Secion. B

Each Question carries 6 marks the chapters covered under this section are-

Eg: Anil and sunil are partners with capitals of Rs. 50,000/- and Rs.40,000/- respectively as on 1/1/97. During the year Anil with drew as shown below-

Rs. 1000/ on 28/2/97

Rs. 3000/ 0n 1/7/97

Rs. 2000/ on 31/8/97

Rs. 4000/ on 1/10/97

Calculate interest on

drawings at 12% p.a.

under product method for the

accounting year 31/12/97.

Sol : Calculation of interest on drawings under product method-

Date of drawings	Amt of drawings	o/s period	Total Product
28/2/97	1,000	10	1000x10= 10,000
1/7/97	3,000	6	3000x6 =18,000
31/8/97	2,000	4	2000x4 = 8,000
1/10/97	4,000	3	4,000x3 = 12,000
		Total Product	48,000

Formula- Total product x rate of interest x $^{1}/12$

Interest on drawings =

48,000x12/100 x 1/12= Rs. 480

C) Average period/Short-cut Method

Here interest is charged at the specified rate on the total of monthly drawings of uniform intervals and uniform amount.

Formula –

$$\text{Total drawings of the Year} \times \frac{\text{L P+SP}}{2} \times \text{Rate of interest} \times 1/12$$

Eg: Rashmitha and Aneetha are partners sharing profits equally. Rashmitha drew regularly Rs. 300/- at the end of every month

and Aneetha withdrew Rs. 250/- at the middle (15th) of every month from January to December 2011. Calculate interest on drawings at 10% p.a.

Solution:

Rashmitha’s intereston drawings -

Total Drawing – 300x12= 3,600/-

Longest period - 11,

Shortest period – 0 ,

Interest rate-10%,

$\therefore$ **interest on drawings =**

$$\text{Total Drawings} \times \frac{LP+SP}{2} \times \text{interest rate} \times \frac{1}{12}$$

$$\text{i.e. } 3600 \times \frac{11+0}{2} \times \frac{10}{100} \times 1/12 = \underline{165}$$

Aneetha's interest on drawings-

Total Drawings-250x12 = 3000

Longest period-11.5 months ($11^{1/}2$)

Shorter period – ½ month

∴Total interest on drawings=

$$3000 \times \frac{11\frac{1}{2}+\frac{1}{2}}{2} \times \frac{10}{100} \times \frac{1}{12} = \underline{150}$$

Eg. Kavana and Nayana are partners with capital of Rs. 40,000/- and Rs. 30,000/- on 1/1/01.

They agreed to share the profits in the ratio 3:2, for the year ending 31/12/01, they earned profit of Rs. 12,000/- before allowing-

a) Interest on capital at 5% p.a.

b) Interest on drawings - Kavana- Rs.150/-, Nayana Rs. 100/-

c) Annual salary to Kavana Rs. 3,000/-

d) Drawings – Kavana Rs. 7,000/, Nayana Rs. 5000/

Prepare P & L appropriation a/c of the firm.

SOL: P&L appropriation a/c for the year ended 31/12/01

To Interest on capital		By P&L a/c	12,000
(40,000x^{5}/100) Kavana 2000 (30,000x^{5}/100) Nayana 1500	3,500	By interest on drawings- Kavana-100 Nayana-150	250
To Kavanas Salary	3,000		
To Capital a/c			
Kavana (^{3}/5) 3450			
Nayana (^{2}/5)2300	5750		
	12,250		12,250

Eg.:- Prabhu and pai are partners sharing P&L in the ratio 4:3. They admit Nayak and give him 1/5 share.

Prabhu and Pai agree

to share remaining profits

between themselves equally.

Calculate the sacrifice ratio

of old partners.

Sol: Let the share of the firm be-1 Share given to Nayak – $^{1}/5$, Remaining share $^{4}/5$, Should be divided between Prabhu and Pai, in equal ratio, i.e. $^{1}/2:^{1}/2$

$\therefore$ Prabhu's New share – $^{4}/5 x ^{1}/2$ =

$^{2}/5$

$\therefore$ Pai's New share - $^{4}/5 x ^{1}/2 = ^{2}/_{5}$

Sacrifice ratio=Old Ratio-New Ratio

Prabhus New ratio= $\frac{4}{7}-\frac{2}{5} = \frac{20-14}{35}$

$=6/35$

Pai's new ratio= $3/7-2/5=\frac{15-14}{35}$

$=1/35$

So, the sacrifice Ratio of Prabhu and pai=6:1

Eg: Ram, Sham and shan are partners sharing P&L in the proportion of $\frac{1}{2}$, $^{1}/3$ and $^{1}/6$ respectively. Ram retires. Sham and shan decided to continue as equal partners. Calculate the gain ratio of sham and shan.

Solution: Gain ratio =

New ratio-old ratio.

Share gained by Sham =

$1/2 - 2/6 = \frac{3-2}{6} = 1/6$

Share gained by shan

$= 1/2 - 1/6 = \frac{3-1}{6} = 2/6$

$\therefore$ Gain ratio of sham and shan=<u>1:2</u>

Eg: A,B and c are partners sharing P/L in the ratio of 2:2:1. A retires. His share is shared by B & C in the ratio of 3:2 calculate the New ratio of the remaining partners.

Solution:

Here first we have to calculate the Gain Ratio. The share gained by B=2/5 x 3/5 = 6/25
The share gained by C=2/5x2/5=4/25

Next step is calculating New profit sharing Ratio-

This can be calculated by adding Gain ratio to the old ratio.

$$\therefore \text{New Ratio of B} = {}^{6}/25 + {}^{2}/5 = \frac{6+10}{25}$$

$$= 16/25$$

$\therefore$ **New Ratio of C=$^4/25+^1/5$=**

$\therefore$ $\dfrac{4+5}{25} = 9/25$

New Ratio of B & C = 16 : 9

Eg: Ram Krishna, Govinda were partners, sharing profits in the ratio of 2:2:1. Their Balance sheet as on 31/12/04 was as under –

Liabilities	Rs.	Assets	Rs.
Capital Ram	20,000	Furniture	24,000
Krishna	20,000	Stock	44,000
Govinda	20,000	Debtors	16,000
Reserve	15,000	Cash	1,000
Creditors	10,000		
	85,000		85,000

Govinda Died on 1/4/05. His executors were entitled for the following:

1) His share of capital
2) His share of Goodwill.
   It is to be ascertained on the 2 years purchase of the average profits of the last 3 years

The profits for the last 3 years were-

2002	-	Rs. 8,000/-
2003	-	Rs. 12,500/-
2004	-	Rs. 9,500/-

3) His share of accrued profit, on the basis of average profit of last 3 years.

4) His share of reserve fund.

5) Interest on capital at the rate of 6% to the date of his death.

Prepare Govind’s Executor’s a/c

Solution

Govind's Executor's a/c

Dr | Cr

		By Govind's cap. a/c	20,000
		By Reserve (15000x^1/5)	3,000
		By Goodwill (w.Note 1)	4,000
		By P&L suspense a/c	500
		By interest on capital (20,000x5/100x3/12)	250
To Balance C/d	27,750		
	27,750		27,750
		by balance b/d	27,750

(1) W.N. –Calculation of goodwill

Here average profit of 3 years

$$= \frac{8,000 + 12,500 + 9,500}{3}$$

= 10,000

It's 2 years purchase =2x10,000

=20,000

Therefore Govinda's share of goodwill $=20{,}000 \times {}^{1}/5 = 4{,}000$

(2) Calculation of profit and loss suspense a/c –

Average profit of 3 years = 10,000

Govindas share of profit=

$10{,}000 \times {}^{1}/5 \times {}^{3}/12 = 500$

Eg: X, Y and Z are partners. Y dies on 1/1/03, Y's executor's a/c shows a credit balance of Rs.35,000/- on 1/1/03.

Remaining partners paid Rs.5,000/ to y’s Executors and agreed to pay the balance of Rs. 30,000/- in 3 equal installments with interest at 12% p.a. show Y’s Executor’s Loan a/c until it is paid off.

Y’s executor’s Loan a/c

1/1/03	To Bank a/c	5,000	1/1/03	By Y’s Capital a/c (transferred)	35,000
1/1/03	To Bal C/d	30,000			
		35,000			35,000
31/12/04	To Bank a/c (10,000+3600)	13,600	1/1/04	By Bal B/d	30,000
31/12/04	To Bal C/d	20,000	31/12/04	By Interest on Loan a/c (30,000x12/100)	3,600
		33,600			33,600

31/12/05 31/12/05	To bank a/c To Bal c/d (10,000+2400)	12,400 10,000	1/1/05 31/12/05	By bal b/d By Interest on Loan a/c (20,000x12/100)	20,000 2,400
		<u>22400</u>			<u>22400</u>
31/12/06	To Bank a/c (10,000+1200)	11,200	1/1/06 31/12/06	By bal c/d By interest on Loan a/c (10,000+12/100)	10,000 1,200
		<u>11,200</u>			<u>11,200</u>

Note : Calculation of 3 equal installments of Loan

Total Executor's Loan - 35,000

(-) Immediately settled Amt- 5,000

balance to loan a/c - 30,000

This 30,000 will be distributed for 3 equal installments.

Then each installment amount will be 30,000/3 i.e.10,000 per year

Chapter 11 Computerized Accounting-

1) Write the features of Computerized Accounting.

Computerized Accounting means performing the various accounting functions on a computer.

Its features are –

1) **Here accounting work is done through computers**

2) **The work is done at a very high speed.**

3) An accounting software program is written in a Computer language .

4) Computerized accounting work is accurate and free from errors.

5) Here it is possible to prepare various statement and reports from the same accounting records.

6) It is cheaper, when compared to manual accounting system

2)What are the advantages of computerized accounting?

1) **Accounting work is done at very high speed**

2) **Computerized accounting is error free**

3) It helps in storing large amount of accounting information for future reference

4) It is very flexible as any modifications can be done very easily.

5) It can solve all types of accounting problems

6) It provides up to date accounting information to the Management

3)What are the disadvantages of computerized accounting ?

1) **It requires huge investment at initial stage**

2) **There is the risk of break down of computers. It disturbs the smooth working of computerized accounting system.**

3) Data in computer subject to the risk of computer viruses, which may destroy the whole information.

4) It is suitable for large organization, because of heavy maintenance cost.

5) It can be operated only by technically qualified persons

6) There is a greater risk of obsolescence due to technological inventions.

4) What are the differences between Manual and computerized accounting?

Manual Accounting	Computerized Accounting
a) Every accounting work is performed by the employees. b) More time consuming. c) More chance of error and mistakes.	(a) Every accounting work is done with the help of computers. b) Less time consuming. (c) More reliable & limited chance of error.

d) No fear of data damaging.	(d) There is the fear of data damaging due to power failure, virus problem etc.
e) Suitable for small business concerns.	(e) Best suited for large scale business organizations.
f) Computer knowledge is not necessary.	(f) Computer knowledge is a must for this.

5. Write the areas in which computerized accounting is commonly used.

1) **Transaction recording-** It is an important activity to record transaction in the books of original entry and posting those entries to relevant accounts in the ledger. It must be done regularly to keep accounting information up-to-date.

2) Payroll accounting- periodically the amount payable to employees, allowances, bonus etc. then various deductions for PF, Income tax, etc. have to be calculated accurately, promptly and uniformly by applying uniform rules.

(3) Debtors accounting- Every business maintains debtor’s account accurate and up to date, send periodical statement of accounts to debtors and must also send reminders to the debtors regularly. It can be done accurately and easily through computers.

(4) Stores accounting- For effective stores control, there should be efficient stores accounting. It is concerned with maintenance of proper and up to date record and receipts and issue of various items in the stores. Proper up-to-date stores accounting can be easily maintained through computers.

(5) Preparation of Budgets –

preparation of cash budget, purchase budget, sales budget, production budget, production cost budget etc involves difficult calculations. Computers can prepare these budgets easily, quickly & accurately.

(6) Preparation of financial statements - business undertakings comprise profit and loss account and balance sheet. These statements are prepared from ledger accounts. Now a days computers are widely used for preparation of the financial statement.

Chapter VII) Accounts of Joint Stock companies

1. **ABCO Co. Ltd. Issued 10,000 equity shares of Rs. 10 each Money was payable as under-**
   - **Rs. 2/ on application**
   - **Rs. 3/ on allotment and**
   - **Rs. 5/ on 1st and Final call.**

All the shares were subscribed and allotted. A shareholder holding 1,000 shares paid the entire amount on his holdings along with allotment money. Pass necessary journal entries up to the allotment money received.

Journal Entries in the books of ABCO co. Ltd

Solution:

Date	Particulars	L/F	Dr. (Rs.)	Cr (Rs.)
	Bank A/c Dr. To Equity Share Application a/c (Being application money received on 10,000 shares of Rs. 2/ each)		20,000	20,000
	Equity Share application Dr. To equity Share capital A/c (Being transfer of application money to share capital a/c)		20,000	20,000

	Equity share allotment a/c Dr. To equity share capital a/c (Being allotment money due on 10,000 shares of Rs. 3 each)		30,000	 30,000
	Bank a/c Dr. To Equity Share allotment a/c " Calls in advance a/c (Being allotment money received on 10,000 shares and advance received on 1000 shares)		35,000	 30,000 5,000

2. Hindustan co.Ltd. Issued 10,000 equity share of Rs. 100/- each, payable Rs. 25/- on application, Rs. 25/- on allotment, and balance on First and Final call at Rs.25/- each.

Of these 400 shares were forfeited as first and final call money was not received. The forfeited shares were reissued at Rs. 80/- per share. Give journal entries for forfeiture and reissue of shares.

Solution: In the books of Hindustan co. Ltd.

Date	Particulars	L/F	Dr. Rs.	Cr.Rs.
1.	Equity Share capital a/c Dr. (400x100)		40,000	
	To forfeited share a/c (400x50)			20,000
	To Share first call a/c (400x25)			10,000
	To share final call a/c (400x25)			10,000
	(Being forfeiture made on 400 shares for the non payment of call money)			

2.	Bank a/c (400x80) Dr. Forfeited shares a/c (400x20) Dr. To equity share capital a/c (Being re-issue of shares at a discount of Rs. 20/- per share)		32,000 8,000	 40,000
3.	Forfeited shares a/c Dr. To Capital Reserve a/c (20,000-8,000) (Being profit from re-issue transferred to capital Reserve a/c)		12,000	 12,000