Padasalai’s Telegram Groups!

(தமிழ் தகவல் கற்று கொள்ளத் தொட்டே ஒரு பாதுகாப்பு தேவதையான தேவமையும்!)

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UNIT – VII : COMPANY ACCOUNTS

Very Short Answer Questions

1. What is a Share?

The Capital of a company divided into small units of fixed amount. These units are called shares. There are two types of Shares (i) Preference Shares and (ii) Equity Shares.

2. What is a over-subscription?

When the number of shares applied for is more than the number of shares offered for subscription it is said to be over subscription.

3. What is meant by calls-in-arrear?

When a share holder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls-in arrears.

4. Write a short not on securities premium account.

When a company issues shares at a price more than face value, the shares are said to be issued at premium. The excess is called as premium amount and is transferred to securities premium account. It is shown under “Reserves and surplus” as a separate head in the note to accounts to the balance sheet.

5. Why are the shares forfeited?

When a shareholder defaults in making payment of allotment / call money, the shares may be forfeited. On forfeiture the share allotment is cancelled and to that extent, paid up share capital reduced.

III Write Short answer questions.

1. State the difference between preference shares and equity shares.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Points to Distinct</th>
<th>Preference Shares</th>
<th>Equity Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rate of Dividend</td>
<td>It is fixed</td>
<td>It varies every year depends on profits available</td>
</tr>
<tr>
<td>2</td>
<td>Redemption</td>
<td>Redeemed after stipulated period but within period of ten years from the date of issue</td>
<td>These shares are not redeemed during the life time of the company. At the time of winding up</td>
</tr>
<tr>
<td>3</td>
<td>Participation in Management</td>
<td>They have no right to participate in management</td>
<td>These shareholders have the right to participate in management</td>
</tr>
</tbody>
</table>
UNIT – VII : COMPANY ACCOUNTS

2. Write a brief note on calls-in-advance.

The excess amount paid over the called up value of a share is known as calls-in-advance. It is the excess money paid on application of allotment or calls. Such excess amount can be returned or adjusted towards future payment. If the company decides to adjust such amount towards future payment, the excess amount is transferred to a separate account called calls-in-advance account.

3. What is reissue of forfeited shares?

The directors of a company have an authority of reissue of shares once forfeited by them due to non-payment of calls. They can reissue the forfeited shares at par, at premium or at discount. When forfeited shares are reissued at a premium, the amount of such premium will be credited to securities premium.

If the reissue price is more than the amount unpaid of forfeited shares it results in profit and is transferred to capital reserve account.

4. Write a short note on (a) Authorized Capital (b) Reserve Capital

(a) Authorized Capital: According to Sec 2(8) of the Companies Act, “It means such capital as is authorized by the memorandum of a company to be the maximum amount of share capital of the company”.

(b) Reserve Capital: Sec 65 of Companies Act 2013, Only an unlimited company having share capital while converting into a limited company, may have a reserve capital. The company reserve a part of its subscribed capital to be called up only at the time of winding up. It is called reserve capital.

5. What is meant by issue of shares for consideration other than cash?

A Company may issue shares for consideration other than cash when the company acquires fixed assets such as land, building and machinery etc.,

A Company may also issue shares as consideration for the purchase of business, to promoters for their services and to brokers and underwriters for their commission.
UNIT - VII
COMPANY ACCOUNTS

CHOOSE THE CORRECT ANSWER

1) A Preference share is one
   i) Which carries preferential right with respect to payment of dividend at fixed rate
   ii) Which carries preferential right with respect to repayment of capital on winding up
   a) Only (i) is correct
   b) Only (ii) is correct
   c) Both (i) and (ii) are correct
   d) Both (i) and (ii) are incorrect

2) That part of share capital which can be called up only on the winding up of a company is called
   a) Authorized Capital
   b) Called up Capital
   c) Capital Reserve
   d) Reserve Capital

3) At the time of forfeiture, share capital account is debited with :
   a) Face Value
   b) Nominal Value
   c) Paid up amount
   d) Called up amount

4) After the forfeited shares are reissued, the balance in the forfeited shares account should be transferred to ....
   a) General Reserve Account
   b) Capital Reserve Account
   c) Securities Premium Account
   d) Surplus Account

5) The amount received over and above the par value is credited to ..... 
   a) Securities premium account
   b) Calls in advance account
   c) Share capital account
   d) Forfeited shares account

6) Which of the following statement is false?
   a) Issued capital can never be more than the authorised capital
   b) In case of under subscription, issued capital will be less than the subscribed capital
   c) Reserve capital can be called at the time of winding up
   d) Paid up capital is part of called up capital

7) When shares are issued for purchase of assets, the amount should be credited to ..... 
   a) Vendor s A/c
   b) Sundry Assets A/c
   c) Share Capital A/c
   d) Bank A/c

8) Match the pair and identify the correct option:
   (1) Under subscription   - (i) Amount prepaid for calls
   (2) Over subscription   - (ii) Subscription above the offered shares
   (3) Calls in arrear    - (iii) Subscription below the offered shares
   (4) Calls in advance   - (iv) Amount unpaid on calls

   a) 1-ii; 2-iii; 3-iv; 4-iv  b) 1-iv; 2-iii; 3-ii; 4-i
   c) 1-iii; 2-ii; 3-iv; 4-i  d) 1-iii; 2-iv; 3-i; 4-ii

9) If a share of Rs.10 on which Rs.8 has been paid up is forfeited. Minimum reissue price is ....
   a) Rs.10 per share
   b) Rs.8 per share
   c) Rs.5 per share
   d) Rs.2 per share

10) Supreme Ltd. forfeited 100 shares of Rs.10 each for non-payment of final call of Rs.2 per share. All these shares were re-issued at Rs.9 per share. What amount will be transferred to capital reserve account?
    a) Rs.700
    b) Rs.800
    c) Rs.900
    d) Rs.1,000

ADDITIONAL QUESTIONS

11) Which of the following capital is not shown in company’s balance sheet:
    a) Authorized capital
    b) Issued and Subscribed capital
    c) Called and paid up capital
    d) Reserve Capital

12) Share application and allotment account is a .......... 
    a) Personal A/c
    b) Real A/c
    c) Nominal A/c
    d) None of these

13) Securities premium account is shown on the liabilities side of the balance sheet under the head: 
    a) Share capital
    b) Reserves and Surplus
    c) Current liabilities
    d) None of them

14) As per section 78 of the companies act, amount collected as premium on securities cannot be utilized for:
    a) Issuing fully paid bonus shares
    b) Purchase of fixed assets
    c) Writing off preliminary expenses
    d) None of these

15) The portion of the authorized capital which can be called-up only on the liquidation of the company is called
    a) Authorized capital
    b) Reserve capital
    c) Issued capital
    d) Called up capital
16) Penalty for delay in refunding application money. 
   a) 6 %  
   b) 5 %  
   c) 15 %  
   d) 20 %

17) B Ltd. Issued shares of Rs.10 each at a discount of 10%. Mr.C purchased 30 shares and paid Rs.2 on application but did not pay the allotment money of Rs.3. If the company forfeited his entire shares, the forfeiture account will be credited by .......
   a) Rs.90  
   b) Rs.81  
   c) Rs.60  
   d) Rs.54

18) A company forfeited 2,000 shares of Rs.10 each (which were issued at par) held by Mr.John for non-payment of allotment money of Rs.4 per share. The called –up value per share was Rs.9. On forfeiture, the amount debited to share capital will be
   a) Rs.10,000  
   b) Rs.8,000  
   c) Rs.2,000  
   d) Rs.18,000

19) Brave Ltd. Issued 60,000 shares of Rs.10 each at a discount of Re.1 per share. The application money was Rs.2, allotment money was Rs.4 and finale call was of Re.1. The amount of final call will be .......
   a) Rs.3  
   b) Rs.2  
   c) Re.1  
   d) Rs.4

20) As per companies act, a company cannot proceed to allot shares unless ............. is received
   a) Minimum Subscription  
   b) Allotment money  
   c) Application money  
   d) Call money

21) Proposed divided is shown in the balance sheet of a company under the head ...........
   a) Provisions  
   b) Reserves & Surplus  
   c) Current Liabilities  
   d) Other liabilities

22) Premium received on issue of shares are shown under the head of ............. in balance sheet.
   a) Reserves & Surplus  
   b) Current liabilities  
   c) Share capital  
   d) Capital Reserves

23) The profit remaining after issue of forfeited shares, in share forfeiture account will be transferred to ............
   a) Profit & Loss A/c  
   b) Share Capital A/c  
   c) General Reserves  
   d) None of the above

24) Holders of preference shares will have a right to vote if the dividend remains in arrears for a period not less than .............
   a) 2 years  
   b) 3 years  
   c) 6 years  
   d) None of the above

25) The minimum share Application money is ............
   a) 5 % of the face value  
   b) 10% of the issue price of shares  
   c) Re.1 per share  
   d) 15 % of the face value of shares of shares

26) When shares issued at premium, which of the following account is credited?
   a) Share premium A/c  
   b) Share first call A/c  
   c) Share allotment A/c  
   d) Share forfeited A/c

27) Minimum number of members in case of public company is ............
   a) 4  
   b) 5  
   c) 6  
   d) 7

28) After getting minimum subscription of shares, the company has to allot shares within ............. days
   a) 90  
   b) 100  
   c) 110  
   d) 120

29) If the company-A purchases the majority shares of company-B, what combination would this be referred to?
   a) Amalgamation  
   b) Takeover  
   c) Absorption  
   d) None of these

30) When two or more companies carrying on similar business decide to combine, a new company is formed, it is known as ............
   a) Amalgamation  
   b) Takeover  
   c) Absorption  
   d) None of these

31) Other name for registered capital is ......
   a) Issued Capital  
   b) Nominal Capital  
   c) Reserve capital  
   d) None of the above

32) When share issued are 10,000 but applied shares are 8,000 then it is a case of :
   a) Over Subscription  
   b) Under Subscription  
   c) Pro-rata  
   d) None of these

33) Which of the following statement is true:
   a) Authorized capital = Issued capital  
   b) Authorized capital> Issued capital  
   c) Paid up capital> Issued capital  
   d) None of these

34) In case of private placement of shares to raise the amount of capital, a company:
   a) Invites the public through prospectus  
   b) Does not invite the public  
   c) Invite the public through advertisement  
   d) None of these

35) Securities Premium Reserve collected by the company can be used for:
   a) Issue of bonus shares  
   b) Payment of dividend  
   c) Any business purpose  
   d) None of these

36) Shareholder are the ............
   a) Owner of the company  
   b) Lenders of the company  
   c) Customers of the company  
   d) All of these

37) Interest on calls in advance is ............
   a) 4 % p.a.  
   b) 5 % p.a.  
   c) 6 % p.a.  
   d) 7 % p.a.
38) A company is allowed by law to sell 2,00,000 shares at Rs.2 each. Three-quarters(3/4) of these shares were bought by the public. What is the issued share capital?
   a) Rs.1,00,000  
   b) Rs.3,00,000  
   c) Rs.4,00,000  
   d) Rs.5,00,000

39) The excess amount paid over the called up value of a share is known as ........................................
   a) Calls in arrear  
   b) Calls in advance  
   c) Capital Reserve  
   d) None of these

40) When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known
   ........................................
   a) Calls in arrear  
   b) Calls in advance  
   c) Capital Reserve  
   d) None of these

KEY ANSWER

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<tr>
<td>1</td>
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<td>Only (i) is correct</td>
<td>21</td>
<td>C</td>
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<td>2</td>
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<td>3</td>
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<td>D</td>
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<td>4</td>
<td>B</td>
<td>Capital reserve account</td>
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<td>2 years</td>
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<td>5</td>
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<td>Securities premium account</td>
<td>25</td>
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<td>6</td>
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<td>In case of under subscription, issued capital will be less than the subscription capital</td>
<td>26</td>
<td>A</td>
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<td>7</td>
<td>C</td>
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<td>27</td>
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<td>8</td>
<td>C</td>
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<td>28</td>
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<td>120</td>
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<td>9</td>
<td>D</td>
<td>Rs.2 per share</td>
<td>29</td>
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<td>10</td>
<td>A</td>
<td>Rs.70/</td>
<td>30</td>
<td>A</td>
<td>Amalgamation</td>
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<td>11</td>
<td>D</td>
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<td>B</td>
<td>Nominal Capital</td>
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<td>12</td>
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<td>Personal A/c</td>
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<td>Reserves and Surplus</td>
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<td>B</td>
<td>Authorized capital &gt; Issued capital</td>
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<td>14</td>
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<td>Purchase of fixed assets</td>
<td>34</td>
<td>A</td>
<td>-</td>
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<td>15</td>
<td>B</td>
<td>Reserve Capital</td>
<td>35</td>
<td>B</td>
<td>Payment of dividend</td>
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<td>16</td>
<td>C</td>
<td>15%</td>
<td>36</td>
<td>A</td>
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<td>C</td>
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<td>18</td>
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<td>19</td>
<td>B</td>
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<td>20</td>
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<td>Minimum Subscription</td>
<td>40</td>
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<td>Calls in arrear</td>
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</tbody>
</table>

PREPARED BY

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1. What is meant by incomplete records?

When accounting records are not strictly maintained according to double entry system, these records are called incomplete accounting records.

2. State the accounts generally maintained by small sized sole trader when double entry accounting system is not followed.

Generally cash account and the personal accounts of customers and creditors are maintained by small sized sole trader. When double entry accounting system is not followed.

3. What is a statement of affairs?

A statement of affairs is a statement showing the balance of assets and liabilities on particular date. The balance of assets are shown on the right side and the balance of liabilities on the left side.

4. State the meaning of not-for-organization.

Some organizations are established for the purpose of rendering services to the public without any profit motive. They may be created for the promotion of art, culture, education and sports etc., These organizations are called as not-for-organization.

5. What is receipts and payments accounts?

Receipts and payments accounts is a summary of cash and bank transactions of not-for-profit organization prepared at the end of each financial year. It is a real account in nature.

6. What is Legacy?

It is the amount given to a non trading concern as per the will. It is like a donation. It appears on the debit side of receipts and payments account, but is not treated as income because it is not of recurring nature. It is a capital receipt.

7. Write a short note on life membership fees.

Life membership fee is accounted as a capital receipt and added to capital fund on the liabilities side of balance sheet. It is non-recurring in nature.

8. Give four examples for capital receipts of not-for-profit organization?


9. Give four examples for revenue receipts of not-for-profit organization.


10. Define partnership.

According to section-4 of the Indian partnership act, 1932, a partnership is defined as, “the relation between person who have agreed to share the profits of a business carried on by all or any of them acting for all.”
11. What is a partnership deed?

A partnership deed is a document in writing that contains the terms of the agreement amount the partners. It is not compulsory for a partnership to have a partnership deed as per the Indian partnership act 1932. But it is desirable to have a partnership deed as it serves as an evidence of the terms of the agreement amount the partners.

12. What is meant by fixed capital method?

Under fixed capital method, the capital of the partners is not altered and it remains generally fixed. Two accounts are maintained for each partner namely: (a) Capital account and (b) Current Account. The transactions relating to initial capital introduced and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

13. What is the journal entry to be passed for providing interest on capital to a partner?

(a) For providing interest on capital
   Interest on capital A/c Dr XXX
   To Partners Capital A/c XXX

(b) For Closing interest on capital A/C
   Profit and loss appropriation A/c Dr XXX
   To Interest on Capital A/C XXX

14. Why is profit and loss appropriation account prepared?

The profit and loss appropriation account is an extension of profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners. It is a nominal account in nature. The balance being the profit or loss is transferred to the partners capital or current account in the profit sharing ratio.

15. What is goodwill?

Goodwill is the good name or reputation of the business which brings benefit to the business. It enables the business to earn more profit. It is the present value of a firm's future excess earnings.

16. What is acquired goodwill?

Goodwill acquired by making payment in cash or kind is called acquired or purchased goodwill. When a firm purchases an existing business, the price paid for purchase of such business may exceed the net assets of the business acquired.

17. What is super profit?

Super profit is the excess of average profit over the normal profit of a business.

Super profit = Average profit – normal profit.

18. What is normal rate of return?

It is the rate at which profit is earned by similar business entities in the industry under normal circumstances.

19. State any four circumstances under which goodwill of a partnership firm is valued.

1. When there is a change in the profit sharing ratio
2. When a new partner is admitted in to a firm.
3. When an existing partner retires from the firm or when a partner dies.
4. When a partnership form is dissolved.
20. What is meant by revaluation of assets and liabilities?
   When a partner is admitted into the partnership the assets and liabilities are revealed as the current value may differ from the book value. Determination of current values of assets and liabilities is called revaluation of assets and liabilities.

21. How are accumulated profits and losses distributed among the partners at the time of admission of a new partner?
   Profit and losses of previous years which are not distributed to the partners are called accumulated profit and losses. This belong to the old partners and hence these should be distributed to the old partners in the old profit sharing ratio.

22. What is a sacrificing ratio?
   Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favor of the new partner. The purpose of finding the sacrificing ratio is to share the goodwill brought in by the new partner. Sacrifice ratio = Old share – new share.

23. Give the journal entry for writing off existing goodwill at the time of admission of a new partner.
   Old partners capital/current A/C (in old ratio) XXX
   To Goodwill A/C XXX
   (Existing goodwill written off)

24. State whether the following will be debited or credited in the revaluation account. (a) Depreciation on assets (b) Unrecorded liability (c) Provision for outstanding expenses (d) Appreciation of assets.
   (a) Debited (b) Debited (c) Debited (d) Debited.

25. What is meant by retirement of a partner?
   When a partner leaves from partnership firm it is known as retirement. The reasons for the retirement of a partner may be illness, old age and disagreement with other partners etc.,

26. What is gaining ratio?
   Gaining ration is the proportion of the profit which is gained by the continuing partner.

27. What is purpose of calculation gaining ratio?
   The purpose of finding the gaining ratio is to bear the goodwill to be paid to the retiring partner.

28. What is the journal entry to be passed to transfer the amount due to the deceased partner to the executor of the deceased partner?
   Deceased partner’s capital A/C Dr XXX
   To Deceased partners executors A/C XXX
   (Amt Transferred to Executors Account)

29. What is a Share?
   The capital of a company is divided into small units of fixed amount. These units are called shares. There are two types (i) Preference Share (ii) Equity Shares.

30. What is over-subscription?
   When the number of shares applied for is more than the number of shares offered for subscription it is said to be over subscription.
31. **What is meant by Calls-in-Arrear?**
   When a share holder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls-in-arrears.

32. **Write a short note on securities premium account.**
   When a company issues shares at a price more than a face value, the shares are said to be issued at premium. The excess is called as premium amount and is transferred to securities premium account. It is shown under reserves and surplus as a separate head in the note to accounts to the balance sheet.

33. **Why are the shares forfeited?**
   When a share holder defaults in making payment of allotment/call money, the shares may be forfeited. On forfeiture the share allotment is cancelled and to that extent, paid up share capital reduced.

34. **What are financial statement?**
   Financial statements are the statements prepared by the business concerns at the end of the accounting period to ascertain the operating results and the financial position.

35. **List the tools of financial statement analysis.**
   (i) Comparative statement
   (ii) Common size Statement
   (iii) Trend analysis
   (iv) Funds flow analysis
   (v) Cash flow analysis

36. **What is working capital?**
   Working capital statement or schedule of changes in working is prepared to disclose net changes in working capitals on two specific dates (generally two balance sheet dates). It is prepared from current assets and current liabilities.

37. **When is trend analysis preferred to other tools?**
   Trend analysis discloses the changes in financial and operating data between specific periods when data for more than two years are to be analyzed. It may be difficult to use comparative statement.

38. **Name the different types of share capital.**
   (i) Authorized share capital
   (ii) Issued Share capital
   (iii) Subscribed Share capital
   (iv) Called up share capital
   (v) Paid up share capital
   (vi) Reserve capital
39. What is meant by authorized share capital?
   This is the amount stated in the capital clause of the memorandum of association with which the company was registered. It is the maximum amount a company can raise during the life time.

40. What do you mean by capital reserve?
   It is that reserve which is created out of capital profits such as profit on sale of fixed assets, profit on revaluation of assets, premium on issue of shares and debentures etc.,

41. What is mean by pro-rata allotment of shares?
   It is that allotment of shares when applications may be allotted in less number of shares than they have applied.

42. Define single entry system.
   According to Kohler, “Single entry system is a system of Book-keeping in which as a rule, only records of cash and personal accounts are maintained. It is always incomplete double entry system varying with circumstance.

43. What are the features of Not-for-profit organization?
   (i) Main aim is service
   (ii) Profit is not the criterion
   (iii) Surplus not distributed among its members
   (iv) Separate entity
   (v) Unique names connect their working
   (vi) Management by elected persons

44. What are the cash books maintained by Not-for-Profit organization?
   (i) Cash book
   (ii) Ledger
   (iii) Member’s register
   (iv) Register of assets
   (v) Financial accounts
   (vi) Income and expenditure account
   (vii) Balance sheet

45. What is Current Account?
   Under fixed capital method, Capital account and Current accounts are maintained. In current account all the adjustments relating to partners are recorded on the credit side of current account viz., Interest on capital, share of profits, salary and commission etc., are recorded.

46. What is average profit method?
   Under this method, goodwill is calculated as certain years of purchase of average profits of the past years. The number of years purchase is generally determined on the basis of the average period a new business will take in order to bring it to the current state of the existing business.
47. What is annuity factor?
Annuity refers to series of uniform cash flows at regular intervals. The table value gives the present value of annuity of rupee one received at the end of every year for a specified number of years.

48. What is capitalization of super profit method?
Under this method, value of goodwill is calculated by capitalizing the super profit at normal rate of return, that is, goodwill is the capitalized value of super profit.
Goodwill = Super profit / normal rate of return x 100

49. Define Equity Shares.
These are those shares which are not entitled to a fixed rate of dividend. Dividend is paid on these shares after it is paid on preference shares. Equity share capital is returned only when preference shares is returned.

50. State the procedures for calculating profit or loss through statement of affairs.
The difference between the closing capital and the opening capital is taken as profit or loss of the business. Due adjustments are to be made for any withdrawal of capital from the business and for the additional capital introduced in the business.
Adjusting closing capital = Closing Capital + Drawings – Opening capital
Closing capital + Drawings – Additional capital – opening capital = Profit / Loss.