CLASS :- BCA II SEMESTER

SUB: ACCOUNTANCY - II

QUESTIONS BANK

Q.1) Define Single entry book keeping system? Explain its features and advantages.

Ans:- **Meaning of Single Entry System**

Single entry system is an incomplete form of recording financial transactions. It is the system, which does not record two aspects or accounts of all the financial transactions. It is the system, which has no fixed set of rules to record the financial transactions of the business. Single entry system records only one aspect of transaction. Thus, single entry system is not a proper system of recording financial transactions, which fails to present complete information required by the management. Single entry system mainly maintains cash book and personal accounts of debtors and creditors. Single entry system ignores nominal account and real account except cash account. Hence, it is incomplete form of double entry system, which fails to disclose true profit or loss and financial position of a business organization.

Features Of Single Entry System

The following are the main features of single entry system:

1. No Fixed Rules

Single entry system is not guided by fixed set of accounting rules for determining the amount of profit and preparing the financial statements.

2. Incomplete System

Single entry system is an incomplete system of accounting, which does not record all the aspects of financial transactions of the business.

3. Cash Book

Single entry system maintains cash book for recording cash receipts and payments of the business organization during a given period of time.

4. Personal Account

Single entry system maintains personal accounts of all the debtors and creditors for determining the amount of credit sales and credit purchases during a given period of time.

5. Variations In Application

Single entry system has no fixed set of principles for recording financial transactions and preparing different financial statements. Hence, it has variations in its application from one business to another

Advantages of single entry system:

1) Simple And Easy

Single entry system is simple to understand and easy to maintain as it has no fixed set of principles to follow while recording financial transactions.

2) Economy

Single entry system is an economical system of recording financial transactions. It does not require hiring skilled accounting personnel to record financial transactions of the business. Further, it does not require large number of books to record the limited number of financial transactions.

3) Easy To Calculate Profit

Under single entry system, the amount of profit can be determined easily. The amount of profit or loss of the period can be determined by making comparison between the amounts of closing capital and opening capital.

4) Suitable For Small Business

The single entry system is simple, easy, and economical system. It is suitable for small businesses because they can not afford the cost of double entry system. Besides, small business are not required to maintain their books of accounts under double entry system.

Q.2) What is Goodwill? Explain the method of calculating Goodwill.

Ans:- Goodwill is an intangible asset which provides a competitive advantage, such as a strong brand, reputation, or high employee morale. In an acquisition, goodwill appears on the balance sheet of the acquirer in the amount by which the purchase price exceeds the net tangible assets of the acquired company.

Goodwill arises when one company acquires another, but pays more than the fair market value of the net assets (total assets - total liabilities). It is classified as an intangible asset on the balance sheet. However, according to International Financial Reporting Standards (IFRS), goodwill is never amortized. Instead, management is responsible to value goodwill every year and to determine if an impairment is required. If the fair market value goes below historical cost (what goodwill was purchased for), an impairment must be recorded to bring it down to its fair market value. However, an increase in the fair market value would not be accounted for in the financial statements.

There are three methods of valuation of goodwill of the firm;

1. Average Profits Method

2. Super Profits Method

3. Capitalisation Method

1. Average Profits Method:

Under this metod goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits X Number of years of Purchase

2. Super profits method:

Super Profits are the profits earned above the normal profits. Under this method Goodwill is calculated on the basis of Super Profits i.e. the excess of actual profits over the average profits. Steps for calculating Goodwill under this method are given below:

i) Normal Profits = Capital Invested X Normal rate of return/100

ii) Super Profits = Actual Profits - Normal Profits

iii) Goodwill = Super Profits x No. of years purchased

3. Capitalisation Method:

There are two ways of calculating Goodwill under this method:

(i) Capitalisation of Average Profits Method

(ii) Capitalisation of Super Profits Method

(i) Capitalisation of Average Profits Method:

Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return. Such capital is called capitalized value of average profits. The formula is:-

Capitalised Value of Average Profits = Average Profits X (100 / Normal Rate of Return)

Capital Employed = Assets - Liabilities

Goodwill = Capitalised Value of Average Profits - Capital Employed

Q.3) What in Non Trading or non operating or non profit Concern?

Ans:- The organizations, which are established for the purpose of rendering social services to its members and to the society is known as non-trading concern. Such organizations include clubs, schools, colleges, hospitals, libraries, trusts, professional associations and unions. These organizations render their service to the members and to the general public, such as a club provides sports and other recreational services to the members. Schools and colleges provide education services, hospital provides treatment and services to the patients.
The sole object of non-trading concern is to provide necessary services to its members and the society at large through welfare activities. The aim of such organization is not to make profit.

They should prepare systematic books of account to provide necessary information about receipts and payments. It also helps to know, whether the current income is sufficient to meet the current expenditures or needs. The balance sheet is prepared to know the financial position, besides providing information about the proper utilization of grants, donations, and so on.
Proper accounting is essential for non-trading concern to provide the required information. Such institutions prepare receipts and payment account to show the receipts and payments of cash. Income and expenditure account is prepared to know the surplus or deficit for the period. Balance sheet is prepared to know the financial status of the concern.
The detailed and transparent financial information of non-trading concern can be obtained by preparing receipts and payment account, income and expenditure account as well as balance sheet.

Q.4) What is Final Account?

Ans:-Final Account is the final process of accounting. Final account is prepared to show the final result of the company in a specific period. Final account is also known as financial statement. Profit and loss account and balance sheet are included in final account. Profit and loss account shows the profitability achieved during the accounting period and balance sheet reflects the composition of various assets, liabilities, and shareholder's equity on the accounting period.
Final accounts is done at the end of the year to find whether the company status is in profit or loss. There will be a performer most of the company follows :

First they prepare trading and profit and loss accounts and then if need ledgers and individual accounts, which shows the monetary transactions of company and then the last step will be preparation of balance sheet. Balance sheet is the table which shows the company status whether the company earned profit or loss and where the company's money is been invested and all the monetary transactions
Final account is the combination of income statement and balance sheet. The final account is prepared at the end of every year which may be a calendar year or other also.
Normally final account includes the following items.
1. Trading Account
2. Profit and loss Account
3. Profit and loss Appropriation Account
4. Balance Sheet

Q.5) State the difference between Double Entry Book keeping system and single entry book keeping system.

Ans:- Differences Between Single Entry And Double Entry System
The following are the differences between single entry and double entry system:

1. Meaning

Single entry system is an incomplete system of recording financial transactions. Double entry system is a complete system of recording and reporting financial transactions.

2. Duality

Single entry system is not based on the concept of duality. Double entry system is based on the concept of duality.

3. Accounts Single entry system maintains only personal accounts of debtors and creditors and cash book. Double entry system all personal, real and nominal accounts are maintais.

4. Trial Balance Single entry system can't prepare a trial balance and hence, arithmetical accuracy of books of accounts can't be checked. Double entry system prepares trial balance and hence, arithmetical accuracy of the books of accounts can be checked.

5. Profit Or Loss Single entry system cannot ascertain the true amount of profit or loss of the business as it does not maintain nominal accounts. Double entry system ascertains true profit or loss of the business as it maintains all nominal accounts.

6. Financial Position Single entry system cannot ascertain the true financial position of the business because it does not maintain real accounts except cash book. Double entry system ascertains financial position of the business as it maintains all personal and real accounts.

7. Suitability Single entry system is suitable to a small business where only limited number of transactions are performed. Double entry system is suitable for a large business.

8. Tax Purpose Single entry system is not acceptable for the purpose of assessment of tax. Double entry system is acceptable for the purpose of assessment of tax.

Q.6) What is Receipt and payment Account? State its Features & Limitations.

Ans:- **Concept Of Receipts And Payments Account. Give its specimen.**

Receipt and payment account is a summary of cash receipts and payments during the accounting period. It records all cash receipts and cash payments including capital receipts and revenue revenue receipts irrespective of accounting period. All cash receipts are recorded on debit side or receipts side and all cash payments are recorded on credit or payments side of receipts and payments account.

Features Of Receipts And Payments Account

The essential features of receipts and payments account are as follows:

1. Summary Of Cash Transactions

All cash receipts and payments made by the concern during the accounting period are recorded in this book. Therefore, receipts and payments account can be taken as a summary of cash transactions.

2. Cash And Bank Items In One Column

All receipts either cash or bank are recorded in receipts column of receipts side where all cash and bank payments are recorded in one column of payment column of receipts and payments account. The cash and bank transactions are merged to avoid contra entries of cash and bank transactions.

3. No Distinction Between Capital And Revenue

All cash receipts and cash payments irrespective of capital and revenue nature are recorded in receipts and payments account. No distinct is made for capital receipts , revenue receipts, capital expenditures and revenue expenditures.

4. Opening And Closing Balance Of Cash

Receipts and payments account starts from opening balance of cash and bank ends with the closing balance of cash and bank.

5. Recording Of Cash Receipts And Payments

All cash and cheque receipts are recorded on debit side where as all cash and cheque payments are recorded on credit side of receipts and payments account.

6. Ignores Non-cash Transactions

Receipts and payments account does not record non-cash transactions.

Limitations Of Receipts And Payments Account

The receipts and payments accounts suffers from the following limitations:

1. Receipts and payments account does not differentiate capital and revenue expenses and incomes.
2. Receipts and payments account fails to show expenses and incomes on accrual basis.
3. Receipts and payments account fails to show surplus and deficiency.
4. Receipts and payments account fails to show non-cash transactions such as depreciation of fixed assets, pilferage etc.

A specimen of Receipt and Payment A/c

Name of the Institution / Club

Receipt and Payment Account for the year ended 31st March, 2011

Dr Cr

Receipt		₹	Payment		₹
To opening Balance			By Salaries		xxx
Cash	xxx		By Rent		xxx
Bank	xxx	xxx	By Electricity		xxx
To Subscriptions			By Purchase of Furniture		xxx
09 - 10	xxx		By Purchase of Investment		xxx
10 - 11	xxx		By Repairs on machinery		xxx
11- 12	xxx	xxx	By Sundry Expenses		xxx
To Entrance Fees		xxx	By Cleaning Expenses		xxx
To Donation		xxx	By Insurance Expenses		xxx
To Sale of Furniture		xxx	By Books		xxx
To rent received		xxx	By Closing Balance		
			Cash	xxx	
			Bank	xxx	xxx
		xxx			xxx

Q.7) What is Income and Expenditure account? State its Features & Limitations..
Concept of Income And Expenditure Account Give specimen form.

Income and expenditure account is prepared by non-trading concern to reveal the surplus or deficit arising out of the operating activities during the accounting period. It is one of the final accounts of non-trading concern like the profit and loss account of trading concern. All the revenue incomes during the accounting period are shown on income side and all of the revenue expenses during the period are shown to debit (expenditure) side of income and expenditure account. The excess of credit side over the debit side or excess of income over expenditure is termed as surplus, where the excess of expenses over the revenue income is termed as deficit. The surplus or deficit of income over expenditure is transferred to capital fund. The surplus is added to capital fund and vice-verse. Income and expenditure account is prepared on the accrual basis.

Features of Income and Expenditure Account

* Income and expenditure account is prepared on accrual basis.
* Income and expenditure account records all cash and non-cash expenses and income, which are revenue nature.
* Income and expenditure account is debited with the expenses and losses and credited with the incomes and gains.
* The closing balance of income and expenditure account either surplus or deficit is transferred to capital fund in the balance sheet.

A specimen of Income and Expenditure A/c

Name of the Institution / Club

Income and Expenditure Account for the year ended 31st March, 2011

Dr Cr

Expenses		₹	Incomes		₹
To Salaries	xxx		By Subscription	xxx	
Add Outstanding	xxx	xxx	Add outstanding	xxx	
To Rent		xxx	Less Advance	xxx	xxx
To Insurance	xxx		By donations		xxx
Less Prepaid	xxx	xxx	By Entrance Fees		xxx
To Printing and Stationery		xxx	By Sale of Old newspapers		xxx
To Repairs of Equipment		xxx	By sundry receipts		xxx
To Depreciation			By rent received		xxx
Furniture	xxx				
Equipment	xxx				
Books	xxx	xxx			
To sundry Expenses		xxx			
To surplus (Bal. Figure)		xxx			
		xxx			xxx

Q.8) State the difference between Receipt and payment account and Income and expenditure account.

Ans:- Differences Between Receipts And Payments Account And Income And Expenditure Account

The following are the main differences between receipts and payments account and income and expenditure account:

1. Nature Receipts and payments account is a summary of cash transactions for a period and it is a real account. Income and expenditure account is a summary of expenditure and income like trading and profit and loss account and it is a nominal account.

2. Objective Receipts and payments account is prepared to show cash and bank receipts and payments during the period to derive closing balance of cash and bank. Income and expenditure account is prepared to show the net result of the operation during the period to derive surplus or deficit.

3. Recording All cash and cheque receipts are recorded on debit side of receipts and payments account whereas all cash and bank payments are recorded on credit side. In income and expenditure account all expenditure of revenue nature are recorded on debit side and all incomes of revenue nature are recorded on credit side.

4. Capital And Revenue Items There is no distinction between capital and revenue receipts and payments in receipts and payments account. All expenses and incomes of revenue nature are recorded on accrual basis in income and expenditure account.

5. Contents Receipts and payments account contains only cash and bank transactions. Income and expenditure account contains both cash and non-cash expenses and incomes of revenue nature.

6. Balance Sheet Requirement Receipts and payments account is not required to prepare balance sheet. Income and expenditure account is required to prepare balance sheet.

7. Adjustments No adjustments are required in receipts and payments account. In income and expenditure account adjustments are made because it is prepared on accrual basis.

Q.9) What is statement of Affairs?

Concept Of Statement Of Affairs And Its Preparation

Statement of affairs is a statement of capital, liabilities and assets. Statement of affairs is prepared under the single entry system in order to find out the amount of opening or closing capital of the business. For the purpose of determining the amount of opening capital, the statement of affairs is prepared on the opening date. The statement of affairs is prepared on the closing date for the purpose of determining the amount of closing capital. It is also known as the balance sheet of single entry system.

Preparation of Statement of Affairs Statement of affairs is prepared like the balance sheet. All the liabilities are shown on left-hand side and all the assets are shown on right-hand side. The difference between the total assets and total liabilities is considered as the amount of capital. **Capital = Total Assets - Total Liabilities**

A statement of affairs is a document that is structured to provide an accurate accounting of the assets and liabilities of a debtor. This type of financial statement is often employed when an individual or business is going through a bankruptcy, and serves as the basis for the court evaluating the case, as well as providing the means for creditors to confirm or deny the accuracy of the figures contained in the document. In many judicial systems, a debtor seeking bankruptcy protection is given a specified period of time to prepare a statement of affairs and submit it to the receiver appointed by the court. Failure to do so can cause the court to declare the debtor in contempt, and set back the progress of the bankruptcy significantly.

All types of debt are included in this statement. Unsecured debt, such as credit cards, is one of the most common examples of the type of debt involved in a bankruptcy. Secured debt is also included, such as a car loan or mortgage. Businesses may have some form of preferred debt to declare as well, and can do as part of the contents of the state of affairs.

Q.10) write a short notes on:-

1) Profit and loss appropriation account

Profit and Loss Appropriation account is the part of financial statements of company. It is different from profit and loss appropriation account of partnership firm . When a company makes his profit and loss account, its net profit is transferred to the credit side of profit and loss appropriation account. Profit and loss account shows only the net profit or net loss from operation of business but profit and loss appropriation accounts shows all non- operational adjustment which is needed for proper distribution of net profit between shareholders and company for future growth.

So, net profit of P/L A/c is used for providing reserve, dividend, dividend distribution tax and adjustment of income tax.

In the debit side of this account, we will show the following items.

1. Transfer to reserve /general reserve.
2. Transfer to dividend/interim dividend/proposed dividend.
3. Debenture redemption fund account.
4. Dividend equalization fund account.
5. Dividend Distribution Tax (A 15% dividend distribution tax and surcharge of 3% is paid by companies before distribution.)
6. Income tax for previous year not provided for.
7. Surplus transfer to balance sheet.

In the credit side of this account, we will show the following accounts

1. Balance of surplus of previous year.
2. Net Profit of this year.
3. Amount withdrawn from general reserve or any other reserve.

4. Provision such as income tax provision no longer required or excess of provision or refund of tax.

Proforma of Profit and Loss Appropriation Account

Particular	Amount	Particular	Amount
To transfer to reserve	xxxx	By Last year's Balance B/d	xxxx
To income tax for previous year not provided for	xxxx	By Net Profit for the year b/d	xxxx
To Interim dividend	xxxx	By Provision such as income tax provision no longer required or by excess of provision or refund of tax	xxxx
To Proposed Dividend	xxxx		
To Dividend Distribution Tax @ 15%	xxxx		
To Surplus carried to Balance Sheet (B.F.)	xxxx		
	xxxx		xxxx

2) Differences Between Balance Sheet And Statement Of Affairs:-

Following are the main differences between balance sheet and statement of affairs:
1.Basis *Ba*lance sheet is prepared on the basis of double entry system of book keeping. Statement of affairs is prepared on the basis of incomplete records.

2. Purpose Balance sheet is prepared to present financial position of the business. Statement of affairs is prepared to find out either the amount of opening capital or closing capital.
3. Financial Position Balance sheet shows the true financial position of the business. Statement of affairs does not show the true financial position of the business.
4. Stage Of Preparation Balance sheet is prepared at the final stage of accounting procedure. Statement of affairs is not prepared at the final stage of the accounting procedure. It is prepared before the preparation of statement of profit or loss.

3) Trading & Profit and Loss Account :-

Trading Account and Profit and Loss Account are the two important parts of income statements. Trading Account is the first stage in the final account which is prepared to know the trading results of
gross profit or loss during a particular period. In other words, it is a summary of the purchases, and sale of a business or production cost of goods sold and the value of sales. The difference between the elements establishes the gross profit or loss which is then carried forward to the profit or loss account for calculation of net profit or net loss. Accordingly, if the sales revenue is higher than the cost of goods sold the difference is known as 'Gross Profit,' Similarly, if the sales revenue is less than the cost of goods sold the difference is known as 'Gross Loss.'

The determination of Gross Profit or Gross Loss is done by preparation of Trading Account. But it does not reveal the Net Profit or Net Loss of a concern during the particular period. This is the second part of the income statement and is called as Profit and Loss Account. The purpose of preparing the profit and loss account to calculate the Net Profit or Net Loss of a concern. Net profit refers to the surplus which remains after deducting related trading expenses from the Gross Profit. The trading expenses refer to inclusive of office and administrative expenses, selling and distribution expenses. In other words, all operating expenses such as office and administrative expenses, selling and distribution expenses and non operating expenses are shown on the debit side and all operating and non-operating gains and incomes are shown on the credit side of the Profit and Loss Account. The difference of two sides is either Net Profit or Net Loss.

Proforma of Trading & Profit and Loss Account

Trading, Profit and Loss Account
for the year ending 31st Dec . . . .

Particulars	*Amount Rs.*	*Particulars*	*Amount Rs.*
To Opening Stock	* * *	By Sales	* * *
To Purchases		*Less :* Sales Returns	
Less : Purchases Returns	* * *	By Closing Stock	
To Carriage Inwards	* * *	By Gross Loss c/d	* * *
To Wages			
To Gross Profit c/d			
	* * *		* * *
To Gross Loss b/d	* * *	By Gross Profit b/d	* * *
To Office & Administrative	* * *	By Non-Operating Incomes :	* * *
Expenses :		Interest Received	
Office Salaries		Discount Received	
Office Rent and Rates		Dividend Received	
Printing and Stationery		Income from Investment	
Telephone Charges		Interest on Debenture	
Legal Charges		Any other incomes	
Audit fees			
General Expenses		By Net Loss c/d	* * *
To Selling Expenses :	* * *	(Transferred to Capital	
Advertisement		Account)	
Discount Allowed			
Commission Paid			
Salesmen Salaries			
Godown Rent			
Carriage Outward			
Agent Commission			
Traveling Expenses			
To Distribution Expenses :	* * *		
Depreciation on Vehicle			
Upkeep of Motor Van			
Travelers' Salaries			
Repairs and Maintenance			
To Non-Operating Expenses :	* * *		
Discount on Issue of Shares			
Preliminary Expenses			
To Net Profit c/d	* * *		
(Transferred to Capital A/c)	* * *		* * *

4) Interim Dividend:-

The dividend declared by a company after finalisation of accounts in the annual general body meeting with the approval of the shareholders is final dividend. But the dividend declared by the company in anticipation of good profits before the finalisation of accounts , with the approval of the board of directors is called interim dividend. It is called interim, because it is paid ,in between two annual general board meeting n without finalisation of accounts and without approval of the shareholders. It favorably affects the shareholders in two ways.1.The shareholders get cash before the end of the year in the form of dividend.2.The share price of the company increases due to improved sentiment for interim dividend.

5) Need of Calculation of Goodwill:-

- Need of valuation of goodwill when the business is sold as a going concern. When the business is amalgamated with another firm. When business is converted into private or public company. When there is a change in the profit-sharing ratio amongst the existing partners. When a new partner is admitted.. When a partner retires or dies or reconstruction.
- Goodwill valuation Average Profit Method Past Profits of a number of years are taken into consideration.. A buyer wishes to get advantage of it in future, that is uncertain. The estimate for the future depends upon the past performance. Profits in future depends upon its Average Performance in past.. For some years to come the business will earn profit entirely due to seller's efforts. Hence, The buyer compensates the seller for the few years profit which the buyer gets because of seller's efforts
- Goodwill valuation Calculation of Average Profit of the year ADD : Abnormal Loss Income that will arise in future Expenses that will not occur in future LESS : Abnormal Gain Non-Operating Income Remuneration to the Proprietors Income that will not arise in future Expenses that will occur in future Income Tax.

6) Proforma of Balance Sheet as per Companies Act:-

BALANCE SHEET

OF...

(Name of the company) ....

AS AT... (Date as at which it is made out)

LIABILITIES	Amt. (Rs.)	Amt. (Rs.)	ASSETS	Amt. (Rs.)	Amt. (Rs.)
SHARE CAPITAL (Refer Note A) Authorised/Shares Of .... Rs.... each Issued/Shares Of .... Rs.... each Subscribed/Shares	xx		**FIXED ASSETS (Refer Note G)** Distinguishing as far as possible between expenditure upon 1. Goodwill 2. Land 3. Buildings		

Of .... Rs.... each Called up .... Rs.... per Share Of the above shares ……… shares are allotted as fully paid-up pursuant to a contract without payments being received in cash, Less: Unpaid calls 1. By directors. 2. By others. 3. By Managing agent or secretaries and treasurers and where the managing agent or secretaries and treasurers are a firm, by the partners thereof, and the managing agent or secretaries and treasures are a private company, by the directors members of that company. Add: Forfeited shares (amount originally paid –up) **RESERVES & SURPLUS (Refer Note B)** 1. Capital Reserves. 2. Capital Redemption Reserve. 3. Share Premium Account 4. Other Reserves specifying the nature of each reserve and the amount in respect thereof. Less: Debit balance in profit and loss account, if any 5. Balance in the profit and loss accounts after providing for proposed allocation namely Dividend, Bonus or Reserves 6. Proposed additions to Reserves 7. Sinking Funds **SECURED LOANS (Refer Note C)** 1. Debentures 2. Loans and Advances from Banks			4. Leaseholds 5. Railway Sidings 6. Plant and Machinery 7. Furniture and Fittings 8. Development of Property 9. Patents, trademarks and designs 10. Livestock 11. Vehicles, etc. **INVESTMENTS (Refer to Note No. H)** Showing nature of investment and the mode of valuation for example at cost or market value and distinguishing between: 1. Investments in Govt. or Trust Securities 2. Investments in shares, debentures or bonds 3. Immovable properties 4. Investments in the capital of partnership firms 5. Balance of unutilized monies raised by Issue **CURRENT ASSETS, LOANS & ADVANCES (Refer Note I)** A. Current Assets 1. Interest accrued on investments 2. Stores and spare parts 3. Loose tools 4. Stock-in-trade 5. Works-in-progress 6. Sundry debtors: a. Debts outstanding for a period exceeding 6 months b. Other debts Less: Provision 7. a. Cash balance on hand b. Bank balances:		

3. Loans and Advances from Subsidiaries 4. Other Loans and Advances **UNSECURED LOANS (Refer Note D)** 1. Fixed Deposits 2. Loans and Advances from Subsidiaries 3. Short-term Loans and Advances: a. From Banks b. From others 4. Other Loans and Advances c. From Banks d. From others **CURRENT LIABILITIES & PROVISIONS** (Refer Note E) A. Current Liabilities 1. Acceptances 2. Sundry Creditors 3. Subsidiary companies 4. Advance payments and unexpired discounts for the portion for which value has still to be given e.g. in the case of the following classes of companies:— Newspaper, Fire Insurance, theatres, clubs, banking, steamship, companies, etc. 5. Unclaimed Dividends 6. Other Liabilities 7. Interest Accrued but not due on loans B. Provisions 8. Provision for Taxation 9. Proposed Dividends 10. For contingencies 11. For Provident Fund Scheme 12. For Insurance, pension and			i. With Scheduled Banks ii. With Others. B. Loans and Advances 8. Advances and Loans a. To subsidiaries b. To partnership firms in which the co./its subsidiary is a partner 9. Bills of Exchange 10. Advances recoverable in cash or in kind or for value to be received; e.g., Rates, Taxes, Insurance, etc. 11. Balances with Customs, Port Trust, etc. (where payable on demand). **MISCELLANEOUS EXPENDITURE** (to the extent not written off or adjusted) 1. Preliminary Expenses 2. Expenses including commission/ brokerage on underwriting or subscription of shares or debentures 3. Discount allowed on issue of shares or debentures 4. Interest paid out of capital during construction (also stating the rate of interest) 5. Development expenditure not adjusted 6. Other items (Specifying nature) **PROFIT AND LOSS ACCOUNT**		

similar staff benefit schemes 13. Other provisions (A foot note to the balance-sheet may be added to show separately:— **CONTINGENT LIABILITIES (Refer Note F)** 1. Claims against the company not acknowledged as debts 2. Uncalled liability on shares partly paid 3. Arrears of fixed cumulative dividends 4. Estimated amount of contracts remaining to be executed on capital account and not provided for 5. Other money for which the company is contingently liable					
Total			**Total**		

PROBLEM 1

The capital employed as shown by the books of ABC Ltd is $ 50,000,000. And the normal rate of return is 10 %. Goodwill is to be calculated on the basis of 3 years puchase of super profits of the last four years. Profits for the last four years are:

Year	Profit/Loss ($)
2005	10,000,000
2006	12,250,000
2007	7,450,000
2008	5,400,000

Question ..

Goodwill is to be valued at three years' purchase of four years' average profit. Profits for last four (ending on 31st March of the firm were: 2013 – Rs.12,000; 2014 – Rs.18,000; 2015 – Rs.16,000; 2016- Rs.14,000.

Calculate amount of Goodwill.

Solution:

$$\text{Goodwill} = \text{Average profit} \times \text{number of years's purchase}$$

$$\text{Average Profit} = \frac{\text{Total Profit for past given years}}{\text{Number}}$$

$$= \frac{12,000 + 18,000 + 16,000 + 14,000}{4} = \frac{60,000}{4}$$

$$= ₹\,15,000$$

$$\text{Number of Year's purchase} = 3$$

$$\therefore \text{Goodwill} = 15,000 \times 3 = ₹45,000$$

Prob

Calculate value of goodwill on the basis of three years' purchase o average profit of the preceding five years which were as follows:

Year	2005-16	2014-15	2013-14	2012-2013	2011-2012
Profit	8,00,000	15,00,000	18,00,000	4,00,000(Loss)	13,00,000

Solution:

$$\text{Goodwill} = \text{Average profit} \times \text{Number of years' purchase}$$

Average profit

$$= \frac{8,00,000 + 15,00,000 + 18,00,000 - 4,00,000 + 13,00,000}{5}$$

$$= \frac{50,00,000}{5}$$

$$= ₹10,00,000$$

$$\text{Number of years' purchase} = 3$$

$$\therefore \text{Goodwill} = 10,00,000 \times 3 = ₹30,00,000$$

Question 11.

A partnership firm earned the net profits during the last three years ended 31st March as following:

2014 – Rs.17,000; 2015 – Rs.20,000; 2016 – Rs.23,000.

The capital investment in the firm throughout the above-mentioned period has been Rs.80,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital Calculate value of goodwill on the basis of two years' purchases of average super profit earned during the above-mentioned three years

Solution:

$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$

$$\text{Average Actual Profit} = \frac{17,000 + 20,000 + 23,000}{3} = \frac{60,000}{3}$$

$$= ₹20,000$$

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Fair Rate Return}}{100}$$

$$= 80,000 \times \frac{15}{100}$$

$$= ₹12,000$$

$$\text{Super Profit} = \text{Average Actual Profit} - \text{Normal Profit}$$

$$= 20,000 - 12,000$$

$$= ₹8,000$$

$$\text{Number of years purchase} = 2$$

$$\therefore \text{Goodwill} = 8,000 \times 2 = ₹6,000$$

Question 13.

A business earned an average profit of 8,00,000 during the last few years. The normal rate of profit in the similar type of business is 10%. The total value of assets and liabilities of the business were Rs.22,00,000 and Rs.5,60,000 respectively. Calculate the value of goodwill of the firm by super profit method if it is valued at 2½ years' purchase of super profits.

Solution:

$$\text{Average Profit} = ₹8,00,000$$

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate}}{100}$$

$$= 16,40,000 \times \frac{10}{100} = ₹1,64,000$$

$$\text{Capital Employed} = \text{Total Assets} - \text{outside Liabilities}$$

$$= 22,00,000 - 5,60,000$$

$$= ₹16,40,000$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$= 8,00,000 - 1,64,000$$

$$= ₹6,36,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No. of Years' Purchase}$$

$$= 6,36,000 \times 2.5$$

$$= ₹15,90,000$$

Question 14.

A firm earned net profits during the last five years as follows: I-Rs.7,000; II – Rs.6,500; III-Rs.8,000; IV- Rs.7,500 and V- Rs.6,000. Capital investment of the firm is Rs.40,000. Fair return on capital in the market is 12%. Find value of goodwill of the business if it is based on three years' purchase of average super profit of the past five years.

Solution:

$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$

$$\text{Actual Average Profit} = \frac{7,000 + 6,500 + 8,000 + 7,500 + 6,000}{5}$$

$$= \frac{35,000}{5}$$

$$= ₹7,000$$

$$\text{Normal Profit} = \text{Capital Investment} \times \frac{\text{Return on Investment}}{100}$$

$$= 40,000 \times \frac{12}{100} = ₹4,800$$

$$\text{Super Profit} = \text{Actual Average Profit} - \text{Normal Profit}$$

$$= 7,000 - 4,800$$

$$= ₹2,200$$

$$\text{Number of years purchase} = 3$$

$$\therefore \text{Goodwill} = 2,200 \times 3 = ₹6,600$$

Question 15.

Capital of the firm of Sharma and Verma is Rs.2,00,000 and the market rate of interest is 15%. Annual salary to partners is Rs.12,000 each. The profits for the last three years were Rs.60,000; Rs.72,000 and Rs.84,000. Goodwill is to be valued at 2 years' purchase of last 3 years' average super profit. Calculate goodwill of the firm.

Solution:

Goodwill = Super Profit x Number of Years' Purchase

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate Return}}{100}$$

$$= 2,00,000 \times \frac{15}{100} = ₹30,000$$

Year	Profit before Partners' Salary	-	Partners' Salary	=	Actual Profit after Salary
1	60,000	-	24,000	=	36,000
2	72,000	-	24,000	=	48,000
2	84,000	-	24,000	=	60,000

Average Actual Profit after Salary Partners

$$= \frac{36,000 + 48,000 + 60,000}{3}$$

$$= \frac{1,44,000}{3}$$

$= ₹48,000$

Super Profit = Average Actual Profit after Salaries – Normal Profit

$= 48,000 - 30,000$

$= ₹18,000$

Number of years purchase = 2

$\therefore$ Goodwill = $18,000 \times 2$

$= ₹36,000$

Problems on single Entry system

Mohan maintains books on single entry. He gives you the following information.

Details	Rs.
Capital on January 1, 2007	15200
Capital on December 31, 2007	16900
Drawings made during the year	4800
Capital introduced on August 1 2007	2000

Solution:

Profit made during the period – Rs. 4, 500.

Statement of Profit or Loss	
for the year ended December 31 2007	
Particulars	**Rs.**
Capital on December 31, 2007	16900
Add Drawings	4800
	21700
Less Capital introduced during the year	2000
Adjusted capital at the end	**19700**
Less: Capital at the beginning	15200
Net Profit for the year	**4500**

Question-10

Hari, who keeps his books on Single Entry System, tells you that his Capital on 1st March 2008 is Rs. 1, 87,000 and his capital on 1st April 2007, was Rs. 1,92,000. he further informs you that during the year he withdrew for his household purposes Rs. 84200. He once sold his investment of Rs. 20000 at 2% premium and brought the money into the business. You are required to prepare a statement of Profit or Loss.

Solution:

Statement of Profit or Loss	
for the year ended March 31, 2008	
Particulars	**Rs.**
Capital at the end	187,000
Add Drawings	84,200
	271,200
Less Capital introduced during the year (102/100*Rs. 20000)	20,400
Adjusted capital at the end	**250,800**
Less: Capital at the beginning	192,000
Net Profit for the year	**58,800**

Question-12

Rama keeps his books under the Single entry system. His assets and liabilities were as under-

Particulars	31.3.2007	31.3.2008
Cash	1000	900
Sundry Debtors	39000	45000
Stock	34000	32000
Plant and Machinery	60000	80000
Sundry Creditors	15000	14900
Bills payable		5000

During 2007-2008, he introduced Rs.10000 as new capital. He withdrew Rs. 3000 every month for his household expenses. Ascertain his profit for the year ending march 31st 2008.

Sollution:-

Statement of Profit or Loss	
for the year ended March 31, 2008	
Particulars	**Rs.**
Capital at the end	138,000
Add Drawings	36,000
	174,000
Less Capital introduced during the year	10,000
Adjusted capital at the end	**164,000**
Less: Capital at the beginning	119,000
Profit earned during the year	**45,000**

Statement of Affairs					
as at 31st March 2007					
Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Creditors		15,000	Cash		1,000
Capital (Balancing Figure)		119,000	Stock		34,000
			Debtors		39,000
			Plant & Machinery		60,000
		134,000			**134,000**

Statement of Affairs					
as at 31st March 2008					
Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Creditors		14,900	Cash		900
Capital (Balancing Figure)		138,000	Stock		32,000
Bills Payable		5,000	Debtors		45,000
			Plant & Machinery		80,000
		157,900			**157,900**