentary bill?**

In case where consignor draws a bill on consignee the bill is known as a documentary bill.(bills of exchange).

**16. Relationship b/w Consignor & consignee.**

The relationship between consignors and consignee is that of "Principle & Agent"

## Depreciation

**1. Define the term Depreciation.**

Depreciation is the process of allocating the cost of a fixed asset over its estimated useful life is called depreciation. Or

"Depreciation is the gradual and permanent decrease in the value of an asset from any cause."

**2. What is meant by internal depreciation?**

Depreciation caused by some internal causes known as internal depreciation. I.e. wear and tear



**3. What is meant by External depreciation?**

Depreciation caused by some external causes is called external depreciation. i.e. obsolescence, accident etc.

**4. What are depreciable assets?**

Depreciable assets are which:

- (i) Are expected to be used during more than one accounting period.
- (ii) Have a limited useful life and
- (iii) Are held by an enterprise for use in the production or supply of goods and services, and not for the purpose of sale in the ordinary course of business.

**5. Define fixed assets?**

Assets which have long life and which are bought for use for a long period of time are called fixed assets.

**6. Define tangible assets?**

Assets which have physical existence and which can be seen touched and felt are called tangible assets.

**7. Define intangible assets?**

Assets which have no physical existence and which cannot be seen touched or felt are called intangible assets.

**8. Define the term Obsolescence?**

The process of becoming out of date or obsolete is termed as obsolescence.

**9. Define the term Depletion?**

The process of measuring and recording the usage of natural resources, such as are deposits, oil wells, timber stands, quarries, etc. is called depletion.

**10. Define the term Amortization?**

The process of writing off the intangible assets such as leaseholds, patents, copyrights, goodwill etc. is called amortization

**11. What are the major' object of providing Depreciation?**

The objectives of providing depreciation are:

- (a) To find out the net profit or loss for an accounting period.
- (b) To present a true and fair View of the state of affairs of the business.
- (c) For the true valuation of assets.
- (d) To the replacement of assets.

**12. Give any three effects on profit & loss account and balance sheet of not providing for depreciation?**

Effects on profit & loss account and balance sheet of not providing for depreciation are:

- (i) Periodic expenses will be understated
- (ii) Profits will be overstated.
- (iii) Asset valuation will be overstated.

**13. What is the difference between the term fluctuation and depreciation?**

Depreciation is the gradual and permanent decrease in the value of an asset from any cause where as the value of asset may rise or fall on the account of fluctuation.

**14. Define the term Accumulated depreciation?**

The sum of depreciation amount charged in previous accounting periods is called accumulated depreciation

**15. What is meat by the Written down value?**

The value of asset after depreciation is known as the written-down value of an asset.

**16. Define the scrip value or residual value?**

Scrap value mean the price at which an asset will be sold at the end of its working life.

**17. What is the difference between the term Depreciation and Depletion?**



Depreciation is the gradual and permanent decrease in the value of an asset from any cause whereas The process of measuring and recording the usage of natural resources, such as are deposits, oil wells, timber stands, quarries, etc. is called depletion.

**18. What is the difference between the term "Depreciation" and "Amortization"?**

Depreciation is the gradual and permanent decrease in the value of an asset from any cause whereas The process of writing off the intangible assets such as leaseholds, patents, copyrights, goodwill etc. is called amortization.

**19. Why is depreciation an expense?**

Depreciation is expense because it is expired cost of any asset which is expense of the period in which asset is used.

**20. What steps will be taken in the process of allocation?**

Following are the three steps in the process of allocation:

- (i) To estimate the amount of asset which is equal to the acquisition cost of asset less scrap value.
- (ii) To estimate the useful-life of the asset over which the amount is to be allocated.
- (iii) To select a method of allocating the amount. "

## FIXED INSTALLMENT OR STRAIGHT-LINE METHOD



**21. Define the fixed installment method?**

The method under which the depreciation of an asset will be equal each year is called fixed installment or straight-line method.

**22. Under straight-line method, what formula is used to ascertain the annual depreciation?**

Under the straight-line method, annual depreciation is ascertained by the following formula:

$$\text{Annual depreciation} = \frac{\text{Cost} - \text{Scrap value}}{\text{Estimated life}}$$

**23. Why the fixed installment methods of depreciation know as straight-line method?**

If the annual depreciation is plotted on a graph paper, under the fixed installment method it will show a straight-line, since the amount of depreciation is equal every year.

**24. What are the major Advantages of straight line method?**

The method has following advantages:

- (i) It is simple to calculate and easy to understand.
- (ii) It can reduce the book value of the asset to zero.
- (iii) The valuation of the asset each year in the balance sheet is fair.

**25. What are the disadvantages of the straight line method?**

The method has following disadvantages:

- (i) With the passage of time efficiency of asset decreased but the amount of depreciation remains the same which does not seem to be justified:
- (ii) No provision is made for interest on amount invested in the purchase of asset.

**26. What is the scope of application, of straight-line method? Scope of Application:**

This method is generally applied in case of those assets which have small value

## Diminishing balance method or reducing balance method

**27. Describe the diminishing balance method?**

Under this method the asset is depreciated at fixed percentage calculated on the debit balance of the asset which is diminishing every year.



**28. What are the advantages of the diminishing balance method?**

The method has following advantages:

- (a) It gives a fair charge of depreciation.
- (b) No recalculation is necessary when additional assets are purchased.
- (c) This method is applicable for income tax purpose.

**29. What are the disadvantages of the diminishing balance method?**

The method has following disadvantages:

- (i) This method is not simple to calculate.
- (ii) This method cannot be applied for assets with a very short life.
- (iii) The asset is never fully depreciation.

**30. What is the scope of application, of diminishing balance method?**

This method is most suitable to plant and machinery where additions and extensions take place.

**31. What formula will be used to obtain the fixed percentage rate under reducing balance method?**

**Formula:**  $r = 1 - \sqrt[n]{S/C}$

where,  $n$  = The expected useful life in years

$S$  = The residual value'

$C$  = The acquisition cost

$r$  = The rate of depreciation to be applied

**32. Define wear and tear.**

The change in the shape of an asset due to use in business is known as wear and tear.

## Non-Trading concerns

**1. What is meant by Non-trading concerns?**

Individuals or institutions with activities other than trade and their primary object is not to earn profit are known as non-trading concerns.

**2. What is Receipts payments account?**

A receipts & payments account is a summarized Cash book (cash and bank) for a given period.

**3. Which are the key statements prepared in accounts of non profit seeking Organization?**

Non-trading concerns prepare at the year end the following three statements:

- Receipts and payments accounts
- Income and Expenditure accounts and
- Balance sheet

**4. What are the major advantages of the receipts and payments account?**

Following are the advantages of receipts & payments account.

- Total receipts and total payments sundry various heads are available at a glance
- The amount of Cash in hand at the year-end can be ascertained.
- The correctness of cash book can be verified through it.

**5. What is Income & Expenditure account?**

The account through which surplus or deficit of a non-trading concern is calculated is called Income and expenditure account.

**6. What are the main features of an income and Expenditure account?**

Features of an income and expenditure account are as follows:

- It is a revenue account prepared at the end of the financial year.
- It is prepared to find out the surplus or deficit of the period.



- It is prepared by matching expenses against the revenues of the period concerned.
- All capital expenditures and incomes are excluded.
- Only current year's incomes and expenses are considered.

- 7. What is the major difference between a receipts & payments account and an Income & expenditure account?**  
Receipts and payments account is a summary of the Cash transactions whereas income & expenditure account is an account like profit & loss account which shows the surplus / deficit for the period.
- 8. What is Legacy?**  
The amount given to a non-trading concern as per the will or a deceased person Known as Legacy
- 9. Define the term Donations**  
Donation is the amount received from some person firm company or any other body by way of a gift
- 10. What is Subscriptions?**  
The amount paid by the members annually to keep their membership alive is known as Subscriptions.
- 11. What is Sectional Subscriptions?**  
It is the special Subscriptions collected from the members who participate in a particular activity.
- 12. Define life membership?**  
Life membership this is a system where by a member pays a lump sum and then becomes a member for the whole life.
- 13. What is honorarium?**  
The amount paid to the person who is not the employee of the organization is said to be honorarium.
- 14. What is admission fee?**  
At the time of admission every new member is to pay specific fee in addition to subscription is said to be admission fee.
- 15. How you will deal with the term "Donations" under non-trading accounts?**  
Donations are to be taken to the balance sheet and added to the capital fund. On Specific instruction it also treated revenue item.
- 16. What will be the accounting treatment for the term 'Legacy' under non trading accounts?**  
The amount is directly added to capital fund in the balance sheet. .
- 17. How you will deal with the term. "Life membership fees" Under non-trading accounts?**  
Amount received from life membership should be treated as amount equal to annual subscriptions is transferred every year to the income & expenditure account the balance of this fund is carried forward.
- 18. What will be the accounting treatment for the entrance or admission fees?**  
Because the amount is small just to cover the expenses of admission it should be treated as revenue receipt and credited to income & expenditure account. On Specific instruction it also treated capital item.
- 19. How you will deal with the Sale of newspapers, periodicals etc, under the non-trading accounts?**  
The amount is transferred to income side of income and expenditure account.
- 20. What is the accounting treatment of honorarium under: non-trading accounts?**  
Honorarium represents expenditure and will be debited to income and expenditure account.
- 21. How you deal with the "sale of sports material" under the non-trading accounts?**  
Sale of sports material (used) is also a regular activity of the clubs it should be treated as Income and therefore to be credited to income and expenditure account.
- 22. What is 'Capital fund'?**  
The difference between the assets and liabilities represents Accumulated fund, this accumulated fund is called General fund or Capital fund.
- 23. Define Surplus.**  
The excess of income over expenditure is known as surplus.



**24. Define Deficits.**

The excess of expenditure over income is known as deficit.

## **Partnership account**

**1. Define partnership?**

Partnership is the relation between persons who agreed to share the profits of the business carried on by all or any one of them acting for all

**2. Define the term partners?**

The persons who have entered in to a partnership are individually called partner.

**3. What is meant by firm?**

The persons who have entered in to a partnership are collectively called a firm.

**4. What is meant by general partnership?**

The kind of partnership under which the liability of all the partners is unlimited is termed as general partnership.

**5. Which kind of the partner is termed as Active Partner?**

A partner who takes an active part in the management of the firm is called active partner.

**6. Which kind of the partner is known as Dormant or sleeping partner?**

A partner who does not take an active part in the management of the firm is called dormant or sleeping partner.

**7. Define the nominal partners?**

A partner who lends his name and reputation to the firm is called nominal partner.

**8. Who is called senior partner?**

A partner who has a more investment in the firm and receives a relatively more profit is called senior partner.

**9. Who is called junior partner?**

A partner who invests minor position of capital in the business and he has small share in the profits is called junior partner.

**10. In which condition a partner is called the partner in profits only?**

When a partner shares the profits of the firm but is not liable for the losses is called partner in profits only.

**11. Which kind of the partner is termed as Quasi Partner?**

A partner who has retired from the running management life the firm he does not withdraw his capital from the business is known as quasi partner.

**12. Define the sub-partner?**

A partner who receives a share of profit from one of the regular partners is called sub-partner.

**13. When a partner is said to be a secret partner?**

A partner who is active in the running life of the firm but public does not know him as partner of the firm is called secret partner.

**14. Define the minor partner?**

A partner, who has not attained the age of majority, is called a minor partner.

**15. When a partner will be called an incoming partner?**

When a partner is newly admitted to the firm with the consent of all the parties is called incoming partner.

**16. Define limited partner?**

A partner who has not to pay any obligation more than the share he holds in the firm is called limited partner.

**17. What is meant by partnership-deed?**

The agreement among the partners which sets at the terms on which they were agreed to form a partnership is called partnership deed.

**18. Define the co-ownership?**



If some property is owned jointly without any intention to carry on a business it is called co-ownership.

**19. In a partnership business, what is meant by Fixed Capital?**

When the capitals of the partners are not allowed to change during the life time of the business then it is called fixed capital.

**20. In a partnership business what is meant by Fluctuating Capital?**

When the partners do not agree to keep their capitals fixed it is called fluctuating capital

**21. Define the term goodwill?**

Goodwill means a good reputation of the business.

**22. What is meant by dissolution of partnership?**

Dissolution means the end or termination of partnership.

**23. Define the dissolution by agreement?**

A firm may be dissolved with the consent of all the partners it will considered as dissolution by agreement.

**24. What are realization accounts?**

Realization account is an account which prepared to ascertain the net gain or loss on realization of assets and settlement of liabilities.

**25. Discuss the Garner V s Murray case, briefly?**

Gamer, Murray and Wilkins were equal partners with unequal capitals. The " assets of the firm or dissolution, after" satisfying all the liabilities to creditors and advance (by Murray) from partners were insufficient the repay the capitals in full. There was a deficiency of £635 and the capital account of Wilkins was showing a debit balance of £263. "Nothing could be recovered from Wilkins owing to insolvency."

**26. Explain the decision in Garner V s Murray?**

The decision was given by R. Justice Joyee in 1904. It is decision was under:  
The solvent partners are only liable to make good their share of the deficiency, and that the remaining assets should be divided among them in proportion to their capital.

**27. What is the difference between partnership and co-ownership?**

Partnership is the relation between persons who have agreed to share profits of a business carried on by all or anyone of them acting for all whereas if some property is owned jointly without any intention to carry on a business it is called co-ownership.

**28. What is Revaluation Account:**

It is prepared at the time of admission, retirement or death of a partner for increase and decrease in the value of assets and liabilities. In case of revaluation account the assets and liabilities are shown in the new balance sheet at the revalued figures.

**29. Difference b/w Gaining & Sacrifice Ratio:**

Gaining ratio is calculated is the event of retired or death of a partner, whereas the sacrifice ratio is calculated on the admission of a partner.

Giving Ratio = New share – Old Share

Sacrifice Ratio = Old Share – New Share

**30. No. of Partners in Partnership:**

In a partnership, the number of members must not exceeded twenty and in case of banking business number of members must not exceed ten.

**31. Name of different Method of treatment of Goodwill:**

1. Premium Method
2. Revolution Method
3. Memorandum Revaluation Method.



**32. Name of different Method of calculation of Goodwill:**

1. Average Profit Basis
2. Super Profit Basis
3. Capitalization Method

**33. What is meant by Insolvency?**

A person is said to be as insolvent. When his assets are not sufficient to pay his amount of debts.

**34. What does mean by Goodwill A/c raised?**

When the incoming partner is not in a position to bring the amount of goodwill in cash, than a goodwill account is raised in the book of firm at full value and credit the old partner's capital account.

**35. How the Hidden Goodwill is calculated?**

Hidden good will can be calculated by comparing capital of the firm after admission with old capital of the firm.

**36. When Goodwill is shared by old partner in their sacrificing ratio?**

Goodwill is shared by old partner in their sacrificing ratio when new partner bring goodwill in cash form.

**37. What is Sacrifice Ratio.**

On the admission of a new partner in a firm, loss is suffered by the old partner. The old partner may sacrifice either in their old profit sharing ratio or in some other ratio. Sacrifice ratio is calculated by deducting old partner's new share from the old share.

$$\text{Sacrifice Ratio} = \text{Old share} - \text{New Share}$$





# PRINCIPLES OF ACCOUNTING

**Long Questions (topic wise)**

**I.Com (XII-Year)**

## Topic: Depreciation

- 1- Max Traders Co. purchased a motorcycle on 1<sup>st</sup> Jan, 2012 of Rs. 45,000. Depreciation was charged @10% p.a on original cost method (Fixed Installment method / Straight line method) . Calculate depreciation and prepare Motorcycle account for 3 years, if the Books are closed on 31<sup>st</sup> December of every year.
- 2- Harris & Co. purchased a machinery on 1<sup>st</sup> July, 2012 of Rs. 1,00,000. Depreciation was charged @10% p.a on Fixed Installment method (Original cost method / Straight line method). Calculate depreciation and prepare Machinery account for 4 years, if the Books are closed on 31<sup>st</sup> December of every year.
- 3- Amir Traders purchased a motorcar on 1<sup>st</sup> Jan, 2012 of Rs. 50,000. Depreciation was charged @15% p.a on reducing balance method (Diminishing balance method / written down value method) . Calculate depreciation and prepare Motorcar account for 3 years, if the Books are closed on 31<sup>st</sup> December of every year.
- 4- Max Traders Co. purchased a machinery on 1<sup>st</sup> July, 2012 of Rs. 150,000. Depreciation was charged @12% p.a on diminishing balance method (reducing balance method / written down value method) . Calculate depreciation and prepare Machinery account for 3 years, if the Books are closed on 31<sup>st</sup> December of every year.
- 5- A & Co. Purchased Machinery for Rs. 50,000 on 1<sup>st</sup> Jan 2010. They spent Rs. 10,000 on its installation. Prepare machinery account for the first 5 years if the depreciation is charged @10% on:



- i) Straight Line method
- ii) Written down value method

6- On 1<sup>st</sup> January, 2012 a firm purchased a machinery for Rs. 100,000. On 1<sup>st</sup> July, 2014 they also purchased additional machinery for Rs. 45,000 and spent Rs. 5,000 on its erection (Installation). Books are closed on 31<sup>st</sup> December every year. Prepare Machinery account for first 4 years if depreciation is charged @12% on:

- i) Reducing balance method
- ii) Fixed installment method

7- Mian & Co. purchased on 1<sup>st</sup> January, 2012 machinery for Rs. 45,000. On 1<sup>st</sup> July in the same year an additional machinery was purchased for Rs. 15,000. On 1<sup>st</sup> July 2013 the machinery purchased on 1<sup>st</sup> January, 2012 became obsolete and was sold for Rs. 18,000.

Prepare Machinery account for three years after writing off depreciation @10 p.a on:

- i) Original cost method
- ii) Diminishing balance method

8- On 1<sup>st</sup> January, 2013 Saif Traders purchased machinery for Rs. 21,000. Estimated life of machinery is 10 years after which its breakup value (residual value/scrap value) will be Rs. 1,000.

Find out the amount of annual depreciation according to fixed installment method and prepare machinery account for first four years.

9- Show motor car account under written down value method if the following information is available:

- |      |                      |             |
|------|----------------------|-------------|
| i)   | Motor car cost       | Rs. 150,000 |
| ii)  | Estimated life       | 5 years     |
| iii) | Rate of depreciation | 20%         |



iv) Residual value Rs.20,000

## **Topic: Company Accounts**

- 1- Pakistan Motors was formed with an authorized capital of Rs. 10,00,000 divided into 1,00,000 shares of Rs. 10 each. Company offered 50,000 shares at par value to the general public for subscription. Applications for 50,000 shares were received. Company allotted shares to all the applicants.

**Required :** Pass the Journal entries and prepare Balance Sheet

- 2- X & Co. was formed with an authorized capital of Rs. 15,00,000 divided into 150,000 shares of Rs. 10 each. Company offered all shares at face value to the general public for subscription. Applications for 100,000 shares were received. Company allotted shares to all the applicants.

**Required :** Pass the Journal entries and prepare Balance Sheet

- 3- Mehboob & Co. was formed with an authorized capital of Rs. 30,00,000 divided into 3,00,000 shares of Rs. 10 each. Company offered 1,00,000 shares at par value to the general public for subscription. Applications for 150,000 shares were received. No allotment was made to excess applicants and their application Money was refunded.

**Required :** Pass the Journal entries and prepare Balance Sheet

- 4- Indus Textile Ltd. was formed with an authorized capital of Rs. 60,00,000 divided into 6,00,000 shares of Rs. 10 each. Company offered 20,000 shares at 10% discount to the general public for subscription. Applications for 20,000 shares were received. Company allotted shares to all the applicants.

**Required :** Pass the Journal entries and prepare Balance Sheet



- 5- Mehboob & Co. was formed with an authorized capital of Rs. 30,00,000 divided into 30,000 shares of Rs. 100 each. Company offered all the shares at 12% discount to the general public for subscription. Applications for 35,000 shares were received. No allotment was made to excess applicants and their application Money was refunded.

**Required :** Pass the Journal entries and prepare Balance Sheet

- 6- Honda Motors Ltd. Was registered with capital of 100,000 shares of Rs. 100 each. The company offered all the shares to public at Premium of Rs.12 each. Applications for 80,000 shares were received. Company allotted the shares to applicants.

**Required :** Pass the Journal entries and prepare Balance Sheet

- 7- Al Noor glass Ltd. was formed with an authorized capital of Rs. 20,00,000 divided into 2,00,000 shares of Rs. 10 each. Company offered 1,00,000 shares at Premium of Rs.2 to the general public for subscription. Applications for 150,000 shares were received. No allotment was made to excess applicants and their application Money was refunded.

**Required :** Pass the Journal entries and prepare Balance Sheet

- 8- Riaz Ltd. Issued 1,000 6% Debentures of Rs.100 each. Give journal entries in the following cases and also prepare balance sheet:

- i) The debentures are issued at par
- ii) The debentures are issued at 10% premium
- iii) The debentures are issued at 10% discount

- 9- Sarfraz Ltd made the following issue of debentures:

- i) 4,000 debentures of Rs.100 each issued at par for each.
- ii) To a creditor (Asia Ltd) who supplied computers of worth Rs. 100,000; 1,100 debentures of Rs.100 each.



- iii) 1,000 debentures of Rs.100 each for cash, at a premium of Rs. 5 each.

**Required: Pass Journal entries and prepare balance sheet**

- 10-** ABC Ltd. issued 500 7% debentures of Rs. 100 each. What entries will be passed if:

- i) Debentures are issued at par and redeemable at par.
- ii) Debentures are issued at 5% discount and repayable at par.
- iii) Debentures are issued at 8% premium and repayable at par.
- iv) Debentures are issued at par and redeemable at 5% premium.
- v) Debentures are issued at 5% discount and repayable at 5% premium.

## **Topic:      Consignment**

- 1- Mohsin sent a consignment of 100 wall clocks to Ali of Lahore. The cost of each wall clock is Rs.530. Mohsin spent Rs.1,200 on carriage etc. Ali paid Rs. 80 as godown rent and is entitled to commission of 5% on sales. Ali sold all the consignment.

**Required: Pass the journal entries in the books of Mohsin.**

- 2- A&Co. forwarded to B&Co. on consignment 50 bags of sugar at Rs.4,000 per bag, paying Rs. 1,500 for freight. A&Co. received on account sales showing that all the bags had been sold for sum of Rs.250,000 and that the following expenses had been incurred. Carriage Rs.1500 and delivery charges Rs.1,000. The consignee is entitled to a commission of 5% and 2% for del-credere commission.

**Required: Pass journal entries and prepare consignment accounts in the books Of A&Co.**

- 3- Zubair sends 500 radio sets to Zaheer to be sold on consignment basis. He spends Rs. 3,000 on cartage etc. The cost of each set is Rs. 1,500. Zaheer sends a bank draft as an advance to Zubair for 35,000. He spends Rs.8,000 on carriage, Rs.2,000 as salesman salary and Rs.1,500 as godown rent. Zaheer sells all the sets at Rs.1,800 each. He is entitled to commission of 10% on sales.



**Required: Pass journal entries in the books of Zubair and show the consignment account and also prepare consignee's ledger.**

- 4- Amjad of Multan sends 10 fans on consignment to Majeed at Sialkot. The cost of each fan is Rs.1,200. Amjad spends Rs. 2,000 on dispatching and packing. Majeed accepts Amjad's draft for Rs.7,000. Majeed informs Amjad that 8 fans have been sold at Rs.2,000 each. Expenses paid by Majeed are freight Rs.2,000, godown rent Rs. 1,000 and insurance Rs. 500. Majeed is entitled to commission of 6% on sales and 1 ½ % as del-credere commission. Majeed settles his account for the balance due.

**Required: Give journal entries in the books of Amjad. Also prepare the necessary ledger accounts.**

- 5- Asif consigned 5 motor bikes to Arif at Rs.30,000 each. He paid Rs. 10,000 for freight charges and Rs.2,000 for insurance. Arif paid Rs.5,000 for godown rent and Rs.1,500 for advertising expenses. Arif sold 4 motor bikes for Rs.40,000 each. Arif is entitled to commission of 10% on sales. Arif sends a bank draft for Rs. 30,000 to Asif as an advance.

**Required: Prepare necessary accounts in the books of Arif.**

## **Topic: Incomplete Records (Single entry system)**

- 1- Mr. Bilal started his business on 1<sup>st</sup> January 2018 with capital of Rs. 80,000. On 31<sup>st</sup> December, 2018 his capital was Rs.140,000. His drawings during the year were Rs.10,000.

**Required: Prepare statement of profit and loss for the year.**

- 2- Mr. Zaigham keeps his books on single entry system. His capital on 31<sup>st</sup> December 2018 was Rs.28,000 and on 1<sup>st</sup> January, 2018 was Rs.16,000. He has been drawing during the year were Rs.600 P.M. and introduced a fresh capital Rs.4,000.



Required: Prepare a statement of Profit & Loss for the year ended 31<sup>st</sup> December 2018

- 3-** Mr. Khubaib started business with capital of Rs. 72,000 on 1<sup>st</sup> January 2006. His position on 31<sup>st</sup> December 2006 was as follows:

Cash Rs.1,600, Bank balance Rs.14,000, Debtors Rs. 128,000, Stock Rs.138,000, Plant Rs.540,000, Furniture Rs.30,000 and Creditors Rs.580,000.

Mr. Khubaib introduced fresh capital of Rs.100,000 during the year he withdrew Rs.17,000 for his domestic use.

Required: Prepare statement of profit and loss and statement of affairs as on 31<sup>st</sup> December 2006.

- 4-** Mr. Mustafa keeps his books under single entry system. From the following information prepare a statement of profit and loss for the year ended 31<sup>st</sup> December 2018.

	1 <sup>st</sup> jan, 2018	31 <sup>st</sup> dec, 2018
Cash at bank	1,000	1,400
Debtors	2,100	3,000
Creditors	3,000	1,800
Stock	4,400	5,200
Bill Receivable	8,600	6,700
Bank Overdraft	1,300	1,900
Premises	6,500	6,500

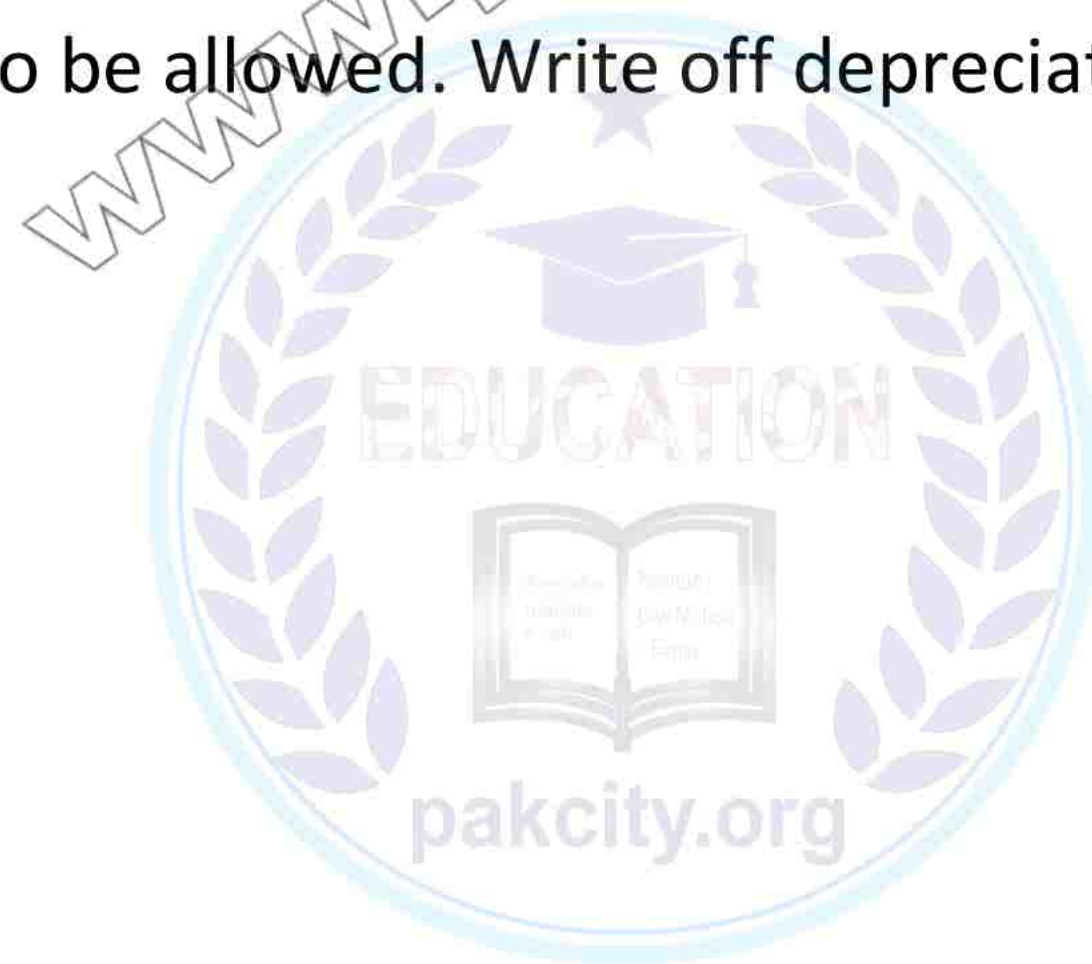
During the year Mustafa introduced a fresh capital Rs.4,000 and withdrew Rs.2,200 for his private use, he had also paid Rs. 700 for premium on his life. Depreciate Premises at 10% p.a.



- 5- Mr. Kamran keeps his books by single entry system and the following information is available from his records from which you are required to ascertain his profit or loss:

	1 <sup>st</sup> jan, 2018	31 <sup>st</sup> dec,2018
Bank balance	2,600 (cr)	4,100(dr)
Debtors	21,000	26,000
Creditors	4,200	4,400
Computer Equipment	8,600	10,200
Motor vehicle	75,000	75,000
Building	55,000	55,000
Cash in hand	1,200	-----

Kamran had withdrawn Rs. 10,000 during the year and introduced a new capital of Rs. 8,000 on 1<sup>st</sup> July 2018. A Provision for 5% on Debtors is necessary and interest @10% p.a. is to be allowed. Write off depreciation on Motor vehicle @5%.





## Topic: Accounts of Non Profit Organizations

- 1- The following is the receipt and payment account of Punjab Club for the year ended 31<sup>st</sup> december 2018. Prepare Income and expenditure account.

Receipts	Rs.	Payments	Rs.
Balance b/d	24,760	Salaries	12,000
Subscription	32,660	Repairs	3,000
Entrance Fee	4,840	Motor Car	16,000
Interest	8,000	Rent	11,200
Rent of Hall	2,200	Printing Expenses	4,700
Misc. Receipts	9,620	Misc. Expenses	17,840
		Balance c/d	17,340
	-----		-----
	<b>82,080</b>		<b>82,080</b>
	-----		-----

- 2- The following is the receipt and payment account of Lahore Club for the year ended 31<sup>st</sup> december 2018. Prepare Income and expenditure account.

Receipts	Rs.	Payments	Rs.
Balance b/d	2800	Newspaper	330
Subscription	4815	Repairs	100
Membership fee	1251	Furniture	5,400
Donation	1120	Postage & telegram	170
Interest	90	Printing Expenses	720
Sale of newspaper	250	Wages	180
		Balance c/d	3,426
	-----		-----
	<b>10,326</b>		<b>10,326</b>
	-----		-----

Other information is available as follows:

- i) Annual subscription in arrears is Rs.200
- ii) Wages outstanding Rs.60



iii) Rs.120 is to be written off as depreciation on furniture.

3- Following is the receipt and payment account of friends recreational club for the year ended 31<sup>st</sup> dec. 2018. Prepare Income and expenditure account:

Receipts	Rs.	Payments	Rs.
Balance b/d	800	General Expenditure	410
Annual subscription	1,200	Salaries&Wages	130
Annual membership	400	Furniture	1600
Entrance fee	2,200	Rent & rates	370
Interest on securities	600	Printing	500
Sundry receipts	100	Repairs	180
		Balance c/d	2110
	-----		-----
	5,300		5,300
	-----		-----

Annual subscription in arrears Rs.100. General expenses outstanding Rs.150. Secretary's salary Rs.150 sanctioned but had not been paid. Rs.200 are to be written off as depreciation on furniture.  $\frac{1}{2}$  of entrance fee is to be capitalized.