JOINT VENTURE

Q.1 What is joint Venture?

Ans. A joint venture is a temporary partnership restricted to a single transaction or a series of transactions. The persons agreeing to undertake the Venture are known as co-ventures and they agree to share profits and losses in an agreed ratio. The venture automatically ceases on the completion of the venture.

Q.2 Sate two features of a joint venture.

Ans. It is a temporary partnership. It comes to an end on the completion of the work contract.

Q.3 State two similarities between joint venture and partnership.

Ans. There must be a minimum of two persons required to form joint venture as well as partnership.
The object of both is to make profit and distribute the same in agreed proportions amongst the partners or ventures.

Q.4 State two advantages of joint venture.

Ans. As it is too much for a single person to shoulder the risk alone, the risk involved in an isolated transaction can be spread and shared by different persons. Individual trading abilities and capabilities of different persons can contribute to the joint venture in many number of Ways, e.g. a finance personnel may provide fine skilled in purchasing or marketing may purchase or market the goods.

Q.5 State two differences between joint venture and partnership.

Ans. Joint venture is a temporary partnership whereas the relationship between principal and agent, in a partnership may be permanent or temporary.
The parties to a joint venture are known as co-ventures whereas the parties to a partnership are called partners.

Q.6 State two differences between joint venture and consignment.

Ans. The relation between co-ventures is that of partners whereas the relation between consignor and consignee is that of a principal and an agent.
Profit is the reward for co-ventures whereas profit is the reward for the principal and the commission is the reward for the agent.

Q.7 What is the purpose of opening a joint bank account for a joint venture?

Ans. The joint bank account is used for recording all cash transactions of the joint venture, viz. capital contribution of the co-venture's, payment of expenses, final repayment to the coventurer's etc. The Joint bank account will automatically get closed when the amount due to each venture is finally settled.

MANISH AGARWAL

Q.8 What is the purpose of making a joint venture account?

Ans. The purpose of a joint venture is to determine the profit or loss on the venture by debiting all Expenses and losses and crediting all income & gains.

Q.9 State the different method of recording transactions of a joint venture.

Ans. Recording transactions in a separate set of books maintained exclusively for the joint individual business transaction.

Recording transactions is the same set of books in which a venture records his individual business transactions.

Q.10 Explain the term Memorandum Joint Venture.

Ans. A memorandum joint venture account is drawn for the purpose of calculating profit or loss arising from the venture. It is debited with goods supplied or cash paid by co-ventures on joint venture and credited with sales effected and stock taken over by co-ventures on joint venture.

Q.11 Differentiate between 'Joint Venture Account' and 'Joint Venture with…..account.

Ans. A Joint Venture Account is prepared when a separate set of books is maintained for joint Venture whereas in case of joint venture with….. account is prepared when no separate set of books is maintained.

A joint Venture account is a nominal account whereas joint venture with co-ventures is personal account in nature.

Differences between joint venture and partnership.

The differences between joint venture and partnership may be made as follows:

MANISH AGARWAL

S.No.	Basis of difference	Joint Venture	Partnership
1.	Name of Parties	The parties to a joint venture are known as co-venturers.	The parties to a partnership are called partners.
2.	Tenure	It is a temporary	The relationship between principal and agent may be permanent or temporary.
3.	Number of members	The minimum number of co-venturers is two and there is not maximum limit as to the number of co-venturers.	The minimum number of partners is two and the maximum number is ten for a banking business and twenty for general business.
4.	Competing Business	Co-venturers are free to carry on business Indepen-dent of joint venture	Partners are under obligation not to take up a business similar to his firm.
5.	Status of Miner	A minor can not become a co-venturer	A minor may be admitted to the benefits of partnership.

MANISH AGARWAL

Q.12.Why are unsold goods disposed off in the case of Joint Venture ? (ISC 2004)

Ans. Joint Venture is a temporary partnership which is formed for a specific purpose and Joint Venture comes to end after fulfilling the specific purpose. On dissolution of this Joint Venture unsold goods must be sold.

Q.13.Under what circumstances are no separate set of books kept for Joint Venture ? (ISC 2005)

Ans. (a) When all co-venturers keep complete record of all transactions in their own books individually.

(b) When each co-venturer keeps record of his own truncation in his own books.

Q.14. State two objectives of a joint venture business ? (ISC 2009)

Ans. (a) The main objective of the joint venture is to combine the capital and skill of various persons with the view to earn profits.

(b) One co venture may provides the funds, another may provide the technical knowledge and third may be expert in the Art of buying and selling of goods. When the services of all the all co-venturer are pooled together, it would make the venture highly profitable.

Q.15. Name the two accounts which are prepared, when each co-venturers keeps a record of his own transactions only in his books. (ISC 2010)

Ans. (a) Memorandum Joint Venture Account.

(b)In the books of one co-venturer, Joint Venture Account with another partner.

Q.16. What journal entry will u pass when unsold stock is taken over by a co-venturer assuming that a separate books of account is maintained ? (ISC 2011)

Ans. Particular Co-Venturer's capital A/C Dr

To Joint Venture A/c

(Being goods taken by co-venturer)

Q.17. In case of a Joint Venture business, how is abnormal loss of goods which have been insured, treated in the books of accounts ? (ISC 2012)

Ans. Abnormal loss of goods is not to be recorded in the joint venturer account but if any claim received from insurance company is to be credited to Joint Venture Account.

MANISH AGARWAL

Self Balancing and Sectional Balancing System

Q.1 What is self balancing system of Keeping Ledger?

Ans. Self balancing is a system of keeping ledgers where every ledger so arranged in such a matter that each of them becomes a separate ledger. Each ledger account is the balance of itself.

Q.2 What is sectional balancing system?

Ans. The system of multiple ledger designed to make only the main ledger is called Sectional Balancing System. Under this system in the main ledger, two additional account's (i) Total Debtors Account and (ii) Total creditors account are maintained so that double entries is completed in the General Ledger.

Q.3 State two features of sectional balancing system.

Ans. (i) There are 3 ledgers which are maintained, e.g. Debtors Ledger, Creditors Ledger and General Ledger.

(ii) The Debtors Ledger contains the individual accounts of trade debtors.

Q.4 State two objects of self balancing system.

Ans. (i) To ensure arithmetical accuracy of the ledger.

(ii) To exercise proper internal control.

Q.5 State two advantages of self balancing

Ans. (i) It is easy to locate error under self balancing system.

(ii) Arithmetical accuracy of each ledger can be proved independently.

Q.6 State two differences between self balancing and sectional balancing.

(iii) In self balancing a trial balance can be prepared in each of the ledgers independently whereas in sectional balancing a trial balance is prepared only in the general ledger.

(iv) Under self balancing system adjustment accounts are prepared only in general ledger.

MANISH AGARWAL

PARTNERSHIP ACCOUNTS : FUNDAMENTALS

Q.1 List any two items appearing on the debit side of a partner's Capital Account when Capitals are fluctuating.

Ans. (i) Drawings made by a partner.

(ii) Interest on drawings by a partner.

Q.2 Mention any two features of partnership.

Ans. (i) A partnership can be formed without any legal formalities.

(ii) A partners may be terminated by the death, retirement, bankruptcy or incapability of a partner.

Q.3 Give any two points of differences between fixed Capital & Fluctuating Capital.

Ans. Under fixed Capital method Capital and Current Accounts are maintained whereas under fluctuating capital method only Capital Accounts is maintained.

All adjustments for interest, profit, salary, drawings etc. are made through current accounts under fixed capital method whereas all adjustments for interest, profit, salary, drawings etc. are made through capital accounts under fluctuating capital method.

Q.4 Define partnership.

Ans. Partnership is a relationship between two or more persons who have agreed to share the profits of a business carried on by all or any cine of them acting for all.

Q.5 State any two provision of the Partnership Act relating to partnership accounts in the absence of the partnership :-

Ans. (i) Profits and losses are to be shared equally.

(ii) No interest on Capital is to be paid.

Q.6 What is partnership deed.

Ans. It is a documents prepared with the mutual consent of all the partners, covering in detail all the terms and conditions on which the partnership is formed. It is in the interest of the partners, that the agreement should be in writing.

Q.7 In the absence of Partnership deed, explain the rules relating to the following.

(i) Sharing of profits/losses

(ii) Interest on Capital Remuneration to partners

(iii) Interest On loan.

(iv) Interest on drawings.

(v) Admission of a new partners.

Ans. (i) Profits and losses to be shared equally.

(ii) No, interest on Capital is to be paid

(iii) No, remuneration is to be paid to any partner.

(iv) Interest on loan is to be paid @6% p.a.

(v) No interest on drawings is to be charged.

(vi) No partner can be admitted without the agreement of all the partners.

Q.8 State two points of differences between Profit & Loss Account and Profit & Loss Appropriation Account.

Ans. Profit & loss Account is prepared after Trading Account whereas Profit & Loss Appropriation: Account is prepared after Profit & Loss Account.

Profit & Loss Account shows how the profit is earned or loss is incurred whereas profit & Loss Appropriation Account shows how the net profit or net loss is shared by the partners.

Q.9 State any two clauses of Partnership Deed.

Ans. Date of formation and duration of partnership, Names and addresses of partners.

Q.10 State any two features of Profit & Loss Appropriation Account.

Ans. It is prepared by partnership firms. It is prepared immediately after Profit & loss Account.

MANISH AGARWAL

Q.11 Give two circumstances in which the fixed capitals of partners may change.

Ans. (1) When additional Capital is introduced by partners.

(2) When a part of the Capital is permanently withdrawn by the partners.

Q.12 Give any two reasons in having a partnership deed.

Ans. (i) In case of dispute or doubt on a particular point, partnership deed can be readily referred to.

(ii) To provide specific contract between the partners on the matters on which the Indian partnership Act provides otherwise.

Q.13 When Partners Capital Accounts are fixed, where will you record the following items.

(i) Drawings made by a partner

(ii) Salary payable to a partner

(iii) Fresh Capital introduced by a partner

(iv) Share of profit

(v) Interest on drawing

Ans. (i) Debit of Current Account

(ii) Salary payable to a partner

(iii) Fresh Capital introduced by a partner

(iv) Share of profit

(v) Interest on drawing

Q.14 How is a debit balance on a partner's current Account dealt with?

Ans. In case a partner's Current Account shows a debit balance, it would indicate that the partner has withdrawn in excess of what was due to him. The partner will be required either to refund the debit balance shown by his Current Account or to do away with the debit balance by reducing his subsequent drawings.

Q.15 State two points of differences between Drawings Account and Current Account of a partner.

Ans. (i) Drawings Accounts are maintained irrespective of whether Capitals are fixed or fluctuating whereas Current Accounts are maintained only in cases where Capitals are fixed.

(ii) Drawings Account will always showed debit balance.

Q.16 What is the adjustment and closing entry required at the time of finalization of accounts for interest on Capital allowed partners assuming that accounts are maintained under fixed capital system.

MANISH AGARWAL

Ans. (i) Adjusting Entry: Interest on Capital *alc* Dr. to Partner's Current *a/c*

(being the adjusting entry for interest on capital at… to p.a.)

(ii) Closing Entry:

Profit & Loss Appropriation A/c Dr. to Interest on Capital A/c (being the transfer of interest on Capital).

Q.17 In what way would you deal with rent paid to a partner for the use of his premises by the firm in which he is a partner and way?

Ans. Rent paid to a partner for the use of his premises by the firm in which he is a partner is an usual business expense and will be debited to Profit & Loss Appropriation Account, because it is not an appropriation of profit and it is not the duty of a partner to provide premises for the business.

Q.18 What is interest on Capital. Give one reason why it is allowed to partners.

Ans. Interest on Capital denotes an apportionment of a part of profit in Capital ratio. It is allowed to compensate those partners who contribute Capital in excess of what is required as per their sharing ratio.

Q.19 State two points of differences between drawings against profit and drawing against Capital.

Ans.

(i) Drawings against profit means drawings made out of resources generated by the day-to day business activities whereas drawings against Capital means drawings made in excess of profits. Drawings against profit reduces the Capital of the firm whereas drawings against Capital reduces the capital of the firm.

Q.21.**What is meant by Guaranteed partnership ?** **(ISC 2005)**

Ans. Guaranteed Partnership means when a partner is admitted into the firm with a minimum commitment profit, he will take a certain minimum profit of the firm. This is called guaranteed partnership.

MANISH AGARWAL

MANISH AGARWAL

ADMISSION OF A PARTNER

Q.1 State two effects of admission of a new partner.

Ans. (i) The admission of a partner constitutes the termination of old partnership and the commencement of a new one.

(ii) The new partner has to contribute an agree amount of capital to the business.

Q.2 What is sacrificing ratio?

Ans. When a new partner is admitted into partnership for a certain share or profit, the combined shares of the old partners will be reduced. The ratio in which the old partners are surrendering their share of profit in favour of the new partner is called sacrificing ratio.

Q.3 What do you mean by goodwill?

Ans. Goodwill is viewed in accounting as the combination of those intangible attributes of a business which permit it to earn above average profit. Goodwill may arise from such attributes of a business as a favourable location, quality production, harmonious relations, etc.

Q.4 State two types of goodwill.

Ans. (1) Purchased goodwill

(2) Inherent goodwill

Q.5 State two feature of Purchased goodwill.

Ans. (1) It arises on purchase of a business.

(2) It is shown in the Balance sheet as an asset.

Q.6 State two features of non-purchased goodwill.

Ans. (1) It is not recorded generally in the books of accounts.

(2) Valuation depends on the subjective judgment of the valuer.

Q.7 Explain any two factors to be taken in to consideration at the time of valuation of goodwill.

Ans. When risk is mere in the business it creates less goodwill whereas when risk is less it creates more goodwill, Managerial skills play an important role in earnings of profits and valuation of goodwill. A good and dynamic management will certainly make optimum use of resources.

Q.8 State two circumstances when it is necessary to value goodwill.

Ans. (1) If a new partner is admitted.

(2) If a partner retires from the firm.

Q.9 How will you deal with accumulated profits and looses at the time of admission of a partner.

Ans. Accumulated profits and losses will be credited and debited to the partners in the old profit sharing ratio.

Q.10 State two differences between Revaluation Account and Memorandum Revaluation Account.

Ans. (1) Revaluation Account is not divided into two parts whereas Memorandum Revaluation Account i8 divided into two parts.

(2) Revaluation Account is prepared to know the effect on account of revaluation of assets and liabilities on the capital of old partners only 'whereas Memorandum Revaluation Account is prepared to know the effect on account of revaluation of assets and liabilities on the capital of old and new partners.

Q.11 State any two factors to be taken into consideration in valuing goodwill.

Ans. (i) Superior management team

(ii) Outstanding sales force.

Q.12 What are the different methods of calculating goodwill?

Ans. (i) Average profit method (ii) Super Profit method

(iii) Capitalisation of average profit method (iv) Capitalisation of super profit method

(v) Annuity method

Q.13 How is hidden goodwill calculated methods of valuing.

Ans. Hidden goodwill is calculated with reference to the total capital of the firm and the profit sharing ratio.

Q.14 What is average profit method of valuation of goodwill?

Ans. Under average profit method, goodwill is calculated by, multiplying the average profit by a certain number of years purchases as agreed by the partners.

Q.15 What is super profit method of valuation of goodwill?

Ans. Under this method, goodwill is calculated by multiplying the super profit by a certain number of years purchased as agreed by the partners.

Q.16 Explain the treatment of goodwill on admission of a partner when no goodwill account appears in the books and the new partner brings in cash as his share of goodwill.

Ans. The amount of premium of paid is debited to cash account and credited to the old partners Capital Accounts in the sacrificing ratio.

Q.17 What is revaluation account.

Ans. Revaluation is a process of placing a different valuation on an asset or a liability from its book value in case of admission, retirement of a partner, etc. when a number of assets and liabilities are revalued, the adjustments are made through a temporary account, known as Revaluation Account. The increase or decrease in the value of all assets and liabilities are shown in Revaluation Account.

MANISH AGARWAL

Q.18 Why is goodwill sometimes recorded in the books and then immediately eliminated?

Ans. When there is a change in profit sharing ratio of partners or a partner is admitted or retires or dies, goodwill is brought into account so that equities between the partners are not affected. However if the partners desire that goodwill shall continue to remain as an unrecorded asset, then goodwill is written off to all the partners in the new profit sharing ratio.

Q.19 What is the effect of an incoming partner bringing personal good will into the business?

Ans. Personal goodwill brought in by the new partner will be debited to goodwill account and credited to his capital account. Goodwill account should be written off by debiting capital accounts of all partners in their new profit sharing ratio.

Q.20 Why is General Reserve and accumulated profits and losses distributed amongst the old partners before a new partner is admitted.

Ans. The new partner should not go to share such accumulated profits or losses because these arose before the admission of a new partner.

Q.21 Why are assets and liabilities revalued at the time of admission of a partner?

Ans. At the time a new partner is admitted, it is found necessary to revalue the assets and liabilities of the firm as because the book value of assets and liabilities may be far from their market value and thus the equity will be affected and a partner may be put to a disadvantages. For this reason, revaluation is necessary.

Q.22 Distinguish between Profit & Loss Appropriation Account and Profit & Loss Adjustment Account.

Ans. A Profit & Loss Appropriation Account is an extension of the Profit & Loss Account showing the profit & loss earned during a particular accounting period whereas Profit & Loss Adjustment Account is simply a miniature Profit & Loss Account prepared to find out any profit or loss as a result of revaluation of assets and liabilities.

MANISH AGARWAL

Partnership Accounts
Retirement / Death of a Partner

Q.1 How can a partner retire from partnership?

Ans. A partner can retire from partnership in the following three ways:

(a) With the consent of all other partners (such consent may be expressed or implied).

(b) in accordance with an expressed agreement by the partners.

(c) Where the partnership is at will giving notice in writing to all the other partners of his intention to retire.

Q.2 State two effects of retirement of a partner.

Ans. (a) The retirement of a partner will terminate the old partnership and a new partnership will

be created.

(b) An adjustment is to be made with regard to undrawn profit on accumulated losses.

Q.3 State the adjustment required at the time of retirement of a partner.

Ans. (a) Change in the profit sharing ratio.

(b) Goodwill

(c) Revaluation of assets & liabilities.

(d) Reserves & Surplus.

(e) Partners Capital.

Q.4 What is gaining Ratio?

Ans. After retirement of a partner, the combined share of the remaining partners will be increased. The ratio in which the remaining partners are acquiring the share of the retiring partner is called gaining ratio.

Q.5 State two differences between sacrificing ratio and gaining ratio.

Ans. Sacrificing Ratio is calculated in case of admission of a partner whereas gaining ratio is calculated in case of retirement of a partner.

Sacrificing Ratio is calculated by deducting new ratio from old ratio whereas gaining ratio is calculated by deducting old ratio from new ratio.

Q.6 Why are assets and liabilities revalued at the time of retirement of a partner?

Ans. At the time of retirement of a partner it is necessary to revalue the assets and liabilities of the firm so that he gets his fair share of the firm's net assets. The revaluation should be made in the interest of the retiring partner as well as of the remaining partners.

Q.7 Explain the mode of payment to a retired partner.

Ans. While deciding the mode of payment to the retiring partner the provision of partnership deed is to be taken into consideration. If there is no deed the partners should decide it mutually. The amount payable to the retiring partner can be paid off in one of the following manner:

(i) By one lump sum.

(ii) In installments.

(iii) By way of annuity.

Q.8 How to compute retiring partner's interest?

Ans. The amount payable to the retiring partner is calculated after into account the following.

(i) Opening balance of Capital / Current Account of the retiring partner.

(ii) Share of revaluation profit & loss.

(iii) Share of reserve/accumulated loss.

MANISH AGARWAL

(iv) Share of profit till date of retirement.

(v) Share of goodwill of the firm.

(vi) Salary and interest on Capital due to the retiring partner till the date of retirement.

(vii) Drawings and interest there on of the retiring partner.

Q.9 How are accumulated profits and losses dealt with when a person retires from a firm.

Ans. When a person retires from a firm he has a share in the accumulated profits and losses of the firm because such profits and losses arose when he was a partner in the firm. Thus General Reserve, debit/credit balance of profit & loss. Account should be transferred to Capital Accounts.

Q.10 How is goodwill adjusted in the books of a firm when a partner retires from partnership?

Ans. Goodwill may be adjusted in anyone of the following ways:

(a) Goodwill may be raised in the books at its full value and immediately written off.

(b) only the retiring partner's share of goodwill may be credited to him and debited to the existing/continuing partners in the gaining ratio.

MANISH AGARWAL

PARTNERSHIP ACCOUNTS

DISSOLUTION OF A PARTNERSHIP FIRM

Q.1 What is Dissolution?

Ans. Dissolution means discontinuation. There are two types of dissolution:

(1) Dissolution of Partnership.

(2) Dissolution of firm.

Dissolution of Partnership refers to admission retirement and death of a partner of a firm and dissolution of firm means the termination of partnership business.

Q.2 State 2 points of differences between dissolution of partnership and dissolution of firm.

Ans. (i) Dissolution of partnership takes place when a new partner is admitted or an old partner retires or dies, whereas, dissolution of the firm takes place when a firm is dissolved by the partners mutually or by court.

(ii) The dissolution of partnership creates a new partnership whereas, the dissolution of a firm will not create a new partnership.

Q.3 What are the different modes of dissolution of a firm?

Ans. (1) Dissolution on the happening of a certain event.

(2) Dissolution by agreement.

(3) Compulsory dissolution.

(4) Dissolution by notice.

(5) Dissolution by court.

Q.4 State 2 reasons by which the partnership firm may be dissolved by the partners mutually.

Ans. (1) Sudden death or a retirement of a key partner.

(2) When the business of the firm has become illegal.

Q.5 State 2 ways by which a court may order for dissolution.

Ans. (1) Where a partner becomes of an unsound mind.

(2) Where a partner is guilty of misconduct.

Q.6 State 2 cases in which a partnership firm will have to be compulsorily dissolved.

Ans. (1) By adjudication of all the partners or all but one as insolvent.

(2) The business of the firm becomes unlawful due to happening of any event.

Q.7 State 2 differences between private debts and firm's debts.

Ans. (1) Firm's debts means the debt owned by the firm to outsiders, whereas private debt is the debt owned by a partner in his personal capacity to any other persons.

(2) The partner is liable to pay his private debts personally, whereas all parties are liable to pay firm's debts jointly and severally.

Q.8 What is a realization account?

Ans. When a firm is dissolved the books of account of the firm need to be closed and for this a special account called a realization account is used to record the closing transaction showing profits and losses on realization of assets and settlement of liabilities.

Q.9 State 2 differences between revaluation and realization.

Ans. (i) Revaluation account is prepared in case of admission, retirement or change in the profit sharing ratio whereas realization account is prepared at time of dissolution of the firm.

(ii) Revaluation is prepared to ascertain the profit or loss on revaluation of different assets and liabilities whereas realization is prepared to ascertain the profit or loss on realization of different assets and liabilities.

Q.10 What is the object of a realization account in dissolution of partnership?

Ans. The object of realization account is to determine the profit or loss of realization and to distribute the same among the partners.

Q.11 How should assets taken over by a partner being recorded on the partnership books on dissolution?

Ans. The capital account of the partner is debited and realization account is credited.

MANISH AGARWAL

Q.12 How will you deal with realization expenses when a partnership firm is dissolved?

Ans. Realisation account is debited and bank account it credited with the amount of realization expenses. The capital account is credited instead of bank if the expenses are paid by a partner.

Q.13 State the essential features of the rule in Garner Vs Murray.

Ans. (1) The solvent partner should being cash equal to their share of the loss on realization.

(2) The deficiency of on insolvent partner should be borne by the solvent partners in the ratio of their last agreed capital account.

Q.14 In the context of Garner Vs Murray name the partner who became insolvent?

Ans. Wilkin.

Q.15 State two characteristic features of a company.

Ans. The two characteristic features of a company are:

(i) a company comes into existence only after registration under the companies Act.

(ii) a company is a legal entity separate and distinct from its members.

SHARE CAPITAL

Q.1 What is a private Company?

Ans. Private Company means a Company which by its articles:

(a) restricts the rights to transfer its share, if any.

(b) limits the number of members to fifty.

(c) Prohibits any invitation to the public to subscribes for any share or, a debentures of the company

Q.2 What is a Public Company?

Ans. A public company means a company which is not a private company and has a minimum paid up share capital of Rs. 5,00,000 in other word public company is one which does not put the following four restrictions.

(a) as to the transfer of shares.

(b) as to the number of members.

(c) as to the offer of shares, debentures to the public.

(d) as to invitation or acceptance of deposits from persons other than its members, directors or relatives of directors.

Q.3 State two differences between Private Company and a Public Company

Ans. A public company must have three directors whereas a private company must have two

MANISH AGARWAL

directors. A public company must file a prospectus or a statement in lieu of prospectus whereas a private company need not file a prospectus or a statement in lieu of prospectus.

Q.4 What is a preference share?

Ans. Preference shares are those which satisfy the following two conditions.

(i) As regards dividends it must carry a preferential right to a fixed and

(ii) As regards capital, in the event of winding up there must be a preferential right to be repaid for the amount of capital paid up on such shares.

Q.5 State two features of Preference Shares.

Ans. It has a preferential right to dividend at fixed rate. It has cumulative rights to dividend.

Q.6 What is an equity share?

Ans. Equity share means all those share which is "not a preference share. In other words, it is a share which does not carry preference right as to

(a) payment of dividend.

(b) repayment of capital on winding up.

Q.7 State two features of Equity Shares.

Ans. (i) It is the risk Capital of the Company.

(ii) It can be purchased or sold in a stock exchange.

Q.8 State two differences between Equity Shares and Preference Shares.

Ans. An equity share is the risk capital of the Company whereas a preference share is not the risk capital of the company. A company must have equity shares whereas a company may not have any preference share.

Q.9 What is a Stock?

Ans. Stock is the aggregate of fully paid up shares legally consolidated and portion of which aggregate may be transferred or spilt up into fractions of any amount without regard to the original nominal amount of shares.

Q.10 State two differences between share and stock.

Ans. Shares are in units but stock is in lump holding. Shares can be issued directly but stock cannot be issued directly.

Q.11 What are the steps in the issue of shares?

Ans. (i) selection of merchant banker.

(ii) receipt of application money by the company.

(iii) receipt of application money by the company.

(iv) allotment of shares to the applicants.

MANISH AGARWAL

(v) issue of share certificates.

Q.12 What is a letter of allotment?

Ans. A letter of allotment is a letter sent by a company to a person to whom the company has made an allotment of shares. The letter informs the applicant of number of shares allotted to him the sum and date of payment and the procedure to be followed if payable installments.

Q.13 What is a letter of regret.

Ans. A letter of regret is a letter sent by a company to a person who has applied for shares, regretting that no shares have been allotted to him. It arises only when the issue has been oversubscribed.

Q.14 What is a share certificate?

Ans. A share certificate is a document that provides evidence of ownership of shares in a limited company, bears the name of the shareholder, the number and class of shares owned by the shareholder, stamped by the common seal of the company and generally signed by at least one Director and Company Secretary.

Q.15 What is minimum Subscription?

Ans. The minimum subscription is the minimum amount which in the opinion of the Director must be raised in cash by the issue of those shares to provide for

(i) purchase price of any property to be acquired.

(ii) any preliminary expenses.

(iii) working capital

Q.16 What is over-subscription?

Ans. When the application money is received for more number of shares than the number of shares offered to the public by a company it is called over-subscription.

Q.17 What is under subscription.

Ans. When the application money is received for more number of shares than the number of shares offered to the public by a company I is called over-subscription.

Q.18 Define the terms at par, at a premium at a discount.

Ans. **at par-**If the price required to be paid to the company for the share is equal to the nominal value of that share, it is called at Par e.g. a Rs. 10 equity share issued at a price of Rs. 10.

at a premium – if the price required to be paid to the company for the share is more than the nominal value of that share, it is called at a premium, e.g. a Rs. 10 equity share issued at a price of Rs. 12.

at a Discount – If the price required to be paid to the company for the share is less

MANISH AGARWAL

than the nominal value of that share, it is called at a discount, e.g. a Rs. 10 equity share issued at a price of Rs. 9.

Q.19 State two purposes for which shares are issued at a premium.

Ans. (i) in paying up unissued share to be issued as fully paid bonus shares.

(ii) for writing off preliminary expenses.

Q.20 State two conditions to be fulfilled for issued at a premium.

Ans. (i) The shares must be of a class already issued.

(ii) the issue must be authorized by a resolution passed at a general meeting and sectioned by Company Law Board.

Q.21 State two differences between shares and debentures.

Ans. Shares represent ownership funds and shareholders are owners of the company whereas debentures represent loan capital and debenture holders are only creditors of the company not owners.

Dividend on shares is payable only when there is a profit and that too at the recommendation of the Board of Directors whereas interest on debentures is a company makes a profit or loss.

Q.22 What do you mean by Cost on issue of debentures?

Ans. Certain expenses are incurred on the issued of debentures. The expenses may be in respect of duty, filling fees, brokerage, printing advertising etc. All these expenses are debited to an account called Expenses or Cost on issue of debentures.

Q.23 What is provision?

Ans. The word provision is used to mean an amount set aside to provide for a diminution in the accounting value of an asset or a known liability the amount of which can only be estimated e.g. provision for depreciation, provision for bad debts, etc.

Q.24 What is reserve?

Ans. The word reserve is applied to a balance of profit withheld from distribution as dividend or otherwise amongst the owners and retained within the business.

Q.25 What are the two important documents which are required to be filed for registration of a Joint Stock Company.

Ans. Memorandum of Association and Articles of Association.

Q.26 Define the term Share Capital.

Ans. Generally Capital represents a particular amount of money used in the business for earning revenue. Share Capital represents that part of the capital represents that part of the capital of a

MANISH AGARWAL

company which is represented by the total nominal value of shares, which it has issued.

Q.27 Define the terms (i) Called up Capital (ii) Paid up Capital and (iii) Issued Capital

Ans. Called up Capital is that part of the subscribed capital which the directors have called up for running the business of the company. Paid up Capital is that part of the Called up Capital authorized Capital which is issued to the public for subscription and allotment.

Q.28 Distinguish between Cumulative and non Cumulative preferences shares.

Ans. In case of cumulative preference share if substantial profits are not earned to apy dividend on such share and the holders are eligible for arrear dividend out of the profits of subsequent years whereas in case a non-cumulative preference shares, shareholders do not accumulate dividend to be paid out of profits of subsequent years Dividend is payable out of the net profit of each year.

Q.29 Give two differences between calls in arrear and calls in advance.

Ans. Calls in arrear means the amount not received on allotment or calls in spite of being due whereas calls in advance means the amount received in advance from shareholders in respect of calls yet to be made.

Calls in arrear is shown on the liability side of the Balance Sheet by way of deduction from called up capital whereas calls in advance which is a credit balance appears on the liability side of the Balance Sheet under current liabilities.

Q.30 Can fully paid shares be forfeited. If so under what circumstances.

Ans. Fully paid shares can be forfeited in such cases when there is a default in fulfilling or expulsion of members where the articles specifically provide therefor.

Q.31 On what conditions can forfeited shares be reissued.

Ans. (i) The price charged must not be less than the amount that was in arrear when the shares were forfeited.

(ii) A resolution has to be passed by the Directors sanctioning the reissue of forfeited shares.

Q.32 At what price can a company reissue shares which have been forfeited.

Ans. Forfeited shares can be reissued at any price with the exception that if the reissue is made at a discount the amount of discount must not exceed the forfeited amount.

Q.33 What do you mean by Capital Reserves?

Ans. Capital Reserves are those created out of profits which are extra-ordinary in nature, i.e. profits which do not result result from operation carried on by the company.

Q.34 What is Revenue reserve?

Ans. Revenue reserves are those which may be available for distribution as dividend.

MANISH AGARWAL

Q.35 What is Reserve Capital?

Ans. Sometimes a Company by a special resolution determines that a portion of its uncalled Capital shall not be capable of being called up, except in the event and for the purpose of the company being wound up. The uncalled Capital is known as reserve capital.

Q.36 Give two example of Capital profits.

Ans. (i) Premium on issue of shares and debentures.

(ii) Profit on reissue of forfeited shares.

Q.37 Distinguish between specific reserve and general reserve.

Ans. Specific reserves are those created for a particular purpose such as equalization of dividends, redemption of debentures, etc. whereas General Reserve are those created only to strengthen the financial position of the company and to keep funds available for meeting any future contingencies that may arise.

Q.38 What is a debenture?

Ans. Debentures are fixed interest bearing bonds issued as an acknowledgement of a security for a loan. If the debentures are secured by a charge on the company's property they are termed mortgage debentures but if unsecured they are termed simple or naked debentures.

Q.39 What do you mean by Irredeemable debentures?

Ans. Irredeemable debentures are those where there is no fixed time for repayment of these debentures. Usually these debentures are not repayable during the life time of the company but they become redeemable when the company goes into liquidation.

Q.40 Mention two points of differences between shares and debentures.

Ans. Shares are ownership funds whereas debentures are loan capital, Dividend on Shares is payable only when there is a profit whereas interest on debentures is a compulsory payment whether the company earns profit or not.

Q.41 How is Discount on Debentures treated in the accounts of a company.

Ans. Discount on debentures is a capital loss which is debited to Discount on Debentures Account and shown on the asset side of Balance Sheet under the heading Miscellaneous Expenditure.

Q.42 State two points of differences between Balance Sheet of a Company and that of partnerships.

Ans. The form and contents of Balance Sheet of a Company is guided by schedule VI of company's Act 1956 whereas in case of Partnership there is no such corresponding figures.

Q.43 What is a contingent liability?

Ans. A contingent liability is a liability which is not an actual liability but will neutralize into an actual liability on the happening of an uncertainty.

MANISH AGARWAL

Q.44 Explain the meaning of debentures issued as a collateral security by a company.

Ans. Sometimes companies issue their own debentures as collateral security for a loan. When loan is repaid on the due date these debentures are at once released. In certain cases when the company can not pay their loan and the interest thereon on the due date the lender becomes the debenture holder who can exercise all the rights of the debenture holder. As no interest is payable on these debentures, the issue of such debentures does not constitute a liability on the part of the company.

Q.45 State two points of differences between General Reserve and Reserve Fund.

Ans. (i) General Reserve is an undistributed profit whereas Reserve fund is not an undistributed profit.

(ii) General Reserve is meant for general purpose whereas specific Reserve is meant for a specific purpose.

Q.46 State two points of differences between Tangible fixed assets and Intangible Fixed assets.

Ans. Tangible fixed assets can be seen, felt and touched whereas intangible foxed assets cannot be seen, felt or touched.

Q.47 State any four statutory books maintained by the company under the Companies Act.

Ans. Register and index of members.

Register and index of debenture holders.

Register of loan.

Register of Public deposit.

Q.48 Give two examples of Miscellaneous Expenditure. Appearing under Schedule VI Part I of Companies Act, 1956.

Ans. (i) Preliminary Expenses.

(ii) Discount allowed on the issue of Shares or debenture.

Q.49 What is meant by interim dividend?

Ans. Dividend paid during the year before ascertainment of the profits for the year is called Interim Dividend.

MANISH AGARWAL

Cash Flow Statement

Q.1 What is a Cash Flow Statement?

Ans. A Cash Flow Statement is prepared to reconcile the opening and closing cash balances of an accounting period. It is a statement that shows an enterprise's inflow and outflow of cash during a particular accounting period.

Q.2 State any four sources of Cash.

Ans. (i) Cash from operations. (ii) Issue of shares and debentures.
(iii) Loan from bank. (iv) Sale of machinery.

Q.3 State any four uses of Cash.

Ans. (i) Repayment of loan. (ii) Payment of dividend.
(iii) Payment of taxes (iv) Purchase of fixed assets.

Q.4 State two objectives of Cash Flow Statement.

Ans. (i) It provides the basis for evaluating the flow of cash of an enterprise.
(ii) It is useful for proper financial planning and control.

Q.5 State any two advantages of Cash Flow Statement.

Ans. (i) It helps to assess the reliability of the amount of net profit.
(ii) It will help in assessing likely futures financing needs.

Q.6 State any two limitations of Cash flow Statement.

Ans. (i) the meaning of the word Cash is not very vividly and clearly expressed.
(ii) it will help in assessing likely future financing needs.

Q.7 State two differences between Cash Flow Statement and Fund Flow Statement.

Ans. (i) Cash Flow Statement is based on Cash basis whereas fund flow statement is based on accrual basis.
(ii) Cash Flow Statement is concerned with cash position between two points of time whereas fund flow statement deals with changes in working capital of which cash is only the Constituent.

MANISH AGARWAL

MANISH AGARWAL

RATIO ANALYSIS

Q.1 What is Ratio Analysis.

Ans. It is a process by which we can establish a significant relationship between the item of financial statements. These ratios portray income, statement relationship of Balance sheet items and still others portray inter relationship of Balance sheet and Income statement items.

Q.2 What is the main purpose of Current, Ratio.

Ans. The main purpose is to measure the ability of the Company to pay short term liabilities and to judge its capacity to carry on business effectively.

Q.3 What is the purpose of Liquid Ratio.

Ans. Liquid Ratio highlights the relationship between quick assets and current liabilities. It indicates how many times current liabilities can be paid with quick assets. This ratio is of particular importance for banks and financial institutions. As a rule of thumb liquid ratio of 1:1 considered to be satisfactory.

Q.4 State two differences between Current Ratio and Liquid Ratio.

Ans. An ideal current ratio is 2:1 whereas liquid ratio highlights the relationship between liquid assets and current liabilities.

Q.5 What do the activity ratios indicate?

Ans. An ideal current ratio is 2:1 whereas an ideal liquid ratio is 1:1.

Current ratio shows the relationship between current assets and current liabilities whereas liquid ratio highlights the relationship between liquid assets and current liabilities.

Q.6 State two differences between operating ratio and operating profit ratio.

Ans. Operating ratio shows the relationship between operation cost and net sales whereas operating profit ratio shows the relationship between operating profit and net sales.

Operating profit ratio is calculated by the formula $\frac{Operating\ \ Profit}{Net\ Sales}\ x100$

Whereas Operating ratio is calculated by the formula $\frac{Operating\ \ Cost}{Net\ Sales}\ x100$

Q.7 State two uses of Return on Investment.

Ans. (1) It can be used to for planning the Capital structure.

(2) It can be used to compare the performance of various enterprises within an industry.

Q.8 State two uses of accounting ratios.

Ans. (i) To compare the performance of a frm over a period of time.

(ii) To help future planning process.

Q.9 State any two limitations of ratio analysis.

Ans. From the same set of figures many ratios can be computed but all of them are not equally significant. Hence, out of vrious possible ratios only significant ratios should be computed and compared. The value of currency keeps on changing due to various reasons which are beyond the control of a business concern.

Q.10 State any two advantages of ratio analysis.

Ans. Ratio analysis simplifies the comprehension of financial statements. Analysis provides data for inter firm comparison.

Q.11 State any two objects of ratio analysis.

Ans. Ratio analysis provides the employees with information regarding the efficiency and profitability of the unit so that they can bargain with the management regarding their wages and other monetary benefits Ratio analysis provides the investors with the growth of the firm by providing them with statistic such as earning per share, dividend per share etc.

MANISH AGARWAL

FINANCIAL STATEMENT OF COMPANIES (AS PER SCHEDULED VI)

Q.1. Name the financial statement of a company.

Ans. (i) statement of Profit and Loss and (ii) Balance Sheet.

Q.2. What is the financial year in case of a Company.

Ans. From 1st April to 31st March.

Q.3. How are the assets and liabilities of a company usually marshalling ?

Ans. In the order of Permanence .

Q.4. List any two items that can be shown under the heading "Reserve and Surplus" in a company's Balance Sheet.

Ans. (i) Capital Reserve

(ii) Securities Premium.

Q.5. Give any Two Examples of Current Assets.

Ans. Current Assets: (i) Inventory

(ii)Trade Receivables

Q.6. Give any Two Examples of Current Liabilities.

Ans. Current Liabilities: (i) Trade Payable

(ii) Calls in Advance

Q.7. Give any Two Examples of Non-Current Assets.

Ans. Non-Current Assets: (i) Land and Building

(ii) Plant and Machinery

Q.8. what is deferred Tax ?

Ans. Deferred tax is difference between tax on accounting income and taxation income.

Q.9. what is deferred Tax assets ?

Ans. A deferred tax assets arises when Accounting Income is less than taxable income.

Q.10. what is deferred Tax liabilities ?

Ans. A deferred tax liabilities arises when Accounting Income is more than taxable income.

Q.11. What is meant by " Share Application Money Pending Allotment " ?

Ans. It is the amount which a company has received from applicants but shares are not allotted till the date of Balance Sheet.

Comparative Financial Statement

Q.1. Name two tools of financial analysis.

Ans. (i) comparative financial statement

(ii) Common Size Statement

Q.2. What are comparative financial statements ?

Ans. When financial statements figures for two or more years are placed side by sideto facilitate comparison, these are called " comparative Financial Statements." Such statements provides for columns to indicate the increase or decrease in these figures from one year to another in absolute figures and in percentage form.

Q.3. Give two objective of comparative Financial Statements.

Ans. (1) **To make the data simpler and more understandable :** the main aim of preparing comparative financial statement is to put the data for a number of years in simpler and comparable form.

(2) **To indicate the trend :** Another aim of comparative financial statement is to indicate the trend of change by putting the figures of production, revenue from operations, expenses and profits etc. for a number of years side-by-side.

Q.4. What is Comparative Balance Sheet.

Ans. A comparative Balance Sheet shows the increase and decrease in various Assets and Liabilities and capital in two or more balance sheets of the same business enterprise on different dates.

Q.5. What is the advantage of Comparative Balance Sheet ?

Ans. It through light in nature, size and direction of change in respect of each items of balance sheet.

Q.6. What is a Comparative Statement of Profit and Loss ?

MANISH AGARWAL

Ans. A Comparative Statement of Profit and Loss shows the figures of revenue from operations, expenses, income and net profit and loss for a number of years so that change in absolute data in terms of money as well as in terms of percentages may be known.

COMMON SIZE STATEMENT

Q.1. What are common size statement ?

Ans. common size statements express all items of a financial statement as a percentage of some common base such as revenue from operations for profits and loss statement and total assets for balance sheet.

Q.2. What is the meaning of common size balance sheet ?

Ans. A common size balance sheet is a statement on which total of assets or equity and liabilities is assumed equal to 100 and all the figures are expressed as percentage of the total.

Q.3. What is the meaning of common size Statement of Profit & Loss ?

Ans. A common size statement of Profit & Loss is a statement the figure of revenue from operations is assumed equal to 100 and all the figures are expressed as percentage of revenue from operations.

MANISH AGARWAL