

+2 ACCOUNTANCY
5 Marks IMPORTANT ANSWERS

1. What is outstanding expense?

Expense which have been incurred but not yet paid the accounting period for which the final account are being prepared are called as outstanding expense.

ADJUSTING ENTRY

Salary A/c	Dr.		XXXXX
		To Salary Outstanding A/c	XXXXX

2. What is prepaid expense?

Expense which have been paid in advance are called prepaid expense. It is also called as unexpired expense.

ADJUSTING ENTRY

Prepaid Insurance Premium A/c	Dr.		XXXXX
		To Insurance Premium A/c	XXXXX

3. What is accrued income?ADJUSTING ENTRY

Accrued Commission A/c	Dr.		XXXXX
		To Commission A/c	XXXXX

4. What is income received in advance?

Income received during a particular accounting period for the work to be done in future period is called as income received in advance received in advance.

5. What is in bad debts?

Debts which cannot be recovered are called bad debts. It is treated as loose for the business.

ADJUSTING ENTRY**6. Write notes on provision for bad and doubtful debts?**

If sundry debtors figure is to be shown correctly in the balance sheet provision for bad and doubtful debts must be adjusted.

7. Write note on provision for discount on debtors?

To motivate the debtors to make prompt payments cash discount may be allowed to them. After providing provision for bad and doubtful debts the remaining debtors are called as good debtors. So a provision for discount on good debtors at a certain percentage may have to be created.

ADJUSTING ENTRY

Profit & loss A / c	Dr.		XXXXXX
		To Provision for discount on debtors A/ c	XXXXXX

8. What is adjusting Entry?

In a firm both expense and income has to adjust. If such item are not adjusted the final account will not reveal the true and fair picture of the business performance. All such item which need to be brought into book of account at the time of preparing final accounts are called adjustments.

9. Define Single Entry system?

According to Kohler single entry system of book keeping in which as a rule only records of cash and personal account are maintained. It is always in complete double entry varying with circumstances.

10. What is statement of affairs?

If is the statement of prepared to find out capital of a business under single entry system. Statement of affairs looks like a balance sheet.

11. What is conversion method?

If is desired to calculate profit by preparing trading and loss account under single entry then it is called conversion method.

Step 1 -> Opening statement f Affairs

Step 2 -> Other Accounts : (i) Total Debtors account and (ii) Total Creditors accounts

Step 3 -> Total sale and Total purchase

Step 4-> Final Account

12. What is the limitation of single entry system?

- Trial balance can not be prepared
- Difficult to local frauds
- Incomplete and unscientific method
- Performance of the business cannot be ascertained
- True financial position cannot be ascertained.

13. What are the features of single entry?

- Suitable for sale trading and partnership firms.
- Only personal accounts and cash account are kept
- True financial position cannot be ascertained
- Not accepted by Tax authorities

14. Define Depreciation?

In the words of **spicer** and **pegler**, "Depreciation is the measure of the exhaustion of the effective life of an asset from any cause during a given period"

Carter defines depreciation as the gradual and permanent decrease in the value of an assets from any causes.

15. What is obsolescence?

The old asset will become obsolete (useless) due to new inventions, improved techniques and technological advancement

16. Write notes on revaluation method of depreciation?

Under this method, the assets like loose tools are revalued at the end of the accounting period and the same is compared with the value of the assets at the beginning of the year. The difference is considered as depreciation.

17. What is insurance policy method of depreciation?

According to this method an Insurance Policy is taken for the amount of the asset to be replaced. The amount of policy is such that it is sufficient to replace the asset when it is worm out. A sum equal to the amount of depreciation is paid as premium every year.

18. What are different method of providing depreciation?

1. Straight line method of fixed installment method
2. Written down value method or diminishing balance method
3. Annuity method
4. Depreciation Fund method
5. Insurance Policy method
6. Revaluation method

19. What is residual value?

It implies the value expected to be realized on its sale on the expiry of its useful life. This is otherwise known as scrap value or turn - in value.

20. What is Annuity method of depreciation?

The annuity method considers that the business besides losing the original cost of the assets in terms of depreciation and also loses interest. The annual amount of depreciation is determined with the help of annuity table.

21. Define the ratio?

In the words of Kennedy and Me Millian "the relationship of an item to another expressed in simple Mathematician form is known as a ratio".

22. What are the significance of Financial Statement Analysis?

1. Judging the earning capacity or profitability of a business concern.
2. Analysing the short term and long term solvency of the business concern
3. Helps in making comparative studies between various firms.
4. Assists in preparing budgets.

23. What is current Ratio?

This ratio is used to assess the firm's ability to meet its current liabilities. The relationship of current assets to current liabilities is known as current ratio. $\text{Current Ratio} = \frac{\text{current assets}}{\text{current liabilities}}$

24. What is Operating expenses?

Operating expenses include administration, selling and distribution expenses. Financial expenses like interest on loan are excluded for this purpose.

25. What is Debtors Turnover Ratio?

This establishes the relationship between credit sales and average accounts receivable. Debtors turnover ratio indicates the efficiency of the business concern towards the collection of amount due from debtors.

$\text{Debtors turnover Ratio} = \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$

26. Define Partnership?

The Indian Partnership Act 1932, Section 4, defines Partnership as "the relation between person who have agreed to share profit of a business carried on by all or any of them acting for all".

27. What is super Profit method?

The excess of average profit over normal profit is called super profit.

Step 1 : Calculate the average profit - partners remuneration

Step 2 : Calculate the normal profit on capital employed

Step 3 : Calculation of super profit, $\text{Super profit} = \text{Average Profit} - \text{Normal Profit}$

Step 4 : Calculation of Goodwill, $\text{Goodwill} = \text{Super Profit} \times \text{No. of Years of purchase}$

28. Who is Outgoing partner?

A person who is retired from the firm is known as an Outgoing Partner or a retiring Partner. A retiring partner will be held liable for the debts incurred by the firm before his retirement, But he will not be responsible for the firm's acts after the retirement.

29. Who is Incoming Partner?

A Person who is admitted to the firm is known as an incoming or a new partner, On admission of a new partner, the existing partnership comes to an end and a new partnership comes into effect.

