

FINANCIAL ACCOUNTING

1. What is fire insurance?

Fire insurance is a device to compensate for loss consequent upon destruction by fire.

2. What is fire insurance policy?

The document specifying the terms of fire insurance is called a fire insurance policy

3 . What is royalty?

Royalty is periodical payment based on output or sales for the use of assets or rights like patent copy-right mine to its owner royalty is an amount payable by one person for to another person for using the right on asset

a person (lessee) for an amount calculated on basis of output, units produced or sold is known as royalty

4. Explain the meaning of “landlord” and lessee”. what are their right?

Landlord:

The owner of the property or an asset, who surrenders the right is known as "lessor" the landlord the money from the lessee or tenant

lessee:

The person who pays the amount owner for using the assets is known as lessee

right:

- a) right for taking out the oil coal minerals from the ground
- b) right to publish and sell the books of an author under copyright

5. what is royalty account?

The payment of royalty is ordinary business expenditure. it is an income to the lessee . royalty account is a nominal account and closed every year transferring to production account or profit and loss account.

6. What is minimum rent?

It is also known as "Dead rent" or "Rock Rent" or "Fixed Rent" or "Flat Rent".

It is an agreement between the lessor and lessee, associated with a clause, that the lessee, associated with a clause, that the lessee should pay a minimum guaranteed amount of rent, in case of low sales or output. Such minimum amount is known as minimum rent.

Minimum rent is the minimum amount payable by the lessee for a period when the output of mine is nil or low. This clause is used to maintain a regular income to the landlord. In a year when the royalty is more than minimum rent, the landlord will claim the original royalty.

In case of strikes, lock outs, the minimum rent already fixed should be reduced proportionate to the period of strike.

6.Explain the term Short workings?.

The difference between the actual royalty and the minimum rent is called as short workings. It is usually recoverable by the lessee in later years. It is also known as redeemable minimum rent.

7. What is a branch?

According to sec.29 of Companies Act 1956,"any establishment carrying on either the same or substantially

same activity as that carried on by head office of the company”.

In order to increase the sales, the business houses are required to market its product over a larger territory. Each territory is known as Branch.

If the various divisions of the business are located in different places either in the same town or different towns , they are known as branches.

8. What are the different types of branches?

Basically branches can be classified into three types, namely.

- a) Branch not keeping full system of accounting (or) Depended branch.
- b) Branch not keeping full system of accounting (or) Indepented branch.
- c) Foreign branch.

What do you understand the term dependent branches?

Branches which are solely depend the head office for their requirements are known as dependent branches, all the records are maintained only in the head office. They operated as a distribution centres.

9.What is department?

In order to carry on the business efficiently a businessman divided his store into many sections, each section is called a department. For eg.a departmental store may have separate department for medicines, textiles, stationery, crockery, provisions, electrical goods, electronic items and so an.

In simple words,when all divisions of a business are located under one roof is known as branch.

10.What are departmental accounts?

To ascertain the profit or loss made by each department, a separate Trading and profit and loss account for each department is prepared at the end of the year. It helps the management to ascertain the performance of each department and take proper decision making. This account is known as Departmental accounts.

11. What do you understand by “Inter-departmental transfers”?

Goods or employment of workers or performance of services are exchanged between the departments is known as inter-departmental transfers.Goods or services transferred from one

department to another department to another department may be made at cost price or invoice price.

12. What do you understand by the Deficiency Account?

Deficiency account is prepared by the insolvent debtors, which explains as to how the deficiency shown in the statement of affairs has arisen. The insolvent debtor is required to prepare this account for the loss to the amount of his capital and his creditors.

13. Who is an insolvent?

When a person is not able to pay his liabilities, he is said to be insolvent.

Explain Garner Vs Murray case law. (or) How is the deficiency of an insolvent partner dealt with?

- i) There were three equal partners Garner, Murray and Wilkins.
- ii) Capital of all the partners were not equal.
- iii) Wilkins became insolvent and the firm was dissolved.
- iv) He was unable to pay anything.

Justice Joyce came out with the following striking decisions. The implications of the decision were:

Solvent partners must bring in cash equal to their share of realisation loss.

- i) Deficiency in the solvent partner's capital account is to be shared by the solvent partners in the ratio of their capitals as stood on the day of the dissolution.
- ii) When the capitals are fixed-Fixed capital ratio
- iii) Capital ratio
- iv) When the capitals are fluctuating –In the ratio of capital after adjust the Reserves, P & L a/c, drawings, interest on capital and interest on drawings but before adjusting profit or loss on realisation a/c.
- v) When the capitals are fluctuating –in the ratio of capital after adjust the Reserves, p & L a/c, drawings, interest on capital and interest on drawings but before adjusting profit or loss on realisation a/c.

14. What is piece-meal distribution?

Piece-meal distribution means distribution of available cash immediately on realisation, as and when cash is received, without waiting for the realisation of entire assets.

15.What is a partnership deed?

The written form the agreement between the partners is called the partnership deed. This document contains all mutual rights,powers,obligations and the terms and conditions of the partnership. The deed has to be stamped in accordance with the Indian stamps Act.Each partner should have a copy of the deed.

16.What is capital?

The sum of the contributions made by the partners' to the firm is called the capital of the firm.

17.What is current account?

A current account is a separate account opened for making adjustments like interest on capital, interest on drawings, share of profits and so on, if the partners agree to maintain their capital fixed.

18. Define Goodwill.

Goodwill is defined as,” the present value of a firm’s anticipated excess earnings”.

“The benefit and advantage of good name, repulation and connection of a business. It is the attractive force which brings

in more customers. It is one thing which distinguishes an old established business from a new business at its first start.

19.what is Goowill?

Goodwill is the repulation enjoyed by the business due to good quality,customer service and service to the public. It is compensation paid by a new comer in an estasblished business to the existing partners thereof for their past efforts and risks taken by them for the business.

20.Explain the different methods of valuation of goodwill?

The following are the methods of valuation of goodwill:

- a)Average profit method b)super profit method
- c)Capitalization method d) Annuity method

20.What is sacrificing ratio?

Sacrificing ratio is one in which the old partners lose a fraction of their share of profit in favour of the new partner on admission.

$$\text{Sacrificing ratio} = \text{Old ratio} - \text{New ratio}$$

21. When will be a revaluation account prepared?

A revaluation account is prepared when the partners' decide to show the revised value of assets and liabilities in the new balance sheet . This account will be at the time of admission or death of a partner.

22. Give the format of Revaluation a/c

Revaluation Account

	Rs.		Rs.
To Decrease in Assets	xxx	By Increase in Assets	xxx
To Increase in Liabilities	xxx	By Decrease in Liabilities	xxx
To Unrecorded Liabilities	xxx	By Unrecorded Assets	xxx
To Profit transferred to capital a/c	xxx	By Loss transferred to capital a/c *	xxx
*	xxx		xxx

23. Who is a retiring partner?

A partner who wish to leave from the partnership firm due to some personal reasons like old age, bad health, illness etc. is called a retiring partner.

24. What are the items that are to be transferred to the capital a/c?

The following items are to be transferred to capital a/c.

- i) Goodwill
- ii) Revaluation profit or loss
- iii) Undistributed profit available in the balance sheet.
- iv) Reserves, if any, available in the balance sheet

vi) Assets/ liabilities that are taken over by the partners.

25. Define dissolution of a firm.

According to sec.39 of the partnership Act, 1932, dissolution of a firm is defined as,” the dissolution of partnership among all the partners of a firm is called the dissolution of the firm”.

26. What is meant by dissolution of partnership?

Dissolution of partnership means the change in partnership relation or reconstitution of the firm due to the retirement or death or insolvency of a partner but the firm continues its business.

27. What is meant by dissolution of firm?

Dissolution means complete breakdown of the relation of partnership among all the partners and termination of the firm.

28. Give the format of a realisation accounts in case of dissolution of a firm.

Dr.	Realisation Account	Cr.
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	Rs.		Rs
To sundry assets (except cash)	xxx	By Sundry Liabilities	xxx
To cash/ Bank (payment of liabilities)	xxx	By Cash/Bank-(assets realised)	xxx
To Cash/Bank (expenses)			
To partners capital a/c (liabilities taken)	xxx	By partners' capital a/c (Assets taken over)	xxx
To partner's capital a/c (profit on realisation)	xxx	By Partner's capital a/c * (Loss on realisation)	xxx
	XXX		XXX

29) What are the accounts that are prepared at the time of dissolution?

The following accounts are usually opened or prepared at the time of dissolution of a firm.

-) Realisation Account
- i) Capital Accounts of partners

Cash account or Bank account.

30. What do you understand by sale to a company?

A partnership firm may be converted into a limited company or the business may be sold to an existing company. In both cases, the firm is dissolved and its books are closed. Conversion of firm into a company

takes the advantage of the principle of limited liability. when a business is sold, the seller and the purchaser may agree as to the amount termed as purchase consideration.

31. What is purchase consideration?

The purchase price paid by the purchasing company to the vendor firm for the purpose of purchasing the assets and liabilities is called purchase consideration.

PART B

1. What are the various types of Fire Insurance policies?

The fire insurance policies can be of various types, of which the following are important policies.

- i) Specific policy
- ii) Floating policy
- iii) Average policy
- iv) Comprehensive policy
- v) Loss of stock or Loss of property policy
- vi) Loss of profit policy or Consequential loss policy

2. What are the various needs for fire insurance?

The following are the needs of a fire insurance policy.

- i) To renew the damaged property.

- i) To overcome the loss due to short sales and loss of profit occurring out of fire.
- ii) To replace the destroyed asset.
- v) To purchase the destroyed stock.

3.Explain the “average clause”?

The insurance company applies the average clause in case of under-insurance.If the value of insurance police is less than the value of average stock in the godown. It is known as “under-insurance”. To reduce the burden of insurance premium the average stock of the business may not be adequately insured. In order to discourage under-insurance,the average clause is inserted by the insurance company.

The actual amount of claim is determined by the formula:

$$\text{Amount of claim} = \frac{\text{Value of the policy}}{\text{Value of the stock on the date of fire}} \times \text{Actual loss of stock}$$

4.Explain loss of profit policy.

When fire occurs, it destroys not only the stock but also the earning capacity of the business. Hence ,there is a separate policy to cover this loss is known as loss of profit policy.

This policy provides an indemnity to the insured for loss of profit, payment of standing charges and expenses in respect of

increased cost of working. Ensuing from the interruption, wholly or in part, of the normal business activities consequent upon fire or other perils. This policy is also known as consequential policy.

5. What do you understand by “recoupment of shortworkings” and its methods?

Generally royalty agreement contain a clause that, shortworkings are recovered from the landlord in later years. Shortworkings are recovered when the royalties are in excess of the minimum rent.

The recoupment may be either fixed or flexible/floating. In fixed recoupment, shortworkings can be recovered within the period mentioned. For example :recoupment in the first 4 years .Any amount not recovered after 4 years is a loss to the lessee and transfer to profit and loss account.

In floating / Flexible recoupment, shortworkings are recovered in the subsequent years. For example :Recoupment in the subsequent 2 years. First year shortworking recovered in the 2nd and 3rd year, second year shortworkings recovered in the 3rd and 4th year. Any amount not recovered after the subsequent 2 years is a loss to the lessee and transfer to P&L a/c.

6.What is surplus?

In the initial years there may be shortworkings, whereas in later years,when the output or production increases,the royalty is more than the minimum rent.The excess of royalty above minimum rent is known as surplus.

7.What are the objects of keeping branch accounts?

- a) To know the profit or loss of each branches
- b) To find out the financial position of each branch.
- c) To know the cash requirement of each branch
- d) To evaluate the performance of each branch
- e) To give suggestion for the improvement of each branch

9. Explain the feature of dependent branches?

- a) Goods are supplied by the head office either at cost or invoice price.
- b) All the expenses are paid by the head office except petty expenses.
- c) Sales made on cash basis only. If the head office permits, sales on credit bassis also.
- d) Cash received on sales and from debtors are immediately remitted to the head office (or) deposited in the H.O account.
- e) All the accounts are maintained in the head office only.

8. How the head office can prepare branch account for dependent branches?

The accounts of the dependent branches are maintained by the head office in the following ways:

- a) Debtor's system (synthetic method)
- b) Final account system
- c) Wholesale branch system
- d) Stock and Debtors system (Analytical method)

9. Give the proforma of accounts prepared under Debtor's system.

HEAD OFFICE BOOK

Dr.	Branch Account		Cr.
	Rs.		Rs.
To opening balances b/d Stock Debtors Petty cash Other Assets		By opening Balances b/d Creditors Other liabilities	
To goods sent to Branch a/c		By Remittances: Cash sales Cash received from Drs.	
To bank:(paid by H.O)		By Goods sent to branch a/c (Returned by branch)	
Rent		By Opening stock reserve	
Petty expenses		By Goods sent to branch a/c (reserve)*	
Others		By closing balances c/d:	
To closing Balances c/d		Stock	
Creditors		Debtors	
Other liabilities		Petty cash	
To closing stock reserve		Other assets	
To profit(Bal.Fig.)			

Opening, Closing stock Reserve and Goods sent to branch a/c (reserve) is applicable ,when goods are supplied at invoice price.

Dr.	Branch DebtorsA/C		Cr.
	Rs.		Rs.
To Opening Balance b/d		By cash from Debtors	
To Credit sales		By Return by customer	
To Bills Receivable dishonoured		By Bad debts	
		By discount allowed	
		By Bills receivable	
		By Closing Balance c/d	

10. What do you understand by “stock and Debtors” system.(or) Analytical Method.

When a branch becomes big in nature, the above three methods are inadequate to find out the profit or loss by preparing onll one branch account. To overcome this ,stock and debtors system has been used. Under this system, the head office maintains the following accounts.

- a) Branch stock account
- b) Branch Adjustement Account(only for invoice price)
- c) Branch debtors account
- d) Branch expenses account
- e) Branch profit and loss account
- f) Branch Bank account

g) Goods sent to Branch account

a) Branch stock account

It is just like a goods account when goods are sent to branch at cost price, it discloses the closing stock only. When goods are sent at invoice price, it discloses the closing stock and surplus or shortage of stock at the end.

11. Distinguish between branch and department?

	Branch	Department
1.	It is located in various territories(areas)	It is located in a single premises.
2.	Same product can be sold at different places of branches.	Different products are sold at one roof
3.	Separate accounts prepared by each department is consolidated by the head office.	Records are centralised and maintained within the same premises.
4.	Branches can be started anywhere either in local or foreign.	It is confined to a single place unless similar organisation opened anywhere.

12 .Explain the procedures for preparation of departmental accounts?

To ascertain profit or loss made by each department, departmental Trading and profit and loss account is prepared in columnar form. It is a single set of books in

which accounts of all departments are maintained together in tabular/column form.

A general profit and loss account is prepared to know the profitability of all the departments and a common balance sheet is drawn to know the position of the business.

13. What are direct and indirect expenses in departmental accounts?

Expenses relating to departmental accounts are classified into direct expenses and indirect expenses.

Direct Expenses:

Expenses which are directly charged to a particular department (or) identified with a particular department is called as direct expenses. There are certain expenses which can be specially incurred for a particular department which is benefited is known as direct expenses. For, eg. Direct materials, wages, carriage inwards, stock insurance etc.

Indirect Expenses:

Expenses which are not identified to a particular department is known as indirect expense. They are common to all departments, hence proper allocation among the department must be made in order to ascertain the profit or loss of each department. For eg. Rent, depreciation, power, repairs etc.

14. Give the Specimen of Deficiency or Surplus Account.

The format of Deficiency account is given below.

Deficiency or Surplus Account as per List H

	Rs.		Rs.
Excess of assets over liabilities	xxxx	Excess of liabilities over assets	xxxx
Net profit arising from carrying on business	xxxx	Net loss from Business	xxxx
Interest on Capital		Drawings	
Income or profit from private assets	xxxx	Bad debts as per List F	xxxx
Deficiency as per statement of affairs	xxxx	Expenditure incurred other than Business expenditure	xxxx
	xxxx	Other Losses (specimen Loss, Realisation loss)	xxxx
		Surplus as per Statement of affairs*	xxxx
			xxxx
	xxxx		xxxx

15. What are the essential elements/features of partnership?

i) Existence of business:

An association of persons will become a partnership only when it is meant to do some kind of business.

ii) Plurality of persons:

Atleast two persons must join together for a partnership business.

iii) Contractual relationship:

There must be an agreement (expressed or implied) between the partners.

iv) Objective:

The objective should be to run a lawful business.

v) Profit motive:

The purpose of partnership should be to earn profits and there must be an agreement to share them.

vi) Principle – Agent Relationship:

Partnership business is carried on by all or any of them on behalf of all .Thus every partner is both an agent and principle of the other partners.

vii) Number of persons:

The minimum number of persons required to make a partnership is two. The maximum is twenty, but in case of banking business, the maximum is ten.

16. What are the legal characteristics of partnership?

i) Unlimited liability:

The liability of the partners is jointly and severally in respect of the firm's debts.

ii) Utmost good faith:

A Partnership agreement rests on utmost good faith.

Hence the partners should be honest to one another and they must disclose every information and present true accounts to one another.

iii) Implied agency:

Every partner has an implied authority to act on behalf of fellow-partners and the firm in the ordinary course of business. Thus, he is an agent of the firm and other partners.

iv) Restriction on transfer of interest:

A partner cannot transfer his share to an outsider without the consent of the other partners.

17) Write down the essential features of the partnership

i) Formation:

Registration of a partnership firm is not compulsory but registration becomes necessary, in view of the fact, that certain disabilities attach to the firm, if it is not registered.

Registration with the registrar of firms may well be regarded as a part of the formation procedure for partnership organisation.

ii) Financing:

The capital of partnership firm consists of the amounts contributed by different partners. The need not be in proportion to the profit sharing ratio. Sometimes, a partner may be admitted without any capital contribution.

iii) Control:

In a partnership firm the control is shared by all the partners in the firms.

iv) The partnership firm continues at the pleasure of the partners. Legally, a partnership comes to an end, if any of the partners dies, retires or becomes insolvent.

17. distinguish between fixed capital and fluctuating capital?

	Fixed capital	Fluctuating capital
i	Capital and current a/c are maintained	Only capital a/c is maintained
ii	Partners 'capital is fixed	Partners' capital is fluctuating
iii	All adjustments regarding capital are made in current a/c	All adjustments regarding capital are made in capital a/c itself.
iv	Current a/c may show debit or credit balance	Normally capital a/c shows only credit balance

18. state the important duties of partners.

The duties of partners towards the firm are as follows.

- i) every partners must diligently carry on the business of the firm for the common advantage .
- ii) Every partner is bound to keep and render true ,proper and correct accounts of the partnership.
- iii) No partner should carry on a business in competition with the business of the firm.
- iv) A partner must indemnify the firm for any loss caused by his wilful neglect or fraud in the conduct of the business.
- v) Every partner is bound to act within the scope of the authority.

vi) Partners should use the firm's property exclusively for the Purposes of the firm.

19. What are the rights of partners?

The following are the rights of the partners:

- i) Participation in the conduct of the business of the firm.
- ii) Accessibility to all records ,books and accounts of the business.
- iii) Right to examine and receive a copy of the accounts.
- iv) Right to share of profit.
- v) Right to receive interest @6% p.a over and above the sum agreed to be invested as capital.