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i. What is memorandum of association.

It states the objects for which the company is formed. It contains the rights, privileges and powers of the company. Hence it is called a charter of the company. It is treated as the constitution of the company. It determines the relationship between the company and the outsiders.

ii. Write three disadvantages of single entry system.

- Dual aspects of the transactions are not recorded, so this system is considered to be incomplete or unscientific.
- It is impossible to verify the mathematical accuracy of the account by preparing a trial balance.
- The true amount of profit or loss can not be ascertained because it does not maintain the nominal accounts

iii. What is profit and loss appropriation account?

Profit and Loss Appropriation Account is a nominal account prepared for the purpose of distributing profits/losses among the partners after making all the adjustments relating to Interest on Capitals, Interest on Drawings, Salary, commission to partners and transfer to Reserve.

iv. Define non-trading concerns.

Individuals or institutions with activities other than trade are known as non-trading concerns. Examples of nontrading concerns are clubs, hospitals, libraries, colleges, athletic clubs etc.

v. How can a partnership come into existence.

Partnership comes into existence as a result of agreement among the partners. The agreement can be either oral or written. The partnership act does not require that the agreement must be in writing.

vi. Prepare account sale with imaginary data.

Account Sale

Consignment of 500 washing machines sold on behalf of X & Co. by Y & Co.

	Rs.	Rs.
Sold (500 Machines @ Rs.200 per machine)		100,000
Less: <u>Expenses and Commission:</u>		
Duty and taxes	2,000	
Godown rent	1,000	
Insurance of godown	5,00	
Commission 5% of sales	<u>5,000</u>	<u>8,500</u>
		91,500
Less: Advance		<u>20,000</u>
Balance due and bank draft enclosed		<u>71,500</u>

- vii. What is scrap value? Write down the formula of depreciation if scrap value given.

scrap value is the expected or estimated value of the asset at the end of its useful life. Scrap value also known as residual value, salvage value, or break-up value.

$$\text{Formula} = \frac{\text{Cost} - \text{Scrap Value}}{\text{Estimated Life}}$$

- viii. On 1st January, 2010 a firm purchased machinery worth Rs. 20,000 and spent Rs. 2,000 on its installation, the rate of depreciation is 10% p.a. then what will the book value of asset under written value method after three years.

1st Year Depreciation = Rs. 22,000 x 10% = 2,200

Book Value = Rs. 22,000 - 2,200 = 19,800

2nd Year Depreciation = Rs. 19,800 x 10% = 1,980

Book Value = Rs. 19,800 - 1,980 = 17,820

3rd Year Depreciation = Rs. 17,820 x 10% = 1,782

Book Value = Rs. 17,820 - 1,782 = 16,038

- ix. What do you mean of wear and tear in depreciation.

When an asset is constantly used for production, the asset wears out. More and more use of an asset, the greater would be the wear and tear. Physical deterioration of an asset is caused from movement, strain, friction, erosion etc.

- x. Define general reserve.

The reserve fund that is created by keeping aside a part of profit earned by the business during the course of an accounting period for fulfilling various business needs like meeting contingencies, off setting future losses etc.

- xi. What is average profit method for valuation of goodwill.

In this method, the value of goodwill is calculated by multiplying the average estimated profit or average future profit with the number of years of purchase.

- xii. Write down the six names of the various kinds of debenture issued by company.

1. Registered Debentures
2. Bearer Debentures
3. Redeemable Debentures
4. Perpetual or Irredeemable Debentures
5. Secured or Mortgage Debentures
6. Unsecured or Naked Debentures

i. Define increase net worth method of single entry system.

According to this method, the profit or loss made by the business is computed by comparing the net worth (or capital) of the business on two different dates. For example, if the capital of the business on 1.1.2019 was Rs. 80,000 and it is Rs 90,000 on 31st December, 2019, it can be said that the business has made profit of Rs. 10,000 during the period.

ii. How you will deal with the term donation under non trading account.

If the donation is collected for any special purpose, it must be treated as capital and credited to a special fund account and shown on liabilities side of balance sheet. On the other hand, if the donation is collected not for any special purpose, it is treated as revenue and credited to income and expenditure account.

iii. What should be the accounting treatment of debentures as collateral security?

For creating accounting record, Debenture Suspense A/C is debited and debenture account is credited. Debentures are represented in liabilities side and Debenture suspense A/c is shown on credit side. When the debt is paid off by the business, debenture account is debited and debenture suspense account gets credited.

iv. Why is consignment account prepared?

Consignment account is prepared to ascertain the profit earned or loss incurred by the consignor on a specific consignment. This account can be viewed as a combined trading and profit and loss account prepared specifically for consignment business.

v. To whom the under writing commission is paid and why.

Underwriting commission is paid to underwriter. An underwriter guarantees that if the public do not take up all the shares, the underwriter will himself purchase the remaining shares.

vi. What is meant by external cause of depreciation.

External factors which cause depreciation include passage of time, obsolescence, permanent fall in market value and due to weather and accidental calamities. These factors are not connected to the inherent nature of the asset.

vii. What is an account sale?

It is the statement forwarded by the consignee to consignor showing details of goods sold, amounts received, expenses incurred, a commission charged, advance payment and balance due and stock in hand, etc.

viii. What do you understand by proforma invoice.

Proforma invoice is a statement prepared by the consignor of goods showing quantity, quality, and price of the goods. Such proforma invoice is issued by the consignor to consignee regarding the

goods before the sale actually takes place.

ix. What are the rules which are applicable in the absence of an agreement in the partnership? Write any three rules.

- i. The partners will share profits and losses equally.
- ii. Partners will not get a salary.
- iii. Interest on capital will not be payable.

x. What are the basic factors for determining depreciation on fixed assets.

There are four main factors that affect the calculation of depreciation expense:

- | | |
|------------------|-----------------|
| a. Asset cost | c. Useful life |
| b. Salvage value | d. Obsolescence |

xi. What is realization account.

Realisation Account is a nominal account which is prepared at the time of dissolution of firm. It is prepared to find out the profit or loss realized by the firm on its closing or shutting down.

xii. What is provision.

Provisions in accounting refer to the amount that is generally put aside from the profit in order to meet a probable future expense or a reduction in the asset value although the exact amount is unknown.



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i. Define single entry system.

A method of bookkeeping that recognizes only one side of a business transaction and usually consists only of a record of cash and personal accounts with debtors and creditors.

ii. Explain non-profit making organization.

Non-profit making organizations are those, which do not buy/manufacture and sell goods and whose primary object is not to earn profit. Their object is to do goods to the society through welfare activities; e.g. schools, hospitals etc.

iii. What is honorarium?

The amount paid to persons who may be invited to deliver lectures or artists may be invited to give their performance by a club is known as honorarium.

iv. Differentiate between consignment inward and consignment outward.

The goods sent by the consignor to the consignee are consignment outward. The same goods will be consignment inward for the consignee. The ownership of the goods or the consignment remains with the consignor until the goods have been paid for in full by the consignee.

v. Write three difference between public limited company and private limited company.

- The public company refers to a company that is listed on a recognized stock exchange.

A private company is one that is not listed on a stock exchange.

- A public company need not include the word "private" in its name. For a private company, it is mandatory to write the words "private limited" at the end of its name.

- There must be at least seven members to start a public company. The private company can be started with a minimum of two members.

vi. Define perpetual existence of a company.

It means a joint stock company has a continuous life. The shareholders can come or go, but the existence of a company cannot be effected.

vii. Explain delcredre commission and overriding commission.

The extra commission which is paid to consignee, if loss on account of bad debts is borne by him is known as delcredre commission.

Overriding Commission: It is normally granted by consignor when he desires his agent to work hard to push a new line of product in the market.

viii. Describe depletion and amortization.

The decrease in the value proportionate to the quantum of production e.g, mine, quarries, oil etc is known as depletion.

The decrease in the value of intangible assets such as patents, copy rights etc as known as amortization.

ix. Describe obsolescence and fluctuation.

The decrease in the value of an asset due to new inventions, change in habit and taste of people, improvements is known as obsolescence.

The decrease or increase in the market value of an asset not due to use in business is known as fluctuation.

x. Describe tangible and intangible assets.

Assets which have physical existence and which can be seen, touched and felt are called tangible assets e.g, building, machinery etc.

Assets which have no physical existence and which cannot be seen, touched but can be felt are called intangible assets e.g, goodwill, patent right etc.

xi. Briefly explain scrap value of an asset.

The price at which an asset will be sold at the end of its working life. It is also known as residual value or break up value.

xii. Briefly explain fixed installment and reducing balance method of depreciation.

Fixed installment method of depreciation is also known as Straight line method. Under this method, the amount of depreciation is constant as it is charged on the original cost of the asset.

Under the **reducing balance method**, the amount of depreciation is calculated by applying a fixed percentage on the book value of the asset each year.



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