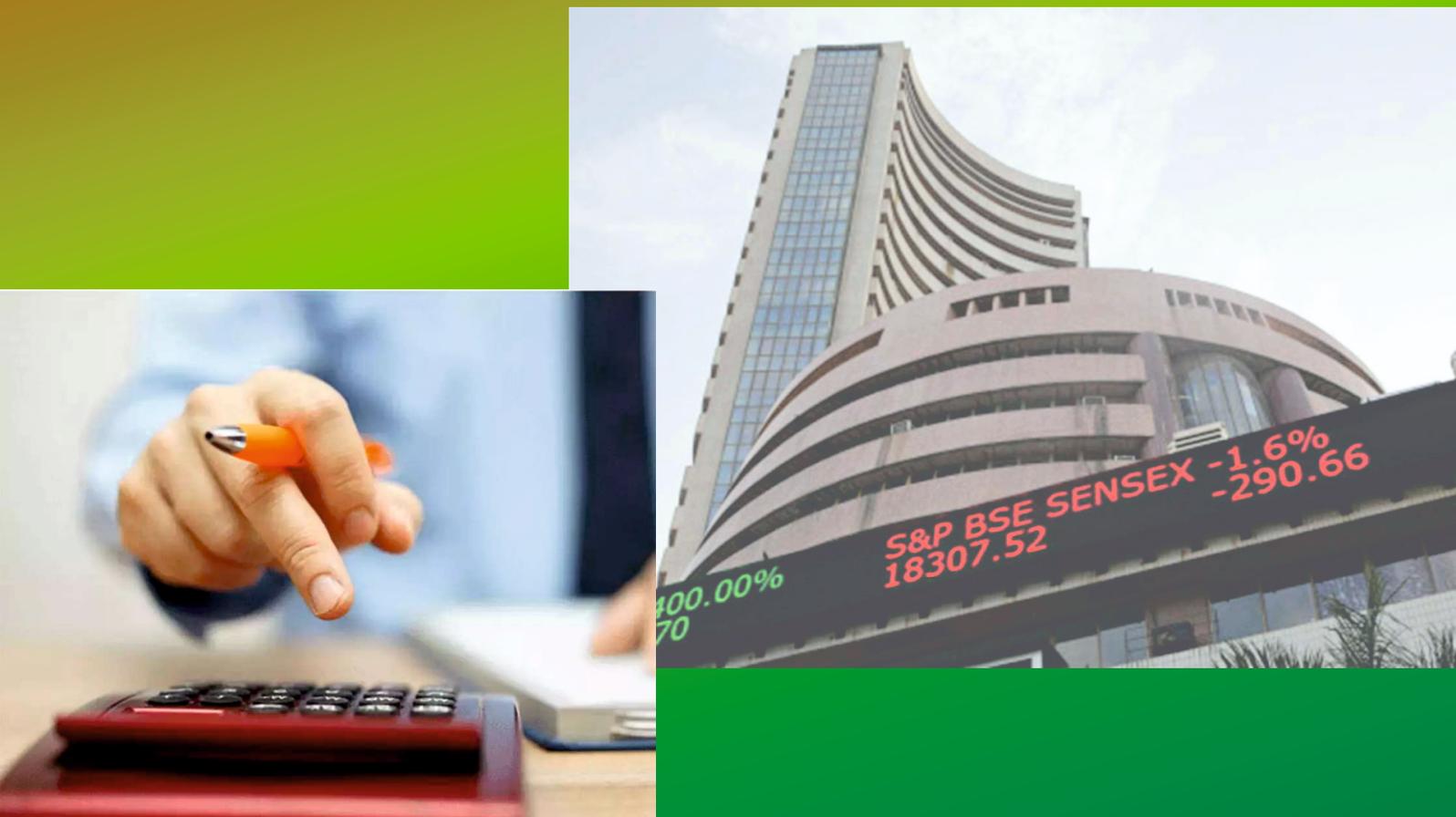


Telangana State Board of
INTERMEDIATE Education
SECOND YEAR



COMMERCE-II



BASIC LEARNING MATERIAL
For The Academic Year : 2021-2022



**TELANGANA STATE BOARD OF
INTERMEDIATE EDUCATION**

**COMMERCE &
ACCOUNTANCY**

SECOND YEAR

(English Medium)

BASIC LEARNING MATERIAL

ACADEMIC YEAR

2021-2022

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PREFACE

The ongoing Global Pandemic Covid-19 that has engulfed the entire world has changed every sphere of our life. Education, of course is not an exception. In the absence and disruption of Physical Classroom Teaching, Department of Intermediate Education Telangana has successfully engaged the students and imparted education through TV lessons. In the back drop of the unprecedented situation due to the pandemic TSBIE has reduced the burden of curriculum load by considering only 70% syllabus for class room instruction as well as for the forthcoming Intermediate Examinations. It has also increased the choice of questions in the examination pattern for the convenience of the students.

To cope up with exam fear and stress and to prepare the students for annual exams in such a short span of time , TSBIE has prepared “Basic Learning Material” that serves as a primer for the students to face the examinations confidently. It must be noted here that, the Learning Material is not comprehensive and can never substitute the Textbook. At most it gives guidance as to how the students should include the essential steps in their answers and build upon them. I wish you to utilize the Basic Learning Material after you have thoroughly gone through the Text Book so that it may enable you to reinforce the concepts that you have learnt from the Textbook and Teachers. I appreciate ERTW Team, Subject Experts, who have involved day in and out to come out with the Basic Learning Material in such a short span of time.

I would appreciate the feedback from all the stake holders for enriching the learning material and making it cent percent error free in all aspects.

The material can also be accessed through our website www.tsbie.cgg.gov.in.

Commissioner & Secretary
Intermediate Education, Telangana.

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Financial Markets and Stock Exchange

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is financial market?

Ans. Financial market facilitates the transfer of savings of house holders towards the investment of firms.

2. What is money market?

Ans. Money market is a credit market, where the debt instruments can easily be converted into cash for trading.

3. What is capital market?

Ans. Capital market provides long term finance to the firms through the sale of securities.

4. What is Primary market?

Ans. The primary market deals with the selling of new issue securities.

5. What is secondary market?

Ans. The secondary market deals with the buying and selling of the securities which have already been traded in primary market.

6. What is business finance?

Ans. The funds required to establish and meet day to day needs of a business is business finance.

7. What are derivatives?

Ans. Derivative is a contract based on the product whose value is derived from one or more basic variables called bases. Eg: curd from milk.

8. What is an option in derivative?

Ans. Option is an obligation to buy or sell a given quantity of the underlying asset at a given price in a future date.

9. What is mutual fund?

Ans. A mutual fund is a financial service organisation which pools the savings of a number of investors who share a common financial goal.

10. What is stock exchange?

Ans. Stock exchange is a secondary market, where the listed securities are traded.

11. Who is stock broker?

Ans. A stock broker is a professional who executes buy and sell orders for stocks and other securities on behalf of clients.

12. Who is a lameduck?

Ans. When a speculator cannot fulfil his commitment due to the expectations of bear does not come true, and the price of the security does not fall he is said to be lameduck.

13. Who is stag?

Ans. A stag is a cautious speculator. He neither buys nor sells the shares but the difference between the price paid by him and the selling price is his profit.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)**1. Differences between Indigenous Bankers and Money Lenders?**

Ans.	Indigenous Bankers	Money Lenders
	1. They finance the trade and commerce, rather.	1. The money lenders finance for consumption than trade.
	2. They charge low interest than money compared to lenders.	2. They charge high interest when indigenous bankers.
	3. They generally have fixed rate of interest.	3. They charge interest rates as per the need urgency of the borrower.
	4. They insist on security for financial needs.	4. They normally do not insist on securities.

2. The Differences between Primary Market and Secondary Market.

Ans.	Primary Market	Secondary Market
	1. It is concerned with issue of securities,	1. It is concerned with marketing of existing shares.
	2. It enables the company to sell securities to exchange their the investors directly or through intermediaries.	2. It helps the holders of securities to securities.
	3. It is directly connected with the promotion of capital formation.	3. It is indirectly connected with the promotion of capital formation.
	4. It deals with the buying of securities.	4. It enables both buying and selling of securities.
	5. It has no fixed geographical location.	5. It is located at specific places.

3. What is the procedure of listing of securities?

Ans. A company with minimum issued capital of Rs. 3 crores of which atleast Rs. 1.8 crore (60%) is offered to the public can apply for listing in the prescribed proforma along with the following documents.

1. Copies of all documents required for registration of a company.
2. Specimen copies of shares and debenture certificates, letters of allotment, etc.
3. Particulars regarding capital structure.
4. A statement showing the distribution of shares.
5. Particulars of dividends and bonus declared or paid during the last 10 years.
6. Particulars of shares or debentures for which permission to deal is applied for.
7. Brief report on company activities since its incorporation.

4. Explain the various types of stock exchange speculators?

Ans. The behavioural pattern of speculators determine in stock exchange with regard to buying and selling of securities are as follows:

1. **Bull:** A bull is a speculator who expects a rise in the price of certain security in future. He buys that security to sell it at the expected higher price. He does not take the actual delivery of securities.
2. **Bear:** A bear is a speculator who expects a fall in price of certain securities and agrees to sell the securities at a fixed date in future, which he may or may not possess.
3. **Stag:** A stag is a cautious speculator who neither buys nor sells the shares. The difference between the price paid by him and the selling price of shares at premium is his profit.
4. **Lameduck:** When the expectations of bear does not become true and the price of security does not fall, he cannot fulfill his commitment, he is said to be lameduck.

LONG ANSWER TYPE QUESTIONS (10 MARKS)**1. What is money market? Explain its function.**

Ans. **Meaning:** Money market is a credit market, where the debt instruments can easily be converted into cash for trading. It is regulated by RBI (Reserve Bank of India).

Functions of Money Market

1. It is a balancing market for the supply and demand of short term funds.
2. It helps central bank in influencing the liquidity and interest rates of the economy.
3. It enables a reasonable access to providers and users of short term funds in their trading.
4. It provides short-term credit to the business to meet the working capital requirements.
5. It provides funds to the government by issuing short term instruments to the savers.
6. It deals with credit instruments.
7. It brings together the savers and investors of funds.
8. It helps in trading by issuing of trade bills.

9. It enhances savings among people by investing in credit instruments.
10. It provides valuable and accurate information to the transacting parties to save money, time and efforts.

2. What are the differences between money market and capital market?

Money Market	Capital Market
1. It deals with the short term credit instruments not exceeding one year.	1. It deals with long term finance.
2. The major players are commercial Banks, RBI, LIC, etc.	2. The major players are merchant bankers, financial institutions, foreign investors and individual investors.
3. It deals with the credit instruments like treasury bill, commercial paper, call money etc.	3. It deals with shares, debentures, bonds and government securities.
4. It is engaged in the supply of working capital requirement for short period.	4. It is engaged on the supply of fixed capital requirements of business and government.
5. Its instruments enjoy high liquidity.	5. Its instruments enjoy low liquidity when compared to money market.
6. Its instruments are much safer and the risk level is low.	6. Its instruments are not safe with regard to returns and repayment of principal amount.
7. Investor cannot expect higher returns.	7. Investors can have higher returns in the form of dividends.
8. Instruments are of high value.	8. The face value of securities may be low.
9. Transactions will take place over phone, internet, etc.	9. Initial and secondary issues are done through a market.
10. RBI regulates the market.	10. SEBI regulates the market.

3. What is stock exchange ? Explain its functions.

Ans. **Meaning:** Stock exchange is an organized secondary market, where the listed securities are bought and sold by the investors.

Functions of Stock Exchange

1. **Provides infrastructure for trading:** It provides ready and continuous market for securities to get traded.
2. **Provides information regarding prices:** The proposed investor knows the quotation of the securities to be traded and he also knows the price of his holdings through stock exchange.

3. **Protects investor's health:** The interests and wealth of investors are protected by the rules and regulations laid by stock exchange.
4. **Clearing house:** It acts as a clearing house on behalf of both buyer and seller of securities traded.
5. **Provides house:** The holder of securities can easily encash the securities by selling them to the buyer whenever he wants.
6. **Helps to raise new capital:** The existing companies can meet the requirement of additional capital by issue of rights shares through stock exchange.
7. **Acts as barometer:** The economy of the country depends on the securities traded in the stock exchange and reflects the business conditions.
8. **Increases credit worthiness of company:** A company which gets its shares listed in the stock exchange enjoys good reputation.
9. **Minimises the dangers of speculation:** All the speculative dealings and price manipulation are time to time regulated by stock exchange.
10. **Facilitates speculations:** The fluctuations in security prices listed in stock exchange can earn profits by businessmen.



Business Services

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is cash credit?

Ans. It is an arrangement between a bank and its customer whereby the bank agrees to lend money to the borrower upto a certain limit.

2. What is credit card?

Ans. It is issued by the bank authorizing the customer to purchase the items now and pay the amount within the prescribed period.

3. What is demand loan?

Ans. The loan which a customer repays on demand is known as “demand loan”. Demand loans are granted for short term period.

4. What is over draft?

Ans. It is an agreement with a bank by which an account holder is allowed to withdraw more than the balance upto certain limit.

5. What is RTGS?

Ans. Real Time Gross Settlement is a fund transfer method through which money is sent in “real time” basis without any delays.

6. What is NEFT?

Ans. National Electronic Fund Transfer (NEFT) is a country-wide electronic fund transfer system for sending money from one bank account to another.

7. What is mixed policy?

Ans. It is also known as time and voyage policy. It seeks to insure the subject matter on a particular voyage for a specific period of time.

8. What is endowment policy?

Ans. It runs only for a limited period or upto a particular age. The policy money becomes due at the end of the period specified in the policy.

9. What is voyage policy?

Ans. This policy is meant to insure the subject matter in transit from one place to another through sea transit.

10. What is whole life policy?

Ans. It is the policy which run for the whole term of life of the assured. Premium should pay through out life only after death he receives the sum assured.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)**1. Explain the various types of deposit accounts in a bank.**

Ans. Banks generally accept four types of deposits : Current deposits, Saving deposits, Fixed deposits and Recurring deposits.

- a) **Current deposit:** These deposits are also known as demand deposits. These deposits can be withdrawn at any time. Generally no interest is allowed on current deposits. The customer is required to maintain a minimum balance undrawn with the bank.
- b) **Savings deposit:** This is meant mainly for professional men and middle-class people to help them deposit their small savings and earn interests. Money can be deposited and withdrawn at anytime but the maximum cannot go beyond a certain limit.
- c) **Fixed deposit:** It is an account for a fixed period where amount deposited cannot be normally withdrawn until maturity.
- d) **Recurring deposit account:** It is an account under which depositor is required to deposit a fixed amount every month for a specific period of time.

2. Discuss the different forms of lending by a banker?

Ans. The various types of loans offered by banks are

1. **Consumer credit:** Banks grant credit to households in a limited amount to buy some durable consumer goods such as television sets, refrigerators, bikes etc.
2. **Miscellaneous advances:** Advances against import bills, finance to the self employed, credit to public sector, credit to the cooperative sector and above all credit to the weaker sectors of the community at concessional rates.
3. **Overdraft facilities:** The depositor in a current account is allowed to draw over and above his account upto a previously agreed limit.
4. **Term loans:** Banks give term loans to traders, industrialists and now to agriculturists against some collateral securities.
5. **Retail loans:**
 - a) **Home Loans:** Housing loans are provided by the financial institutions for the purpose of constructions or purchase of a new home.

- b) **Car Loans:** Car loan or vehicle loan is the facility provided by the banks to the customers allowing them to pay the value of the car in instalments.
- c) **Education Loans:** These loans are given to the students who are unable to continue higher education in India and abroad due to lack of cash.
- d) **Personal Loans:** Personal loan is an unsecured loan granted by the banks to meet personal needs.

3. What are the Principles of Insurance?

Ans. Principles of Insurance

- 1. **Utmost good faith:** Both the parties should necessarily disclose all the necessary information before entering into the contract.
- 2. **Insurable interest:** The party should have interest on the subject or life insured and should be ready to pay the premium from time to time.
- 3. **Indemnity:** The contracts of insurance provide security to the subject insured except for life.
- 4. **Subrogation:** When loss occurs in insurance and the claim is made by the entitled person the rights over the subject matter transfers to insurance company.
- 5. **Contribution:** When the insured insures the same subject with other than one insurance company and loss occurs, the companies contribute the sum as per the proportion of loss occurred.

4. Explain the functions of Insurance.

Ans. The functions of Insurance can be studied in two parts.

(i) Primary functions and (ii) Secondary functions.

(i) Primary functions

- a) **Insurance provides certainty:** Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration.
- b) **Insurance provides protection:** The main function of the insurance is to provide protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk.
- c) **Risk-sharing:** The risk is uncertain and therefore the loss arising from the risk is also uncertain. When risk takes place the loss is shared by all the persons who are exposed to the risk.

(ii) Secondary functions

- a) **Prevents loss:** The insurance joins hands with those institutions which are engaged in preventing losses.

- b) **Provides capital:** The insurance provides capital to the society. The accumulated funds are invested in productive channel.
- c) **Improves efficiency:** The care-free person can develop his body and soul together for better achievement. It improves his efficiency.

5. What is IRDA? Explain the powers and functions of IDRA.

Ans. The Insurance Regulatory and Development Authority (IRDA) is the national regulatory body for Insurance Industry (both life and non-life insurance companies) under the auspices of Government of India situated at Hyderabad. IRDA was established by an act enacted in Indian Parliament known as IRDA Act, 1999 and was amended in 2002 to incorporate some emerging requirements as well as to overcome some deficiencies in the entire process.

Powers and Functions of IRDA

1. Protection of interests of policy holders.
2. Specifying the requisite qualifications and practical training for insurance agents.
3. Specifying the code of conduct for surveyors and loss assessors.
4. Promoting efficiency in the conduct of insurance business.
5. Regulating investment of funds by insurance companies.
6. Supervising the functioning of the tariff advisory committee.

LONG ANSWER TYPE QUESTIONS (10 MARKS)

1. Define banking and explain its functions.

Ans. According to Banking Regulation Act of 1949. Banking is defined as accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft etc.

Functions of Bank

A. Acceptance of Deposits: Accepting deposits is the primary function of a commercial bank. Banks mobilize savings of the household sector. The banks accept deposits from the customers in various forms such as fixed deposits, current deposits, savings deposits and recurring deposits accounts.

B. Advancing Loans

1. **Overdraft:** It is an agreement with a bank by which an account holder is allowed to withdraw more than the balance upto a certain limit.
2. **Cash Credit:** It is an agreement between a bank and its customer whereby the bank agrees to lend money to the borrower upto a certain limit.
3. **Term Loan:** It is a bank loan made for a fixed term of years at a fixed rate of interest and normally repayable by instalments spread over a period.

C) Agency Services

1. **Purchase and Sale of Securities:** Banks purchase and sell various securities like shares, stocks, bonds, debentures on behalf of their customers.
2. **Collection of Dividends on Shares:** Banks collect dividends and interest on shares and debentures of their customers and credit them to their accounts.
3. **Income Tax Consultancy:** Banks may also employ income tax experts to prepare income tax returns for their customers and to help them to get refund of income tax.

D) General Utility Services

1. **Locker facility:** Bank provided locker facility to their customers.
2. **Travellers cheques and credit cards:** Banks Issue traveller's cheques to help their customers to travel without the fear or theft or loss of money.
3. **Letter of Credit:** Letter of credit are issued by the banks to their customers certifying their credit worthiness.

* * * * *

Entrepreneurship

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is an Enterprise?

Ans. It is a unit of economic organisation or an activity especially a business organisation i.e. an organisation created for business ventures.

2. What is Innovation?

Ans. It implies discovery of new idea, new articles and new methods which can successfully sold in the market.

3. Adoptive Entrepreneur?

Ans. He is one who instead of innovating new things, he just adopt the successful innovations innovated by others.

4. Fabian Entrepreneur?

Ans. He is an entrepreneur who follow the foot steps of high successors.

5. Drone Entrepreneur?

Ans. He is one who resist any change and prefer to close down his business and donot accept the change.

6. Motivated Entrepreneur?

Ans. These are motivated by government or non-government agencies which may be providing financial and other assistance, concessions, subsidies, training etc.

7. Leadership

Ans. It is the ability of manager to induce subordinates to work with confidence and zeal.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. Explain the functions of an entrepreneur?

Ans. Functions of Entrepreneur

1. **Innovation:** The word entrepreneur is associated with innovation. Innovation includes

production of new products, creation of new market, introduction of new method of production, discovery of new and better channels of supply of raw materials and creating of new organisational structure.

2. **Risk bearing:** In the game of business wherein risks and rewards are a plenty will be ready to accept them. He is an enterprising person willing to assume the risks involved in inventions, new ventures and expansions.
3. **Organisation and Management:** The entrepreneur has to decide the nature and type of goods and services to be produced. He brings together the various factors of production. Entrepreneur also under takes the managerial functions like formulation of production plans, organisation of sales and personnel management.
4. **Business Planning:** The entrepreneur must provide a logical and scientific basis for planning the business operations, need of raw materials and men, production schedules, sales, inventory, advertising, budgetary allocation, customer needs, competitors strength and weaknesses.
5. **Decision making:** Another important function discharged by entrepreneur is the decision making. He has to take decisions regarding the activities of the enterprise.

2. Distinguish entrepreneur and entrepreneurship.

Ans.	Entrepreneur	Entrepreneurship
	<ol style="list-style-type: none"> 1. He is a person. 2. He is an administrator. 3. He is a risk bearer. 4. He is an innovator. 5. He combines factors of production. 6. He is an initiator. 7. He is a leader. 	<ol style="list-style-type: none"> 1. It is a plan of action. 2. It is an administration. 3. It is risk bearing activity. 4. It is a process of innovation. 5. It is the process of use of factors of production. 6. It is taking an initiative. 7. It is nothing but leadership.

3. How Danhof classified the Entrepreneurs?

Ans. Danhof has classified entrepreneurs into four categories, they are

1. **Innovating Entrepreneurs:** He introduces new products, new methods of production and opens new markets. These entrepreneurs are aggressive in nature.
2. **Adoptive or Initiative Entrepreneur:** Entrepreneurs of this types are found in underdeveloped countries. This types of entrepreneurs instead of innovating new things they just adopt the successful innovations innovated by others.
3. **Fabian Entrepreneurs:** These type of entrepreneurs neither fall in innovative entrepreneur category nor in adoptive entrepreneur category. These are very cautious people. These entrepreneurs are rigid and fundamental in approach. They follow the foot steps of their successors.

4. **Drone Entrepreneurs:** Drone entrepreneurs are more rigid than Fabian entrepreneurs. They resist changes. They are laggards. They may close down their business but they don't accept for changes.

LONG ANSWER TYPE QUESTIONS (10 MARKS)

1. **Define entrepreneur and explain the characteristics.**

Ans. **Entrepreneur:** He is a economic agent who united all means of production, labour, capital and land and who finds the value of product which results from their employment.

Characteristics of an Entrepreneur:

1. **Innovation:** Entrepreneur is more than an inventor because, inventor only originated the invention, whereas entrepreneur goes much further by exploiting the invention commercially. Entrepreneur deals with the changes. He does not continue with old ideas.
2. **Risk Taking:** Any new business poses risk for entrepreneurs. They may succeed or fail. They cannot foresee the way it will be. Entrepreneurs takes risks.
3. **Self Confidence:** Entrepreneurs believe in themselves. They firmly believe that they can beat any one in the field. They have the confidence that they can change the existing position.
4. **Hardwork:** Entrepreneurs are hard workers. Driven by their desire to excel entrepreneurs they put in longer hours of work.
5. **Goal Setting:** What is more important for an entrepreneur is that of setting a meaningful goal, i.e. self-renewing planning and carrying out the steps needed to reach their goal are stimulating.
6. **Accountability:** Entrepreneurs take success or failure to their stride. Credit for success, blame for the failure will go to entrepreneurs. It is the profit that best tell entrepreneurs how well they are doing in the market.
7. **Leadership:** The entrepreneur's leadership acts like a motive power to group efforts. It is an aid to authority and helps in better utilization of manpower. Hence, the entrepreneur must posses good leadership qualities to become a successful entrepreneur.
8. **Managerial Skills:** The entrepreneur requires the managerial skills for achieving the goals of the enterprises. The managerial skills of an entrepreneur refer to ability to formulate a clear and well thoughtout policy and ensuring proper balance between the duties, responsibilities, rights and authority of different personnel.

Setting up a Business

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. Project Report

Ans. It is the document prepared by the entrepreneur where he has to put his ideas and other information in black and white.

2. Term Loans

Ans. It is the loan required for long term needs for acquiring fixed assets.

3. Bridge Loans

Ans. It is a short term loan which enables the entrepreneur to continue with the implementation of the project till the term loan is applied and obtained.

4. Working Capital

Ans. Short-term advances for working capital in the form of pledge / hypothecation / cash / credit / bills facility.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. What are the special provisions enacted by the Telangana State for the MSME's?

Ans. The special provision for the micro, small and medium enterprises are as follows:

- a) Adequate number of smaller plots in industrial parks for SME's and developed sheds for micro units.
- b) Special fund for addressing incipient sickness.
- c) Special fund for IP registrations assistance.
- d) Special fund for anti-pirating assistance.
- e) Special fund for technology transfer and modernization of MSME Sector.
- f) Reimbursement of land conversion charges for units in own land.
- g) Marketing assistance to participate in national and international trade shows and buyer-seller meets.
- h) Consultant panel to respond to MSME entrepreneur needs.
- i) Separate state level bankers committee for industries particularly S.M. Enterprises.
- j) Decentralised procedure for issue of licenses and permissions to micro enterprises at the level of Industrial Promotional Officers.

2. How the special support is extended by the Government of Telangana to the SC/ST entrepreneurs in our state?

Ans. Special support to SC/St entrepreneurs is offered through TS-PRIDE are as follows:

- a) A special direct funding programme for financing SC/ST entrepreneurs.

- b) Payment of margin money on behalf of SC/ST entrepreneurs by the Government and creation of Rs. 5 crores for Margin Money Refund Scheme.
- c) Preferential allotment of plots in industrial parks and reservation of 22% land in Industrial Estate.
- d) Supplier diversity opportunities in large industries.
- e) State departmental procurement policy in tune with GOI's SME procurement policy of 20%.
- f) Organising intensive entrepreneur and skill development programmes.
- g) Subsidy eligibility of funded by CRISIL rated NBFC's.
- h) Interest subsidy for service sector units, other than transport sector.
- i) Organisations like Dalit India Chamber of Commerce and industry involved in Planning, implementing and monitoring special programmes for SC/STs.
- j) Representation in all the districts and state level committees.

* * * * *

Internal Trade and International Trade

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. Wholesale Trade

Ans. Wholesale trade means, purchasing goods in large quantities from producers and selling in small quantities to retailers for resale to customers.

2. Hawkers & Pedlars

Ans. Hawkers & Pedlars, move from one place to another place with a view to search their customers. They usually sell low cost products and unbranded products to the customer's doorsteps.

3. Cheap Jacks

Ans. Cheap Jacks, operate their business from small hired shops for a specific period. If the trade is not going on well at a particular place, then they shift to another place.

4. Second hand goods shops

Ans. Second hand goods shops deal in used articles or second hand goods. Generally the goods are priced low.

5. Second's Shops

Ans. Second's shop deal in manufacturing defective goods. The goods are sold at a discounted rate.

6. Multiple Shops

Ans. Multiple shops are identical shops which sell standardised and branded products in different parts of a particular place or city or town.

7. Warehouse

Ans. Warehouses are big storage houses, where goods are stored in large quantities.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. How do you classify the trade?

Ans. Depending upon the geographical limits the trade is classified into Home trade (Internal Trade) and Foreign Trade (International Trade).

A. Internal Trade: In this trade the exchange of goods taking place between the buyers and sellers within the boundaries of India. This trade is sub divided into Wholesale trade and Retail trade.

(a) **Wholesale Trade:** Wholesale trade involves purchasing goods in large quantities from producers and selling in smaller quantities to retailers.

(b) **Retail Trade:** Retail trade involves buying goods from the wholesaler and selling the goods in very small quantities to the consumers.

B. External Trade: In this trade the exchange of goods taking place between the buyers and sellers outside the boundaries of India i.e. between two or more countries, this trade is subdivided into Export trade. Import trade and Entrepot trade.

(a) **Export Trade:** When a home country trader sells his goods to a trader or a customer living in another country is called Export Trade.

(b) **Import Trade:** When a trader operating his trade in the home country, purchases goods from a trader in another country is called Import Trade.

(c) **Entrepot Trade:** When goods are imported from one country and later re-exported after affecting some process or without process is called Entrepot Trade.

2. How Internal and International Trade differ?

Ans.	Internal Trade	International Trade
	1. Refer to the trade within the country.	1. Refer to trade with other countries.
	2. Does not involve any exchange of currencies.	2. Involves exchange of currencies.
	3. There will be no restriction.	3. Subject to many restrictions.
	4. There is scope for operation of demand and supply forces.	4. The scope for operation of demand and supply forces is restricted.
	5. Transport costs and risks are less.	5. Transport costs are more and risks are many.

3. What are the four important benefits of International Trade?

Ans. The important benefits of International Trade are given below:

1. It leads to better use of available resources by importing excess resources available in other countries.
2. It reduces wastage of resources by exporting excess resources available in our country.
3. It helps countries to sell those goods which they have in surplus and buy goods which are in short supply.
4. It increases employment opportunities and foreign exchanges reserves.



Principles of Management

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. Scalar Chain

Ans. It is the chain of superiors ranging from the ultimate authorities to the lowest ranks.

2. Unity of Command

Ans. It means subordinate should receive orders and be accountable to one and only one superior.

3. Esperit de Corps

Ans. It implies that union is strength which comes from the harmony of the personnel.

4. Unity of Direction

Ans. It means efforts of all the members of the organization should be directed towards common goals.

5. Centralization

Ans. It refers to the extent to which authority is concentrated or dispersed.

6. Principle of Discipline

Ans. It means obedience, proper conduct in relation to others and complying with rules and regulations of the organization.

7. Staffing

Ans. It is the process of management which is concerned with obtaining, utilizing and maintaining a satisfactory and satisfied workforce.

8. Meaning of Control

Ans. It is the process of ensuring that actual activities conform to planned activities.

9. POSDCORB

Ans. Is used as a good starting point to analyze management functions and activities in a structural way to achieve organizational goal. Elements of POSDCORB are planning, organizing, staffing, directing, co-ordinating, reporting and budgeting.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. What are the characteristics of Management?

Ans. The following are the characteristics of Management.

- a) **It is an economic activity:** It is the sum total of those activities which pertain to laying down of certain plans, policies and purpose, securing men, money, material and machinery needed for their achievement.
- b) **It gets things done through others:** It is its purpose that Management get the things done through other people. It does not perform the work itself but helps others to do.
- c) **It is a creative activity:** Management is creative activity - purposeful activity - group activity - motivating activity - economic oriented activity - delegating activity and above all a decision - making activity.
- d) **It co-ordinates efforts:** The management activity brings about a co-ordinated effort of the many individuals and smaller groups.\
- e) **It is goal oriented:** The purpose of management is to achieve certain goals. If the objective of the company is to maximize profits, steps may be taken for cost reduction and so on.

2. What is the difference between of Unity of Command and Unity of Direction?

Basis	Unity of Command	Unity of Direction
Meaning	One subordinate should receive orders from one and should be responsible to only one superior.	Each group of activities having same objectives must have one head and one plan.
Aim	It prevents dual subordination.	It prevents overlapping of activities.
Implications	It effects an individual employee.	It effects the entire organization.

LONG ANSWER TYPE QUESTIONS (10 MARKS)

1. Explain Henry Fayol’s Principles of Management.

Ans. **Introduction:** Henry Fayol is known for the general principles of Management formulated by him in the 20th century. “Fayol” “Developed” General Theory of organisation and administration applicable to all organisation. Hence he is called as “Father of Management”.

Fayol principles of management are as follows:

- 1. **Division of Labour:** Fayol recommended that work of all kinds must be subdivided and allocated to number of persons, that makes each taste simple, promote efficiency and specialization.
- 2. **Authority and Responsibility:** Parity of authority and responsibility to suggest that there must be equality between authority and responsibility. Giving some responsibility he must also be given adequate authority.

3. **Discipline:** In the context of management means obedience, proper conduct, dutiful and disciplined not only on the part of workers but also on the part of management.
4. **Unity of Command:** One subordinate should receive orders and be accountable to one and only one superior. No employee should receive from more than one person.
5. **Unity of Direction:** There should be one head and one plan for a group of activities having the same objectives.
6. **Subordination of Individual to General Interests:** The interest of the firm as a whole is more important than the interest of an individual or group of persons.
7. **Remuneration of personnel:** Should provide fair and adequate maximum possible satisfaction to employees and employer.
8. **Centralization:** The extent to which authority is concentrated or dispersed. The appropriate degree of centralization will vary with different concerns.
9. **Scalar Chain:** It shows the line of authority from the highest executive to the lowest one for the purpose of communication.
10. **Order:** There is a place for everything and everything in its place. Social order requires the employment of “the right man in the right place”.
11. **Equity:** The manager should show combination of kindness and justice in dealing with their subordinates.
12. **Stability of tenure of personnel:** Employee must feel that he enjoys security of the job, he will take interest in the give his best performance, otherwise he losses interest in the job and wait an opportunity to quit the firm.
13. **Initiative:** The managers to allow employees to show initiative of propose a plan and to execute it.
14. **Esperit de corps:** Implies unity is strengths and emphasized the importance of team work and group endeavours. The management should never adopt ‘divide and rule’ policy.



Depreciation

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. Define the term 'depreciation'.

Ans. As per Schedule-II of the Companies Act, 2013, Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

2. What is Obsolescence?

Ans. Due to new inventions, technological improvements, availability of better type of asset or change in market demand the existing asset becomes outdated.

3. What is Depletion?

Ans. Due to constant and regular extraction of raw material from mines, quarries, oil wells, etc. there is a chance of loss of natural resources.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. What are the causes of depreciation?

Ans. The following are the causes of depreciation.

1. **Wear & Tear:** The decrease in the value of the fixed asset due to the constant use is said as wear and tear. Ex: Machinery, furniture.
2. **Depletion:** It is the loss of natural resources mineral wealth due to the constant extraction of raw material from mines, quarries, oil wells, etc.
3. **Accidents:** An accident means breakdown of an asset which decreases the value of an asset. It is not a gradual decrease but caused for permanent loss in asset value.
4. **Obsolescence:** It is the process of a fixed asset becoming outdated due to new inventions, technological improvements.
5. **Effluxion of time:** Some fixed assets like leasehold properties and intangible assets like patents, get their value decreased due to passage of time.
6. **Fluctuations:** The asset value may get decreased due to the changes in the market conditions.

Depreciation Problems

I. Fixed instalment method

- Greeshma purchased a machine for ₹ 80,000 on 1st April 2018. Depreciation charged on machinery was 10% on fixed instalment method. Prepare machinery account for three years.

Machinery Account

Dr					Cr	
1.4.2018	To Bank a/c	80,000		31.3.19	By Depreciation a/c	8,000
				31.3.19	By Balance c/d	72,000
		80,000				80,000
1.4.2019	To Balance b/d	72,000		31.3.20	By Depreciation a/c	8,000
				31.3.20	By Balance c/d	64,000
		72,000				72,000
1.4.2020	To Balance b/d	64,000		31.3.21	By Depreciation a/c	8,000
				31.3.21	By Balance c/d	56,000
		64,000				64,000
1.4.2021	To Balance b/d	56,000				

Practice Problems

- Rishik purchased an asset for ₹ 40,000 on 1st April 2017. Depreciation charged on asset was 10% on original cost (purchased cost). Prepare machinery account for four years. (Ans: ₹ 24,000)
- A machine was purchased for ₹ 1,00,000 on 1st April 2016. Depreciation charged on machine was 10% on fixed instalment method. Prepare machinery account for three years. (Ans: ₹ 70,000)

II. Diminishing balance method

1. Vedanth purchased a machine for ₹ 10,000 on 1.4.2017 and charged depreciation @ 10% on diminishing balance method. Prepare machinery account for three years.

Machinery Account

Dr			Cr		
1.4.2017	To Bank a/c	10,000	31.3.2018	By Depreciation a/c	1,000
			31.3.2018	By Balance c/d	9,000
		10,000			10,000
1.4.2018	To Balance b/d	9,000	31.3.2019	By Depreciation a/c	900
			31.3.2019	By Balance c/d	8,100
		9,000			9,000
1.4.2019	To Balance b/d	8,100	31.3.2020	By Depreciation a/c	810
			31.3.2020	By Balance c/d	7,290
		8,100			8,100
1.4.2020	To Balance b/d	7,290			

Practice Problems

2. Pranavi purchased a machine for ₹ 20,000 on 1.4.2018 and charged depreciation @ 10% on diminishing balance method. Prepare machinery account for three years.
3. A machine was purchased by Chandrika for ₹ 40,000 on 1.4.2016 and charged depreciation @ 10% on diminishing balance method. Prepare machinery account for four years.

* * * * *

Consignment Accounts

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is Consignment?

Ans. The process of sending goods by the seller of one place to their agents in different places to be sold on their behalf and at the risk is known as consignment.

2. Partners in consignment?

Ans. The person who sends the goods on consignment is called “consignor or principal”. The person to whom goods are sent is called consignee or agent.

3. Account Sales.

Ans. Statement prepared by consignee giving the details of sales effected, expenses incurred and commission charged.

4. What is Delcredere Commission?

Ans. The extra commission allowed by the consignor to the consignee for bearing the risk of bad debts arising out of credit of sales made by him is delcredere commission.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. Distinguish between consignment and sales.

Ans.	Difference	Consignment	Sale
	1. Ownership	Ownership of good vests with the consignor and to the consignee.	Ownership passes from the seller to the buyer.
	2. Relationship	Relationship is that of a principal and an agent.	Relationship is that of a buyer and seller.
	3. Return of goods	Consignee may return the goods if they are not sold.	In normal condition goods once sold can not be returned.

4. Risk	Consignor has to bear all risks attached to the goods.	Risk is transferred along with the transfer of ownership of the goods to the buyer.
5. Expenses	All expenses relating to the consignment are borne by the consignor.	After the sale of goods all expenses are borne by the buyer.
6. Profit or loss	Profit or loss on consignment belongs to the consignor.	The profit or loss on sales belongs to the seller.

LONG ANSWER TYPE QUESTIONS

1. Sony of Secunderabad sent goods value of ₹ 1,00,000 to Nishitha of Nizamabad. Sony paid transport charges ₹ 6,000. Nishitha sent the account sales of consignment stating that the entire stock was sold for 1,44,000 Nishitha paid cartage ₹ 3,000 and incurred commission of ₹ 5,000 and sent bank draft for the balance. Prepare necessary ledger accounts.

Consignment Account

Dr			Cr		
Particulars	JF	Amount	Particulars	JF	Amount
To goods sent on consignment a/c		1,00,000	By Nishitha a/c (sales)		1,44,000
To Cash a/c		6,000			
To Nishitha a/c (expenses)		3,000			
To Nishitha a/c (commission)		5,000			
To profit & loss a/c		30,000			
(Balance figure)		1,44,000			1,44,000

Nishitha Account / Consignee Account

Dr			Cr		
Particulars	JF	Amount	Particulars	JF	Amount
To Consignment a/c (sales)		1,44,000	By consignment a/c (expenses)		3,000
			By consignment a/c (commission)		5,000
			By Bank a/c		1,36,000
		1,44,000			1,44,000

Goods sent on Consignment Account

Dr			Cr		
Particulars	JF	Amount	Particulars	JF	Amount
To Trading a/c		1,00,000	By consignment a/c		1,00,000
		1,00,000			1,00,000

Practice Problems

2. Teja of Hyderabad sent goods to Chandra Kiran of Vijayawada worth ₹ 20,000. Teja paid freight ₹ 1,000, Insurance ₹ 2,000. Chandra Kiran met sales expenses ₹ 3,000 and sold the entire stock for ₹ 40,000 and he is entitled to a commission of 5% on sales. Prepare necessary ledger account. (Ans: profit: 12,000, Bank: 35,000)
3. Krishna of Chennai sent goods to Prakash of Mumbai worth ₹ 60,000. Krishna paid freight ₹ 2,000, Insurance ₹ 3,000. Prakash met sales expenses ₹ 5,000 and sold the entire stock for ₹ 1,00,000 and he is entitled to a commission of 5% on sales. Prepare necessary ledger account. (Ans: profit: 25,000, Bank: 90,000)
4. **On 1st January 2020 Latha of Srinagar consigned goods value ₹ 40,000 to Padma of Guntur. Latha paid cartage and other expenses ₹ 2,000 on 1-4-2020. Padma sent an account sales with the following information.**
- 1/2 of the goods sold for ₹ 30,000**
 - Padma incurred expenses ₹ 1,000**
 - Padma is entitled to receive commission 5% on sales**
- Prepare necessary ledger account.**

Consignment Account

Dr				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
1-1-20	To goods sent on consignment a/c		40,000	1-4-20	By sales		30,000
	To cash a/c (exp)		2,000	1-4-20	By consignment stock (closing stock)		21,000
	To Padma (exp)		1,000				
	To Padma a/c (comm)		1,500				
	To profit & loss a/c		6,500				
			51,000				51,000

Padma Account (Consignee)

Dr				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
1-1-20	To consignment a/c (sales)		30,000	1-4-20	By consignment a/c (expenses)		1,000
				1-4-20	By consignment a/c (commission)		1,500
				31-4-20	By Bank a/c		27,500
			30,000				30,000

Calculation consignment stock

1/2 of the goods unsold	:	$40000 \times \frac{1}{2}$	=	20,000
Add: Expenses incurred by Latha	:	$2000 \times \frac{1}{2}$	=	1,000
				21,000

Goods sent on Consignment Account

Dr

Cr

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
1-1-20	To Trading a/c		40,000	1-1-20	By Consignment a/c		40,000
			40,000				40,000

Practice Problems

5. Raju of Hyderabad consigned goods valued at ₹ 30,000 to Ravi of Delhi. Raju paid cartage and other expenses ₹ 2,000. Ravi sent the account sales with the following information.
- 50% of the goods sold for ₹ 22,000
 - Ravi incurred expenses amounting to ₹ 1,200
 - Ravi is entitled to receive commission 5% on sales
- Prepare the necessary ledger account.

(Ans: Profit: 3,700; Closing Stock: 16,000; Bank a/c: 19,700)

6. Laxmi of Mumbai consigned goods valued at ₹ 80,000 to Rani of Hyderabad. Laxmi paid cartage and other expenses ₹ 4,000. Rani sent the account sales with the following information.
- ½ of the goods sold for ₹ 60,000
 - Rani incurred expenses amounting to ₹ 2,000
 - Rani is entitled to receive commission 10% on sales
- Prepare the necessary ledger account.

(Ans: Profit: 10,000; Closing Stock: 42,000; Bank a/c: 52,000)

Accountancy - II

Accounting for not for Profit Organisations

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. Explain the meaning of non-profit organisation.

Ans. The organisations whose main object is not to earn profit but to render service to their members.

2. Explain Donations.

Ans. Donations are the amounts received by the organisations from individuals and institutions as a gift. These are two types. (1) general donations, (2) specific donations.

3. Explain Legacy.

Ans. The amount received by the organisation as per the will of a person.

4. Explain Entrance Fee.

Ans. The amount paid by the member at the time of joining the organisation.

5. Explain Subscriptions.

Ans. It is an amount paid by the members regularly at periodical intervals. Subscriptions are regular source of income for the organisation.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. What are the differences between capital expenditure and revenue expenditure?

	Capital Expenditure	Revenue Expenditure
Ans.	1. It is non recurring in nature. 2. The benefits of this expenditure are available for a longer period. 3. This expenditure incurred to acquire the assets or to improve the earning capacity of the existing asset.	1. It is recurring in nature. 2. The benefits of this expenditure are for one accounting period. 3. This expenditure incurred to meet the day to day expenses of the organisation.

<p>4. This expenditure will be shown in the balance sheet.</p> <p>5. It is a real account in nature.</p> <p>6. The amount of this expenditure is normally huge.</p> <p>7. It has no sub categories.</p>	<p>4. This expenditure will be shown in the income and expenditure account.</p> <p>5. It is a nominal account in nature.</p> <p>6. The amount of this expenditure is normally small.</p> <p>7. It has two sub categories i.e. Direct and Indirect expenses.</p>
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2. Explain the differences between receipts and payments account and income and expenditure account ?

Ans.	Basis of Difference	Receipts and Payments account	Income and Expenditure account
	1. Type of account	It is a real account.	It is a nominal account.
	2. Debit & credit side	Receipts are shown on the debit side and payments on the credit side.	Incomes are shown on the credit side and expenditure on the debit side.
	3. Basic structure	It is a summary of cash and bank transactions.	It is a summary of income earned and expenditure incurred during the year.
	4. Opening balance	Opening balance which represents cash in hand or at bank.	There is no opening balance.
	5. Closing balance	Closing balance shows cash in hand or at bank.	Closing balance shows either surplus or deficit.
	6. Contents	Both revenue and capital items are considered.	Only revenue items are considered.
	7. Adjustments	No. adjustments are required.	All adjustments relating to current year income and expenditure are taken into consideration.
	8. Accrued items	It does not include accrued items i.e. accrued incomes and expenses.	It includes accrued incomes and expenses.

LONG ANSWER TYPE QUESTIONS

Problem 1: Receipts and Payments Account

1. From the following information prepare the receipts and payments account for the year ending 31-03-2020.

	₹
Bank Balance as on 01-04-2019	6,000
Cash Balance as on 01-04-2019	4,000
Subscriptions	20,000
Entrance Fee	5,000
Salaries	8,650
Rent paid	4,500
Furniture purchased	9,200
Cricket bats and balls purchased	5,300
Sale of old Cricket bats	1,200
Life membership fee	7,500
Electricity charges	2,800
Postage	1,750
Wages	2,000
Printing and Stationary	2,800
Tournament Fund	7,500
Tournament Expenditure	8,500

Sol. Receipts and Payments account for the year ended 31-03-2020

Dr		Cr	
Receipts	Amount ₹	Payments	Amount ₹
To Balance (1-4-2019)		By Salaries	8,650
Bank 6,000		By Rent paid	4,500
Cash 4,000	10,000	By Furniture	9,200
To Entrance Fee	5,000	By Cricket bats & balls	5,300
To Sale of old bats	1,200	By Electricity charges	2,800
To Subscriptions	20,000	By Postage	1,750
To Life Membership Fee	7,500	By Wages	2,000
To Tournament Fund	7,500	By Printing & Stationary	2,800
		By Tournament expenditure	8,500
		By Balance c/d	5,700
	51,200		51,200
To Balance b/d (1-4-2020)	5,700		

Practice Problems

2. From the following details prepare receipts and payments account.

	₹
Opening Balance of cash	1,500
Opening Balance of bank	4,500
Subscriptions collected	8,000
Entertainment show receipts	4,000
Entrance Fee	2,000
Computer purchased	3,000
Tournament Expenses	3,000
Entertainment show expenses	1,800
Paid for periodicals	1,200
Salaries paid	1,200
Rent paid	4,000
Cash in hand at close	1,800

3. From the following details prepare receipts and payments account of the officers club for the year ending 31st March 2020.

	₹
Opening Balance in hand	1,400
Opening Cash at bank	3,400
Subscriptions received	25,000
Donations collected	7,000
Honorarium paid	6,000
Rent paid	3,000
Tournament expenses	1,000
Shares purchased	5,000
Entrance Fee received	2,600
Paid for internet connection	1,500
Electricity charges	500
Repairs and maintenance	400
Stationary	500
Postage	1,000
Dinner expenses	1,500
Cash in hand at the end	400

Problem 2: Income and Expenditure Account

1. From the following receipts and payments account prepare the income and expenditure account for the year ended 31st March 2020.

Dr		Cr	
Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	5,000	By Furniture	11,000
To Donations	35,000	By Rent & Taxes	5,300
To Membership Fees	1,200	By Salaries	5,800
To Entrance Fee	1,500	By Printing & Stationary	2,200
To Subscriptions		By Scholarship Payments	3,000
Year 2018-19	1,400	By Newspapers & Magazines	900
Year 2019-20	7,500	By Government Bonds	8,000
Year 2020-21	1,000	By Books Purchase	10,000
To Sale of Furniture (Furniture value 2000)	1,650	By Balance c/d	8,850
To Interest on investments	800		
	55,050		55,050

Other Information:

1. Outstanding subscriptions for the year 2019-20 : ₹ 2,500
2. Prepaid Rent : ₹ 1,300
3. Outstanding Stationary Bill : ₹ 300
4. Capitalise the donations.

Sol. Income and Expenditure Account for the year ended 31st March 2020

Dr		Cr	
Expenditure	Amount ₹	Income	Amount ₹
To Rent and Taxes	5300	By Subscriptions	7500
(-) Prepaid Rent	1300	(+) Outstanding	2500
To Salaries	5,800	By Membership Fee	1,200
To Printing & Stationary	2200	By Entrance Fee	1,500
(+) Outstanding	300	By Interest on Investment	800
To Scholarships	3,000	By Deficit	3,050
To News papers and magazines	900	(Excess of expenditure over income)	
To Loss on sale of Furniture (2000-1650)	350		
	16,550		16,550

Practice Problems

2. From the following receipts and payments account prepare the income and expenditure account.

Dr		Cr	
Receipts	Amount ₹	Payments	Amount ₹
To Subscriptions	15,000	By Land	30,000
To Donations	50,000	By Buildings	40,000
To Legacies	10,000	By Furniture	10,000
To Entrance Fee	5,000	By Sports material	11,500
To Life membership fee	3,000	By Sports expenditure	6,000
To Sports income	17,000	By General expenses	2,000
To Sundries	5,000	By Magazines	2,000
To Sale of old newspapers	500	By Balance c/d	4,000
	1,05,500		1,05,500

Other Information:

1. Capitalize 50% of the donations, legacies and life membership fee.
 2. Subscription still outstanding amount to ₹ 5,000
 3. Depreciate sports material and furniture by 10%
3. From the following information, prepare income and expenditure account for the year ended 31-03-2020 of Hyderabad Cricket Club.

Dr		Cr	
Receipts	Amount ₹	Payments	Amount ₹
To Balance	9,200	By Salaries	8,000
To Subscriptions	27,000	By Ground moving machine	4,000
To Tournament Fund	10,000	By Rent	1,800
To Legacies	6,000	By General expenses	14,000
To Entrance Fee	1,000	By Tournament expenses	4,000
To Donation for ground	16,000	By Office expenses	9,000
To Sale of grass	800	By Purchase of sports material	6,000
		By Balance c/d	23,200
	70,000		70,000

Other Information:

1. Subscriptions received included amount ₹ 2,200 related to the previous year.
2. Outstanding subscriptions ₹ 1,000
3. Provide ₹ 300 depreciation on ground moving machine.
4. Sports material opening balance ₹ 4,000 and closing balance ₹ 7,500.

Partnership Accounts Admission

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is Revaluation Account?

Ans. When the new partner is admitted, he should not be benefitted or suffered from any increase or decrease in the value of assets and liabilities. The changes in the value of assets and liabilities are recorded in a specific account is called revaluation account.

2. What is Goodwill?

Ans. Goodwill is an intangible asset, it is the reputation or good name associated with the name of the firm.

3. What is Ratio of Sacrifice?

Ans. When a new partner is admitted, the old partners sacrifice a fraction of their share of profit in favour of the new partner.

Ratio of Sacrifice = Old profit sharing ratio – New profit sharing ratio

4. X and Y are partners sharing profits and losses in the ratio of 3:2. They decided to admit Mr. Z for 1/5 share in profit. Calculate new profit sharing ratio of X, Y and Z.

Ans. Total profit of the business is 1.

1/5 share given to Mr. Z, remaining profit is $1 - \frac{1}{5} = \frac{4}{5}$

X and Y old profit sharing ratio is 3:2 i.e. $\frac{3}{5} : \frac{2}{5}$ respectively.

New profit sharing ratio of existing partners =

Remaining profit share \times old profit sharing ratio

New profit sharing ratio of X = $\frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$

New profit sharing ratio of Y = $\frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$

New profit sharing ratio of Z = $\frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$

New profit sharing ratio of X, Y, Z is $\frac{12}{25} : \frac{8}{25} : \frac{5}{25}$ i.e. 12:8:5.

5. What is Ratio of Gaining?

Ans. In retirement of a partner, the remaining partners or continuing partners stand to gain the profits of the retiring partner.

Ratio of Gaining = New Ratio – Old Ratio

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. Niharika and Varshika are partners sharing profits and losses in the ratio of 3:2 respectively. Their balance sheet as on 31st March 2021 was as follows.

Liabilities	Amount ₹	Assets	Amount ₹
Sundry creditors	20,000	Cash	5,000
Bills payable	5,000	Debtors	20,000
General Reserve	10,000	Stock	10,000
Capitals:		Furniture	10,000
Niharika	20,000	Buildings	25,000
Varshika	15,000		
	70,000		70,000

On 1st April 2021, they decided to admit Miss. Smira for 1/5th share in profits. The terms of admission are:

- Smira has to bring Rs. 20,000/- towards capital and Rs. 10,000/- towards goodwill in cash.
- Furniture is to be depreciated by 10%.
- Provide for bad debts at 5% on Debtors.
- Appreciate the value of buildings by 20%.

Prepare necessary ledger accounts and prepare balance sheet of new firm.

Sol.

Ledger Accounts

Dr		Revaluation Account				Cr	
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Furniture a/c		1,000		By Building a/c		5,000
	To Provision for bad debts a/c		1,000				
	To Niharika capital a/c $\left(3000 \times \frac{3}{5}\right)$		1,800				
	To Varshika capital a/c $\left(3000 \times \frac{2}{5}\right)$		1,200				
			5,000				5,000

Dr				Capital Accounts				Cr			
Particulars	Niharika Amount	Varshika Amount	Smira Amount	Particulars	Niharika Amount	Varshika Amount	Smira Amount	Particulars	Niharika Amount	Varshika Amount	Smira Amount
To Balance c/d	33,800	24,200	20,000	By Balance c/d	20,000	15,000	–	By Balance c/d	20,000	15,000	–
				By Goodwill a/c	6,000	4,000	–	By Goodwill a/c	6,000	4,000	–
				By General Reserve a/c	6,000	4,000	–	By General Reserve a/c	6,000	4,000	–
				By Revaluation a/c	1,800	1,200	–	By Revaluation a/c	1,800	1,200	–
				By Cash a/c	–	–	20,000	By Cash a/c	–	–	20,000
	33,800	24,200	20,000		33,800	24,200	20,000		33,800	24,200	20,000
				By Balance b/d	33,800	24,200	20,000	By Balance b/d	33,800	24,200	20,000

Dr				Goodwill Account				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Niharika Capital a/c		6,000		By Cash a/c		10,000				
	To Varshika Capital a/c		4,000								
			10,000				10,000				

Dr				Cash Account				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Balance b/d		5,000		By Balance c/d		35,000				
	To Smira's capital a/c		20,000								
	To Goodwill a/c		10,000								
			35,000				35,000				
	To Balance b/d		35,000								

Balance Sheet of Niharika, Varshika and Smira as on 1st April 2021

Liabilities	Amount ₹	Assets	Amount ₹
Sundry creditors	20,000	Cash	35,000
Bills payable	5,000	Debtors	20,000
		Less: 5% provision for bad debts	1,000
			19,000
Capitals:		Stock	10,000
Niharika	33,800	Furniture	10,000
Varshika	24,200	Less: Depreciation 10%	1,000
Smira	20,000	Buildings	25,000
		Add: 20% appreciation	5,000
	1,03,000		30,000
			1,03,000

Practice Problems

2. Naresh and Haresh are partners sharing profits and losses in the ratio of 2:3 respectively. Their balance sheet as on 31st March 2020 was as follows.

Liabilities	Amount ₹	Assets	Amount ₹
Sundry creditors	30,000	Cash	10,000
Bills payable	10,000	Debtors	30,000
General Reserve	20,000	Stock	15,000
Capitals:		Furniture	20,000
Naresh	30,000	Buildings	25,000
Haresh	20,000		
	1,10,000		1,10,000

On 1st April 2020, they decided to admit Satish for 1/5th share in profits. The terms of admission are:

- He has to bring Rs. 30,000/- towards capital and Rs. 20,000/- towards goodwill in cash.
- Furniture is to be depreciated by 10%.
- Provide for bad debts at 5% on Debtors.
- Appreciate the value of buildings by 20%.

Prepare necessary ledger accounts and prepare balance sheet of new firm.

3. Raghava and Shekar are partners sharing profits and losses in the ratio of 3:2 respectively. Their balance sheet as on 31st March 2021 was as follows.

Liabilities	Amount ₹	Assets	Amount ₹
Trade creditors	15,000	Bank / Cash	15,000
Outstanding expenses	20,000	Sundry Debtors	30,000
General Reserve	20,000	Machinery	25,000
Capitals:		Investments	35,000
Raghava	50,000	Land and Buildings	40,000
Shekar	40,000		
	1,45,000		1,45,000

On 1st April 2021, they decided to admit Mr. Sampath for 1/5th share in profits. The terms of admission are:

- Sampath has to bring Rs. 40,000/- towards capital and Rs. 20,000/- towards goodwill in cash.
- Machinery is to be depreciated by 10%.
- Provide for bad debts at 5% on Debtors.
- Appreciate the value of buildings by 20%.

Prepare necessary ledger accounts and prepare balance sheet of new firm.

Computerised Accounting System

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. **What is Computerised Accounting?**

Ans. It refers to a system used by business for recording their financial information.

2. **What is Scalability?**

Ans. It has flexibility to record the transactions with the changing volume of business.

3. **What is Supremacy?**

Ans. Computerised accounting is capable of storing huge volume of transactions with greater retrieval capacity and efficiency.

SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. **What are the features of computerized accounting system?**

Ans. **Features of Computerised Accounting**

1. **Accuracy and Speed:** Computerised accounting has customized templates for users which allow fast and accurate data entry generates reports automatically simple to operate with greater speed.
2. **Improve user free experience:** This system permits company to enter into data through various ways. It makes the work pleasure or play.
3. **Instant Reporting:** It can generate a quality report in real time because of high speed and accuracy.
4. **Quick Decision Making:** This system generate real time, comprehensive Management Information System (MIS) report and ensures access to complete and critical information instantly.
5. **Reliability:** It generate the reports with consistency and accuracy. Minimization of errors, controlled and saved from corruption makes the system more reliable.

6. **Scalability:** It has the flexibility to record the transactions with the changing volume of business, irrespective of their size and style.
7. **Security:** Secured data and information can be kept confidential as compared to the traditional accounting system.
8. **Simple and Integrated:** It helps all business by automating and integrating all business activities.
9. **Supremacy:** Computerised accounting is capable of storing huge volume of transactions with greater retrieval capacity and efficiency.
10. **Total visibility:** Company will have greater visibility into the day to day business operations and access to very important information.

2. Explain any five advantages of computerized accounting system.

Ans: **Advantages of Computerised Accounting**

1. **Automation:** Most of the computerised accounting system have standardised, user defined format of accounting reports, cash book, trade balance, statements are generated automatically.
2. **Accuracy:** The possibility of error is eliminated in a computerised accounting system because the primary accounting data is entered once for all the subsequent usage and process in preparing the accounting reports.
3. **Data Access:** Using accounting software, it is much easier for different individual to access accounting data outside of the office securely.
4. **Efficiency:** This system ensure better use of resources and time, efficiency in generating decisions, useful information and reports.
5. **Employee Motivation:** The computer system requires a specialized training staff, which makes them feel more valued.
6. **Legibility:** This helps in avoiding errors caused by written figures in a manual accounting system. The data displayed on computer monitor is legible.
7. **Management Information System Reports:** Which helps management to monitor and control the business effectively.
8. **Quality Reports:** The inbuilt checks and untouchable features of data handling facilitate hygienic and true accounting reports that are highly objective and can be relied upon.
9. **Reliability:** This system relies heavily on computers. They are relatively more reliable than manual accounting system.
10. **Scalability:** Additional cost of processing additional transactions is almost negligible. As a result this system are highly scalable.

