DIRECTORATE OF EDUCATION

GNCT of Delhi, Delhi Government

SUPPORT MATERIAL
(2020-2021)

Class : XII

ACCOUNTANCY

Under the Guidance of

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Secretary (Education)

Mr. Binay Bhushan
Director (Education)

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सत्यमेव जयते

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MESSAGE

The importance of adequate practice during examinations can never be overemphasized. I am happy that support material for classes IX to XII has been developed by the Examination Branch of Directorate of Education. This material is the result of immense hard work, co-ordination and cooperation of teachers and group leaders of various schools. The purpose of the support material is to impart ample practice to the students for preparation of examinations. It will enable the students to think analytically & rationally, and test their own capabilities and level of preparation.

The material is based on latest syllabus prepared by the NCERT and adopted by the CBSE for the academic session 2020-21 and covers different levels of difficulty. I expect that Heads of Schools and Teachers will enable and motivate students to utilize this material during zero periods, extra classes and regular classes best to their advantage.

I would like to compliment the team of Examination Branch for their diligent efforts of which made it possible to accomplish this work in time. I also take this opportunity to convey my best wishes to all the students for success in their endeavours.

(Manisha Saxena)

BINAY BHUSHAN, IAS

सत्यमेव जयते

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Date :

Dear Students,

Directorate of Education is committed to providing qualitative and best education to all its students. The Directorate is continuously engaged in the endeavor to make available the best study material for uplifting the standard of its students and schools.

Every year, the expert faculty of Directorate reviews and updates Support Material. The expert faculty of different subjects incorporates the changes in the material as per the latest amendments made by CBSE to make its students familiar with new approaches and methods so that students do well in the examination.

The book in your hand is the outcome of continuous and consistent efforts of senior teachers of the Directorate. They have prepared and developed this material especially for you. A huge amount of money and time has been spent on it in order to make you updated for annual examination.

Last, but not the least, this is the perfect time for you to build the foundation of your future. I have full faith in you and the capabilities of your teachers. Please make the fullest and best use of this Support Material.

BINAY BHUSHAN
DIRECTOR (EDUCATION)

Dr. (Mrs.) Saroj Bala Sain
Addl. Director of Education
(School / Exam / EVGB/IEB/ VOC.)

सत्यमेव जयते

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D.O. No. PA/Addl.DE(Sch)/86
Date : 03-10-2019

I am very much pleased to forward the Support Material for classes IX to XII. Every year, the Support Material of most of the subjects is updated/revised as per the most recent changes made by CBSE. The team of subject experts, officers of Exam Branch, members of Core Academic Unit and teachers from various schools of Directorate has made it possible to make available unsurpassed material to students.

Consistence use of Support Material by the students and teachers will make the year long journey seamless and enjoyable. The main purpose to provide the Support Material for the students of government schools of Directorate is not only to help them to avoid purchasing of expensive material available in the market but also to keep them updated and well prepared for exam. The Support Material has always been a ready to use material, which is matchless and most appropriate.

I would like to congratulate all the Team Members for their tireless, unremitting and valuable contributions and wish all the best to teachers and students.

S. Sain

(Dr. Saroj Bala Sain)
Addl.DE (School/Exam)

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2020-2021)

ACCOUNTANCY
Class : XII
(English Medium)

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

LIST OF MEMBERS WHO REVISED THE SUPPORT MATERIAL FOR

ACCOUNTANCY OF CLASS-XII

2020-21

Sl. No.	Name	Designation
1.	**Mr. Ramdeo** (Vice-Principal) (Team Leader)	GBSSS, No. 2, Roop Nagar, Delhi-7
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भारत का संविधान

भाग 4क

नागरिकों के मूल कर्तव्य

अनुच्छेद 51क

मूल कर्तव्य – भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह –

1. संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्र ध्वज और राष्ट्रगान का आदर करें।
2. स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे।
3. भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे।
4. देश की रक्षा करे।
5. भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे।
6. हमारी सामाजिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका निर्माण करे।
7. प्राकृतिक पर्यावरण की रक्षा और उसका संवर्धन करे।
8. वैज्ञानिक दृष्टिकोण और ज्ञानार्जन की भावना का विकास करे।
9. सार्वजनिक संपत्ति को सुरक्षित रखे।
10. व्यक्तिगत एवं सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत् प्रयास करे।
11. माता–पिता या संरक्षक द्वारा 6 से 14 वर्ष के बच्चों हेतु प्राथमिक शिक्षा प्रदान करना (86वां संशोधन)।

CONSTITUTION OF INDIA

Part IV A (Article 51 A)

Fundamental Duties

Fundamental Duties : It shall be the duty of every citizen of India —

1. to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
2. to cherish and follow the noble ideals which inspired our national struggle for freedom;
3. to uphold and protect the sovereignty, unity and integrity of India;
4. to defend the country and render national service when called upon to do so;
5. to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
6. to value and preserve the rich heritage of our composite culture;
7. to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures.
8. to develop the scientific temper, humanism and the spirit of inquiry and reform;
9. to safeguard public property and to adjure violence;
10. to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
11. who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक **(सम्पूर्ण प्रभुत्व–सम्पन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य)** बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक **न्याय,**

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की **स्वतंत्रता,**

प्रतिष्ठा और अवसर की समता

प्राप्त करने के लिए,

तथा उन **सब में,**

व्यक्ति की गरिमा और **(राष्ट्र की एकता**

और अखंडता) सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

हम दृढ़संकल्प होकर इस संविधान को आत्मार्पित करते हैं।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a **(SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC)** and to secure to all its citizens :

JUSTICE, social, economic and political,

LIBERTY of thought, expression, belief, faith and worship,

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the **(unity an integrity of the Nation)**;

WE DO HEREBY GIVE TO OURSELVES THIS CONSTITUTION.

Accountancy (Code No. 055)

Class-XII (2020-21)

Theory: 80 Marks **3 Hours**

Project: 20 Marks

Units		Periods	Marks
Part A	**Accounting for Not-for-Profit Organizations, Partnership Firms and Companies**		
	Unit 1. Financial Statements of Not-for-Profit Organizations	25	10
	Unit 2. Accounting for Partnership Firms	90	30
	Unit 3. Accounting for Companies	35	20
		150	**60**
Part B	**Financial Statement Analysis**		
	Unit 4. Analysis of Financial Statements	30	12
	Unit 5. Cash Flow Statement	20	8
		50	**20**
Part C	**Project Work**	20	20
	Project work will include:		
	Project File 4 Marks		
	Written Test 12 Marks (One Hour)		
	Viva Voce 4 Marks		
	Or		
Part B	**Computerized Accounting**		
	Unit 4. Computerized Accounting	50	20
Part C	**Practical Work**	20	20
	Practical work will include:		
	Practical File 4 Marks		
	Practical Examination 12 Marks (One Hour)		
	Viva Voce 4 Marks		

Part A: Accounting for Not-for-Profit Organizations, Partnership Firms and Companies

Unit 1: Financial Statements of Not-for-Profit Organizations

Units/Topics	**Learning Outcomes**
• Not-for-profit organizations: concept. • Receipts and Payments Account: features and preparation. • Income and Expenditure Account: features, preparation of income and expenditure account and balance sheet from the given receipts and payments account with additional information. **Scope:** *(i) Adjustments in a question should not exceed 3 or 4 in number and restricted to subscriptions, consumption of consumables and sale of assets/ old material.* *(ii) Entrance/admission fees and general donations are to be treated as revenue receipts.* *(iii) Trading Account of incidental activities is not to be prepared.*	**After going through this Unit, the students will be able to:** • state the meaning of a Not-for-profit organisation and its distinction from a profit making entity. • state the meaning of receipts and payments account, and understanding its features. • develop the understanding and skill of preparing receipts and payments account. • state the meaning of income and expenditure account and understand its features. • develop the understanding and skill of preparing income and expenditure account and balance sheet of a not-for-profit organisation with the help of given receipts and payments account and additional information.

Unit 2: Accounting for Partnership Firms

Units/Topics	**Learning Outcomes**
• Partnership: features, Partnership Deed. • Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. • Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. • Past adjustments (relating to interest on capital, interest on drawing, salary and profit sharing ratio). • Goodwill: nature, factors affecting and methods of valuation - average profit, super profit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as a*	**After going through this Unit, the students will be able to:** • state the meaning of partnership, partnership firm and partnership deed. • describe the characteristic features of partnership and the contents of partnership deed. • discuss the significance of provision of Partnership Act in the absence of partnership deed. • differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. • develop the understanding and skill of

charge against profits. Goodwill to be adjusted through partners capital/ current account or by raising and writing off goodwill (AS 26) **Accounting for Partnership firms - Reconstitution and Dissolution.** • **Change in the Profit Sharing Ratio** among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves and accumulated profits. Preparation of revaluation account and balance sheet. • **Admission of a partner** - effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of balance sheet. • **Retirement and death of a partner:** effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits and reserves, adjustment of capital accounts and preparation of balance sheet. Preparation of loan account of the retiring partner. • Calculation of deceased partner's share of profit till the date of death. Preparation of deceased partner's capital account and his executor's account. • **Dissolution of a partnership firm:** meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlement of accounts - preparation of realization	preparation profit and loss appropriation account involving guarantee of profits. • develop the understanding and skill of making past adjustments. • state the meaning, nature and factors affectin goodwill • develop the understanding and skill of valuation of goodwill using different methods. • state the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners. • develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of reserves and accumulated profits by preparing revaluation account and balance sheet. • explain the effect of change in profit sharing ratio on admission of a new partner. • develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of balance sheet of the new firm. • explain the effect of retirement / death of a partner on change in profit sharing ratio. • develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits and reserves on retirement / death of a partner and capital adjustment. • develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's executor's account. • discuss the preparation of the capital

account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)). **Note:** (i) The realized value of each asset must be given at the time of dissolution. (ii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.	accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner. • understand the situations under which a partnership firm can be dissolved. • develop the understanding of preparation of realisation account and other related accounts.

Unit-3 Accounting for Companies

Units/Topics	Learning Outcomes
Accounting for Share Capital • Share and share capital: nature and types. • Accounting for share capital: issue and allotment of equity and preferences shares. Public subscription of shares - over subscription and under subscription of shares; issue at par and at premium, calls in advance and arrears (excluding interest), issue of shares for consideration other than cash. • Concept of Private Placement and Employee Stock Option Plan (ESOP). • Accounting treatment of forfeiture and re-issue of shares. • Disclosure of share capital in the Balance Sheet of a company. **Accounting for Debentures** • Debentures: Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures. Writing off discount / loss on issue of debentures.	**After going through this Unit, the students will be able to:** • state the meaning of share and share capital and differentiate between equity shares and preference shares and different types of share capital. • understand the meaning of private placement of shares and Employee Stock Option Plan. • explain the accounting treatment of share capital transactions regarding issue of shares. • develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares. • describe the presentation of share capital in the balance sheet of the company as per schedule III part I of the Companies Act 2013. • explain the accounting treatment of different categories of transactions related to issue of debentures. • develop the understanding and skill of writing of discount / loss on issue of debentures. • understand the concept of collateral security and its presentation in balance sheet. • develop the skill of calculating interest on

Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS 16). • Redemption of debentures-Methods: Lump sum, draw of lots. • Creation of Debenture Redemption Reserve. *Note: Related sections of the Companies Act, 2013 will apply.*	debentures and its accounting treatment. • state the meaning of redemption of debentures. • develop the understanding of accounting treatment of transactions related to redemption of debentures by lump sum, draw of lots and Creation of Debenture Redemption Reserve.

Part B: Financial Statement Analysis

Unit 4: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings (as per Schedule III to the Companies Act, 2013) **Note:** *Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded.* • **Financial Statement Analysis:** Objectives, importance and limitations. • **Tools for Financial Statement Analysis:** Comparative statements, common size statements, cash flow analysis, ratio analysis. • **Accounting Ratios:** Meaning, Objectives, classification and computation. • **Liquidity Ratios:** Current ratio and Quick ratio. • **Solvency Ratios:** Debt to Equity Ratio, Total Asset to Debt Ratio, Proprietary Ratio and Interest Coverage Ratio. • **Activity Ratios:** Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade	**After going through this Unit, the students will be able to:** • develop the understanding of major headings and sub-headings (as per Schedule III to the Companies Act, 2013) of balance sheet as per the prescribed norms / formats. • state the meaning, objectives and limitations of financial statement analysis. • discuss the meaning of different tools of 'financial statements analysis'. • develop the understanding and skill of preparation of comparative and common size financial statements. • state the meaning, objectives and significance of different types of ratios. • develop the understanding of computation of current ratio and quick ratio. • develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratio and interest coverage ratio. • develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover

Payables Turnover Ratio and Working Capital Turnover Ratio. • **Profitability Ratios:** Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	ratio. • develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

Note: Net Profit Ratio is to be calculated on the basis of profit before and after tax.

Unit 5: Cash Flow Statement

Units/Topics	Learning Outcomes
• Meaning, objectives and preparation (as per AS 3 (Revised) (Indirect Method only) ***Note:*** ***(i)*** *Adjustments relating to depreciation and amortization, profit or loss on sale of assets including investments, dividend (both final and interim) and tax.* ***(ii)*** *Bank overdraft and cash credit to be treated as short term borrowings.* ***(iii)*** *Current Investments to be taken as Marketable securities unless otherwise specified.*	**After going through this Unit, the students will be able to:** • state the meaning and objectives of cash flow statement. • develop the understanding of preparation of Cash Flow Statement using indirect method as per AS 3 with given adjustments.

Note: *Previous years' Proposed Dividend to be given effect, as prescribed in AS-4, Events occurring after the Balance Sheet date. Current years' Proposed Dividend will be accounted for in the next year after it is declared by the shareholders.*

Project Work

Note: Kindly refer to the Guidelines published by the CBSE.
The comprehensive project may contain simple GST calculations.

OR

Part B: Computerised Accounting

Unit 3: Computerised Accounting

Overview of Computerised Accounting System

- Introduction: Application in Accounting.
- Features of Computerised Accounting System.
- Structure of CAS.
- Software Packages: Generic; Specific; Tailored.

Accounting Application of Electronic Spreadsheet.

- Concept of electronic spreadsheet.
- Features offered by electronic spreadsheet.
- Application in generating accounting information - bank reconciliation statement; asset accounting; loan repayment of loan schedule, ratio analysis
- Data representation- graphs, charts and diagrams.

Using Computerized Accounting System.

- Steps in installation of CAS, codification and Hierarchy of account heads, creation of accounts.
- Data: Entry, validation and verification.
- Adjusting entries, preparation of balance sheet, profit and loss account with closing entries and opening entries.
- Need and security features of the system.

Database Management System (DBMS)

- Concept and Features of DBMS.
- DBMS in Business Application.
- Generating Accounting Information - Payroll.

Part C: Practical Work
Please refer to the guidelines published by CBSE.

Prescribed Books:

Financial Accounting -I	Class XI	NCERT Publication
Accountancy -II	Class XI	NCERT Publication
Accountancy -I	Class XII	NCERT Publication
Accountancy -II	Class XII	NCERT Publication
Accountancy – Computerised Accounting System	Class XII	NCERT Publication

Guidelines for Project Work in Accounting and Practical work in computerised Accounting Class XII CBSE Publication

Suggested Question Paper Design
Accountancy (Code No. 055)
Class XII (2020-21)

Theory: 80 Marks **3 hrs.**
Project: 20 Marks

S N	Typology of Questions	Objective Type/ MCQ 1 Mark	Short Answer I 3 Marks	Short Answer II 4 Marks	Long Answer I 6 Marks	Long Answer II 8 Marks	Marks
1	**Remembering**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers.	5	1	1	1	-	18
2	**Understanding**: Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	5	1	1	1	1	26
3	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	-	2	1	-	19
4	**Analysing and Evaluating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. **Creating**: Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	5	-	1	-	1	17
	TOTAL	**20x1=20**	**2x3=6**	**5x4=20**	**3x6=18**	**2x8=16**	**80 (32)**

*There will be **internal choice** in questions of 3 marks, 4 marks, 6 marks and 8 marks. All questions carrying 8 marks will have an internal choice.*

Note: *The Board has introduced Learning Outcomes in the syllabus to motivate students to constantly explore all levels of learning. However these are only indicative. These do not in any way restrict the scope of questions asked in the examinations. The examination questions will be strictly based on the prescribed question paper design and syllabus.*

Note: The Board has introduced Learning Outcomes in the Syllabus to motivate students to constantly explore all levels of learning. However, these are only indicative. These do not in any way restrict the scope of questios asked in the examinations. The examination questions will be strictly based on the prescribed question paper design and syllabus.

MAIN CHANGES IN SYLLABUS (2020-2021)

1. Goodwill can be adjusted through Partner's Capital Current A/C or by Raising and writing off Goodwill (AS-26). It will impact on the these chapters—Change in Profit Sharing Ratio, Admission, Retirement and Death of Partner.
2. Discount or Loss on issue of Debentures to be written off in the year Debentures or allotted from Securities Premium Reserve (if it exists) and then from statement, of profit and loss as financial cost (as per AS-16). It will impact on the chapter of issue of Debentures.
3. Previous year's proposed dividend to be given effect as prescribed in AS-4. Events occuring after the Balance Sheet Date. Current years's Proposed Dividend will be accounted for the next year after it is declared by the shareholders. It will impact on the chapter of cash flow statement.

CONTENTS

Part-A

Part-B

CHAPTER – 1

ACCOUNTING FOR NOT-FOR-PROFIT ORGANIZATIONS

Define NPO	NPO's are voluntary organisations founded with objective of promoting art, culture, education and other social and charitable purpose without any intention of earning profit. For examples hospitals,colleges,schools,universities,religious organisations, culture institutions, professional accounting bodies i.e. ICAIICSI etc.	
	NPO's	Profit making entities
Difference between NPO's and Profit making organisation	1. The ultimate goal is to serve the community interest 2.it receives its fund in the form of donations, subscriptions, etc. known as capital fund. 3. Their final accounts includes receipt and payment a/c, income and expenditure a/c and balance sheet 4. The net result of the activities of such entities is known as the surplus/ deficit	1. The ultimate goal is the earn profit. It receives its fund from its owners or partners, known as capital Their final accounts includes Trading a/c, Profit & Loss a/c and balance sheet The net result of the activities of such entities is known as the profit/loss.
Difference between receipts and payment account and income and expenditure a/c or features of receipts and payment account and income and expenditure account	Receipts and payment account • It is prepared on the basis of cash book • It is real account • It records all types of transactions whether revenue or capital nature and relates to any year	Income and expenditure account • It is like p & l a/c i.e. It is a Nominal A/c • It records only revenue transactions related to current year only i.e. after adjustments • If follows accrual basis of accounting

	• It follows cash basis of accounting. • It starts with the opening balance of cash and bank and ends with closing balance of cash and bank	• It does not have an opening balance. At the end it shows the surplus i.e. excess of inco me over expenses or deficit i.e. excess of expenses over income
Difference between receipt and payment a/c and cash book	Receipt and payment account • It is prepared by not for profit organisation. • It is prepared on the basis of cash book. • It is prepared at the end of accounting year.	Cash book • It is prepared by all the organisations. • It is prepared on the basis of source documents/vouchers. • It is recorded on daily basis.
Difference between income and expenditure a/c and profit and loss a/c	Income and expenditure a/c • It is prepared by not for profit organisation • It is prepared on the basis of receipt and payment a/c and other information • The main objective is to find out surplus or deficit	Profit and loss a/c It is prepared by profit making organisations It is prepared on the basis of trial balance and other information. The main objective is to find net profit or loss.
Fund based accounting	It refers to the accounting whereby receipts and incomes related to a particular fund like building fund sports fund, prize fund etc. Credited to that particular fund and payments like construction of building expenses on sports, prizes distributed etc. Debited to it. Therefore receipts and payments on account of such funds are not recorded in the income and expenditure account	

Treatment of specific items	items	definition	Treatment in income and expenditure account	Treatment in balance sheet
	Subscripton	It is the preiodical amount paid/ contributed by the members at regular interval. It will be treated as revenue receipt.	As an income	Outstanding as an asset and advance received as a liabilities

	Consumable items like stationery, medicines, books, sports material etc.	Consumable amount will be treated as revenue expenditure	as an expenditure	Stock of consumable item as an Asset, prepa id expenses related to it as an asset and outstanding expenses related to it as a liabilities
	Donation	It is the amount donated by any person, it may be of two types 1. general donation-it can be used for any purpose, it will be treated as revenue receipts	General donation will be shown as an income	Specific donation as a liabilities

		2. Specific donation like donation for library-it can be used only for specific purpose, it will be treated as capital receipts. Any expenses related to it will be deducted from it in balance sheet		
	■ Entrance/ ■ admis-sion fees	It is received from the new members at the time of admission/entrance in the organisation. It will be treated as revenue receipt.	As an income	
	■ Sale of old sports materiaL sale of old newspapers /periodicals, general government grant-interest received on fixed deposit/inv estment, pr oceeds from show, locker rent	It will be treated as revenue receipts	As an income	
	■ Life membership Fees	Some club and societies members can make a payment for life memb-ership i.e. they can enjoy the facilities of the club/ societies for the rest of the life. It will be treated as capital receipts		As a Liabilities

	■ legacy	It is in nature of gift in cash or property as per the will.it will be treated as capital receipts		As a liabilities
	endowment fund	It is a fund arising from bequest or gift, the income of which is devoted to a specific purpose as specify by the donor. It will be treated as capital receipt		As a liabilities
	honorarium	It is the amount paid to the person(outsider) to reimburse the actual expenses incurred for delivering a lecture or giving his performance as an artist. It will be treated as revenue expenditure	As an expenses	
	upkeep of lawn, maintenance of ground, normal repair charges, municipal taxes, expenses on show, news paper, magazines, rent, insurance	Treated as revenue expenses.	As expenses	

	sale/ purchase of fixed assets like furniture, building, sports equipment, books, investment,	It will not be shown in the income and expenditure account, however profit or loss on sale of fixed asset and depreciation will be treated as revenue item.	Profit on sale as an income and loss/ depreciation as an expenditure	Purchase in asset added and book value of asset sold deducted from relevant asset
	treatment of specific funds like sports fund,prize fund,tournament fund etc.	It will be treated as capital receipts, any expenses related to it will not be shown in income and expenditure account i.e. deducted from relevant fund in the balance sheet.	If fund is less than the expenditure related to it than difference will be as an expenses	As an liabilities
	Specific fund investment like sports fund investment, prize fund investment, tournament fund investment	Sometimes organisation invested the specific fund into outside in specified securities,called specific fund investment..it will be treated as capital expenditure.		As an asset
	Interest on specific fund investment	Interest received will be treated as capital receipt and added in the relevant fund in the balance sheet		Added in relevant fund

	Outstanding interest on specific fund investment	It will be treated as capital item		Added in relevant fund and also as an asset
	General fund, general fund investment, interest on general fund investment	General fund will be treated as capital receipt, general fund investment as capital expenditure and interest as a revenue receipt.	Interest as an income	General fund as a liability and general fund investment as an asset
	Grant	It is an amount of money given specially by the government. It may be of two types. 1. General grant it can be used for any purpose. it will be treated as revenue receipts 2. Special grant-it can be used only for specific purpose. it will be treated as capital receipts. Any expenses related to it will be deducted from it in balance sheet	General grant as an income	Special grant as a liabilities

Important formats

Total Subscription/Income/Expense for CY

1st January20..... (opening)		31st December 20.... (closing)	
← Outstanding(-)	xxxxx	← Outstanding (+)	xxxxx
(+) Advance/Prepaid→	xxxxx	(-)Advance/Prepaid→	xxxxx

Subscription Account

Particulars	Amounts	Particulars	Amounts
To Balance b/d(Out. at the beg) To Income & Expenditure A/c(bal. fig.) To Balance c/d (Adv. at the end)	xxxxx xxxxx xxxxx	By Balance b/d(Adv. at the beg) By Cash A/c(Sub. received during the year) By Bad debts(if any) By Balance c/d(Out. At the end end)	xxxxx xxxxx xxxxx
	xxxxx		xxxxx

Statement showing calculation of subscription

Total Subscription received during the year(whether relates to any year)	xxxxx
Less: Subscription o/s at the beg. Of current year	xxxxx
Less: Advance Subscription received during the current year(relates to any future period)	xxxxx
Add: O/s Subscription at the end of current year(including sub. o/s for p/y year till the end of current year)	xxxxx
Add: O/s Subscription received in advance at the end of current year	xxxxx
Subscription to be shown in income and expenditure a/c	xxxxx

Note- subscriptions o/s as on means total o/s subscription on a particular date(including previous year o/s if any till date) and subscription o/s for the year means only relates to current year, for at the end we have to add o/s for p/y till date in this.

Treatment Of Consumable Items

Illustration:

From the following information, calculate the amount of stationery to be debited to the income and expenditure account of a charitable trust

RECEIPTS AND PAYMENT ACCOUNT(AN EXTRACT).

For the year ended 31st march 2018

Receipts	amount	Payments	amount
To sale of stationery (book value Rs. 90000)	120000	By creditors for stationery By cash purchases of stationery	300000 100000

ADDITIONAL INFORMATION:

Particulars	AS at 1st April ,2017	As at 31st March,2018
Stock of stationery ,	75000	100000
Creditors of stationery	30000	70000
Advance paid for	10000	15000
stationery		

Answer:

Payments made during the year as per receipts and payment account	300000	Treatment of items
Add: advance payments for stationery at the end of PY or in the beginning of current year	10000	Asset on 31/3/17

Less: Creditors for stationery at the end of PY or in the beginning of current year	30000	Liabilities on 31/3/17
Less: advance payments for stationery at the end of current year	15000	Asset on 31/3/18
Credit purchase during the year Add: cash purchases (if any)	335000 100000	
Total purchase during the year Add: opening stock of stationery Less: closing stock of stationery Less: sale of stationery (cost price) if any	435000 75000 100000 90000	 Asset on 31/3/17 Asset on 31/3/18
Amount of stationery consumed	320000	Expenses in income and expenditure account

NOTE: if purchase of consumable item is given instead of payment than o/s creditors and advance paid to creditors will not be adjusted (add or less) in the above format. In this case consumed amount will be= op. Stock+purchases- closing stock- sale of consumable item (if any)

Credit Purchase

Payment made to creditors	xxxxx
Add: Closing balance of Creditors	xxxxx
Less: Opening balance of Creditors	xxxxx
Credit purchase of consumable items	xxxxx

Receipt and Payment Account

Receipts	Amount	Payments	Amount
		Balance b/d	
Balance b/d		Cash at Bank(overdraft)	xxxxx
Cash in hand	xxxxx	Capital payments:	
Cash at bank	xxxxx	Building construction	

Capital Receipts:		Sports equipments or materials	xxxxx
Legacies	xxxx	Cost of leasehold land	xxxxx
Sale of office furniture	xxxxx	Investments	xxxxx
Sale of sports equipments	xxxxx	Advance for purchase of buildings	xxxxx
Donations for special purposes		Government's loan	xxxxx
e.g., building, prizes etc.		Furniture	xxxxx
Life membership fees	xxxxx	Revenue payments:	xxxxx
Sale of investments	xxxxx	Prizes paid	xxxxx
Endowment fund receipts	xxxxx	Entertainment expenses	xxxxx
		Printing and stationery	xxxxx
Receipt on account of special funds e.g., Prize fund, tournament fund etc.	xxxxx	Newspapers and periodicals	xxxxx
Interest on specific fund		Repairs	xxxxx
Investments	xxxxx	Postages	xxxxx
Entrance fees	xxxxx	honorarium	xxxxx
Revenue Receipts:	xxxxx	Expenses on special food to patients	xxxxx
Subscriptions	xxxxx	Insurance, rent, salaries	xxxxx
General donations	xxxxx	Advertisement	xxxxx
Proceeds from entertainments	xxxxx	Audit fee	xxxxx
Interest or dividends	xxxxx		
sale of old newspapers, waste papers etc.	xxxxx	Telephone, electric charge	xxxxx
Miscellaneous receipts	xxxxx	Gardening	xxxxx
Balance c/d	xxxxx		

Cash at bank (Bank overdraft)	xxxxx	Bar expenses	xxxxx
		Up-keep of lawns	xxxxx
		Municipal taxes	xxxxx
		Charity	xxxxx
		Printing of year book	xxxxx
		Drawings	xxxxx
		Balance c/d (closing balance)	xxxxx
		Cash in hand	xxxxx
		Cash at bank	xxxxx
	xxxxx		xxxxx

Note: **There will be either or the two amounts i.e., bank overdraft or cash at bank and not both.**

Income and Expenditure Account

Expenditure	Amount	Income	Amount
Expenses account(e, g, salary): Total salaries paid during the year xxxxx Add: Outstanding at the end xxxxx Less: outstanding in the beginning xxxxx (or accrual amount paid for last year) Add: Advance paid in the previous year xxxxx Less: Advance paid for the salaries in the current year xxxxx		Income Account: (e.g., subscriptions) Total amount of subscriptions received during the year xxxxx Add: Outstanding at the end Less: outstanding in the beginning xxxxx (or actual amount of last year received this year) Add: Advance received last year xxxxx Less: Advance received this year xxxxx	xxxxx
Salary of the year	xxxxx		
Expenses on consumable materials: (e.g., stationery)	xxxxx	Current Income: Profit on sale of asset : Sale price of the asset xxxxx	xxxxx

Opening stock of stationary xxxx Add: Purchases during the year xxxx		Less: Book value of the asset sold xxxxx Net profit on sale	xxxxx
Less: Creditors for stationery in the beginning xxxx Add: Creditors for stationery at the end xxxx Add: Advance payments for stationery last year xx		Receipts for specific items xxxx (Cinema shows) Less: Amount spent xxxx	
Less: Advance payments for stationery in the current year xxxxx		Net Income on specific item:	xxxxx
Less: Stock of stationery at the end xxxxx		Other income and gains with adjustments	xxxxx
Stationery actually consumed	xxxxx	Excess of Expenditure over Income to be deducted from the Capital Fund in the Balance Sheet (Balancing Figure)	xxxxx
Loss on the sale of an asset: Book value of the asset Less: Sale price			
Net loss on sale	xxxxx		
Other expenses and losses after necessary adjustments	xxxxx		
Expenses for specific purpose (e.g., cinema shows) Expenses paid xxxxx Less: Collection xxxxx			
Net expenses of specific item	xxxxx		
Depreciation	xxxxx		
Excess of Income over Expenditure to be added to Capital Fund in the Balance Sheet (Balancing Figure)	xxxxx		
	xxxxx		xxxxx

Note: Either of the two balancing figue at the end.

Balance Sheet

As on ....

Liabilities	Amounts	Assets	Amounts
Capital Fund:		Assets:	
Opening Balance xxxx		Last Balance xxxx	
Add: Excess of Income over		Add: Purchase in the	
Expenditure xxxx		current year xxxx	
		Closing Balance	xxxxx
Or		Stock of	xxxxx
		Consumable	
Less: Excess of	xxxxx	Materials	
Expenditure over xxxx		Balance as given in the	
Income		question	
Capitalised Income of	xxxxx	Or	
the Current year		Last Balance xxxx	
on account of:		Add: Purchase	
Legacies	xxxxx	during the year xxxx	
Life Membership Fees		Less: Value	
(These may be added to	xxxxx	consumed during	
Capital Fund too)		the year xxxx	
Special Fund/Donations		Closing Balances:	xxxxx
Last Balance (if any) xxxx		Cash in hand	xxxxx
Add: Receipts for the item		Cash at bank in	
during the year xxxx		Current Account,	xxxxx
Add: Income earned on		Fixed	
Fund Investment xxxx		Deposit Account	xxxxx
Less: Expenses paid out of		etc.	
Fund/Donations xxxx		Outstanding Income	
Creditors for Purchases of		Last Balance xxxx	
Supplies	xxxxx	Less: Received in the	
Bank Overdraft (at the end)	xxxxx	Current year xxxx	xxxxx
Outstanding Expenses		Net Balance	xxxxx
Last Balance b/d	xxxxx	Pre-paid Expenses at	xxxxx
Less: Paid during the year		the end	
Add: Outstanding at the end	xxxxx		
Income Received in	xxxxx		
Advance at end			
	xxxxx		xxxxx

Receipt and Payment Account
For the Year Ended 31.12.2017

Its left hand side is called "Receipts" and right hand side "payments". On the left hand side all cash receipts are recorded, while on the right hand side all cash payments are recorded arranged in a classified form. It starts with last year's closing cash in hand and cash at bank and closes with current year's closing cash in hand and cash at bank. In other words, its opening balance indicates last year's closing cash in hand and cash at bank, while its closing balance means current year's closing cash in hand and cash at bank.

Example:

From the following cash book prepare receipts and payments account for the year ended 31 December 2017.

Cash Book

Dr. Cr.

Date	Particular	L/R	Amount	Date	Particular	L/R	Amount
2017				2017			
Jan. 1	Balance b/d		250	Jan. 5	Rent		200
Feb. 2	Subscription		600	Jan.16	Traeveling expenses		15
Mar. 10	Admission fee		25	Fed. 12	Salaries		250
Apr.5	Subscription		950	Mar. 17	Entertainment expenses		50
May. 20	Sale of old newspapers		10	Apr. 20	Electric charges		20
June 3	Subscription		880	May 5	Furniture		300
July 15	Adimission fee		30	May 10	Postage		18
Aug. 20	Sale of old newspaper		15	June 3	Sattionary		120

Sep. 5	Donation		100	July 12	Electric charges		30
Oct. 1	Sale of old furniture		150	Aug. 3	Newspaper		25
Nov. 15	Donation		50	Sep. 15	Salaries		320
Dec. 28	Subscription		250	Sep. 20	Newspaper		65
				Oct. 3	Traveling expenses		25
				Oct. 12	Postage		12
				Nov. 5	Rent		300
				Now. 16	Entertainment expenses		80
				Dec. 5	Books		450
				Dec. 12	Salaries		350
				Dec. 25	Rent		130
				Dec. 31	Blance c/d		550
			-----------				-----------
			3,310				3,310
2018			-----------				------------
Jan. 1			550				

Solution:

ABC Club

Receipt and Payment Account

For the year ended 31st December, 2017

Receipts	AMOUNT	Payments	AMOUNT
Balance b/d	250	Rent [200+300+130]	630
Subscription [600+950+880+250]	2,680	Traveling expenses [15+25]	40
Admission fee [25+30]	55	Salaries [250+320 + 350]	920
Sale of old newspaper [10+15]	25	Entertainment expenses [50+80]	130
Donation [100 + 50]	150	Electric charges [20+30]	50
Sale of old furniture	150	Furniture	300
		Postage [18+12]	30
		Stationary	120
		Newspaper [25+65]	90
		Books	450
		Balance c/d	550
	--------------		-------------
	3,310		3,310
	--------------		-------------
Balance b/d	550		

Illustration : - 1

	Rs.
Subscription received during 2017-18	50,000
Subscription outstanding on 31-3-18	8,000
Subscription outstanding on 1-04-17	6,000
Subscription received in advance on 31-3-18	3000
Subscription received in advance on 31 -3-17	5000

calculate the amount of subscription to be credited to Income & Expenditure a/c for the yr. 2017-18.

Ans.I

	Rs.
Subscription received during the yr.	50,000
Add: Subscription outstanding on 31-3-18	8000
Add: subscription received in advance on 31 -3-17	5000

	63,000
Less: Subscription outstanding on 1-04-17	6,000
Less: Subscription received in advance on 31-3-18	3000
Amount to be credited to Income & Expenditure A/c ====⟶	54,000

Illustration : - 2

	Rs.
DELHI Club received subscription during the yr. 2015-16	1,50.000
Subscription received in advance on 31 -3-15	4,500
Subscription received in advance on 31 -3-16	5,100
Subscription outstanding on 31-3-16 for 2015-16	3,800
Subscription outstanding 2014-15 (of which Rs.4,000 received in 2015-16)	6,000

Calculate the subscription to be taken to Income & Exp. a/c for 2015-16.

Ans. 2

	Rs.
Total Subscription Received during the yr. 2015-16	1,50,000
Add: Sub. Outstanding for 2015-16	5,800

Sub. Received in advance on 31-3-15		4.500

		1,60,300
Less: Sub received in advance on 31-3-16	5,100	
Sub. Outstanding on 31-3-15	6000	11,100
Sub for 2015-16 to be taken to Income & Exp. a/c. ====→		Rs. 1,49,200

Illustration :- 3

Ascertain the amount of salary chargeable to Income & Expenditure A/c for 2016-17

	Rs.
Total salaries paid in 2016-17	10,200
Prepaid salaries on 31 -3-2016	1,200
Prepaid salaries on 31-3-2017	600
Outstanding salaries on 31-3-2016	900
Outstanding salaries on 31-3-2017	750

Ans. 3			**Rs.**
Total Salaries paid in 2016-17			10,200
Add: - Outstanding salaries on 31 -3-17			750
Prepaid salary on 31-3-16			1,200

			12,150
Less:-Outstanding on 31-3-16	-	900	
Prepaid on 31-3-17	-	600	1,500
		----------	------------
Salaries dr. to Income & Exp. A/c for 2016-17			10,650

Illustration: - 4

How would you deal with the following items in the Balance sheet of a NPO?

		Rs.
1.	Donations received for Auditorium construction (Expected total cost of the auditorium Rs.40,00,000)	25,00,000
2.	Expenditure on construction of Auditorium	21,00,000
3.	opening balance of Auditorium fund	1,00000
4.	10% Auditorium fund INVESTMENT	2000000
5.	INTEREST ON Auditorium fund INVESTMENT	150000

Ans. 4

Balance Sheetf (As at=====)

Liabilities	Amount	Assets	Amount
Capital Fund	xxx	Auditorium in	21,00,000
		Progress	
Add: Transfer From Auditorium fund	21,00.000		
		10% Auditorium	2000000
Auditorium Fund 100000		fund INVESTMENT	
Add: Donation 25,00,000		Accrued Interest	
Less: Transferred to		onAuditorium fund	50000
Capital fund 21.00.000		investment	
5,00,000			
Add: INTEREST ON			
Auditorium fund			
INVESTMENT 200000			
(150000+50000)	700000		

Illustration 5

Prize fund (1-4-16)	10000
Donation for prize fund	20000
5% prize fund investment	10000
Expenditure on prize distribution	50000
Interest on 5% prize fund investment	500

Ans.5.

Income & Expenditure A/c
(Year ended on 31s' March 2017)

Expenditure	Rs.	Income	Rs.
Distribution of prize	19500		

Balance Sheet as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Prize fund 10000			
Add: Donation for			
prize fund 20000			
Add: Interest on 5% prize Fund investment 500			
----------- 30500			
Less: Distribution of Prize 30500	*********		

Illustration 6 :-

From the following particulars of DELHI Charity Hospital, perpare Income & Expenditure a/c & the balance sheet as on 31st March 2017.

Receipts	Rs.	Payments	Rs.
To Cash in hand 1/4/16	7,130	By Medicines	30,590
To Subscriptions	47,996	By Doctor" s Honorarium	9,000
To Donations	14,500	By salaries	27,500
To Interest® 7% on Bank			
Fixed Deposit For full yr.	7,000	Petty expenses	461
		By Equipments	15,000

To charity show proceeds	10,450	By charity show expenses	750
		Cash in hand 31/3/2017	3,775
	87,076		87,076

Additional information:	1/4/2016 Rs.	31.3.2017 Rs.
Subscription due	240	280
Subscription received in advance	64	100
Stock of medicines	8810	9740
Estimated value of equipment	21200	31600
Building (Cost less depreciation)	40000	38000

Ans. 6.

Income & Expenditure A/c

(Year ended on 31s' March 2017)

Expenditure	Rs.	Income	Rs.
To Medicines consumed Opening stock 8810 Add: Purchases 30590 Less: Closing, stock 9740	29660	By Subscriptions 47996 Add:O/S(of2017) 280 Advin 2016 64 Less: O/S (of 2016) 240 Adv of 2017 100	48000
To Doctor's honorarium	9000	By Donations	14500
To salaries	27500	By Interest on Bank FD	7000
To petty expenses	461	By charity show proceeds	10450
To expenses charity show	750		
To Depreciation: Equipment	4600		
Building	2000		

To Surplus	5979		
	79950		79950

Balance Sheet as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Advance Subscription	100	Cash in Hand	3775
Capital Fund 177316		Subscription o/s	280
Add: Surplus 5979	183295	Stock of Medicines	9740
		Bank Fixed Deposit	100000
		Equipments Op. 21200	
		+ Purchases 15000 -Depreciation 4600	31600
		Building 40000	
		- Depreciation 2000	38000
	183395		183395

Balance Sheet as at 31.3.2016

Liabilities	Rs.		Assets	Rs.
Advance Subscription	64	Cash	7130	
Capital Fund (Bal. fig.)	177316	Subscription o/s	240	
		Stock of Medicines	8810	
		Bank Fixed Deposit	100000	
		Equipments	21200	
		Building	40000	
	177380		177380	

Working Notes: -

1. Bank Deposit $\frac{7000 \times 100}{7}$ = Rs. 100000

2. Depreciation has been calculated on the basis of:
   (Opening balance of the Asset + Purchases of Assets during the yr.) - the Closing balance of the Asset

ILLUSTRATION 7.

Prepare Income & Expenditure A/c & Balance Sheet of SPORTS Club DELHI for the yr. ended 31st march. 2017 from the following:

Receipts & Payments A/c
(Year ended 31-3-2017)

Receipts	**Rs.**	**Payments**	**Rs.**
Cash in hand b/d	4500	Salaries (11 months)	1100
Subscriptions: 2015-16 – 100 2017-18- 2400 2018-19- 200	2700	Tournament exp.	1600
		Investments	1000
		Furniture	400
Sale of old furniture (Costing Rs.200)	140	Stationery	1200
Tournament Receipts	2000	Sports expenses	15000
Sports Fund	10000	Misc. expenses	200
Donations for Sports	3000	Rent paid up-to may. 2017	1400
		Cash in hand	440
	22340		**22340**

The club has 300 members each paying an annual subscription of Rs.10. Rs.70 are still outstanding for the yr2015-.2016. In 2015-2016, 10 members had paid their subscription for 2017 in advance. Stock of stationery in 2016 was Rs. 100 & in 2017 Rs. 140.

On 1-4-2016, club owned Land & Building valued at Rs. 20.000& furniture of Rs. 1300. Interest accrued on investment @6% p.a. for 3 months for 2016-17

Ans. 7

Income and Expenditure A/c
(Year ended 31st march 2017)

Expenditure	Rs.	Income	Rs.
To Loss on sale of furniture	60	By Subscriptions 2700 Less: O/s (2015-16) 170 Less: Advance (2018-19) 200 Add: Advance (2016-17) 100 Add: O/s (2017-18) 570	3000
To sports expenses	2000		
To Salaries 1100		By Tournament Receipts	2000
Add: Outstanding 100	1200	By Accrued interest	15
To Tournament exp.	1600	By Deficit	2405
To stationery Op. Stock100			
Add: Purchases 1200			
Less: Closing stock 140	1160		
To Misc. Exp.	200		
To Rent 1400 Less: Prepaid 200	1200		
	7420		**7420**

Balance Sheet as at 31.03.2017

Liabilities	Rs.	Assets	Rs.
Advance Subscriptions	200	Cash in hand	440
Salary o/s	100	Prepaid Rent	200
Capital Fund 25970 Less: Deficit 2405	23565	Subscription 500 Add: O/s 70	570

		Accrued Interst	15
		Stock of stationery	140
		Investment	1000
		Furniture 1300 Add: Purchase 400 Less: Sold 200	1500
		Land & Building	20000
	23865		23865

Balance Sheet as at 31.03.2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Advance Subscription	100	Cash in hand	4500
Capital Fund (Bal fig)	25970	Subscription o/s	170
		Stock of stationery	100
		Furniture	1300
		L and & Building	20000
	26070		**26070**

Work Sheet on Not-for-Profit Organisation

Q.1 Define features of Not for Profit Organisation? (3)

Q.2 Distinguish between Not for Profit Organisation and Profit Organisation. (3)

Q.3 Distinguish between Receipt and Payment and Income and Expenditure Account. (3)

Q.4 Distinguish between Receipt and Payment Account and Cash Book. (3)

Q.5 Distinguish between Income and Expenditure and Profit and Loss Account. (3)

Q.6 What do you mean by fund based accounting. Explain with suitable example. (3)

Q.7 Anand has instituted a Sports Fund of Rs.100,000 in a school. The school kept the funds in a separate Bank Account out of which it withdrew money every year and spent it on the sports activities. The fund had a balance of Rs.15,000 as on 31st March, 2017. During the financial year ended 31st March, 2018, it spent Rs.17,500 in organizing the sports events. How will you account the expense? Give reasons for your answer. (3)

Q.8 Furniture as on 1-4-2017 Rs.4,40,000, furniture (book value on 1-4-2017 Rs.40,000) sold at a profit of 10% on 31st Dec.2017. Furniture purchased on 1-10-2017 for Rs.2,00,000, charged depreciation @10% p.a. as per straight line method. How will you treat the above while preparing Income and Expenditure Account and Balance Sheet as on 31-3-2018. (3)

Q.9 Depreciation not recorded in Receipt and Payment Account but it is recorded in Income and Expenditure Account. Do you agree with the statement? Justify your answer. (3)

O.10 From the following particulars calculate the amount of subscription to be credited to the Income and Expenditure Account for the year ended 31-3-2018:

i. Subscriptions in arrears on 31-3-2017 Rs.1000

ii. Subscriptions received in advance at 31-3-2017 Rs.2,200

iii. Total subscription received during 2017-18 Rs.70,800
(including Rs.800 for 2016-17, Rs.2,400 for 2018-19 and Rs.600 for 2019-20)

iv. Subscription outstanding for 2017-18 Rs.800 (3)

Q.11 From the following particulars calculate the amount of subscription received in advance during 2017-18

I. Subscription received during the year 2017-18 Rs.52,500

II. There were 200 members paying subscription at the rate of Rs.250 p.a. each

III. Some members have paid their annual subscription in advance during the year

IV. As on 1-4-2017 no subscription had been received in advance but subscription were outstanding to the extent of Rs. 1,000 as on 31-3-2017

V. Subscription accrued as on 31-3-2018 Rs.1,500 (3)

Q.12 From the following particulars calculate the amount of subscription to be credited to the Income and Expenditure Account and also prepare subscription account for the year ended 31-3-2018

Subscription received during the year ended 31-3-2018 are as follows:

2016-17	Rs.800
2017-18	Rs.4,2200
2018-19	Rs.1,600

There are 450 members each paying an annual subscription of Rs.100 Rs.900 were in arrears for 2016-17 at the beginning of 2017-18. (3)

Q.13 There were 900 members in club each paying an annual subscription of Rs.100. Rs.2000 were in arrears as on 31-3-2017. Subscription received during 2017-18 were Rs.89,200 including Rs.1800 for 2016-17 and Rs.3000 for the year 2018-19. Calculate the amount of subscription to be shown in Income and Expenditure Account and in Balance Sheet as on 31-3-2018. (3)

Q.14 Explain the following term with their treatment:

I. Subscriptions

II. Legacy

III. Life membership fee,

IV. Honorarium

V. Endowment fund

VI. Capital fund (2×6)

Q.15 Calculate the amount of stationery consumed during the year 2017-18:

I. Stock of stationery as on 1-4-2017 Rs.3,000

II. Creditors for stationery as on 1-4-2017 Rs.2,000

III. Advance paid for stationery carried from 2016-17 Rs.200
IV. Amount paid for stationery during the year Rs.10,800
V. Stock of stationery on 31-3-2018 Rs.500
VI. Creditors for stationery on 31-3-2018 Rs.1,300
VII. Advance paid for stationery on 31-3-2018 Rs.1,300 (3)

Q.16 Calculate the stock of books consumed during the year 2017-18 and show the treatment in balance sheet on dated 31-3-2017 and 31-3-2018: Stock of books on 1-4-2017 Rs.6,200 Stock of books on 1-4-2018 Rs.4,800 Creditors for books on 1-4-2017 Rs.9;800 Creditors for books on 1-4-2018 Rs.7,200 Advance to supplier on 1-4-2017 Rs.11,000 Advance to supplier on 1-4-2018 Rs.19,000
Purchase of books during the year Rs.91,400 (3)

Q.17 How will you deal with the following case by preparing the final accounts of a sports club for the year ended 31-3-2018:

Receipt and Payment Account
For the year ended 31-3-2018

Receipts	**Rs.**	**Payments**	**Rs.**
To Sale of Sports Materials (Book value Rs.40,000)	52,000	By Creditors for Sports Materials	1,22,000
		By Cash Purchase of Sports Materials	20,000

Additional Information:

Particulars		31-3-2017	31-3-2018
Sports Materials		40,000	50,000
Creditors for Sports Materials		14,000,	30,000

(3)

Q.18 How would you treat the following items in case of a Not-for-Profit Organisation:
I. Tournament fund Rs. 10,000, Tournament Expenses Rs.3,000, Receipt from tournament Rs.4,000
II. Billiards Match Expenses Rs.1,500
III. Prize Fund Rs.5,000, Interest on Prize Fund Investment Rs.500, Prizes paid Rs.1,000, Prize Fund Investment Rs.4,000

IV. Receipts from cinema show Rs.2,500, Expenses on cinema show Rs.1,500

V. Donation received during the year for construction of a permanent pavilion Rs.7,54,000, Expenditure incurred upto 31-3-2017 on its construction Rs.5,92,000

VI. The construction work is continuing, the total estimated expenditure of construction of pavilion being Rs.20,00,000 (2x6)

Q.19 Summary of Receipt and Payment of a medical society for the year ended 31-3-2018 are as follows:

Opening cash balance in hand Rs.8,000, Subscription Rs.50,000, Donation Rs.15,000, Interest on Investment @ of 9% p.a. Rs.9,000, Payment for medicine supply Rs.30,000, Honorarium to doctors Rs.10,000, Salaries Rs.28,000, Sundry expenses Rs.1,000, Equipment purchased Rs.15,000, Charity show expense Rs.1,500, Charity show collection Rs.12,500. Additional Information:

Particulars	1-4-2017	31-3-2018
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare Receipt and Payment Account and Income and Expenditure Account and Balance Sheet for the year ended 31-3-2018. (8)

Q.20 A summary of Receipts and Payments of Medical Aid Society for the year ended 31 March, 2016 is given below:

Receipts	Rs.	Payments	Rs.
To Cash in Hand	7,000	By Payments for medicines	30,000
To Subscriptions	50,000	By Honorarium to Doctors	10,000
To Donations	14,500	By salaries	27,500
To Interest on Investments @7% p.a.	7,000	By Sundry Expenses	500
To Charity Show Proceeds	10,000	By Equipments	15,000
		By Charity show Expenses	1,000
		By Cash in Hand	4,500
	88,500		88,500

Donations are to be capitalised.

Additional information:

	1.4.2015	31.3.2016		1.4.2015	31.3.2016
Subscription Due	500	1,000	Amount Due to		
Subscription Received			Medicine suppliers	8,000	12,000
in Advance	1,000	500	Value of		
Stock of Medicines	10,000	15,000	Equipments	21,000	30,000
			Value of Building	40,000	38,000

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2016. (6)

Work sheet answers.

7. Rs. 2500 as an expenses in income and expenditure account.
8. Profit rs. 7400 as income(profit on sale) in,depreciation rs.53000 as an expenses income and expenditure account and rs. 550000 as an asset in balance sheet.

10. Rs. 70000
11. Rs. 3000
12 RS.45000
13. Rs. 90000 as income ,5800 as an asset.3000 as a liabilities
15. Rs. 11500
16. Rs. rs. 92800
19. Closing cash 9000 and surplus 10200 capital fund 180300. Closing balance sheet total 204200
20. Surplus. 6500,capital fund 169500, closing balance sheet total rs.188500

NOT -FOR-PROFIT ORGANISATION MCQ/OBJECTIVES

1. Sale of old newspapers is ----------------- receipt. (Fill in the blanks)
2. Income and expense related to the prize fund is shown in Income and Expenditure Account. (true or false)
3. Life membership fees of is—

   (A) Capital Receipts (B) Revenue Receipts

   (C) Both (D) None of these
4. Legacies should be treated as—

   (A) Asset (B) A Revenue Receipt

   (C) A Capital Receipt (D) None of these
5. Payment of Honorarium to secretary is treated as Capital Expenditure. (true of false)
6. Specific donation is—

   (A) Capital Receipt (B) Revenue Receipt

   (C) Asset (D) None of these
7. Income and Expenditure Account records

   (A) Capital terms (B) Revenue items

   (C) A and B both (D) None of these
8. Outstanding subscription is a/an—

   (A) Income (B) Assets

   (C) Liability (D) None of these

9. Entrance fee, unless otherwise stated, is treats as ------------ receipts. (Fill in the blanks)

10. Life membership fee receives by a Club is—

    (A) Revenue Receipt (B) Capital Receipt

    (C) A and B both (D) None of these

11. All receipts of capital nature are as shown in—

    (A) Income and Expenditure A/c (B) Balance Sheet

    (C) P. & L. A/c (D) None of these

12. All items of revenue in nature are shown in—

    (A) Income and Expenditure A/c (B) Balance Sheet

    (C) A and B both (D) None of these

13. Which of the following is not a not-for-profit organisation—

    (A) School (B) Hospital (C) Club (D) Partnership Firm

14. The excess of assets over liabilities in NOT- FOR- PROFIT concerns is treated as ------ (Fill in the blanks)

15. Subscription received in advance by a Club are shown on ...... side of the Balance Sheet

    (A) Assests Side (B) Liabilities

    (C) Debit Side (D) Credit Side

16. Which of the following is not an income—

    (A) Subscription (B) Donation

    (C) Sale of Ticket (D) Endowment Fund

17. Income and Expenditure A/c includes—

    (A) Revenue Items (B) Capital Items

    (C) Both (A) and (B) (D) None of these

18. Most transactions in not-for-profit concerns are cash. (true or false)

19. The main objective of Not-for-Profit organisation is—

    (A) To earn the Profit (B) To serve the Society

    (C) To Prepare Profit & Loss A/c (D) All of the above

20. Subscription received by an organistaion is—

    (A) Capital Receipt (B) Revenue Receipt

    (C) Both 'A' and 'B' (D) None of the above

21. Entrance fees received be a Club is teates as—

    (A) Revenue Receipt (B) Capital Receipt

    (C) Revenue Expenditure (D) None of these

22. Receipts and Payments A/c is a summary of—
(A) All Capitals Receipts and Payments
(B) All Revenue Receipts and Payments
(C) All Revenue and Capital Receipts and Payments
(D) None of the above
23. Subscription receives during the year Rs. 5, 00000;
Subscriptions outstanding at the end of the year Rs. 80, 000;
Subscription outstanding at the beginning of the year Rs. 60,000 Net Income from subscription will be—
(A) rs'4,80,000 (B) rs' 6,40,000
(C) rs' 5,20,000 (D) rs' 3,60,000
24. Subscription received during the year Rs' 18,000; Subscription outstanding at the end of the year Rs 2,000; Subscription received in advance at the end of the year Rs '1,000. The amount of subscription to be credited to Income and Expenditure Account will be ....
(fill in the blanks)
25. In case specific fund is maintained, the expenses exceeding the amount of the funds, should be recorded on -----------
(A) Liabilities side of the Balance Sheet
(B) Debit side of the Income and Expenditure Account
(C) Credit side of the Income and Expenditure Account
(D) Assets side of the Balance sheet
26. All receipts from sale of consumable items are treates as—
(A) Capital Receipts (B) Revenue Receipts
(C) Both 'A' and B' (D) None of these
27. Subscription received in cash during the year rs' 5,000 amount received in advance for the next year is rs' 300. Amount outstanding for current year was rs' 400. The amount to be credited to the Income and Expenditure Account is—
(A) Rs. 4,000 (B) Rs. 5100
(C) Rs. 4,200 (D) Rs. 4,600
28. If income is rs' 1, 60,000 and 'deficit' debited to capital funs is rs' 43, 000, then expenditure is .... (fill in the blanks)
29. Balance of Income and Expenditure Account shows ....
(A) Cash in hand (B) Capital Fund
(C) Net Profit

(D) Excess of Income over Expenditure or vice-versa

30. Property received as a result of the will of the deceased person is called .... (fill in the blanks)

31. ENDOWMENT FUND should be treated as ---
    (A) A Liability (B) A Revenue Receipts
    (C) An Income (D) None of these

32. Life membership fees received be Club is .... receipts (fill in the blanks)

33. For not-for-profit organisation honorarium is ---------
    (A) A Capital Expenditure (B) A Revenue Expenditure
    (C) An Income (D) None of these

34. Receipts and Payments A/c is a nominal Account . (true or false)

35. Income & Expenditure A/c is a
    (A) Personal A/c (B) Real A/c
    (C) Nominal A/c (D) None of these

36. Which of the following is not a not-for-profit organisation
    (A) College (B) Sports Club
    (C) SBI Bank (D) Hospital

37. Income and Expenditure Account is prepared
    (A) By Business Organisation (B) By Industrial Organisation
    (C) By Not-for-profit Organisation (D) By all Organisations

38. Receipts and Payments Account usually indicates
    (A) Surplus (B) Capital Fund
    (C) Debit Balance (D) Credit Balance

39. Income and Expenditure Account generally indicates ------
    (A) Surplus/Deficit (B) Cash Balance
    (C) Capital Fund (D) Net Profit/Loss

40. Donation received for specific objective will be shown -------
    (A) In Income and Expenditure A/c (B) On Liabilities side of B/S
    (C) On Assets side of B/S (D) In none of these

41. interest received on specific fund investment is .... receipts. (fill in the blanks)

42. In not-for Profit Concerns, excess of Income over expenditure is called deficit (true or false)

43. In not-for-profit concerns, excess of expenditure over income is called -------- (fill in the blanks)

Answers

1. Revenue	2. False	3. (A)	4. (C)
5. (B)	6. (A)	7. (B),	8. (B)
9. Revenve,	10. (B)	11. (B),	12. (A)
13. (D)	14. capital/general fund		15. (B)
16. (D)	17. (A)	18. (B) True	19. (B)
20. (B)	21. (A)	22. (C)	23. (C)
24. Rs. 19,000	25. (B)	26. (B)	27. (B)
28. 2,03,000	29. (D)	30. Legacy	31. (A)
32. capital	33. (B)	34. FALSE	35. (C)
36. (C) receipts	37. (C)	38. (C)	39. (A)
40. (B)	41. CAPITAL	42. FALSE	43. DEFECIT

❒❒❒

Chapter -2

Accounting for Partnersip Firms Fundamentals

TOPIC	MEANING/EXPLANATION
Meaning of Partnership	Section 4 of the Indian Partnership Act 1932 defines partnerships as the 'relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
Essential Features of Partnership	1. Two or More Persons 2. Agreement 3. Lawful Business 4. Mutual Agency 5. Sharing of Profit 6. Relationship of Mutual agency among the partners **Note:** • By virtue of Section 464 of the Companies Act 2013, the Central Government is empowered to prescribe maximum number of partners in a firm but the number of partners cannot be more than 100 • The Central government has prescribed the maximum number of partners in a firm to be 50 under Rule 10 of the Companies (Micellanous) Rules, 2014, So, a partnership firm cannot have more than 50 partners.
Partnership Deed	The Partnership Act does not require that the agreement must be in writing. But wherever it is in writing, the document, which contains terms of the agreement is called 'Partnership Deed'
In the absence of partnership deed/if partnership deed is silent (the relevant provisions of the	1. Profits/losses are shared equally by all the partners 2. Interest on capital is not allowed to partners 3. Interest on drawing is not charged from partners 4. Interest on advances/loan by a partner is paid @ 6% p. a.

Indian Partenrships act 1932, become applicable	5. Remuneration (Salary and Commission etc.) to Parters not allowed.
Meaning of Partners and firm	Persons who have entered into partnership with one another are individually called partners and collectively called 'firm'
Firm's name	The Name under which the business is carried is calle the 'firm's name'
Is Partnership firm has legal entity?	A partnership firm has no separate legal entity, apart from the partner's constituting it.
Rights of partners	1. Right to participate in the management of the business. 2. Right to be constituted about affairs of the company 3. Right to inspect the books of account and have a copy of it. 4. Right to spare profits or losses with others in the agreed ratio etc.
Contents of partnership deed	• Description of the Partners and Firm. • Principal place and nature of the business. • Commencement of Partnership, Capital Contribution • Interest on Capital/Drawing/Partnes Loan • Methods of valuation of Good will/Assets etc.
Liabilities of Partners (subject to contract between the partners	1. If a partner derives any profit for him/her self from any transaction of the firm or from the use of the property or business connection of the firm or the firm name, he/she shall account for the profit and pay it to the firm. 2. If a partner carries on any business of the same nature as and competing with that of the firm, he/she shall account for and pay to the firm, all profit made by him/her in that business.
Profit and Loss Appropriation Account	It is merely an extension of the Profit and Loss Accoutn of the firm. It shows how the profits are appropriated or distributed among the partners.

	All adjustments in respect of partner's salary, partner's commission, interest on capital, interest on drawings, etc are made through this account.	
Difference between Charge against profit and Appropriation of Profit	***Charge against profit***	***Appropriation of profit***
	1. It is always debited to profit and loss account (whether profit or loss) before appropriation.	1. It is debited to profit and loss appropriation account (If profit avai lable) after charging.
	2. Examples are rent paid to a partner, interest on partners loan.	2. Examples are salary/ commission to partners, interest on capital, transfer of profits to general reserve

Difference between fixed and fluctating capital account	***B asis of Distinction***	***Fixed Capital Account***	***Fluctuating Capital Account***
	1. Number Of Accounts	• *Two accounts maintained for each partner i.e. fixed capital account and current ccount*	• *Only one ac-count capital account is main-tained*
	2. Fixed balance	• *Balance of fixed account remains fixed except when fresh capital is intro duced or withdrwan*	• *Balance fluctuate with every transaction of partner with firm.*
	3. Ajustments	• *All adjustments for drawing, interest on drawing , Interest on capital, salary, commi-ssion, share of profit/ loss are adjusted in current account*	• *All adjustments for drawing, interest on drawing,interest on capital, salary, commission, fresh capital introduced / withdrawn, share of profit/loss are adjusted in capital account*

4. Balance	• It always shows credit balance in capital account	• It may show credit or debit balance

Commission to Partners	*It may be computed as follows:* *1. If it is given as a precentage of net profit or of net profit before charging such commission.* ***COMMISSION** = Net Profit (before commission) xrate of commission/100* *2. If it is given as a percentage of net profit after charging such commission.* ***COMMISSION**=Net Profit (before commission)x rate of commission/100 +rate of commission*
Calculation of interest of drawing	**[*INTREST ON DRAWING = TOTAL DRAWINGS X RATE OF INTREST /100 X AVERAGE PERIOD/12*]** **• [AVERAGE PERIOD =MONTHS LEFT AFTER FIRST DRAWING + MONTHS LEFT AFTER LAST DRAWING/2]**

CASES	***AVERAGE PERIOD***
When the same amount is withdrawn at the beginning of each month	*6.5 Months*
When the same amount is withdrawn at the end of each month	*5.5 Months*
When the same amount is withdrawn in the middle of the month/quarter or date of drawing is not given	*6 Months*
If the same amount is withdrawn at the beginning of each quarter	*7.5 Months*
If the same amount is withdrawn at the end of each quarter	*4.5 Months*

<table>
<tr><td></td><td>Note: if the unequal amount is withdrawn at different dates or when there is irregular drawings, Interest on drawing will be calculated by simple method or product method Intrest on drawing in case of product mehtod =
Total product X rate of interest/100x1/12 (in case of months or 1/365 (in case of days)</td></tr>
<tr><td>Calculation of interest of capital</td><td>1. Interest on capital is generally provided for in two situations:
(i) when the partners contribute unequal amounts of capitals but share profits equally
(ii) where the capital contribution is same but porfit sharing is unequal
2. where there are both additon and withdrawl of capital by of partners during a financial year, the interest on capital is caluculated as follows:
(i) On the opening balance of the capital accounts of partners, interest is calcualted fot the whole year.
(ii) On the additional capital brought in by any partner during the year, interest is calculated from the date of introduction of additional capital to the last day of the financial year.
(iii) On the amount of capital withdrawn (other than usual drawings) during the year interest for the period from the date of withdrawal to the last day of the financial year is calcualted and deducted from the total of the interest calculated under points: (i) and (ii) above.
Alternatively, it can be calculated with respect to the amounts remained invested for the relevant periods.</td></tr>
<tr><td>Provisions related to interest on capital</td><td><table>
<tr><th>CASES</th><th>PROVISION</th></tr>
<tr><td>1. When partership deed does not exist or nothing is mention in question about interest on capital</td><td>Interest on capital is not allowed</td></tr>
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2. When partership deed provides for interest on capital but silent as to treatment of interest as a charge of appropriation	• Interest on capital always treated as appropriaton • In case of loss: interest on capital is not allowed • In case of sufficient profit: interest on capital is allowed • In case of insufficient profit: interest is allowed only to the extent of rofits in the ratio of interest on capital.
When parterships deed provides for interest on capital as a charge	Interest on capital is allowed whether there is a profit or loss.

Gurantee of Profit to a Partner	Sometimes a partner is admitted into the firm with a gurantee of certain minimum amount by way of his share of profits of the firm. Such assurance may be given by all the old partners in a certain ratio or by any of the old partners, individually to the new partner. The minimum guranteed amount shall be paid to such new partner when his share of profit as per the profit sharing ratio is less than the guranteed amount.
Past Adjustments	Sometimes a few omissions or errors in the recording of transactions or the preparation of summary statements are found after the final accounts have been prepared and the profits distributed among the partners. The omission may be in respect of interest on capitals, interest on drawings, interest on partner's loan, partner's salary, partner's commissions or outstanding expenses. There may may also be some changes in the provisions of partenrship deed or system of accounting having impact with retrospective effect. All these acts of omission and commissions need djustments for correction of their impact. Instead of altering old accounts, necessary adjustment can be made either; (a) through 'Profit and Loss Adjustments', or (b) directly in the capital accounts of the concerned partners.

Journal Entries Related to Profit and Loss Appropriation Account:

Data	Particulars	L.F.	Debitr S.	Creditr S.
1.	**For transfer of balance of Profit and Loss Account:** Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Being net protit transferred to P&L Appropriation A/c) **For transfer ofbalance of Profit and Loss Account: if there is loss**			
	Profit and Loss appropriation A/c Dr. To Profit and Loss A/c (Being net loss transferred to P&L Appropriation A/c)			
2.	For Interest on Capital: (a) For allowing Interest on Capital Interest on Capital A/c Dr. To Partners Capital/Current A/cs (Being interest on Capital allowed @ % p.a.)			
	(b) For transferring Interest on Capital to Profit and Loss Appropriation A/C Profit and Loss Appropriation A/c Dr. To Interest on Capital A/c (Being Interest on Capital transferred to P&L Appropriation A/c)			
3.	For Salary or Commission payable to a Partner: (a) For allowing Salary or Commission to a partner-Partner's Salary or Commission A/c Dr. To Partner's Capital/Current A/c's (Being Salary/ Commission payable to partner) (b) For transferring Partner's salary/Commission A/C to Profit and Loss Appropriation A/c Profit and Loss Appropriation A/c Dr. To Partner's Salary/Commission A/c			

4.	For transfer of Reserves: Profit and Loss Appropriation A/c Dr To Reserve A/c (Being ressrve created)			
5. 6.	For Interest on Drawings: (a) For charging interest on partner's drawings Partner's Capital/Current A/c Dr. To interest on Drawings A/c (Being interest on drawings changed @% p.a.) (b) For transferring interest on drawings to Profit and Loss Appropriation A/c: Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c (Being interest on drawings transferred to P&L Appropriation A/c)			
	For transfer of profit (Credit balance of profit and loss Appropriation account) to partners Profit and Loss Appropriation A/c Dr. To Partner's Capital/Current A/cs (Being profits distributed among partners in profit sharing ratio)			

PARTNERSHIP FUNDAMENTALS PRACTISE QUESTIONS

1. Kumar Raja and Sanjay set up a partnership firm on April 1 2018. They contributed Rs. 5,00,000, Rs 4, 00,000 and Rs 3, 000,00, respectively as their capitals and agreed to share profits and losses in the ration of 3: 2: 1. Kumar is to be paid a salary of Rs. 10,000 per month and Raja, a Commission of Rs 50,000. It is also provided that interest to be allowed on capital at 6% p.a.The drawings for the year were Kumar rs. 60,000, Raja Rs. 40,000 and Sanjay Rs. 20,000. Interest on drawings of Rs. 2700 was charged on Kumar's drawings, Rs 1800 on Raja's drawings and Rs . 900 on Sanjay's drawings. The net profit as per Profit and Loss Account for the year ending March 31, 2019 was Rs. 3, 56600. Pass the necessary journal entries and Prepare the Profit and Loss Appropriation Account to show the distribution of profit among the partners.

DATE	PARTICULAR	Dr. (Rs.)	Cr. (Rs)
1.	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Transfer of the balance of Profit and Loss Account to Profit and Loss Appropriation (Account)	3,56,600	 3,56,600
2.	Salary to Kumar A/c Dr. To Kumar's Capital A/c (For crediting partner's salary to partner's capital account)	1,20,000	 1,20,000
3.	Profit and Loss Appropriation A/c Or. To Salary to Kumar A/c (For transferring partner's salary to Profit and Loss Appropriation Account)	1,20,000	 1,20,000
4.	Commission to Raja A/c Dr. To Raja's Capital A/c (For crediting commission to a partner, to partner's capital account)	50,000	 50,000
5.	Profit and Los Appropriation A/c Or To Commission to Raja A/c (For transferring commission paid to partners to Profit and Loss Appropriation	50,000	 50,000
6.	Interest on capital A/c Dr. To Kumar's capital A/c To Raja's capital A/c To Sanjay's Capital (For crediting interest on capital to partner's capital account)	72,00	 30,000 24,000 18,000

7.	Profit and Loss Appropriation A/c Dr. To Interest on capital A/c (For transferring interest on capital to profit and Loss Appropriation Account)	72,000	72, 000
8.	Kumar's capital A/c tDr. Raja's capital A/c Dr. Sanjay's capital A/c Dr To interest on drawings (For charging interest on drawings to partner's capital accounts	2,700 1,800 900	5,400
9.	Interest on drawings A/c Dr. To Profit and Loss Appropriation Ac/ (For transferring interest on drawings to Profit and Loss Appropriation Account)	5,400	5,400
10.	Profit and Loss Appropriation A/c Dr To Kumar's capital A/c To Raja's capital A/c To Sanjay 's capital A/c (For transferring Share of profit or Loss after appropriations	1,20,000	60,000 40,000 20,000

Dr. **Profit and Loss Appropriation** Cr.

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
Kumar's Salary Raja's Commission Interest On Capital Kumar 30,000 Raja 24,000 Sanjay 18,000	1,20,000 50,000 72,000	Net Profit Interest on Drawing : Kumar 2,700 Raja 1800 Sanjay 900	3,56,600 5,400
Profit transferred to capital A/c: Kumar 60,000 Raja 40,000 Sanjay 20,000	1,20,000		
	3,62,000		3,62,000

2. Sonia and Rajiv are partners sharing profits in the ration of 3: 2 with capitals of Rs. 5,00,000 and Rs. 3,00,000 respectively. Interest on capital is agreed @ 6% p.a . Rajiv is to be allowed an annual salary of Rs. 25,000. During a year 2018-19 thye profits prior to the calculation of interest on capital but after charging Rajiv's salary amounted to Rs. 1,25,000. A provision of 5% of the profit is to be made in respect of commission to the Manager. Prepare Profit and Loss Appropriation account showing the distribution of profit and the partner's capital accounts for the year endign March 31, 2019.

Profit and Loss Appropriation Account

Particulars	Amount (Rs).	Particulars	Amount (Rs).
Rajiv's Salary	25,000	Net Profit (before Rajiv's salary)	1,50, 000
Interest on capital Sonia 30,000 Rajiv 18000	48,000		
Manager's Commission (5% of Rs. 1,50,000	7,500		
Profit transferred to capital A/c: Sonia 41,700 Rajiv 27,800	69,500		
	1,50,000		1,50,000

Partners Capital Account

Dr. Cr.

Date	Parti-culars	Sonia (Rs.)	Rajiv (Rs.)	Date	Parti-culars	Sonia (Rs.)	Rajiv (Rs.)
2019 Mar. 31	Bal. c/d	5,71,700	3,70,8 00	2018 Apr. 3	Bal. b/d	5,00,000	3,00,000
				2019 Mar. 31	Interest on capital	30,000	18,000
				Mar. 31	Salary		25,000
				Mar. 31	P&L app. (profit)	41,700	27,800
		5,71,700	3,70,800			5,71,700	3,70,800

2. Jagdeep and Kavita are partners sharing profits and losses in the ratio of 3 : 1. their capitals at the end of the financial yar 2018-2019 were Rs. 15,00,000 and Rs. 7,50,000. During the year 2018-2019, Jagdeep's drawings were Rs. 2,00,000 and the drawings of Kavita were Rs. 50,000, which had been duly debited to partner's capital accounts. Profit before charging interest on capital for the year was Rs. 1,60,000. The same has also been debited in their profit sharing ratio. Kavita had brought additional capital of Rs. 1,60,000 on October 1, 2018. Calcualte interest in capital @ 12% p.a. for the year 2018-2019

Particulars	Jagdeep (Rs.)	Kavita (Rs.)
Capital at the end	15,00,000	7,50,000
Add. Drawings during the year	2,00,000	50,000
Less: Share of profit		(40,000)
(Credited)	(1,20,000)	(1,60,000)
Less: Additonal capital	15,80,000	6,00,000

Interest on capital will be as Rs. 1, 89, 600 (12% of Rs. 15, 80,000) for Jagdeep and Rs, 81,600 for Kavita calculated as follows:

$$\left(6,00,000\times\frac{12}{100}\right)+\left(1,600,000\times\frac{12}{100}\times\frac{6}{12}\right)=72,000+9,600=\text{Rs. }81,600$$

4. Arun and Ajay are partners sharing profits and losses in the ration of 3:2 . Their capital accounts showed balance of Rs. 15,00,000 and Rs. Rs. 20,00,000 respectively on march 31, 2018. Show the treatment

of interest on capital for the year ending march 31, 2019 in each of the following alternatives:

(a) if the partneresihp deed is silent as to the payment of interest on capital and the profit for the year is Rs. 5,00,000.

(b) if partnership deed provides for interest on capital @ 8% p.a. and the firm incurred a loss of Rs. 1,00,000 during the year.

(c) If partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 5,00,000; during the year.

(d) if the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 1,40,000; during the year.

Ans. (a) In the absence of a specific provision in the Deed, no interest will be paid on the capital to the partners. The whole amount of profit will however, be distributed among the partners in their profit sharing ratio.

(b) As the firm has incurred lossed during the accounting year, no interest on capital will be allowed to any partner. The firm's loss will however be shared by the partners in their profit sharing ratio.

(c) Interest to Arun @ 8% on Rs. 15,00,000 = 1,20,000

Interest to Ajay @ 8% on Rs. 20,00,000 = $\frac{1,60,000}{2,80,000}$

As the profit is sufficient to pay interest at agreed rate, the whole amount of interest on capital shall be allowed and the remaining profit amounting to Rs. 2,20,000 (Rs. 5,00,000 - Rs. 2, 80,000) shall be shared by the partners in their profit sharing ratio.

(d) As the profit for the year is Rs. 1, 40,000, which is less than the amount of interest on capital due to partners. i.ed. Rs. 2, 80,000 (Rs 1, 20,000 for Arun and Rs. 1,60,000 for Ajay) , interest will be paid to the extent of available profit i.e. Rs. 1,40,000. Arun and Ajay will be credited with Rs . 60,000 and Rs. 80,000, respectively. Effectively this amounts to sharing the fir's profit in the ratio of interest on capital.

5. Kapil, a partner in a firm withdrew money during the year ending March, 31 2019, from his capital account, for his personal use. Calculate interest in drawings in each of the following alternative situations, if rate of interest is 9 percent per annum.

(a) if he withdrew Rs. 30,000 per month at the beginning of the month.

(b) if an amount of Rs. 30,000 per month was withdrawn by him at the end of each month.

(c) if the amounts withdrawn were: Rs. 1, 20,000 on June 01, 2018, Rs 80,000; of August 31, Rs. 30,000; on September 30, 2018, Rs. 70,000, on November 30, 2018, and Rs. 60,000 on January 31, 2019.

(d) if he withdrew Rs. 3,00,000 per quarter at the beginning of the quarter.

(e) if he withdrew Rs. 3,00,000 per quarter at the end of the quarter.

(f) if he withdrew Rs. 3,00,000 during the year.

(g) if he withdrew Rs. 1,50,000 at the middle of the each quarter.

Ans. (a) 3,60,000 × 9/100 × 6.5/12 = Rs. 17,550

(b) 3,60,000 × 9/100 × 5.5/12= Rs. 14, 850

(c) Statements showing Calculation of Interest on Drawings (product method)

Date	Amount Withdrawn	Period (in months)	Product
June 01, 2018	1, 20,000	10	12, 00,000
August 31, 2018	80,000	7	5, 60,000
September 30, 2018	30,000	6	1,80,000
November 30, 2018	70,000	4	2,80,000
January 31, 2019	60,000	2	1,20,000
			23,40,000

Interest on drawings = 23,40,000 × $\frac{9}{10} \times \frac{1}{12}$ = Rs. 17, 550

(d) 12,00,000 × $\frac{9}{100} \times \frac{7.5}{12}$ = Rs. 67,500

(e) 12,00,000 × $\frac{9}{100} \times \frac{4.5}{12}$ = Rs. 40,500

(f) 3,00,000 × $\frac{9}{100} \times \frac{6}{12}$ = Rs. 13,500

(g) 6,00,000 × $\frac{9}{100} \times \frac{6}{12}$ = Rs. 27,000

6. Dinesh an Manish share profits and losses in the ratio of 3:2. They admit Nipun into their firm to 1/6 share in profits. Dinesh personally guaranteed that Nipun's share of profit, after charging interest on capital @ 10 percent per annum would not be less than rs. 3,00,000 in any year. The capital provided was as follows: Dinesh Rs. 25,00,000, Manish Rs. 20,00,000 and Nipun Rs. 15,00,000. The profit for the year ending March Rs. 20,00,000 and Nipun Rs. 15,00,000. The Profit for the year ending March 31, 2019 amounted to Rs. 15,00,000 before providing interest on capital. Show, the Profit and Loss Appropriation Account if new profit sharing ratio is 3:2:1.

Profit and Loss Appropriation Account

Dr. Cr

Particulars	Amount (Rs,)	Particulars	Amount (Rs,)
Interest on capital: Dinesh 2,50,000 Manish 2,50,000 Nipun 1,50,000	6,00,000	Net Profit	15,00,000
Profit transferred to capital A/c: Dinesh 4,50,000 Less : share of deficiency 1,50,000 Manish Nipun 1,5000 Add: 1,50,000 Add: deficiency recieved from Dinesh 1,50,000	3,00,000 3,00,000 3,00,000		
	15,00,000		15,00,000t

7. Priya, Deepa and Kashish are partner's sharing profits in the ration of 5:4:1 Kashish is given a guarantee that her share of profits in any given year would not be less than rs. 50,000. Deficiency , if any would be borne by Priya and Deepa equally. Profits for the year amounted to Rs. 4,00,0t00. Record necessary journal entries in the bools of the firm showing the distribution of profit.

Profit and Loss Appropriate Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Profit transferred to capital A/c: Priya 2,00,000 Less: share of deficiency 5000 Deepa 1,60,000 Less: share of deficiency 5000	1,95,000 1,55,000	Net Profit	4,00,000
Kashish 40,000 Add: deficiency received from Priya 5,000 5,5000 Deepa 5000	50,000		
	4,00,000		4,00,000

8. On March, 31, 2019 the balance in the capital accounts of Sonu, Monu an Tony, after making adjustments for profits. drawing, etc. were Rs. 8,00,000. Rs, 6,00,000 and Rs. 4,00,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 5 p.a. The drawings during the year were Sonu Rs. 2,00,000; Monu Rs. 1,50,000 and Tony, Rs. 90,000. Interest on drawings, chargeable to partners were Sonu Rs, 5000, Monu Rs. 3600 and Tony Rs. 2000. The net profit during the year amount to Rs. 1,20,000, The Profit sharing ratio was 3:2:1. Record necessary adjustment entries.

Statement Showing Calculation of Capital at the Beginning

Particulars	Sonu (Rs.)	Monu (Rs.)	Tony (Rs.)
Capital at the end Add: drawings during the year Less: profit credited	8,00,000 2,00,000 (60,000)	6,00,000 1,50,000 (40,000)	4,00,000 90,000 (20,000)
Opening capital	9,40,000	7,10,000	4,70,000
Interest on capital @ 5 % p.a	47,000	35,500	23,500

Statement Showing Adjustment

Particulars	Sonu (Rs.)	Monu (Rs.)	Tony (Rs.)	Firm (Rs.)
Profit already credited now reversed	60,000(dr.)	40,000(dr.)	20,000(dr.)	1, 20,000(cr.)
Interest on capital	47,000 (cr.)	35,500 (cr.)	23,500 (cr.)	1,06,000 (dr.)
Interest on drawings	5,000 (dr.)	3,600 (dr.)	2,000 (dr.)	10,600 (cr.)
Net Profit (bal. Fig.)	12,300 (cr.)	8,200 (cr.)	4,100 (cr.)	24,600 (dr.)
Net effect	5,700 (dr.)	100 (cr.)	5,600 (cr.)	

Journal

Date	Particulars	Dr.(Rs.)	Cr. (Rs.)
	Sonu's capital Ac/ Dr. To Monu's Capital a/c To Tony's capital a/c (being adjustment entry made)	5,700	 100 5,600

9. Aanchal, Aarav and Avika form a partnership firm , sharing profits in the ratio of 3:2:1, subject to the following:
   (i) Avika's share in the profits, guranteed to be not less than Rs. 1,50,000 in any year.
   (ii) Aarav gives gurantee to the effect that gross fee earned by her for the firm shall be equal to her average gross fee of the proceeding five years, when she was carrying on profession alone (which is Rs. 2,50,000). The net profit for the year ended March 31, 2019 is Rs. 7,50,000. The gross fee earned by Aarav for the firm was Rs. 1, 60,000. Your are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Dr. Profit and Loss Appropriation Account Cr.

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Profit trnasfered to capital A/c: Aanchal 4, 20,000 Less: share of deficiency 6,000	4, 14,000	Net Profit	7,50,000
Aarav 2, 80,000 Less: share of deficiency 4,000	2,76000	Aarav's capital A/c (shortage of gross fees)	90,000
Avika 1,40,000 Add : deficiency received from Aanchal 6,000 Aarav 4,000	1,50,000		
	8,40,000		8,40,000

ASSIGNMENT -BASIC FUNDAMENTAL OF PARTNERSHIP ACCOUNTING

1. The partners of a firm distributed the profits for the year ended 31-3-2003 Rs. 75,000 in the ratio 3:2:1 without providing for the following adjustments:

   (a) A and B were entitled to a salary of Rs. 3,000 each p.a.

   (b) B was entitled to a commission of Rs. 5,000

   (c) B and C have guaranteed a minimum profit of Rs. 35,000 p.a. to A. and any deficiency in profits will be borne by A and B equally

   Profits were to be shared in the ratio of 3 :3: 2.

   Pass necessary journal entry for the above adjustments in the books of the firm.

Ans.

C'S CAPITAL A/c Dr.	2000
TO B'S CAPITAL A/C	500
TO A'S CAPITAL A/C	1500

2. A, B and C are partners in a firm sharing profits in the ratio 2 : 2 :1. C as guaranteed a minimum share of profit of Rs. 20,000 after charging interest on capital © 5% p.a. by A. The capitals of partner were Rs. 80,000, Rs. 60,000 and Rs. 40,000. The profit for the year was Rs. 89,000. Show distribution of profit.

Ans. PROFIT OF A -- 28000, PROFIT OF B-- 32000, PROFIT OF C--20000

3. A, B and C are partners sharing profits in ratio 3:1:1. Their deed provided the followings:

   (a) interest on capital @ 12% p.a., there fixed capitals were Rs. 2,00,000 , 1,50,000 and Rs.1,00,000 respectively

   (b) A was entitled to a salary of Rs. 3,000 p.a.

   (c) B was entitled to a commission of Rs. 5,000

   (d) A and C guaranteed that B to get a minimum share of Rs. 20,000 p.a. including all commission to him. Profit for the year was Rs. 72,000. prepare Profit and loss appropriation a/c and partners' urrent A/c

Ans.

A'S CURRENT A/C	B'S CURRENT a/C	C'S CURRENT a/C
23250	38000	10750

4. Sonu and Monu were partners in a firm sharing profits in the ratio 3:2. Their fixed capitals were Rs. 35,000 and Rs. 25,000 respectively. The partnership deed provided that

(a) Interest on capital be allowed at 10% p.a.

(b) Sonu be allowed a salary of Rs. 2000 p.a.

(c) A commission of 10% of the net profit be allowed to Monu.

The net loss for the year ended 31st December 2008 was Rs. 20,000. Prepare Profit and Loss Appropriation Account.

LOSS DISTRIBUTION	
To Sonu's current a/c	12000
To Monu's current a/c	8000

5. Sonu and Monu were partners in a firm sharing profits in the ratio 3:2. Their fixed capitals were Rs. 35,000 and Rs. 25,000 respectively. The partnership deed provided that interest on capital and salary will be treated as charge against the profits

(a) Interest on capital be allowed at 10% p.a.

(b) Sonu be allowed a salary of Rs. 2000 p.a.

(c) A commission of 10% of the net profit be allowed to Monu.

The net loss for the year ended 31st December 2008 was Rs. 20,000. Prepare Profit and Loss Appropriation Account.

LOSS DISTRIBUTION	
To Sonu's current a/c	16800
To Monu's current a/c	11200

6. Sonu and Monu were partners in a firm sharing profits in the ratio 3:2. Their fixed capitals were Rs. 35,000 and Rs. 25,000 respectively. The partnership deed provided that interest on capital and salary will be treated as charge against the profits

(a) Interest on capital be avowed at 10% p.a.

(b) Sonu be allowed a salary of Rs. 2000 p.a.

(c) A commission of 10% of the net profit be allowed to Monu.

The net profits for the year ended 31st December 2008 was Appropriation Rs. 5,000. Prepare Profit and Loss Appropriation Account.

Answer: Sonu's share in profit 3530 and Monu's share ₹ 1470

7. Pappu and Munna are partners in a firm sharing profits in the ratio of 3 : 2. The partnership deed provided that Pappu was to be paid salary of Rs. 2,500 per month and Munna was to get a commission of Rs. 10,000 per year. Interest on capital was to be allowed @ 5% p.a. and interest on drawings was to be charged @ 6% p.a . Pappu's drawing was Rs. 25000 and Munna's drawings Rs. 12000 during the year. Capital of partners were Rs. 2,00,000 and Rs. 1,50,000 respectively and

were fixed. The firm earned a profit of Rs. 90,575 for the year ended 31-3-2018

Ans. Pappu's current a/c 31011, Munna's current a/c 206749.)

8. A, B and C are partners sharing profits in ratio 2:2:1 They have balance in their capital A/cs at the end of the year March 31st 2011 were Rs. 1,20,000, 85,000, and 95,000 respectively after distributing profits of the year which were Rs. 96,000 which they had divided equally without providing for the following as per their deed

(a) A was entitled for salary Rs. 5,000 p.a. while B was entitled of salary of Rs. 250 p.m.

(b) C was entitled to a commission of 10% of profit after making the adjustment of salaries of A and B.

(c) Drawings made by the partners during the year as follows:

A's drawings Rs. 1,500 per month at the beginning of each month.

B's drawings were Rs. 6,000 at the beginning of each quarter.

C's drawings were Rs. 20,000 during the year.

Interest was to be charged on the drawings @ 10% p.a.

Pass necessary adjustment entry for the above errors committed in the A/cs.

HINT:

Particulars	Dr. Amount	CR. Amount
C'S CAPITAL A/c Dr.	7665	
To A'S CAPITAL A/C		5095
TO B'S CAPITAL A/C		2570

9. Riya and Priya were partners sharing profits in ratio 2:1. Their respective fixed Capitals were Rs. 5,00,000 and Rs. 3,00,000. however on 1st October 2017, Riya withdrew Rs. 150000 from his capital and Priya introduced the sum what Riya had withdrawn from her capital. Profits of the firm for the year ended 31st March, 2018 were Rs. 60,000- Balance as on 1st april 2017 current A/c of Riya were Rs. 3000 cr. Balance and Priya Rs. 2,500 Dr. The partnership deed provided followings: (i) Interest on Capital @ 6% p.a. and Interest on Drawings @ 12% p.a.During the year ended 31st March, 2018 drawings of Riya were Rs. 1,000 drawn at the beginning of every month and of Priya's were Rs. 1,000 p.m. drawn in the middle of every month.

After the preparation of final accounts for the year, it was discovered interest on capitals and interest on drawings of partners were omitted, pass the rectifying journal entry. Prepare partners current A/c and partners' capital A/c from 1st April 2017 to 10 April 2018."

	ADJUSTEMNT	BALANCE OF CURRENT A/C
Riya's Current A/c	6280 DR	24720
Priya's current a/	6280 CR	11780

10. Abhay, Bina and Chetan were partners in a firm having capitals of Rs.60,000, Rs.60,000 and Rs.80,000 respectively. Their current account balances were : Abhay Rs.10,000; Binba Rs.5,000 and Chetan Rs.2,000 (Dr.). According to the partnership deed the partners.

(1) entitled to interest on capital @5% p.a. and interest on drawings @ 6% p.a.

(2) Chetan being the working partner was also entitled to a salary of Rs.6,000 p.a.

(3) Abhay granted a loan of Rs. 50,000 to firm on 01/10/2017 on which he was to be paid interest @ 9% p.a.

(4) Abhay had started to draw Rs. 3000 p.m. from 01/01/2018 while Chetan has been drawing Rs. 3000 p.m. from the beginning of the financial year at the end of every month. Bina was drawing Rs. 15000 in the beginning of every quarter but she stoped to draw any amount after 2nd quarter.

Profit is to be distributed as follows

(a) The first Rs.20,000 in proportion to their capitals

(b) Next Rs.30,000 in the ratio of 5 : 3 : 2

(c) Remaining profits to be shared equally

The firm made a profit of Rs.1,56,000 before charging any of the above items on 31/03/2018

Prepare the profit and loss appropriation account and pass the necessary Journal entry for the appropriation of profits.

INTEREST ON DRAWINGS : ABHAY Rs. 90, BINA 1575, CHETAN 990

PROFIT : ABHAY Rs.51135, BINA 45135, CHETAN 44135

11. Ashok and Rohit started business on 1st april 2017. Their fixed capitals on 1-4-2017 were : Ashok Rs.60,000 and Rohit Rs.80,000. The profit of the firm for the year ended 31-3-2018 were Rs. 12,600 during the year. The drawing made by Ashok and Rohit were Rs.2,000 and Rs.4,000 during the year. Ashok has been working as production manager in a reputed company earning a salary of Rs. 20,000 p.m. he had expected and convinced to Rohit that using his relationships in the market, they will be able to earn Rs. 20000 minimum as profit in the 1st year of business, he had to leave his job also to work full time in the firm . Prepare profit and loss appropriation account. And partners' capital A/c as on 31st March 2018.

Ans. ASHOK'S SHARE IN PROFIT 12600

ROHIT'S SHARE IN PROFIT 12600

12. Mahesh and Dinesh share profits and losses in the ratio of 2:1. From January 01, 2017 they admitted Rakesh into their firm who is to be given a share of 1/10 of the profits with a guaranteed minimum of Rs. 25,000. Mahesh and Dinesh continue to share profits as before but agree to bear any deficiency on account of guarantee to Rakesh in the ratio of 3:2 respectively. The profits of the firm for the year ending December 31, 2017 amounted to Rs. 1,20,000. Prepare Profit and Loss Appropriation Account.

SHARE IN PROFIT MAHESH 64200

DINESH 30800

RAKESH 2500

13. Mukesh and Karan are in partnership since April 01, 2017. No Partnership agreement was made. They contributed Rs. 4,00,000 and 1,00,000 respectively as capital. In addition, Mukesh advanced an amount of Rs. 1,00,000 to the firm, on October 01, 2016. Due to long illness, Mukesh could not participate in business activities from August 1, to September 30, 2016. The profits for the year ended March 31, 2017 amounted to Rs. 1,80,000.

Dispute has arisen between Mukesh and Karan.

Mukesh Claims:

(i) he should be given interest @ 10% per annum on capital and loan;

(ii) Profit should be distributed in proportion of capital;

Karan Claims:

(i) Profits should be distributed equally;

(ii) He should be allowed Rs. 2,000 p.m. as remuneration for the period he managed the business, in the absence of Mukesh;

(iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Mukesh and Karan. Also prepare Profit and Loss Appropriation Account"

Ans.

MUKESH'S SHARE IN PROFIT 88500

KARAN' SHARE IN PROFIT 8850

14. Riya and Sunita are partners in a firm, with capitals of Rs. 2,00,000 and Rs, 3,00,000 respectively. The profit of the firm, for the year ended 2016-17 is Rs. 23,200. As per the Partnership agreement, they share the profit in their capital ratio, after allowing a salary of Rs. 5,000 per month to Sunita and interest on Partner's capital at the rate of 10% p.a. During the year Riya withdrew Rs. 7,000 and Sunita Rs. 10,000 for their personal use. As per partnership

deed, salary and interest are caption treated as charged. You are required to prepare Profit and Loss Account and Partner's Capital Accounts.

Ans. Riya's share in loss 34720 Sunita's share in loss 5208

15. Sakshi and Veena were partners in a firm. Their partnership agreement provides that:

(i) Profits would be shared by Sakshi and Veena in the ratio of 3:2;

(ii) 5% interest is to be allowed on capital;

(iii) Veena should be paid a monthly salary of Rs. 600.

The following balances are extracted from the books of the firm, on March 31, 2017.

Sakshi	**Sakshi (₹)**	**Veena (₹)**
Capital Accounts	50,000	60,000
Current Accounts	(Cr.) 9,200	(Cr.) 2,200
Drawings	10,850	8,150

Net profit for the year, before charging interest on capital and after charging partner's salary was Rs. 9,500. Prepare the Profit and Loss Appropriation Account and the Partner's Current Accounts.

Ans. Sakshi's share in profit 2000 Veena's share in profit 2000

16. Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs. 750 p.m. Chandan deposited Rs. 20,000 on which interest is payable @ 9% p.a. At the end of 2017 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1, 2014 with 1/6 th share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

		(₹)
2014	Profit	59.000
2015	Profit	62,000
2016	Loss	(4,000)
2017	Profit	78,000

Record the necessary journal entries to give effect to the above

	PROFIT BEFORE ADJUSTMENT	salary of Chandan taken back	extra interest on loan taken back	ADJUSTED PROFIT
Profit	59,000	9,000	600	68,600
Profit	62.000	9.000	600	71.600
Loss	-4.000	9,000	600	5,600
Profit	78.000	9,000	600	87.600
	195000			233400

	KAVITA	PRADEEP	CHANDAN
SHARE IN ADJUSTED PROFIT	116700	77800	43700
SHARE IN PROFIT BEFORE ADJUSTMENT	(117000)	(78000)	(43200)
	(300)	(200)	500

Particulars	Lf.	Dr. amount	Cr. amount
KAVITA'S CAPITAL A/c Dr.		300	
PRADEEP's CAPITAL A/c Dr.		200	
TO CHAN DAN'S CAPITAL A/C (being the adjustment made on admitting manager as partner)			500

17. Kiran and Shalu are partners, sharing profits in the ratio of 3 : 2. They employed Rohit as their manager, to whom they paid a salary of Rs.1100 p.m. Rohit deposited Rs. 30,000 on which interest is payable @ 12% p.a. At the end of 2017 (after the division of profit), it was decided that Rohit should be treated as partner w.e.f. Jan. 1, 2014 with 1/6th share in profits. His deposit being considered as capital carrying interest @ 10% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

		(₹)
2014	Profit	59,000
2015	Profit	72,000
2016	Loss	(14,000)
2017	Profit	78,000

Record the necessary journal entries to give effect to the above

Ans. Dr. kiran 7100, dr. Shalu 4733 cr. Rohit 11833

18. Anju, Manju and Mamta are partners whose fixed capitals were Rs. 10,000, Rs. 9,000 and Rs. 12,000, respectively. As per the partnership agreement, there is a provision for allowing interest on capitals @ 5% p.a. but entries for the same have not been made for the last three years. The profit sharing ratio during there years remained as follows:

Year	Anju	Manju	Mamta
2015	2	2	1
2016	1	1	1
2017	3	1	2

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2018.

Ans.

Anju's Capital A/c	Dr.	412
Manju's capital A/c	Dr.	45
To Mamta's capital A/c	A/c	457

19. The partners of a firm distributed the profits for the year ended 31-3-2003 Rs. 5,000 in the ratio 3:2:1 without providing for the following adjustments:

a) A and B were entitled to a salary of Rs. 3,000 each p.a.

b) B was entitled to a commission of Rs. 5,000

c) B and C have guaranteed a minimum profit of Rs. 3,000 p.a. to A. and any deficiency in profits will be borne by A and B equally

Profits were to be shared in the ratio of 3 :3: 2.

Pass necessary journal entry for the above adjustments in the books of the firm.

Ans.

C'S CAPITAL A/c Dr.		2500	
	TO A'S CAPITAL A/C		1636
	TO B'S CAPITAL A/C		864

20. The partners of a firm distributed the profits for the year ended 31-3-2003 Rs. 5,000 in the ratio 3:2:1 without providing for the following adjustments which were to be treated as charge against adjustments

a) A and B were entitled to a salary of Rs. 3,000 each p.a.

b) B was entitled to a commission of Rs. 5,000

c) B and C have guaranteed a minimum profit of Rs. 3,000 p.a. to A. and any deficiency in profits will be borne by A and B equally

Profits were to be shared in the ratio of 3 :3: 2.

Pass necessary journal entry for the above adjustments in the books of the firm.

Ans.

C'S CAPITAL A/c Dr.	5000	
TO A'S CAPITAL A/C		3000
TO B'S CAPITAL A/C		2000

21. The partners A,B and C distributed the profits for the year ended 31st March, 2017, Rs. 90,000 equally. On 31st May ,2018 the discovered that they have not followed the following provisions given in the partnership deed without providing for the following adjustments:

i. Interest on capital @ 12% p.a., there capitals after distributing profits of the year were Rs. 2,00,000, 1,40,000 and Rs.2,10,000 respectively

ii. A and B were entitled to a salary of Rs. 1,500 each iii. a. III. B was entitled to a commission of Rs. 4,500.

iv.B and C have guaranteed a minimum profit of Rs. 35,000 p.a. to A.

v. Interest on drawings @ 6% p.a. drawings were as follows

A's Drawings Rs. 6,000 per quarter in the beginning, B's drawing at the end of quarter Rs. 5,000 and C's drawings Rs. 20,000 during the year.

Pass necessary journal entry for the above adjustments in the books of the firm, and prepare partners's capital A/c from 1st april 2016 to 31st May 2018.

			Balances of
		adjustment	capital a/c
A's capital Cr.		28880	228880
C'S CAPITAL A/c	Dr.	13315	196685
B'S Capital A/c Dr.	15565	124435	

22. Anju, Manju and Mamta are partners whose capitals were Rs. 1,80,000, Rs. 60000 and Rs. 132,000, respectively. As on 31.03.2018 The profits amounted Rs. 36,000 for the year has been distributed in the ration of 4:1:1. after allowing interest on capital @ 10% p.a. During the year each one has withdrawn Rs. 72,000, the partnership deed has been silent for the profit sharing ration but provides interest on capital @ 12% p.a. pass necessary journal entry.

Ans. Dr. Anju's capital A/c 2664 ; Cr. Manju's capita a/c 684; Cr. Mamta's Capital a/c

PARTNERSHIP FIRM FUNDAMENTALS MCQ/OBJECTIVES QUESTIONS

1. Partner's salary is debited to---
   (A) Trading Account (B) Profit and Loss Account
   (C) Profit & Loss Appropriation Account
   (D) None of these
2. Current Account of the partners should be opened, when capital are---
   (A) Fluctuating (B) Fixed
   (C) Circulating (D) None of these
3. Maximum Number of Partners in a firm is 100 (true or false)
4. Liability of a partner is ..... (fill in the blanks)
5. Partnership Deed is also called Articles of Partnership. (true or false)
6. The relationship of partners with the firm is .....
   (A) As Manager (B) As Servant
   (C) As agent (D) As Monopolist
7. Preparation of Partnership Deed is Partly Compulsory. (true of false)
8. Partnership Act passed in the year..... (fill in the blanks)
9. Partnership Agreement can be:
   (A) Oral (B) Written
   (C) Oral or Written (D) None of these
10. The interest on Partner's Capital Accounts is to be credited to....
   (A). Profit and Loss Ac/ (B) Interest A/c
   C) Partner's Capital A/c (D) None of these
11. In the absence or of any Partnership Agreement, the profits or losses of the firm are divided
   (A) In Capital Ratio (B). In Equal Ratio
   (C) In any of these two ratios (D) None of these
12. In the absence of partnership deed, the partner will be allowed interest on the amount advanced to the firm by him at the rate of -----
   (fill in the blanks)
13. In partnership firm, profits and losses are shared----
   (A) Equally (B) In the ratio of capitals
   (C) As per Agreement (D) None of these\
14. Which of the following is not the feature of partnership----
   (A) Agreement (B) Sharing of Profit
   (C) Limited Liability (D) Two or more than two persons

15. Profit and Loss Appropriation Account is prepared to ----
    (A) Creat Reserve Fund (B) Find out Net Profit
    (C) Find out Divisible Profit (D) None of these
16. In an ordinary partnership, minimum number of partners are-----
    (fill int the blanks)
17. Which of the following is an appropriation of profit----
    (A) Interest on Loan (B) Interest on Partner's Capital
    (C) Salary to Manager (D) Rent
18. When time of withdrawls are not mentioned, interest on drawings is charged for.......months. (fill in the blanks).
19. When drawings are made at the end of every month of certain amount, then interest will be calculated on total drawings for---
    (A) 6*1/2* (B) 6 months
    (C) 5*1/2* (D) 1 month
20. For the firm, interest on drawing is a ....
    (A) Gain (B) Expense
    (C) Loss (D) None of these
21. In the absence of partnership deed, partners, are not entitled to receive
    (A) Salaries (B) Commission
    (C) Interest on Capital (D) All of these
22. If a fixed amount is withdrawn on the first day of every quarter, the interest on total drawings will be calculated for---
    (A) For 6 months (B) For 6.5 months
    (C) For 5.5 months (D) For 7.5 Months
23. Arun and Nipun are partners with the capital or rs' 25,000 and rs' 15,000 respectively.
    Interest payable on capital is 10% p.a. Find the interest on capital for both the partners when the profits earned by the firms is rs' 2, 400
    (A) rs' 2,500 and 1,500 (B) rs' 1,500 and 900
    (C) rs' 1,200 and 1,200 (D) None of these
24. Features of a partnership are --
    (A) Two or more persons
    (B) Sharing profit and losses in the agreed ratio
    (C) Business carried on by all or any of them acting for all
    (D) All of the above

25. What time would be taken into consideration if equal monthly amount is drawn as drawings at the beginning of each month?

(A) 7 months (B) 6 months

(C) 5 months (D) 6.5 months

26. What balance does a partner's current account has?

(A) Debit balance (B) Credit balance

(C) A or B (D) None of these

27. A draws 1,000 per month on the last day of every month. If the rate of interest on drawing 5 % p.a. then the total interest on drawings will be ...(fill in the blanks)

28. In the absence of an agreement, partners are entitled to ------

(A) Salary (B) Profit share in capital ratio

(C) Interest an loan and advances @ 6% p.a.

(D) Commission

29. Fluctuating capital account is credited with---

(A) Interest on capital (B) Profit of the year

(C) Remuneration of partners (D) All of these

30. In the absence of an agreement between partners,. the interest to be allowed on partners; capital .....

(A) 8% (B) 6 %

(C) 9 % (D) None of these

Answers

1. C	2. B	3. False	4. Unlimited
5. True	6. C	7. False	8. 1932
9. C	10. C	11. B	12. 6% p.a.
13. C	14. C	15. C	16. 2
17. B	18. 6	19. C	20. A
21. D	22. D	23. B	24. D
25. D	26. C	27. 275	28. C
29. D	30. D		

CHAPTER 3

GOODWILL METHODS OF VALUATION OF

1. Goodwill	A Goodwill IS the value of Reputation, Good name and wide business connections of a firm which enables it to earn higher profits in compare to the normal profit earned by the other firms in the same trade.
2. Features of Goodwill	Features of Goodwill are as under:- 1. It is valuable, Intangible Asset. 2. It helps in earning, excess profit. 3. It is valuable only when entire business is sold
3. Factors affecting the value of Goodwill	The main factors affecting the value of goodwill are as follows: 1. Nature of business 2. Location 3. Efficiency of Management 4. Market Situations 5. Special advantages like low rate and assured supply of electricity, long term contracts for supply of materials, well known collaborators, patents, trademarks, import, licences, etc,. enjoy higher value of goodwill.
4. Categories of Goodwill	1. Purchased Goodwill 2. Self Generated Goodwill
5. Meaning of Features or Purchased Goodwill	Goodwill for which a consideration in money or money's worth has been paid in cash is called Purchased Goodwill. Features - 1 It arises on purchase of business or brand. 2. Shown in Balance Sheet as asset. 3. It is amortised (depreciated)

6. Meaning of Features or Purchased Goodwill	It is an internally generated Goodwill which arises from a number of factors that a running business possess. Features 1. It is generated over the years. 2. According to AS-26, it is not recorded in books of accounts. 3. It is also known as "INHERENT GOODWILL"
7. Meaning of Features of Self Generated Goodwill	GOODWILL needs to be valued in the following circumstances. 1. Change in Profit Sharing ratio among the existing partners 2. Admission of a New Partner 3. Retirement of a Partner 4. Death of a Partner 5. Dissolution of a firm involving Sale of business as a going Concern. 6. Amalgamation of a Partnership Firm

CHAPTER 3

GOODWILL METHODS OF VALUATION OF GOODWILL

SIMPLE AVERAGE PROFIT METHOD	Under this method, the goodwill is valued at the agreed numbers of years of purchase of the average profits of the past years. STEPS OF CALCULATE GOODWILL 1. Calculate Adjusted Profits/Normal Business Profit: Profit or Loss of the past year ADD : Abnormal losses Loss on Sale of Fixed Assets Overvaluation of opening stock Undervaluation of closing stock Non-recurring Expenses Capital Expenditure charged as Revenue Expenditure LESS : Abnormal gains Profit on sale of Fixed Assets Overvaluation of closing stock Undervaluation of opening stock Non-recurring incomes Partner's remuneration, if it is not deducted Income from Non-trade Investments Any future Expense

	ADJUSTED/FUTURE MAINTAINABLE PROFIT
	2. AVERAGE PROFIT = $\dfrac{\text{TOTAL OF ADJUSTED PROFIT}}{\text{No. of YEARS}}$ 3. GOODWILL = AVERAGE PROFIT X NO. OF YEAR'S OF PURCHASE
SUPER PROFIT METHOD	Under this method, the goodwill is valued at the agreed number of year's of purchase of the super profits of the firm STEPS TO CALCULATE GOODWILL 1) Average Capital = $\dfrac{\text{Opening capital employed} + \text{closing capital employed}}{2}$ 2) Calculate average maintainable profit (as above) 3) Normal of profit = Average Capital Employed $\times \dfrac{\text{Normal rate of return}}{100}$ 4) Super Profit = Average maintainable profits - Normal Profits 5) GOODWILL = SUPER PROFIT × NO. OF YEAR'S OF PURCHASE Calculation of capital employed • Assets side Approach • Capital Employed = All Assets (except goodwill, non-trade investments and ficitious assets) - Outside liabilities • Liabilities side Approach

	Capital Employed = Capital + Reserves - Goodwill (if exists in books)- Ficitious Asset - Non- trade investments
CAPITALISATION OF AVERAGE PROFITS	Under this method, the value of goodwill is calculated by deducting the actual capital employed from the capitalization value of the average profits on the basis of the normal rate of return **STEPS TO CALCULATE GOODWILL** 1. Calculate Average Normal Profit 2. Capitalised value of the Business = $\frac{\text{Average profit} \times 100}{\text{Normal rate of return}}$ 3. Capital Emloyed = All Assets (except goodwill, non-trade investment and ficitious assets) - Outside liabilities 4. GOODWILL = Capitalised value of the Business - Net Assets
CAPITALISATION OF SUPER PROFITS	Under this method, Goodwill is calculated by capitalizing the super profits **STEPS TO CALCULATE GOODWILL** 1. Capital Employed = All Assets (except goodwill, non-trade investments and ficitious assets) - Outside Liabilities 2. Normal Profit = Capital Employed × $\frac{\text{Normal rate of return}}{100}$ 3. Capital average maintainable profit (as above) 4. Super Profit = Average maintainable profits - Normal Profits 5. GOODWILL = $\frac{\text{Super Profit}}{\text{Normal rate of return}} \times 100$

Simple Average Profit Method

Illustration 1.

Shweta purchased a business on 1st April 2019. It was agreed to value goodwill at three years purchase of average normal profits of last 4 years. The Profits are as follows.

Year Ended	Profit (₹)
31st March 2016	(₹) 90,000
31st March 2017	(₹)1,60,000
31st March 2018	(₹)1,80,000
31st March 20169	(₹)2 20,000

Following facts are noticed–

1. During the year. ended 31/march/2016, an asset was sold at a profit of ₹ 10,000

2. During the year ended 31/March/2017, firm had incurred a abnormal loss of ₹ 20,000

3. Repairs to car amounting to ₹ 50,000 was wrongly debited to vehicles on 1st May 2017. Depreciation charged on vehicles @ 10 % on straight line Method

4. Firm had abnormal gain of ` 10,000 during the year. ended 31 March 2019

5. During the year ended 31 March 2019, a machine got destroyed in accident & ₹ 30,000 was written off as loss in Profit & Loss Account.

Calculate the value of goodwill

Solution

CALCULATION OF NORMAL PROFIT

Yr Ended	PROFIT	ADJUSTMENT (`)	NORMAL PROFIT (`)
31/Mar/2016	90,000	(10000) Profit on sale of Asset	80,000
31/Mar/2017	1,60,000	(20,000) Abnormal loss	1, 80,000
31/Mar/2018	1,80,000	(45,000) In note (i) & (ii)	1, 35,000
31/Mar/2019	2,20,000	(5000) Depreciation (10,000) Abnormal loss 30,000 Loss on sale of asset	245,000 `
			6, 40,000

Average Profit = $\frac{\text{Total Normal Profit}}{\text{No. of years}}$ = ₹ $\frac{640\ 000}{4}$ = ₹ 1,60,000

Goodwill = Average Profit x No. of years Purchase

= 1,60,000 × 3 = ₹ 4,80,000

W. NO

i). Repaie Exp. tha should have been debited to P & L A/c as expense but accounted as capital expenditure ₹ (50,000)

Hence, Loss rises by ₹ 50,000

(ii) Depreciation wrongly debited to P & L A/c for the year ended 31/Mar/2018 ₹ (5,000)

Adjustment for year ended 31/march/2018 ₹ (45,000)

(iii) Adjutstment of depreciation for year ended 31/March/2019 (10 % 50,000) = ` (5,000)

Weightened Averarge Profit Mehtod

Illustration 2. Sunil & Anil are partners sharing profit in the ratio 3:2. They admit Deepak into partnership. It was agreed to value goodwill at three years purchase on the basis of average profit of the past five years.

The Profits for these 5 years were-

Year Ended	Profit (₹)
31st March 2015	1,80,000
31st March 2016	1,60,000
31st March 2017	2, 50,000
31st March 2018	3,00,000
31st March 2019	3,50,000

Following additional Information is given

(i) An abnormal gain of ₹ 20,000 was earned in the year eded 31st March 2016

(ii) Expenses of ₹ 50,000 incurred to overhaul a machine on 1st, April 2017 was debited to P&L A/ instead of being debited to Machinery Account. Depreciation is charged on machinery @ 20 % on written Down value Method.

(iii) The closing stock for the year ended 31st March, 2018 was under valued by ₹ 20,000

(iv) To Cover management cost an annual charge of ` 9600 should be made for the purpose of goodwill valuation.

Calculate the value of goodwill

Solution

CALCULATION OF ADJUSTED PROFIT

Particulars	31st March 2015 (₹)	31st March 2016 ((₹)	31st March 2017 (₹)	31st March 2018 (₹)	31st March 2019 (₹)
Given Profits Less Abnormal Gain	1,80,000	1,60,000 (20,000) 1,40,000	2,50,000	3,00,000	3,50,000
Add Capital Expenditure on Machinery	-----------	-----------	-----------	50,000	3,50,000
Less Depreciation on Machinery @ 20 % W.D.V	-----------	-----------	-----------	(10,000)	(8,000)
	1,80,000	1,40,000	2,50,000	3,40,000	3,42,000

Particulars	31 March 2015 (₹)	31 March 2016 (₹)	31 March 2017 (₹)	31 March 2018 (₹)	31 March 2019 (₹)
Add Underavaluation of closing stock	1,80,000 -	1,40,000 -	2,50,000 -	3,40,000 20, 000	3.42,000 -
Less undervaluation of opening stock	1,80,000	1,40,000	2,50,000	3,60,000	3.42,000 (20,000)
	1,80,000	1,40,000	2,50,000	3, 60,000	3.22,000

Calculation of Goodwill

Average Profit = $\frac{\text{Total Normal Profit}}{\text{No. of years}}$

$$= \frac{180,000 + 1,40000 + 250,000 + 3,60,000 + 3,22,000}{5}$$

$$= \frac{12,52,000}{5} \qquad ₹.\ 2,50,400/-$$

Value of Goodwill = Average Profit x No. of years Purchase

= ₹ 250.400 X 3

= ₹ 7,51,200

Super Profit Method

Illustration (3) The average net profits expected of a firm is future are ₹ 68000 per years and capital invested in the business by the firm is ` 3,50,000. The rate of interest expected from capital invested in this class of business is 12%. The renumeration of the partners is estimated to be ₹ 8000 for the year. Calculate the value of goodwill on the basis of two years purchase of super profits.

Solution

$$\text{Average Profit (Adjusted)} = \text{Average net Profit} - \text{Partner's Remuneration}$$

₹ 68000 - ₹ 8000

= ₹ 60,000

$$\text{Normal Profit} = \frac{\text{Capital Employed} \times \text{Normal Rate of Return}}{100}$$

$$₹\ 3,50,000 * ₹\ \frac{12}{100}$$

= ₹ 42,000

Super Profit = Average Profit - Normal Profit

₹ 60,000- ₹ 42000 = 18000

Goodwill = Super Profit x No. of years purchase

= ₹ 18000 X 2 = ₹ 36,000

Illustration 4. Average profit earned by a firm is ₹ 75,000 which includes undervaluation of stock of ₹ 5000 on average basis. The capital invested in the business is ₹ 8,00,000 & the normal rate of return is 8 %. Calculate goodwill of the firm on the basis of 5 times the Super Profit.

Solution

Adj. Average Profit = Average Profit + Undervaluation of stock

₹ 75000 + ₹ 5000

= ₹ 80,000

Normal Profit = Capital Employed x $\frac{\text{Normal Rate of Return}}{100}$

₹ 800,000 × $\frac{8}{100}$

= 64,000

Super Profit = Adjusted Average Profit - Normal Profit

= ₹ 80,000 × 2 = ₹ 80,000 – ₹ 64,000

= ₹ 16000

Goodwill = ₹ 16000 × 5 = ₹ 80,000

Capitalisation of Average Profit Method

Illustration 5.

Bharat and Bhusan are partners in a retail business. Balances in Capital & Current Accounts as on 31st March 2019 were

	Capital Account	Current Account
Bharat	₹ 400 000	₹ 1000 000
Bhusan	₹ 480 000	₹ 20, 000 (Dr)

The firm earned an average profit of ₹ 97000. If the normal rate of return is 8%, find the value of goodwill

Solution

Capital Employed = ₹ 400,000 + ₹ 4,80, 000 + ₹ 10,00,00 - ₹ 20,000

= ₹ 9,60,000

Capitalised value of the Business = $\frac{\text{Average Profit}}{\text{Normal Rate of Return}} \times 100$

₹ 97,000 × $\frac{100}{8}$ = ₹ 12, 12, 500

Goodwill = ₹ 12, 12, 500 - ₹ 960000

₹ 2, 52, 500

Capitalisation of Super Profit Method

Illustration 6. Average Profit of the firm is ₹ 1, 50, 000. Total tangible assets in the firm are ₹ 12,00,000 & outside liabilities are ₹ 7,00,000. In the same type of business, the normal rate of return is 20 %. Calculate the value of goodwill of the firm by Capitalisation of Super Profit method if the goodwill is valued at 2 years. Purchase of Super Profit.

Solution

Normal Profit = Capita; Employed × $\frac{\text{Normal Rate of Return}}{100}$

= ₹ 5,00,000 × $\frac{20}{100}$

= ₹ 1,00,000

Capital Employed = Total tangible Assets - Outside liabilities

= ₹ 12, 00, 000 - ₹ 7,00,000

= ₹ 5,00,000

Average Profit = ₹ 1, 50,000 (given)

Super Profit = Average Profit - Normal Profit

= = ₹ 1, 50, 000 - ₹ 1,00, 000

= = ₹ 50,000

$$\text{Super Profit} = \frac{\text{Super Profit}}{\text{Normal rate of return}} \times 100$$

$$= \text{₹ } \frac{50,000}{20} \times 100$$

= = ₹ 2, 50, 000

Practice Exercise

Ques.1. On Ist April 2018, a firm had assets of ₹ 3,00,000 including Cash of ₹ 5,000. The Partner's Capital A/c showed a balance of ₹ 2, 00, 000 & the Reserve Constituted the rest. If the normal rate of return of is 10 % & the goodwill of the firm is valued at ₹ 200,000 at four years purchase of Super Profit. Find the average Profit of the firm.

[Hint:- Average Profit = Super Profit + Normal Profit]

Ques.2. Balance Sheet of M/s Laxmi Stores as at 31/3/2019 was as follows.

Liabilities	₹	Assets	₹
Capital A/cs		Land & Building	400,000
A 1,50,000		Computers	70,000
B 1,50,000		Furniture	30,000
C 1,50,000	4,50,000	Investments	1,00,000
Reseves	2,50,000	Stock	2,00,000
		Sundry Debitors	1,50,000
Sundry Creditors	3,00,000	Bill Receivable	50,000
Outstanding Ex-penses	10,000	Cash in Hand	50,000
bank Overdraft	90,000	Advertisement Suspense	50,000
	11,00,000		11,00,000

Average Profit was ₹ 125000. Calculate goodwill at 3 year's puchase of Super Profit given NRR = 15 % if ---

(a) Investment is treated as Trade Investment

(b) Investment is taken as Non- Trade Investment

[Hint;- Non Trade Investment are deducted to calculate Capital Employed]

Ques.3. Calculate value of goodwill of the firm -

(a) At 3 years purchase of Average Profit

(b) At 3 year's purchase of Super Profit

(c) On the basis of Capitalisation of Super Profit

(d) On the basis of Capitalisation of Average Profit

Following Information is given -

(i) Average capital Employed is ₹ 6,00,000

(ii) Net Profit/(Loss) of the firm for the last 3 years ender are

31st March 2019	₹ 2,00,000
31st March 2018	₹ 1, 80, 000
31st March 2017	₹ 1,60,000

iii) Normal Rate of return in similar business is 10 %

(iv) Remuneration of ₹ 1,00,000 to partners is to be taken as charge against profit

(v) Assets of the firm (excluding goodwill) fictitious assets and Non-trade investments) is ₹ 7,00,000 whereas Partner's Capital is ₹ 6,00,000 & outside liabilities ₹ 1,00,000.

Ques.4. The Capital Employed in a firm is ₹ 10,00,000 & the market rate of interest is 15 %. Annual Salary of the partners is ₹ 80,000. the profit of the last 3 years were ₹ 3,00,000. ₹ 4,00,000 & ₹ 5,00,000 respectively. Calculate value of goodwill on the basis of 2 years purchase of average super profit of last 3 years.

Ques.5. Average profit earned be a firm is ₹ 2,50,00 which includes overvaluation of stock of ₹ 10,000 on an average basis. Capital invested in the business is ₹ 14,00,000 & the normal rate of return is 15 %. Calculate goodwill of the firm on the basis of 4 times the Super Profit.

Ques.6. On April 1, 2018, a firm has assets of ₹ 1,00,000 excluding stock of ₹ 20,000 . The current liabilities were ₹ 10,000 and the balance constituted partner's capital Accounts. If the normal rate of return is 8 %, the Goodwill of the firm is valued at ₹ 60.000 at four years purchase of super profit, find the actual profits of the firm.

Sol. Total Assets = ₹ 1,20,000

Capital Employed = Total Assets - Current Liabilities

= 1, 20,000- 10,000

= ₹ 1,10,000

Normal Profits = 8 % of 1, 10,000

= ₹ 8.800

Goodwill = Super Profits X No. of Years Purchase

Super Profits = Actual Average Profits - Normal Profits

Given Goodwill = ₹ 60, 000

60,000 = 4 (Average Actual Profits - Normal Profits)

15000 = Average Actual Profits - 8,000

Average Actual Profits = 15, 000 + 8,800 = ₹ 23, 800

MCQs

Que. 1) Gaining Ratio : \

a) New Ratio- Sacrificing Ratio

b) Old Ratio- Sacrificing Ratio

c) New Ratio- Old Ratio

d) Old Ratio - New Ratio

Que, 2) A and B were partners in a firm sharing profit ration or losses equally with effect from 1st April, 2019 they agreed to share profits in the ratio of 4: 3 . Due to change in the profit sharing ratio, B's gain or sacrifice will be:

a) Gain 1/14

b) Sacrifice 1/14

c) Gain 4/7

d) Sacrifice 3/7

Que. 3). The excess amount which the firm can get on selling its assets over and a above the saleable value ot its assets is called.

a) Surplus

b) Reserve

c) Super Profits

d) Goodwill

Que. 4). When goodwill is not purchase, goodwill account can:

a) Never be raised in the books

b) Be raised in the books

c) Be partially raised in the books.

d) Be raised as per partnership deed

Que. 5). Weighted average method of calculating goodwill be used. When goodwill be used

a) When profits are fluctuating

b) When profits show a trend

c) When Profits are not equal

d) None of the above

Que. 6). The Formula for Capitalisation of Super Profit Method is

a) Super Profit x No. of years Purchase

b) Super Profit x /100/Normal rate of Return

c) (Super Profit - Normal Profit) x 100 / Normal Rate of Return

d) None of the above

Que. 7). Which of the following is not true in relation to Goodwill

a) It is an Intangible Asset

b) It is a Factious Asset

c) It has a realisable value

d) All of these

Que. 8). A, B & C are partners sharing profits in the ratio of 4:3:2 decided to share profit equally. Goodwill of the firm is valued at ₹ 10, 800. Adjusting entry will be -

a) A' Capital A/c Cr. by ₹ 4, 800; . B's Capital A/c CR. by ₹ 3, 600;

C's Capital A/c Cr. by ₹ 2400

b) A' Capital A/c Cr. by ₹ 3600; B's Capital A/c CR. by ₹ 3, 600;

C' Capital A/c Cr. by ₹ 3600

c) A' Capital A/c Dr. by ₹ 1200; C's Capital A/c Cr. by ₹ 1200

d) A's Capital A/c Cr. by ₹ 1200; C's Capital A/c Dr. by 1200

Que.9 A, B & C are partners sharing profitls in the ration of 1:2:3 on 1st April 2019 they decided to share profits equally. On the date there was credit bal ance of ₹ 1, 20,00; in their P & L A/c & L A/c & a balance of ₹ 1, 80,000 in General Reserve Ac. It is decided to record an adjustment entry, instead of closing the General Reserve & P & L A/c, it will be

a) Dr. A by ₹ 50,000; Cr B by ₹ 50,000

b) Cr. A by ₹ 50,000; Dr. B by ₹ 50,000;

c) Dr. A by ₹ 50,000; Cr. C by ₹ 50,000;

d) Cr. A by ₹ 50,000;; Dr. C by ₹ 50,000;

Que. 10 M, N & P Are partners sharing profit and losses in the ratio of 5: 3: 2 . They decided to share the future profit in the ration of #:3: 2:1 . Workmen Compensation reserve appearing in the balance sheet on the date if no information is available for the same will be"

a) Distributed to the partners in old profit sharing ratio

b) Distributed to the partners in new profit sharing ratio

c) Distributed to the partners in Capital ratio

d) Carried forward to new balance sheet without any adjustment.

Que. 11 A firm earns ₹ 1,10,000,. The Normal rate of return is 10% . Value of goodwill by capitalization of average profit will be.

a) ₹ 2,00,000

b) ₹ 10,000;

c) ₹ 5,000;

d) ₹ 1,00, 000

Que. 12. State whether the following statement are True or False

a) Efficiency of management does not effect the goodwill of business.

b) Goodwill can be defined as the present value of anticipated profits.

c) Self Generated Goodwill is recorded in the books of account as some consideration is paid for it.

Que. 13. Fill in the blanks

a) Goodwill is a capitalized value of ....

b) .... is the excess of actual profit over the normal profit

c) Average profit equals to .....

d) When the business is taken over by another business, the excess of purchase consideration over its net asset value is referred to as ......

e) The value of Goodwill is based on .... judgement of the value.

GOODWILL

ANSWERS

MCQS

1. C	2. B	3. D	4. A
5. B	t6. B	7. B	8. D
9. C	10 A	11. D	

TRUE OR FALSE

12. A . False. B. True. C. False

Fill up

13.

1. Super Profit
2. Super Profit
3. $\frac{\text{Total Profit}}{\text{No. of relevant years}}$
4. Purchase Goodwill
5. Subjective

Practice Questions

Q. 1. Average Proft = 80,000

Q. 2. a) Capital Employee = ₹ 6, 50, 000 Goodwill = ₹ 82, 500

b) Capital Employee = ₹ 5, 50, 000 Goodwill = ₹ 1,27,500

Q, 3. a) ₹ 2, 40, 000 b) ₹ 60,000

c) ₹ 200,000 d) ₹ 200,000

Q. 4 ₹ 3,40, 000

Q. 5 ₹ 1,20, 000

CHAPTER -4
CHANGE IN PROFIT SHARING RATIO AMONG THE EXISTING PARTNERS

Meaning of Reconstitution of Partenrship firm	Whenever old partnership deed comes to an end and a new partnership deed is formed, it is called reconstitution of partnership firm, In other words any change in existing agreement of partnerships is "Reconstitution of Partneship"vfvcvc c
When reconstitution of partnership takes place	Reconstitution of partnership takes place in the following circumstances: 1. Change in proft sharing ratio among existing partners. 2. Admission of a new partner 3. Retirement of an existing partner 4. Death of a parnter 5. Amalgamation of two Partnership firm
What is the effect of change in profit sharing ratio?	It leads to dissolution of partnership and not the dissolution of the firm because the existing partnership agreement ends and the new agreement comes into effect.
Issues which are to be dealt with at the time of change in profit sharing ratio	1. Determination of sacrificing ratio and gaining ratio. 2. Accounting treatment of Goodwill. 3. Accounting treatment of Reserves accumulated profits or losses. 4. Revaluation of Assests and reassessment liabilities. 5. Adjustment of Capital
Why do partner's change their profit sharing ratio?	This may happen on account of a change in the existing partner's role in the firm
Sacrificing Ratio	The ratio in which one or more partners of the firm agree to sacrifice their share of profit in favour of one or more partners of the firm. Sacrificing Ratio = Old Rato - New Ratio
When is Sacrificing ratio computed?	1. In case of change in Profit sharing ratio 2. If there is admission of a new partner
Gaining Ratio	It is ratio in which one or more partners gain share of profit as a result of sacrificed share in profit by one or more partners of the firm Gaining Ratio = New Rato - Old Ratio

NEW PROFIT SHARING RATIO	The ratio in which the partners agree to share the profits in furture on reconstitution is known as new sharing ratio.
TREATMENT OF GOODWILL IN CASE OF CHANGE IN PROFIT SHARING RATIO	**A) WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL ACCOUNTS** **i) In case of Fluctuating Capitals** Gaining Partner's Capital Accounts Dr. To Sacrificing Partner's Capital Accounts (Being adustment made for goodwill on change in profit sharing ratio) **ii) In case of Fixed Capitals** Gaining Partner's Current Accounts Dr. To Sacrificing Partner's Current Accounts (Being adustment made for goodwill on change in profit sharing ratio) **B) WHEN GOODWILL IS RAISED & WRITTEN OFF** **i) In case of Fluctuating Capitals** Goodwill Account Dr. To Partner's Capital Accounts (Being the goodwill raised among partners in old ratio) Partner's Capital Accounts Dr. To GoodwillAccount (Being the goodwill written off among partners in new ratio) **ii) In case of Fixed Capitals** **Goodwill Account** D.r To Partner's Current Accounts . (Being the goodwill raised among partner's in old ratio) Partner's Current Accounts Dr. To Goodwill Accout (Being the goodwill written off among partners in new ratio)

	C) WHEN EXISTING GOODWILL IS WRITTEN OFF All Partner's Capital Accounts/Current A/c Dr. To Goodwill Account (Being the goodwill written off among partners in old ratio)
TREATMENT OF RESERVES, ACCUMULATED PROFITS & LOSSES	Accumulate Profits include credit balance of P& L A/c, General Reserves, Resseve Fund, Workmen Compensation Reserve, Investment Fluctuation Reserve etc. Accumulated Losses include debit balance of P& L A/c, Deferred Revenue Expenditure i.e. Advertisement Suspense A/c. **A) WHEN QUESTION IS SILENT OR WHEN ACCUMULATED PROFITS OR LOSSES ARE TO BE DISTRIBUTED OR WHEN ACCUMULATAED PROFITS OR LOSSES ARE NOT TO BE SHOWN IN NEW BALANCE SHEET** Contengency Reserve A/c Dr. Reserve Ac/ Dr. P & L A/c (Cr. Balance) Dr. Workmen Compensation Reserve A/c Dr. Investment Fluctuation Reserve A/c Dr. To all Partner's Capital A/cs (Being reserves & accumulate profits transferred to all partners in old ratio) All Partners Capital A/c Dr. To P& L A/c (Dr Balance) To Defered Revenue exp. A/c **B) WHEN ACCUMULATED PROFITS OR LOSSES ARE NOT TO BE DISTRIBUTED OR WHEN ACCUMULATAED PROFITS OR LOSSES ARE TO BE SHOWN IN NEW BALANCE SHEET AT SAME BOOK VALUE** Calculate the net effect of Reserfves, Accumulate Profits & Losses- ₹ RESERVES xx ACCUMULATED PROFITS xx <u>Less ACCUMULATED LOSSES (xx)</u> <u>Net Effect +/-</u>

	i) In case the Net Effect is Positive Gainng Partner's Capital/Current Accounts Dr. To Sacrificing Patner's Capital/Current Accounts **ii) In case the Net Effect is Negative** Sacrificing Partner's Capital/Current/Accounts Dr. To Gaining Patner's Capital/Current Accounts

TREATMENT OF WORKMEN COMPENSATION RESERVE

CASE 1 When there is no Claim	Workmen Compensation Reserve A/c Dr. To Partner's Capital/Current A/cs
CASE 2 WCC = WCR (equal	Workmen Compensation Reserve A/c Dr. To Provision's for workmen Compensation Claim A/c
CASE 3 WCC < WCR (less)	Workmen Compensation Reserve A/c Dr. To Provision for workmen Compensation Claim A/c To Partner's Capital/Current A/cs
CASE 4 WCC > WCR (more)	(i) Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Provision for Workmen Compensation Claim A/c (ii) Partner's Capital/Current A/cs Dr. To Revaluation A/c

WCC stands for WORKMEN COMPENSATION CLAIM
WCR stands for WORKMEN COMPENSATION RESERVE

TREATMENT OF INVESTMENT FLUCTUATION RESERVE

CASE 1 BV = MV	Investment Fluctuation Reserve A/c Dr. To partner's Capital/Current A/cs
CASE 2 BV < MV	Investment Fluctuation Reserve A/c Dr. To Partner's Capital/Current A/cs (Entire reserve distributed in partner's old ratio) Investments A/c Dr. To Revaluation A/c (For increase in value of Investments) Revaluation A/c To Partner's Capital/Current A/cs Dr.

CASE 3 BV > MV	**i) When Fall in value is less than investment Fluctuation Reserve** Investment Fluctuation Reserve A/c Dr. To Investment A/c (BV-MV) To Partner's Capital/Current A/cs (In old ratio) **ii) When Fall in vaue is equal to Investment Fluctuation Reserve** Investment Fluctuation Reserve A/c Dr. To investment A/c **iii) When Fall in value is more than Investment Fluctuation Reserve** Investment Fluctuation Reserve A/c Dr. Revaluation A/c Dr. To Investment A/c Partner's Capital/Current A/cs Dr. To Revaluation A/c

BV stands for Book value of Investments
Mv Stands for Market vale of Investments

REVALUATION OF ASSETS & REASSESSMENT OF LIABILITIES

It is a nominal account & prepared to revalue assets & reassess liabilities.

WHEN QUESTION IS SILENT OR
A) WHEN REVISED VALUES OF ASSETS & LIABILITIES ARE TO BE RECORDED

Revaluation A/c is prepared & Profit/Loss of revaluation is distributed among old partner's in old ratio

Dr. Revaluation A/c Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
to Asset (decrease in value)	xxx	By Asset (increase in value)	xxx
To Liability (increase in value)	xxx	By Liability (decrease in value)	xxx
To Unrecorded liability	xxx	By Unrecorded asset	xxx
To Profit (transferred to partner's capital account in old ratio	xxx	By Loss (transferred to partner's capital account in old ratio)	xxx
Total	xxx	Total	xxx

WHEN REVISED VALUES OF ASSETS & LIABILITIES ARE NOT TO BE RECORDED (Assets & Liabilities will appear in Balnace Sheet at old Value)

Calculate the net effect of revaluation -------	**-₹**
Increase in the value of Assests	**xx**
Add Decrease in the value of liabilities	**xx**
Less Decrease in the value of Assets	**(xx)**
Less Increase in the vaule of liablities	**(xx)**
Net Effect on Revaluation	**Gain/Loss**

For Gaining Partner =Share Gained x Net Effect on Revaluation
For Sacrificing Partner = Share Sacrificed x net Effect on Revaluation

i) In case the Net Effect is Gain on revaluation Dr.
Gaining Partner's Capital/Current Accounts Dr
To Sacrificing Partner's Capital/Current Accounts
ii) In case the Net Effect is loss on revaluation
Sacrificing Partner's Capital/Current Accounts Dr.

CHAPTER -4 RECONSTITUTION OF PARTNERSHIP
SACRIFICING & GAINING RATIO

Illustration 1) A, B & C ar Partners sharing profits in the ratio of 5:3:2. They decided to share profits in the future in the ration of 2:2:1 w.e.f 1st April 2019. Calculate Sacrificing & Gaining Ratio?

Solution:
Sacrificing ratio = Old ratio - New ratio

A = $\frac{5}{10} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10}$ Sacrifice

B = $\frac{3}{10} - \frac{2}{5} = \frac{3-4}{10} = \frac{-1}{10}$ Gain

C = $\frac{2}{10} - \frac{1}{5} = \frac{2-2}{10} = 0$

TREATMENT OF GOOD WILL

Illustration 2. A, B & C are partners sharing profit & losses in the ratio of 5:4:1. It was decided that w.e.f. 15th April 2019 . The profit sharing ratio will be 9:6:5. Goodwill is to be valued at 2 years purchase of average profits of last 3 years profits. The profit for 2016-17, 2017-18 & 2018-19 were -₹ 42,000, `-₹ 48,000 &-₹ 60,000 respectively. Goodwill appears in the books at ` 10,000. Pass necessart journal entry for the treatment of goodwill. Also give journal entries if goodwill is raised & writeen off.

Solution **WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL A/C**

Average Profit $= ₹ \dfrac{42{,}000 ₹\ 48000 + ₹\ 60{,}000}{3} = ₹\ 50{,}000$

Goodwill $= ₹\ 50{,}000 \times 2 = ₹\ 1{,}00{,}000$

Sacrificing/ Gaining Ratio

A $= \dfrac{5}{10} - \dfrac{9}{20} = \dfrac{10-9}{20} = \dfrac{1}{20}$ (Sacrifice)

B $= \dfrac{4}{10} - \dfrac{6}{20} = \dfrac{8-6}{20} = \dfrac{2}{20}$ (Sacrifice)

C $= \dfrac{1}{10} - \dfrac{5}{20} = \dfrac{2-5}{20} = \dfrac{-3}{20}$ (Gain)

Journal

Date	Particulars	l.f	Dr.	
1st April 2019	A' Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off)		5000 4000 1000	 10,000

Journal

Date	Particulars	l.f	Dr.	
1st April 2019	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Being goodwill adjusted due to change in profit sharing ratio)		15000	 5,000 10,000

WHEN GOODWILL IS RAISED & WRITTEN OFF

Journal

Date	Particulars	L.F	Dr.	
1st April 2019	Goodwill A/c Dr. TO A's Capital A/c To B's Capital A/c To C's Capital A/c (Being goodwill raised in old profit sharing ratio)		1,00,000	 50,000 40,000 10,000
1st April 2019	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To goodwill A/c (Being goodwill written off in new profit sharing ratio)		45,000 30,000 25,000	 1,00,000

Illustration 3) X, Y, Z are partners sharing profits & losses in the ratio of 5:3:2. They decide to share future profits & losses in the ratio of 2:3:5 w.e.f 1st April 2019 Following items appear in the balance sheet as on 31/3/18

General Reserve 75,000

Workmen Compensation Reserve ₹ 12,500

Profit & Loss Account ₹ 37,500

Advertisement Suspense A/c (Dr), ₹ 50,000

ii) Pass necessary journal entries

iii). Show the effect without affecting their book values by passing an adjustment entry.

Solution (i)

Journal

Date	Particulars	l.f	Dr.	Cr.
1st April 2019	General Reserve A/c Dr. Workmen Compensation Reserve A/c Dr. Profit & Loss Account Dr. To X's Capital A/c To Y 's Capital A/c To Z 's Capital A/c (Being the reserves & profits transferred to odd partners int their old ratio)		75, 000 12,500 37,500	 62,500 37,000 25,000
1st April 2019	X's Capital A/c Dr. Y s Capital A/c Dr. Z's Capital A/c Dr. To advertisement Suspense A/c (Being advertisement suspense transferred to lod partners in old ratio)		25,000 15,000 10,000	 50,000

ii) ADJUSTMENT ENTRY

1st April 2019	Z's Capital A/c Dr. To x's Capital A/c (Being adjustment madr for net reserves & losses)	22,500	 22,500

Here, Reserves & Losses will appear in Balance Sheet of New Firm as their old values

Working Notes

1) Calculation of Net Effect of Reserves & Profit

General Reserve	75,000
Workmen Compensation Resrve	12500
Profit & Loss A/c	37500
	1,25,000
Less: Advertisement Suspense A/c (Dr).	(50,000)
	75,000

2) Calculation of Sacrificing/Gaining Ratio

X + $\frac{5}{10} - \frac{2}{10} = \frac{3}{10}$ Sacrifice

Y $= \frac{3}{10} - \frac{3}{10} = 0$ Sacrifice

Z $= \frac{2}{10} - \frac{5}{10} = \frac{-3}{10}$ Gain

REVALUATION OF ASSETS & LIABILITIES

Illustration 4) Piyush, Pooja & Praveen are partners sharing Profits &losses in the rates of 3:3:2. Their balance sheet a on 31st March 2019 was as follows-

Liatilities		(₹)	Assets	(₹)
Sunday creditors Bank		48,000	Cash at bank	74,000
Bank Loan		72,000	Sundry debtors	88,000
Capital :-			Stock	2,40,000
Piyush -	4,00,000	10,00,000	Machinery	3,18,000
Pooja -	3,00,000		Building	4,00,000
Praveen -	3,00,000			
		11,20,000		11,20,000

Partners, decided that with effect from April 1, 2019, they would share profits and losses in the ratio of 4:3:2. It was agreed that::

(i) Stock be valued at (₹) 2,20,000.

(ii) Machinery is to be depreciated by 10%

(iii) A provision for doubtful debts is to be made on debrots at 5%

(iv) Building is to be appreciated by 20%.

(v) A liability for (₹) 5,000 included in sundry creditors is not likely to arise.

Partners agreed that the revised value are to be recorded in the books. You are required to prepare journal, revaluation account, partner's capital Accounts and revised Balance Sheet.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1st April 2019	Revaluation A/c Dr. To Stock To Machinery To Provision for doubtful debts A/c (Revaluation of assets)		56,200	 20,000 31,800 4,400
1st April 2019	Building A/c Dr. Sundry creditor A/c Dr. To Revaluation A/c (Revaluation of assets and liabilities)		80,000 5,000	 85,000
1st April 2019	Revalutin A/c Dr. To Piyush's capital A/c To Pooja's capital A/c To Praveen's capital A/c (Profit on revaluation)		28,000	 10,800 10,800 7,200

Dr

Relaluation Account

Liabilities	(₹)	Assets	(₹)
To Stock	20.,000	By Building	80,000
To Machinery		By Sundry creditors	5,000
To Provision for doubtful debts	31,800		
To profits transferred to capital accounts of:	4,400		
Piyush 10,800			
Pooja 10,800	28,800		
Praveen 7,200	85,000		85,000

Partner's Capital A/cs

Particulars	Piyush	Pooja	Praveen	Particulars	Piyush	Pooja	Praveen
To balance	4,10,800	3,10,800	3,07,200	By bal. b/d	4,00,000	3,00,000	3,00,000
				by Revaluation A/c	10,800	10,800	7,200
	4,10,800	3,10,800	3,07,200		4,10,800	3,10,800	3,07,200

Balance Sheet
As on April 1,2019

Liabilities	(₹)	Assets		(₹)
Sundry creditiors	43,000	Cash at bank		74,000
Bank Loan	72,000	Sundry debtors	88,000	83,600
Capital acconts:		Less: provision 5%	(4,400)	
Piyush 4,10,800		Stock		2,20,000
Pooja 3,10,800		Machninery		2,86,200
Praveen 307200	1028800	Building		4,80,000
	11,43,800			**11,43,800**

Illustration 5- If in the above Illustration No-4, Partners agread that The revised values of assets & Liabilities are not to be shown the books. You are required to record the effect by passing a single journal entry. Also prepare the revised balance Sheet

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019 Apr.1	Piyush's capital A/c Dr.		2,000	
	To Pooja's capital A/c			1,200
	To Praveen's Capital A/c			800
	(Adjustment for profit on revaluation)			

Capital Accounts

Dr.

Particulars	Piyush	Pooja	Praveen	Particulars	Piyush	Pooja	Praveen
To Pooja's Capital A/c	1,200			By Balance b/d	4,00,000	3,00,000	3,00,000
To Praveen Capital A/c	800			By Piyush's Capital A/c		1,200	800
To Balance c/d	398,000	3,01,200	3,00,800				
	4,00,000	**3,01,200**	**3,00,800**		**4,00,000**	**3,01,200**	**3.00,800**

Balance Sheet
As on April 1 ,2019
Balance Sheet of Piyush, Pooja and Praveen

Liabilities		(₹)	Assets	(₹)
Sundry creditiors		48,000	Cash at bank	74,000
Bank Loan		72,000	Sundry debrors	88,000
Capital account			Stock	2,40,000
Piyush	3,98,000		Machinery	3,18,200
Pooja	3,01,200		Building	4,6000
Praveen	3,00,800	10,00,000		
		11,20,000		**11,20,000**

W.Note-1 Calculation of Gain due to revaluation

Building	80,000
Sundry Creditors	5,000
Total	85,000
Less Loss due to revaluation	
Of Stock	(20,000)
Machinery	(31, 800)
Provision for Doubtfurl Debts	(4,400)
Net Gain	**28,800**

2. Calculation of Sacrificing / Gaining Ratio -

Piyush = $\frac{3}{8} - \frac{4}{9} = \frac{27-32}{72} = \frac{5}{72}$ (Gain)

Pooja = $\frac{3}{8} - \frac{3}{9} \quad \frac{27-24}{72} = \frac{3}{72}$ (Sacrifice)

Praveen = $\frac{2}{8} - \frac{2}{9} \quad \frac{18-16}{72} = \frac{2}{72}$ (Sacrifice)

Amount Sacrificed/Gained-

Piyush=	28,800x5/72=	(₹)	2000 Dr.
Pooja=	28,800x3/72=	(₹)	1200 Cr.
Praveen=	28,800x2/72	(₹)	800 Cr.

Illustration 6)

Bhavya and Sakshi are partners in a firm. Sharing prifits and losses in the ratio in the of 3:2 On 31st March.2018 their balance Sheet was as under.

Balance Sheet of Bhavya and Sakshi
As at 31st March.2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	13.800	Furniture	16.000
General Reserve	23.400	Land and Building	56.000
Investment Fluetuatioin Fund	20.000	Investments	30.000
Bhavya's Capital	50.000	Trade Receivables	18.500
Sakshi's Capital	40.000	Cash in Hand	26.700
	1.47.200		1.47.200

The partners have decided to change their profit sharing ratio to 1:1 with immediate effect. For the purpose. they decided that:

a. investment to be valued at (₹) 20.000

b. Goodwill of the firm valued at (₹) 24.000

c. General Reserve not to be distributed betwen the partners.

You are required to pass necessary journal entries in the boods of the firm. Show working.

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Date	Particuars	L.F.	Amounts (₹)	Amounts (₹)
31.3.18	Investment Fluctuation Fund A/c Dr To Investment To Bhavya's Capital A/c To Sakshi's Capital A/c (Being Investment Fluctuation Fund adjusted against the Fluctuations in market Value and balance was distributed anongst partners)		20.000	6,000 6,000 4,000
31.3.18	Sakshi's Capital A/c Dr To Bhavya's Capital A/c (Being adjustment of goodwill made betwen partners due to change in profit sharing ratio between partners)		2,400	2,400
31.3.18	Sakshi's Capital A/c Dr To Bhavya's Capital A/c (Being Genrral Reserve adjusted among the partners without writing it off)		2,340	2,340

Sacrificing ratio = old ratio- new ratio

Bhavya's = 3/5-1/2= 1/10 Sacrifice

Sakshi's = 2/5- 1/2= (1/10) Gain

Illustration 7) ADJUSTMENT OF CAPITAL

A, B & C were partners in a firm sharing profits & looses in the ratio of 3:2: 1. On March 31, 2019, their Balance Sheet was as follows:

Balance Sheet
as at March 31, 2019

Liabilities		Rs.	Assets	Rs.
Capital			Fixed Assets	1,80,000
A	50,000		Current Assets	35,000
B	40, 000			
C	30,000	1,20,000		
Reserve Fund		18,000		
Creditors		27,000		
Employees Pereovident Fund		50,000		
		2,15,000		**2,15,000**

From April 1, 2019, they decided to share future profits equally. For this purpose the followings were ageed upon:

(i) Goodwill of the firm was valued at Rs. 3,00,000.

(ii) Fixed Assets will be depreciated by 10%

(iii) Capitals of the partners will be in proportion to their new profit sharing ratio. For this purpose, Current Account will be opened.

Pass necessary Journal entries for the above transactions in the books of the firm.

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Date	Particulars	L.F	Dr. Amounts (Rs)	Cr. Amount (Rs)
	C's Capital Account Dr.		50,000	
	To A's Capital Account			50,000
	(Treatment of goodwill due to change in profit sharing ratio)			
	Reserve Fund Account Dr.		18,000	
	To A's Capital Account			
	To B's Capital Account			9,000
	To C's Capital Account			6,000
	(Reserve Fund transferred to partners' capital acconts in their old profit sharing ratio)			3,000
	Rervaluation Account Dr.		18,000	
	To Fixed Assets Account			18,000
	(Revaluation of Fixed assets on change in profit sharing ratio)			
	A's Capital Account Dr.		9,000	
	B's Capital Account Dr.		6,000	
	C's Capital Account Dr.		3,000	
	To Revaluation Acount			
	(Loss on revaluation transrerred to partners' capital acconts)			18,000
	A's Capital Account Dr.		60,000	
	To A's Current Account			60,000
	(Adjustment of capital by opening of currentg acconts			
	C's Current Account Dr.		60,000	
	To C's Capital Account			60,000
	(Adjustment of capital by opening of currentg acconts			

Practice Exercise

Que.1) A, B, C are partners in a firm sharing profit in the ratio 5:3:2. They agreed to share profite losses equally w.e.f. 1St April 2019. Goodwill if the firm is valued at (₹) 90,000 Pass necessory Jorunal entry.

Que.2) Keshav, Meenakshi & Mohit are parteners sharing Profits & losses in the ratio of 1:2:2 have decided to share future profit equally w.e.f. 1St April 2019. On that date, General Reserve Showed a balance of (₹) 2,40,000 Partners do not want to distribute the reserves pass necessary adjusting entry.

Que.3) P, Q & R are partners sharing Profits equally. they decided that in future R will get 1/5th share in profit & remaining profit will be shared by P & Q equally. On the day of change, firm's goodwill is valued at (₹) 60,000. Deferred revenue expenditure was (₹) 4000 & balance in profit & loos A/c (Dr) Was (₹) 8000.

Give journal entrires arising on account of change in profit sharing ratio without disturbing the balance sheet.

Que.4) P, Q, R & S were partners in af firm sharing profits in the ratio of 1:4:2:3. on 1stth April 2019, their balance sheet was as following.

Balance Sheet as on 1/4/19

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capitals-			Fixed Assets	12,70,000
P	200000		Current Assets	5,30,000
Q	300000			
R	400000			
S	500000	14,00,000		
Sundry Creditors		2,30,000		
Workman Compensation Reserve		1,70,000		18,00,000
		18,00,000		

From the above date the partners decided to share the future profits equally. For this purpose the goodwill of the firm was valued at ₹ 2,70,000

The partners also agreed for the following -

(1) The claim against workmen compensation reserve was estimated at ₹. 2,00,000

(2) Capitals of the partners was to be adjusted according to the new profit sharing ratio by opening Partners Current A/c

Prepare Revaluation A/c Partners Capital Account & the Balance Sheet of the reconstituted firm

Ques 5 Om, Jai, Jagdish are partner's sharing profits & losses in the ratio of 5:4:1.. Their Balance sheet as at 31/03/2019 was as follows.

Liabilities	(₹)	Assets		(₹)
Sundry Criditors	1,10,000	Cash at Bank		2,10,000
Salaries Payable		Sundry Debtors	1,00,000	
Outstanding Ex-	30,000	Less for D/d	(10,000)	50,0009
penses	10,000	Stock		50,000
General Reserve		Furniture		40,000
Capital A/cs	40,000	Computers		2,00,00
OM 3, 00, 000		Cars		2,00,00
Jai 1, 50, 000	60,0, 000			
Jagdish 1 , 50, 000	7,90,000	116 A		7,90,000

Profit sharing ration w.e.f Ist April 2019 was decided th be equal Fall was also agreed among the partners;

(1) Stock to be reductd to ₹ 40,000

(2) Provision for D/d to be written back, Since al debtors are good.

(3) Computers to be reducd by ₹ 20,000

(4) Out of the salaries Payable, ₹ 10,000 was not payable as the ambulance lest without notice.

(5) Outstanding expensed were not payable

(6) An unrecorded asset (motor cycle) valued at ₹ 10,000 to be accounted

(7) Goodwill of the firm was valued at ₹ 50,000

(8) Total Capita of the firm ₹ 6,00,000 was to be in profit sharing ratio, excess capital to be withdrawn & short to be made good.

Prepare Revolution Account. Painters Capital Accounts Balance Sheet of the new firm.

Ques 6. P. Q and R partners in a firm sharing profits and losses in the ratio 3:3:2. Their Balance Sheet as at 31st March 2016 was :

Liablities	(₹)	Asset	(₹)
Sundry Creditors	24,000	Cash at Bank	27,000
General Reserve	36,000	Sundry Debtors	50,000
Capital A/cs		stock	1,20,000
P 2,00,000		Machinery	1,59,000
Q 2,00,000		Building	2,00,000
R 1,00,000	5,00,000	Advertisement Expenditure	4,000
	5,60,000		5,60,000

.

Partners decided that with effect from 1st April, 2016 they would share profits and losses in the ratio of 4:3:2. It was agreed that:

(1) Stock is to be valued at ₹ 1,10,000
(2) Machiery is to be depreciated by 10 %
(3) A provision for doubtful debts is to be made on debtors @ 5 %
(4) Building to be appreciated by 20 %
(5) A liability for ₹ 3000 included in Sundry Creditors are not likely to arise

Partners agreed that revised values of assets and liabilities are to be recorded in the books. They decided to retain the General Reseve in the books. Find missing figures in Journal.

Partners decided that with effect from 1st April, 2016, they would share profits and losses in the ratio of 4:3:2. It was agreed that:
(i) Stock is to be valued at (₹) 1,10,000
(ii) (Machinery is to be depriciated by 10%
(iii) A provision for doubtful debts is to be made on debtors @ 5%.
(iv) Building to be appresiated by 20%
(v) A liability for (₹) 3000 included in Sundry Creditors are not likely to arise.
Partners agreed that revised values of assets and liablities are to be recorded in the books They decided to retain the General Reserve in the books. Find missing figures in Journal.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2016	Revalutution A/c To Stock To Machinery A/c		(a)	(b)
April	Dr			(c)
1	To Provision for Doubtful Debit A/c			(d)
	(For Decrease in the value of assets and provisions made for D/D)		(e)	
			3000	43000
April	Building A/c Dr.		(f)	(g)
1	Creditors A/c Dr.			(h)
	To Revaluation A/c			(i)
	(For increase in the value of assets and decrease in the value of liablities)			(k)
				(i)
April	P's Capital A/c Dr.		(j)	
1	To Q's Capital A/c			
	To R's Capital A/c			
	(for transferring profit on revaluation to the capital A/c of partners in old profit sharing ratio			
	To P's Capital A/c		(m)	
April	To Q's Capital A/c		(n)	
1	To R's Capital A/c		(o)	
	To (P)			
	(For tranfer of advertisement expenditure to all partners on (q)			

CHAPTER-4 CHANGE IN PROFIT SHARING RATIO

MCQs AMONG THE EXISTING PARTNERS

Que.1) A,B & C are partners sharing profits in the ratio of 4:3:2, decided to share profit equally Goodwill of the firm is valued at (`) 10,800. Good adjusting entry will then be:

a) A's Capital A/c Cr. by (`) 4800; B's Capital A/c Cr. by (`) 3600; C's Capital A/c Cr. by (`) 2400

b) A's Capital A/c Cr. by (`) 3600; B's Capital A/c Cr. by (`) 3600; C's Capital A/c Cr. by (`) 2400

c) A's Capital A/c Cr. by (`) 1200; C's Capital A/c Cr. by (`) 1200

d) A's Capital A/c Cr. by (`) 1200; C's Capital A/c Cr. by (`) 1200

Que.2 X, Y & Z are partners sharing profit in the ratio of 1:2:3 On April 1st, 2019, they deicided to share the profite equally on that date there was a credit balance of (`) 1,20,000 in Their profit & Loss Account & a balance of (`) 1,80,000 in General Reserve Account. Instead of closing the Gereral Reserve Account & Profit and Loss Account, it is decided to record on adjustment entry which will be -

a) Dr. A by (`) 50,000 ; Cr. B by (`) 50,000

b) Dr. A by (`) 50,000 ; Cr C by (`) 50,000

c) Cr. A by (`) 50,000 ; Dr. B by (`) 50,000

d)Cr. A by (`) 50,000 ; Dr. C by (`) 50,000

Que.3 A, B & C are partners sharing profits are losses in the ratio of 4:3:2, decided to share future profit & losses in the ratio of 2:3:4, w.e.f. 1/April/2019. Workmen Compensation Reserve appearing in the balance sheet is (`) 45,000 & a claim on account5 of Workmen Conpensation is estimated at (`) 54,000, Then -

a) (₹) 9000 is distributed amongst partner in old profit sharing ratio

b) (`) 9000 is distributed amongst partner in new profit sharing ratio

c) ((₹) 9000 is shown as provision in new balance sheet

d) ((₹) 9000 is distributed amongst partner in their Capital ratio.

Que. 4) Any change in the relationship of exieting partners Which results in an end of the existing agreement and enforces making of a new agreement is called

a) Revaluation of Partnership

b) Reconstitution of Partnership

c) Realization of Partnership

d) None of the Above.

Que. 5)

A, B, & C are partners sharing ratio profits in the ratio of 5:3: 2. They decided to share furture profits is the ratio of 2: 3: 5 w.e.f 1/April/2019. They also decide to record the effect of following revaluation without affecting the book values of assets & liabilities by passing single adjusting entry : -

	Book Value (₹)	Revised Value (₹)
Land & Building	7,00,000	8,50,000
Stock	2,50,000	2,20,000
Sundry Crditor's	3, 50,000	3, 35, 000
Outstanding Rent	2,35,000	2,80,000

The Single Adjustment entry will be

a) Dr. C by (₹) 27000; Cr. A by (₹) 27000;
b) Dr A by (₹) 27000; Cr. C by (₹) 27000;
c) Cr. B by (₹) 27000; Cr. A by (₹)27000;
d) Dr A by (₹) 27000; Cr. B by (₹) 27000;

Answers to MCQ

1. d
2. b
3. a
4 b
5. a

Answers to Practice Exercise

Q. B's Capital A/c Dr 3000

C' s Capital A/c Dr 12000
To A's Capital Ac 15,000

Q. 2. Keshav's Capital A/c Dr. 32000
To Meenakshi's Capital A/c 16000
To Mohit's Capital A/c 16000

Q.3. R' s Capital
To P's Capital A/c 3200
To Q's Capital A/c 3200

Q.4. Loss of Revaluation = ₹ 30, 000
P' s Current A/c (Dr) ₹ 18600
Q's Current A/c) (Dr) ₹ 14000;
R's Current A/c ₹ 38000;
R's Current A/c ₹ 1,62,000

Q.5 Gain of Revaluation A/c = ₹ 10,000
Om, Jai, Jagdish Cap A/c = ₹ 2,00,000 each

Shortage of Capital for Jai = ₹ 26, 666
Shortage of Capital for Jagdish = ₹ 56,667

Surplus of Capital for Om = ₹ 1,33,333

Q.6 a) 28, 400	b) 10,000	c) 15,900	d) 2,500
e) 40,,000	f) 14,600	g) 5,475	h) 5,475
i) 3, 650	j) 2, 500	k) 1,000	l) 1,500
m) 1,500	n) 1,500	o) 1,000	
p) Advertisement Expenditure A/c		q) Old Profit sharing Ratio	

CHAPTER 5

ADMISSION OF A NEW PARTNER

Why a new partner is admitted?	A new partner may be admitted when the firm needs a. Additional Capital b. Managerial Help c. Both
How can a new partner be admitted?	Unless it is otherwise provided in the partnership deed a new partner can be admitted only when the existing partners unanimously agree for it.
Two main Rights acquired by a newly admitted partner	1. Right to share the assets of the partnership firm. 2. Right to share the profits of the partnership firm and Right to participate in the business activity
What does a new partner bring to acquire the rights?	To acquire share in the assets and profits of the firm, the partner brings 1. An agreed amount of Capital either in Cash or kind and / or some technical skill 2. Additional amount known as premium of Goodwill
Why is new partner required to bring premium?	This is due to compensate the existing partners for loss of their Share in the Super Profits of the firm. When a person pays for Goodwill, he pays for sacrifice of the profits by old partners.
New profit sharing ratio and sacrificing ratio	The ratio in which all partners, including new partner will share future profits losses of the firm is known as new profit sharing ratio. Sacrificing ratio is the ratio in which old or existing partners forego their share of profit in favour of the new partner.

	New Profit Sharing Ratio and Sacrificing Ratio
When share of new partner is given but sacrifice made by old partners is not given	(i) Deduct the new partner's share from 1 (ii) Divide the remaining share among old partner in old profit sharing ratio. **Sacrificing Ratio** is same as that of **Old Profit Sharing Ratio.**
When share of new partner is given and new share of old partner is given	(i) Deduct the new partners' share from 1 (ii) Divide the remaining share among old partner in new profit sharing ratio. Sacrificing share = Old share – New share
When new partner acquires his share from old partners' equally or in particular ratio.	(i) Deduct the sacrifice made in favour of new partner from the old share of old partners. (ii) Share surrendered by old partners is added to calculate new partner share.
When existing partner retains his original share on admission of a partner	(i) Deduct the new partners' share and share of existing partner (who retains his old share) from 1 (ii) Divide the remaining share among old partner in profit sharing ratio.

<table>
<tr>
<td rowspan="5">Treatment of Goodwill in case of Admission of a Partner</td>
<td>When Goodwill is Paid Privately</td>
<td>No Entry</td>
</tr>
<tr>
<td>When goodwill is brought in cash or cheque by new partner and retained in the firm</td>
<td>Cash / Bank A/c Dr.
To new partner' capital A/c
To premium for goodwill A/c
(Being capital and premium for goodwill brought in)
Premium for Goodwill A/c
Dr.
To Sacrificing Partners' Capital/ Current A/cs
(Being premium for goodwill is distributed among sacrificing partners' in sacrificing ratio)
Current A/c incase of Fixed capitals</td>
</tr>
<tr>
<td>When Goodwill is brought in cash or cheque by new</td>
<td>Cash/Bank A/c Dr.
To New partners' CapitalA/c
To premium for Goodwill A/c</td>
</tr>
<tr>
<td>Partner and Withdrawn by sacrificing partners</td>
<td>(Being capital and premium for goodwill brought in)
Premium for Goodwill A/c
Dr.
To sacrificing Partners Capital / Current A/cs
(Being premium for goodwill is distributed among sacrificing partners' in sacrificing ratio)
Sacrificing Partners' Capital / Current A/Cs
Dr.
To Cash / Bank A/c
(Being withdrawal of premium by the partners)</td>
</tr>
<tr>
<td></td>
<td>Current A/C in case of Fixed capitals</td>
</tr>
</table>

	When Goodwill is Brought in Kindt	Asset A/c To New Partners' Capital A/c To Premium for Goodwill A/c To Liabilities A/c (Being asset contributed as capital and premium for goodwill) **Premium for Goodwill A/c Dr.** To sacrificing Partners' Capital / Current A/cs (Being premium for goodwill is distributed among sacrificing partners' in sacrificing ratio) Current A/c in case of Fixed capitals
	When Goodwill is not Brought in Full or Part by the New Partner (In case Goodwill is not Raised)	**Cash / Bank A/c Dr.** **To new Partners' Capital A/c** **To Premium for Goodwill A/c** (with share of goodwill brought in) (Being capital and premium for goodwill brought in) Premium for Goodwill A/c (with paid share of goodwill) Dr. Incoming partners' Current A/c (with unpaid share of goodwill) Dr. **To sacrificing partners' Capital / Current A/cs** (Being premium for goodwill is distributed among sacrificing partners's in sacrificing ratio) Sacrificing partners current A/c in case of Fixed capital
	When Goodwill is Raised and Written Off (In case Goodwill is Brought in Part By the New Partner	Cash / Bank A/c To New Partners' Capital A/c To Premium for Goodwill A/c (Being capitals premium for goodwill brought in)

		Premium for Goodwill A/c (with share of goodwill brought in) **Dr.** To Sacrificing Partners' Capital / Current A/cs (Being premium for goodwill is distributed among sacrificing partners' in sacrificing ratio) **Goodwill A/c Dr.** To Sacrificing Partners' Capital / Current A/cs (Being goodwill is raised in old ratio) **Sacrificing Partners' Capital / Current A/cs Dr.** **Incoming Partners' Current A/c Dr.** **To Goodwill A/c** (Being goodwill written off in new ratio) Sacrificing partners Current A/c in case of Fixed capital.
	When Goodwill is Raised Written Off (In Case Goodwill is not Brought in Full)	**Cash / Bank A/c Dr.** **To New Partner's Capital A/c** (Being capital brought in by new partner Goodwill A/c) **Dr.** To Sacrificing Partner's capital Current A/cs (Being goodwill is raised in old ratio) Sacrificing Partner's Capital / Current A/cs **Dr.** Incoming Partner's current A/c **Dr.** To Goodwill A/c (Being goodwill written off in new ratio)

<table>
<tr><td></td><td><table><tr><td>When Existing Good will is Written Off</td><td>Old Partner's Capital / Current A/cs
To Goodwill A/c
(Being goodwill written off among old partner's in old ratio)
Current A/c incase of Fixed capitals</td></tr></table></td></tr>
<tr><td>Treatment of Reserves, Accumulated Profits and Losses</td><td>Accumulated profits include credit balance of P and L A/c, General Reserves, Reserve Fund, Workmen Compensation Reserves, Investment Fluctuation Reserve etc.
Accumulated Losses include debit balance of P and L A/c, Deferred Revenue Expenditure i.e., Advertisement Suspense A/c.
(A) When question is silent of when accumulated profits of losses are to be distributed or when accumulated profits or losses are not to be shown in new balance sheet
Contingency Reserve A/c Dr.
Reserve A/c Dr.
P and L A/c (Cr. Balance) Dr.
Workmen Compensation Reserve A/c Dr.
Investment Fluctuation Reserve A/c Dr.
To Old Partners' Capital / Current A/cs
(Being reserves and accumulated profits transferred to old partners in old ratio)
Old Partners' Capital / Current A/Cs Dr.
To P and L A/c (Dr. balance)
To Deferred Revenue Expenditure A/c
(Being accumulated losses transferred to old partners in old ratio)
Current A/c in case of Fixed capitals</td></tr>
<tr><td></td><td>Treatment of Workmen Compensation Reserve<table><tr><td>Case 1.
When there is no Claim</td><td>Workmen Compensation Reserve A/c Dr.
To Old Partners' Capital / Current A/cs</td></tr><tr><td>Case 2. WCC = WCR (equal)</td><td>Workmen Compensation Reserve A/c Dr.
To Provision for Workmen Compensation Claim A/c</td></tr></table></td></tr>
</table>

Case 3. WCC < WCR (less)	Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c To Old Partners' Capital / Current A/cs
Case 4. WCC > WCR (more)	Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Provision for Workmen Compensation Claim A/c To Old Partners' Capital / Current A/cs To Revaluation A/c

WCC stands for Workmen Compensation Claim
WCR stands for Workmen Compensation Reserve

Treatment of Investment Fluctuation Reserve

Case 1. BV = MV	Investment Fluctuation Reserve A/c Dr. To Old Partners' Capital / Current A/cs
Case 2. BV < MV	Investment Fluctuation Reserve A/c Dr. To Old Partners' Capital / Current A/cs (Entire reserve distributed in partners' old ratio) Investment A/c Dr. To Revaluation A/c (For increase in value of Investments) Revaluation A/c To Old Partners' Capital / Current A/cs
Case 3. BV > MV	(i) When fall in value is less than investment Fluctuation Reserve Investment Fluctuation Reserve A/c Dr. To Investment A/c (BV-MV) To Old Partners' Capital / Current A/cs (In Old ratio) (ii) When fall in value is equal to investment Fluctuation Reserve Investment Fluctuation Reserve A/c Dr. To Investment A/c

<table>
<tr><td></td><td>
<table>
<tr><td></td><td>(iii) When fall in value is more than investment Fluctuation Reserve
Investment Fluctuation Reserve A/c Dr.
Revaluation A/c Dr.
To Investment A/c
Old Partners' Capital / Current A/cs Dr.
To Revaluation A/c</td></tr>
</table>
BV stands for Book value of Investment
MV stands for Market value of investment
</td></tr>
<tr><td>Revaluation of Assets and Reas- sess- ment of Liabilities</td><td>
It is a nominal account and prepared to revalue assets and reassess liabilities.
(A) When Revised Values of Assets and Liabilities are to be Recorded
Revaluation A/c is prepared and Profit/Loss of revaluation is distributed among old partners' in old ratio.
Dr. RevaluationA/c Cr
<table>
<tr><th>Particulars</th><th>Amount (Rs)</th><th>Particulars</th><th>Amount (Rs.)</th></tr>
<tr><td>To asset (decrease in value)</td><td>xxx</td><td>By asset (increase in value)</td><td>xxx</td></tr>
<tr><td>To liability (increase in value)</td><td>xxx</td><td>By liability (decrease in value)</td><td>xxx</td></tr>
<tr><td>To Unrecorded liability</td><td>xxx</td><td>By Unrecorded asset</td><td>xxx</td></tr>
<tr><td>To profit (transferred to old partners capital account in old ratio)</td><td>xxx</td><td>By Loss (transferred to old partners' capital account in oldratio)</td><td>xxx</td></tr>
<tr><td>Total</td><td>xxx</td><td>Total</td><td>xxx</td></tr>
</table>
</td></tr>
<tr><td>Adjustment of capital</td><td>
(i) Adjustment of Old Partners' Capital on the basis of new Partners' Capital
Step 1. Calculate total Capital of the firm on the basis of New Partners' Capital :
Total capital of the firm on the basis of New Partners' Capital = $\frac{\text{Capital of the New Partner}}{\text{Share of profitof New Partner}}$
Step 2. Determine New Capital of each Partner by dividing the Total Capital in new profit sharing ratio.
Step 3. Ascertain Present Capital of the Old Partners' after all adjustments
</td></tr>
</table>

Step 4. Find Surplus / Deficit—

Surplus = Present Capital > New Capital

Deficit = Present Capital < New Capital

Step 5. In case of **Surplus** (Present Capital > New Capital)

Concerned partners' Capital A/c Dr.

  To Bank / Cash A/c

  To Concerned Partners' Current A/c

In case of **Deficit** (Present Capital < New Capital)

Bank / Cash A/c Dr.

Concerned Partners' Current A/c Dr.

  To Concerned Partners' Capital A/c

(ii) **Adjustment of New Partners' Capital on the basis of Old Partners' Capital**

Step 1. Determine Total Adjusted Capital of the Old Partners' after all adjustments

Step 2. Calculate Total Capital of the new firm on the basis of Old Partner's after all adjustment:

Total Capital of the new firm

$$= \frac{\text{Total adjusted Capital of Old Partners}}{\text{Total Share of Old Partners}}$$

Step 3. Determine Capital of New Partner by multiplying the total Capital by Share of New Partner.

NEW PROFIT SHARING RATIO

Illustration 1.

A and B are partners in a firm sharing profit and losses in the ratio of 3 : 2. C is admitted for 1/5th share in profits of the firm.

Calculate new profit sharing ratio; if—

(a) C gets his share equally from A and B.

(b) C gets it from A and B in 2 : 1.

(c) C gets it 3/20 from A and 1/20 from B.

(d) C gets it wholly from A

Solution.

(a) C gets 1/5 equally from A and B

Share acquired by C from A = $\frac{1}{2} \times \frac{1}{5} = \frac{1}{10}$

Share acquired by C from B = $\frac{1}{2} \times \frac{1}{5} = \frac{1}{10}$

A's New Share = $\frac{3}{5}-\frac{1}{10}=\frac{6-1}{10}=\frac{5}{10}$

B's New Share = $\frac{2}{5}-\frac{1}{10}=\frac{4-1}{10}=\frac{3}{10}$

C's New Share = $\frac{1}{5}$ or $\frac{2}{10}$

New Profit sharing Ratio = A : B : C = 5 : 3 : 2

(b) C gets 1/5 from A and B in 2 : 1

Share acquired by C from A = $\frac{2}{3}\times\frac{1}{5}=\frac{2}{15}$

Share acquired by C from B = $\frac{1}{3}\times\frac{1}{5}=\frac{1}{15}$

A's new share = $\frac{3}{5}-\frac{2}{15}=\frac{9-2}{15}=\frac{7}{15}$

B's new share = $\frac{2}{5}-\frac{1}{15}=\frac{6-1}{15}=\frac{5}{15}$

C's new share = $\frac{1}{5}$ or $\frac{3}{15}$

New profit sharing ratio = A : B : C = 7 : 5 : 3

(c) C gets 1/5 from A and B as 3/20 and 1/20 respectively

A's new share = $\frac{3}{5}-\frac{3}{20}=\frac{12-3}{20}=\frac{9}{20}$

B's new share = $\frac{2}{5}-\frac{1}{20}=\frac{8-1}{20}=\frac{7}{20}$

C's new share = $\frac{3}{20}+\frac{1}{20}=\frac{4}{20}$

New profit sharing Ratio = A : B : C = 9 : 7 : 4

(d) C gets 1/5 wholly from A

A's new share = $\frac{3}{5}-\frac{1}{5}=\frac{2}{5}$

B's new share = $\frac{2}{5}$

C's new share = $\frac{1}{5}$

New profit sharing Ratio = 2 : 2 : 1 in A : B : C

In case (d), B retains his old share (2/5)

SACRIFICING RATIO

Illustration 2.

X and Y are partners sharing profit in the ratio 3 : 2. They admit P and Q as new partners. X surrendered 1/3rd of his share in favour of P and Y surrendered 1/4th of his share in favour of Q.

Calculate (a) Sacrificing ratio

(b) New profit sharing ratio X, Y, P and Q.

Solution:

(a) Calculation of Sacrificing Ratio

X surrenders 1/3 of his share in factor of P = $\frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$

Y surrenders 1/4 of his share in favour of Q = $\frac{1}{4} \times \frac{2}{5} = \frac{2}{20}$

$$X : Y = \frac{3}{15} : \frac{2}{20}$$

$$\frac{3}{15} \times \frac{4}{4} : \frac{2}{20} \times \frac{3}{3}$$

$$\frac{12}{60} : \frac{6}{60}$$

$\Rightarrow$ 12 : 6 or 2 : 1

(b) Calculation of New Profit sharing ratio

X's New share = $\frac{3}{5} - \frac{3}{15} = \frac{9-3}{15} = \frac{6}{15}$ or $\frac{24}{60}$

Y's New share = $\frac{2}{5} - \frac{2}{20} = \frac{8-3}{20} = \frac{6}{20}$ or $\frac{18}{60}$

P's = $\frac{3}{15}$ or $\frac{12}{60}$

$$Q's = \frac{2}{20} \text{ or } \frac{6}{60}$$

$$X : Y : P : Q = 24 : 18 : 12 : 6$$
$$= 4 : 3 : 2 : 1$$

Illustration 3.

X and Y are partners sharing profit and losses in the ratio 3 : 2. They admit Z into the partnership, who acquires $1/4^{th}$ of his share from X and $3/16^{th}$ share from Y.

Calculate New Profit Sharing Ratio and Sacrificing Ratio.

Solution:

Since Z acquires $\frac{1}{4}^{th}$ of his share from X

It means he acquires $\frac{3}{4}^{th}$ $\left(1-\frac{1}{4}\right)$ of his share from Y.

If $3/4^{th}$ share of Z = $\frac{3}{16}$ (Received from Y)

$$Z's \text{ share} = \frac{3}{16} \times \frac{4}{3} = \frac{1}{4}$$

Share acquired by Z from X = $\frac{1}{4} \times \frac{1}{4} = \frac{1}{16}$

Share acquired by Z from Y = $\frac{3}{16}$

Hence, X's new share = $\frac{3}{5} - \frac{1}{16} = \frac{48-5}{80} = \frac{43}{80}$

Y's new share = $\frac{2}{5} - \frac{1}{16} = \frac{32-5}{80} = \frac{17}{80}$

Z's share = $\frac{1}{4}$ or $\frac{20}{80}$

New profit sharing ratio = X : Y : Z = 43 : 17 : 20

Sacrificing Ratio X : Y = $\frac{1}{16} : \frac{3}{16} = 1 : 3$

Illustration 4.

(a) A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. C retired and his capital balance after adjustments regarding reserves, accumulated profits/losses and gain/loss on revaluation was ₹ 2,50,000. C was paid ₹ 3,00,000 in full settlement. Afterwards D was admitted for $1/4^{th}$ share. Calculate the amount of goodwill premium brought by D.

Solution:

Goodwill share of C = ₹ 3,00,000 – ₹ 2,50,000 = ₹ 50,000

Firm's Goodwill = 50,000 × $\frac{10}{2}$ = ₹ 2,50,000

D's share in Goodwill = ₹ 2,50,000 × $\frac{1}{4}$ = ₹ 62,500

(b) A and B were partners in a firm. They admitted C as a new partner for 20% share in the profits. After all adjustments regarding general reserve, goodwill, gain or loss on revaluation, the balances in capital accounts of A and B were ₹ 3,85,000 and ₹ 4,15,000 respectively. C bought proportionate capital so as to give him 20% share in the profits.

Calculate the amount of capital to be brought by C.

Solution:

Combined capital of A and B

= ₹ 3,85,000 + ₹ 4,15,000 = ₹ 8,00,000

C's share = $\frac{1}{5}^{th}$ of total capital

Remaining share = $1-\frac{1}{5}=\frac{4}{5}$

$\frac{4}{5}$ = ₹ 8,00,000

C's capital = ₹ 8,00,000 × $\frac{5}{4}\times\frac{1}{5}$

= ₹ 2,00,000

(C) Rekha, Sunita and Teena are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Samiksha joins the firm. Rekha surrenders 1/4th of her share; Sunita surrenders 1/3rd of her share and Teena surrenders 1/5th of her share in favour of Samiksha. Find the new Profit sharing ratio.

Solution:

Rekha surrenders for Samiksha = $\frac{1}{4} \times \frac{3}{6} = \frac{3}{24}$

Sunita surrenders for Samiksha = $\frac{1}{3} \times \frac{2}{6} = \frac{2}{18}$

Teena surrenders for Samiksha = $\frac{1}{5} \times \frac{1}{6} = \frac{1}{30}$

New share of Rekha = $\frac{3}{6} - \frac{3}{24} = \frac{9}{24}$

New share of Sunita = $\frac{2}{6} - \frac{2}{18} = \frac{4}{18}$

New share of Teena = $\frac{1}{6} - \frac{1}{30} = \frac{4}{30}$

Share of Samiksha = $\frac{3}{24} + \frac{2}{18} + \frac{1}{30} = \frac{97}{360}$

New ratio : $\frac{9}{24} : \frac{4}{18} : \frac{4}{30} : \frac{97}{360}$ = 135 : 80 : 48 : 97

Illustration 5. When Premium for Goodwill is Brought in Cash

(a) A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. C is admitted as a new partner. A surrenders 1/5th of his share and B 2/5th of his share in favour of C. Goodwill of the firm is valued at ₹ 75,000. C brings his share of goodwill in cash.

Journalise the above transaction when–

(i) Goodwill is retained in the firm

(ii) Goodwill is withdrawn by old partners

Solution:

(i) **Goodwill is Retained in the Firm**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Bank A/c Dr.		21,000	
	To Premium for Goodwill A/c			21,000
	(Being the amount of Goodwill brought in)			
	Premium for Goodwill A/c Dr.		21,000	
	To A's Capital A/c			9,000
	To B's Capital A/c			12,000
	(Being goodwill distributed between A and B in sacrificing ratio, i.e., 3 : 4)			

(ii) **Goodwill is Withdrawn by Old Partners**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Bank A/c Dr.		21,000	
	To Premium for Goodwill A/c			21,000
	(Being the amount of Goodwill brought in)			
	Premium for Goodwill A/c Dr.		21,000	
	To A's Capital A/c			9,000
	To B's Capital A/c			12,000
	(Being amount of goodwill distributed between A and B in sacrificing ratio, i.e., 3 : 4)			
	A's Capital A/c Dr.		9,000	
	B's Capital A/c Dr.		12,000	
	To Bank A/c			21,000
	(Being amount of goodwill is withdrawn by old partners)			

Working Notes:

1. Calculation of Sacrificing ratio–

A's Sacrifice $\frac{1}{5}$ of his share = $\frac{1}{5} \times \frac{3}{5} = \frac{3}{25}$

B's Sacrifice $\frac{2}{5}$ of his share = $\frac{2}{5} \times \frac{2}{5} = \frac{4}{25}$

Thus, Sacrificing ratio of A : B = 3 : 4

2. Calculation of C's share of Goodwill–

C's share of profit = $\frac{3}{25} + \frac{4}{25} = \frac{7}{25}$

Hence, C's share of Goodwill = $\frac{7}{25} \times 75{,}000$ = ₹ 21,000

(b) When Premium for Goodwill is Brought in Kind

A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. C is admitted as a new partner for 3/13th share in the profits. C contributed following assets towards his capital and for his share of goodwill. Land ₹ 90,000; Machinery ₹ 90,000; Stock ₹ 60,000; Debtors ₹ 60,000. On the date of admission, Goodwill of the firm is valued at ₹ 5,20,000. Journalize the above transaction.

Solution:

Goodwill is Brought in Kind

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Land A/c Dr.		90,000	
	Machinery A/c Dr.		90,000	
	Stock A/c Dr.		60,000	
	Debtors A/c Dr.		60,000	
	To premium for Goodwill A/c (5,20,000 × 3/13)			1,20,000
	To C's Capital A/c (b/f)			1,80,000
	(Being the amount of capital and Goodwill brought in kind)			
	Premium for Goodwill A/c Dr.		1,20,000	
	To A's Capital A/c			72,000
	To B's Capital A/c			48,000
	(Being goodwill distributed between A and B in sacrificing ratio, i.e., 3 : 2)			

(c) When Premium for Goodwill is not Brought in Kind

Neeta and Sunita are partners in a firm sharing profits and losses in the ratio of 2 : 1. Geeta is admitted as anew partner for 1/4th share in the profits. Geeta pays ₹ 50,000 as capital but does not bring any amount for goodwill. Goodwill of the firm is valued at ₹ 36,000.

(i) Journalize the above transaction.

(ii) Also, give journal entries if Goodwill is raised and written off.

Solution:

(i) Goodwill is not Brought in Cash and Adjusted Through Partner's Current A/c

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Cash A/c Dr.		50,000	
	To Geeta's Capital A/c			50,000
	(Being the amount of capital brought in)			
	Geeta's Current A/c Dr.		9,000	
	To Neeta's Capital A/c			6,000
	To Sunita's Capital A/c			3,000
	(Being goodwill distributed between Neeta and Sunita in sacrificing ratio, i.e., 2 : 1)			

(ii) When Goodwill is Raised and Written Off

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Cash A/c Dr.		50,000	
	To Geeta's Capital A/c			50,000
	(Being the amount of capital brought in)			
	Goodwill A/c Dr.		36,000	
	To Neeta's Capital A/c			24,000
	To Sunita's Capital A/c			12,000
	(Being goodwill raised in old ratio, i.e., 2 : 1)			
	Neeta's Capital A/c Dr.		18,000	
	Sunita's Capital A/c Dr.		9,000	
	Geeta's Capital A/c Dr.		9,000	
	To Goodwill A/c			36,000
	(Being Goodwill written off in new ratio i.e., 2 : 1 : 1)			

Working Note: Calculation of New Profit sharing ratio–

Let total share of the firm = 1

Geeta's share = $\frac{1}{4}$

Remaining share = $1-\frac{1}{4}=\frac{3}{4}$

Neeta's new share = $\frac{3}{4}\times\frac{2}{3}=\frac{2}{4}$

Sunita's new share = $\frac{3}{4}\times\frac{1}{3}=\frac{1}{4}$

Hence, New profit sharing ratio N : S : G = 2 : 1 : 1

(d) When Premium for Goodwill is Partly Brought in Cash

Neeta and Sunita are partners in a firm sharing profits and losses equally. Geeta is admitted as a new partner. Geeta pays ₹ 1,000 for premium out of her share of goodwill of ₹ 1,600 for 1/4th share of profit. Goodwill A/c appears in the books at ₹ 6,000.

(i) Journalize the above transaction.

(ii) Also, give journal entries if Goodwill is raised and written off.

Solution: (i) When Premium for Goodwill is Partly Brought in Cash

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Bank A/c Dr.		1,000	
	To Premium for Goodwill A/c			1,000
	(Being the amount of Goodwill brought in cash)			
	Premium for Goodwill A/c Dr.		1,000	
	Geeta's Current A/c Dr.		600	
	To Neeta's Capital A/c			800
	To Sunita's Capital A/c			800
	(Being goodwill distributed between Neeta and Sunita in sacrificing ratio, i.e., 1 : 1)			
	Neeta's Capital A/c Dr.		3,000	
	Sunita's Capital A/c Dr.		3,000	
	To Goodwill A/c			6,000
	(Being existing goodwill written of between old partners in old ratio i.e., equal)			

(ii) When Goodwill is Raised and Written Off

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Bank A/c Dr.		1,000	
	To Premium for Goodwill A/c			1,000
	(Being the amount of Goodwill brought in cash)			
	Premium for Goodwill A/c Dr.		1,000	
	To Neeta's Capital A/c			500
	To Sunita's Capital A/c			500
	(Being goodwill distributed between Neeta and Sunita in sacrificing ratio, i.e., 1 : 1)			
	Goodwill A/c (600 × 4/1) Dr.		2,400	
	To Neeta's Capital A/c			1,200
	To Sunita's Capital A/c			2,200
	(Being goodwill raised in old ratio, i.e., 1 : 1)			

	Neeta's Capital A/c Dr. Sunita's Capital A/c Dr. Geeta's Current A/c Dr. To Goodwill A/c (Being goodwill written off in new ratio i.e., 3 : 2 : 2)		900 900 600	2,400
	Neeta's Capital A/c Dr. Sunita's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off between old partners in old ratio i.e., equal)		3,000 3,000	6,000

Working Note: 1. Calculation of New profit sharing ratio–

Geeta's share = $\frac{1}{4}$

Remaining share = $1-\frac{1}{4}=\frac{3}{4}$

Neeta's new share = $\frac{3}{4}\times\frac{1}{2}=\frac{3}{8}$

Sunita's new share = $\frac{3}{4}\times\frac{1}{2}=\frac{3}{8}$

Hence, New profit sharing ratio N : S : G = 3 : 3 : 2

2. Calculation of amount of Goodwill to be raised and written off

Amount of Goodwill not brought by Geeta = 400

His share of profit = $\frac{1}{4}$

Amount of Goodwill to be raised and written off = $400\times\frac{4}{1}=2400$

Illustration 6.

Naresh and Suresh are partners in a firm sharing profits and losses in the ratio of 3 : 1. On April 1st 2019, they admitted Rahul as a partner for 1/5th share in the profits of the firm. On the date of admission, the balance sheet showed a General Reserve of ₹ 1,20,000; a debit balance of ₹ 60,000 in Profit and Loss A/c; Workmen compensation Reserve of ₹ 1,50,000 and Investment fluctuation Reserve of ₹ 10,000.

The following terms were agreed upon–

(i) Rahul will bring ₹ 1,50,000 as his capital and his share of goodwill in cash.

(ii) Goodwill of the firm be valued at ₹ 2,40,000.

(iii) There was a claim of Workmen compensation for ₹ 1,70,000

(iv) The market value of investment was ₹ 18,000 less than the Book value.

(v) The partners decided to share future profits in the ratio of 3 : 1 : 1.

Pass the necessary Journal entries on Rahul's admission.

Solution:

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
1st April 2019	General Reserve A/c Dr.		1,20,000	
	To Naresh's Capital A/c			1,20,000
	To Suresh's Capital A/c			
	(Being General Reserve distributed between old partners in oldratio, 3 : 1)			
	Naresh's Capital A/c Dr.		45,000	
	Suresh's Capital A/c Dr.		15,000	
	To Profit and Loss A/c			60,000
	(Being P and L distributed between old partners in old ratio, 3 : 1)			
	Workmen compensation Reserve A/c Dr.		1,50,000	
	Revaluation A/c Dr.		20,000	
	To Provision for Workmen Compensation Claim A/c			1,70,000
	(Being Workmen Compensation Claim adjusted against Workmen compensation Reserve)			
	Investment fluctuation Reserve A/c Dr.		10,000	
	Revaluation A/c Dr.		8,000	
	To Investment A/c			18,000
	(Being fall in value of investment adjusted against Investment fluctuation Reserve and Revaluation A/c)			
	Naresh's Capital A/c Dr.		21,000	
	Suresh's Capital A/c Dr.		7,000	
	To Revaluation A/c			28,000
	(Being loss on revaluation transferred to old partners in old ratio)			

	Bank A/c Dr.		1,98,000	
	To Rahul's Capital A/c			1,50,000
	To Premium for Goodwill A/c (2,40,000 × 1/5)			48,000
	(Being the amount of capital and Goodwill brought in)			
	Premium for Goodwill A/c Dr.		48,000	
	To Naresh's Capital A/c			36,000
	To Suresh's Capital A/c			12,000
	(Being amount of Goodwill distributed between Naresh and Suresh sacrificing ratio, i.e., 3 : 1)			

Hidden Goodwill

Illustration 7.

A and B are partners with capital of ₹ 26000 and ₹ 22000 respectively. They admit C as partner with 1/4th share in the profits of the firm. C brings ₹ 26,000 as his share of capital.

Give journal entry to record goodwill on C's admission

Solution :

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
1st April 2019	Bank A/c Dr.		26,000	
	To C's Capital A/c			26,000
	(Being the amount of Capital brought in by new partner)			
	C's Current A/c Dr.		7,500	
	To A's Capital A/c			3,750
	To B's Capital A/c			3,750
	(Being the Goodwill credited to sacrificing partners Capital A/cs in their sacrificing ratio, i.e., equal)			

Working Note :

(1) Calculation of C's share of Goodwill–

Total capital of new firm on the basis of C's capital

$$= 26000 \times \frac{4}{1} = ₹\ 1,04,000$$

Total capital of A, B and C

= ₹ 26000 + ₹ 22000 + ₹ 26000

= ₹ 74000

Goodwill of the firm

= Total capital of new firm – Combined capital of A, B and C

= ₹ 104000 – ₹ 74000

= ₹ 30000

C's share of Goodwill

$= 30000 \times \frac{1}{4} = ₹\ 7500$

(2) In the absence of information, profits will be shared Equally.

Illustration 8.

X and Y were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance sheet as at 31st March, 2019 was as follows:

Liabilities	₹	Assets	₹
Creditors	42,000	Current Assets	2,00,000
Employee's Provident Fund	20,000	Investments	50,000
Contigency Reserve	30,000	Furniture	20,000
Profit and Loss Account	45,000	Machinery	90,000
Workment Compensation Reserve	18,000	Advertisement Expenditure (Deffered Revenue Expenditure)	20,000
Investment Fluctuation Reserve	25,000		
Capitals X 1,20,000			
Capitals Y 80,000	2,00,000		
	3,80,000		3,80,000

They admit Z into partnership on 1st April, 2019 and the new profit sharing ratio is agreed at 2 : 1 : 1. It is estimated that:

(i) Claim on account of Workmen's Compensation is estimated at ₹ 10,000.

(ii) Market value of Investments is ₹ 46,000.

Give necessary journal entries to adjust accumulated profits and losses.

Solution:

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
1st April 2019	Investment Fluctuation Reserve Dr. To Investment A/c (Value of Investment brought down to market value)		4,000	4,000

	Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c (Provision made for workmen compensationclaim)		10,000	10,000
1st April 2019	Contigency Reserve Dr. Profit and Loss A/c Dr. Workmen Compensation Reserve (₹ 18,000 – ₹ 10,000) Dr. Investment Fluctuation Reserve (₹ 25,000 – ₹ 4,000) Dr. To X's Capital A/c To Y's Capital A/c (Transfer of accumulated profits to old partners in their old profit sharing ratio i.e., 3 : 2)		30,000 45,000 8,000 21,000	 62,400 41,600
1st April 2019	X's Capital A/c Dr. Y's Capital A/c Dr. To Advertisement Expenditure A/c (Transfer of accumulated loss to old partners in their old profit sharing ratio i.e., 3 : 2)		12,000 8,000	 20,000

Working Note: Employee's Provident Fund is outside liability payable by the firm.

Illustration 9.

X and Y are in partnership, sharing profits in the ratio of 5 : 3 respectively. Their balance sheet is as follows:

Liabilities	₹	Assets	₹
Creditors	28,000	Cash at Bank	15,800
Workment Compensation Reserve	12,000	Debtors 40,000 Less : Provision 1,800	38,200
Z's Loan A/c	30,000	Stock	56,000
		Investment	10,000
Capitals X 1,20,000	50,000	Goodwill	10,000
Capitals Y 80,000	40,000	Plant	30,000
	1,60,000		1,60,000

Z is admitted into partnership on the following terms:

1. The new profit-sharing ratio will be 4 : 3 : 2 between X, Y and Z respectively.

2. Z's loan should be treated as his capital.
3. Goodwill of the firm is valued at ₹ 27,000.
4. ₹ 8,000 of investments were to be taken over by X and Y in their profit sharing ratio.
5. Stock be reduced by 10%.
6. Provision for doubtful debts should be @ 5% on debtors and a provision for discount on debtors @ 2% should also bemade.
7. The liability of Workmen's Compensation Reserve was determined to be ₹ 15,000.
8. X is to withdraw ₹ 6,000 in cash.

Give journal entries to record the above and prepare balance sheet of the new firm.

Solution:

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Revaluation A/c Dr.		6,560	
	To Stock A/c			5,600
	To Provision for Doubtful Debts			200
	To Provision for Discount on Debtors			760
	(Decrease in the value of stock and creation of provision on debtors)			
	Workmen Compensation Reserve A/c Dr.		12,000	
	Revaluation A/c Dr.		3,000	
	To Liability for Workmen's Compensation A/c			15,000
	(Recording of liability for Workmen's Compensation)			
	X's Capital A/c Dr.		5.975	
	Y's Capital A/c Dr.		3,585	
	To Revaluation A/c			9,560
	(Loss on revaluation transferred to old partner's Capital A/cs)			
	X's Capital A/c Dr.		5,000	
	Y's Capital A/c Dr.		3,000	
	To Investments A/c			8,000
	(Investments taken over by old partners)			

	X's Capital A/c Dr. Y's Capital A/c Dr. To Goodwill A/c (Existing goodwill written off in old ratio i.e., 5 : 3)		6,250 3,750	10,000
	Z's Current A/c Dr. To X's Capital A/c To Y's Capital A/c (Z's share of goodwill credited to old partners in the sacrificing ratio i.e., 13 : 3)		6,000	4,875 1,125
	Z's Loan A/c Dr. To Z's Capital A/c (Z's Loan Account transferred to Z's Capital Account)		30,000	30,000
	X's Capital A/c Dr. To Bank A/c (Cash withdrew by X)		6,000	6,000

Partner's Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Revaluation	5,975	3,585	–	By Balance b/d	50,000	40,000	–
To Investment	5,000	3,000	–	By Z's Current A/c	4,875	1,125	–
To goodwill A/c	6,250	3,750	–	By Z's Loan A/c	–	–	30,000
To Bank A/c	6,000	–	–		–	–	30,000
To Balance c/d	31,650	30,790	30,000				
	54,875	41,125	30,000		54,875	41,125	30,000

Balance Sheet as at .....

Liabilities	₹	Assets	₹
Creditors	28,000	Cash at Bank	9,800
Liabilities for Workmen's		(₹ 15800 – ₹ 6000)	
Compensation	15000	Debtors 40,000	

Capital A/cs :			Less : Provision for Doubtful Debts	
X	31,650			
Y	30,790		2,000	
Z	30,000	92,440	38,000	
			Less : Provision for Discount on Debtors	
			760	37,240
			Stock	50,400
			Investment	2,000
			Plant	30,000
			Z's Current A/c	6,000
		1,35,440		1,35,440

Working Note: (1) Calculation of sacrificing ratio–

Sacrificing ratio = Old ratio – New ratio

$$X = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$Y = \frac{3}{8} - \frac{3}{9} = \frac{27-24}{72} = \frac{3}{72}$$

Sacrificing ratio = 13 : 3

(2) From Z's share of goodwill, his current A/c has been debited instead of A/c so that his Capital is not reduced and remains intact at ₹ 30,000.

Illustration 10.

Deepika and Rajshree are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2017, their Balance Sheet was as under:

Liabilities		₹	Assets		₹
Sundry Creditors		16,000	Cash in Hand		1,200
Public Deposits		61,000	Cash at Bank		2,800
Bank Overdraft		6,000	Stock		32,000
Outstanding Liabilities		2,000	Prepaid Insurance		1,000
Capital Accounts :			Sundry Debtors		
Deepika	48,000			28,000	
Rajshree	40,000	88,000	Less : Provision for Doubtful Debts		
				800	28,000
			Plant and Machinery		48,000
			Land and Building		50,000
			Furniture		10,000
		1,73,000			1,73,000

On the above date, the partners decide to admit Anshu as a partner on the following terms:

(i) The new profit-sharing ratio of Deepika, Rajshree and Anshu will be 5 : 3 : 2, respectively

(ii) Anshu shall bring ₹ 32,000 as his capital.

(iii) Anshu is unable to bring in any cash for his share of goodwill. Partners, therefore, decide to calculate goodwill on the basis of Anshu's share in the profits and the capital contribution made by him to the firm.

(iv) Plant and Machinery would be increased by ₹ 12,000.

(v) Stock would be increased to ₹ 40,000.

(vi) Provision for Doubtful Debts is to be maintained at ₹ 4,000. Value of Land and Building has appreciated by 20%. Furniture has depreciated by 10%.

(vii) There is an additional liability of ₹ 8,000 being outstanding salary payable to employees of the firm. This liability is not included in the outstanding liabilities, stated in the above Balance sheet. Partners decide to show this liability in the books of accounts of the reconstituted new firm.

Prepare revaluation account, Partner's Capital Accounts and the Balance Sheet Deepika, Rajshree and Anshu.

Solution:

Revaluation Account

Particulars	₹	Particulars	₹
To Provision for Doubtful debts	3,200	By Plant and Machinery	12,000
To Furniture	1,000	By Stock	8,000
To Outstanding Salary	8,000	By Land and Building	10,000
To Profit transferred to :			
Deepika Capital A/c (3/5) 10,680			
Rajshree Capital A/c (2/5) 7,120	17,800		
	30,000		30,000

Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
				By Balance b/d	48,000	40,000	—
				By Revaluation	10,680	7,120	—
				By Anshu's Current A/c	2,220	2,220	—
To Balance c/d	60,900	49,340	32,000	By Bank A/c	—		32,000
	60,900	49,340	32,000		60,900	48,340	32,000

Opening Balance Sheet

(as at 1st April, 2017)

Liabilities	₹	Assets	₹
Sundry Creditors	16,000	Cash in Hand	1,200
Public Deposits	61,000	Cash at Bank	28,800
Outstanding Liabilities	10,000	Stock	40,000
Capital Accounts :	2,000	Prepaid Insurance	1,000
Deepika 48,000		Sundry Debtors 28,000	
Rajshree 40,000		Less : Provision 4,000	24,800
Anshu 32,000	1,42,240	Plant and Machinery	60,000
		Land and Building	60,000
		Furniture	9,000
		Anshu's Current A/c	4,440
	2,29,240		2,29,240

Working Note: (1) Bank Balance : ₹ 2,800 + ₹ 32,000 – Bank Overdraft ₹ 6,000 = ₹ 28,800.

(2) Calculation of Hidden Goodwill –

Total capital of firm based on Anshu shave should be–

$$₹\ 32{,}000 \times \frac{10}{2} = ₹\ 1{,}60{,}000$$

Less Capital of Deepika (48,000 + 10,680) = ₹ (58,680)

Capital of Rajshree (40,000 + 7,120) = ₹ (47,120)

Capital of Anshu = ₹ (37,000)

Value of Goodwill = ₹ 22,200

Anshu's share of Goodwill = 22,200 × $\frac{2}{10}$ = ₹ 4440

(3) Calculation of sacrificing ratio

Deepika = $\frac{3}{5}-\frac{5}{10}=\frac{6-5}{10}=\frac{1}{10}$ (Sacrifice)

Rajshree = $\frac{2}{5}-\frac{3}{10}=\frac{4-3}{10}=\frac{1}{10}$ (Sacrifice)

(4) Journal Entry–

Anshu's current A/c Dr.	4,440	
To Deepika Capital A/c		2,220
To Rajshree CapitalA/c		2.220
(Being amount of goodwill credited to sacrificing partner in their SR)		

Illustration 11.

Divya, Yasmin and Fatima are partners in a firm, sharing profits and losses in 11 : 7 : 2 respectively. The balance sheet of the firm as on 31st March 2018 was as follows:

Balance Sheet As at 31st April 2018

Liabilities		₹	Assets	₹
Sundry Creditors		70,000	Factory Building	7,35,000
Public Deposits		1,19,000	Plant and Machinery	1,80,000
Reserve fund		90,000	Furniture	2,60,000
Outstanding Expenses		10,000	Stock	1,45,000
Capital Accounts :			Debtors	
Divya	5,10000		Less :	
Yasmin	3,00000		Provision 1,50000	1,20,000
Fatima	5,00000	13,10,000	Cash at bank (30000)	1,59,000
		15,99,000		15,99,000

On 1-4-2018, Aditya is admitted as a partner for one-fifth share in the profits with a capital of ₹ 4,50,000 and necessary amount of his share of goodwill on the following terms:

(i) Furniture of ₹ 2,40,000 were to be taken over Divya, Yasmin and Fatima equally.

(ii) A creditor of ₹ 7,000 not recorded in books to betaken into account.

(iii) Goodwill of the firm is to be valued at 2.5 years purchase of average profits of last two years. The profit of the last three years were:

2015-16 ₹ 6,00,000;

2016-17 ₹ 2,00,000;

2017-18 ₹ 6,00,000

(iv) At time of Aditya's admission Yasmin also brought in 50,000 as fresh capital.

(v) Plant and Machinery is re-valued to ₹ 2,00,000 and expenses outstanding were brought down to ₹ 9,000. Prepare Revaluation Account, Partners Capital Account and the balance sheet of the reconstituted firm.

Solution:

Revaluation Account

Particulars			₹	Particulars	₹
To Creditors			7,000	By Machinery	20,000
To Partner's Capital A/c				By Outstanding	
	Divya	7,700		Expenses	1,000
	Yasmin	4,900			
	Fatima	1,400	14,000		
			20,000		21,000

Partner's Capital Account

Particulars	Divya	Yasmin	Fatima	Aditya	Particulars	Divya	Yasmin	Fatima	Aditya
To furniture A/c	80000	80000	80000		By Balance b/d	510000	300000	500000	
To Balance C/d	597200	376400	450400	450000	By Bank A/c		50000		450000
					By Reserve Fund	49500	31500	9000	
					By Premium for goodwill A/c	110000	70000	20000	
					By Revaluation Ac	7700	4900	1400	
	677200	456400	530400	450000		677200	456400	530400	450000

Balance Sheet As at 1-4-2018

Liabilities		₹	Assets		₹
Sundry Creditors		77,000	Factory Building		7,35000
Public deposits		1,19,000	Plant and Machinery		2,00000
Outstanding Expenses		9,000	Furniture		20,000
Capital accounts			Stock		1,45,000
Divya	5,97,200		Debtors	1,50000	
Yasmin	3,76,400		Less : Proviion	(30000)	1,20000
Fatima	4,50,400		Cash at bank		8,59000
Aditya	4,50,000	18,74,000			
		20,79000			20,79000

Working Note: Goodwill = $2.5 \times \left\{\frac{(60,000 + 20,00)}{2}\right\}$ = ₹ 10,00,000

Bank Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance B/d	1,59,000	By balance c/d	8,59,000
To Aditya's Capital A/c	4,50,000		
To Premium for Goodwill A/c	2,00,000		
To Yasmin's Capital A/c	50,000		
	8,59,000		8,59,000

Illustration 12.

P and K were partners in a firm. On March 31, 2019 their Balance Sheet was as follows:

Bank Account

Liabilities		Amount ₹	Assets		Amount ₹
Capitals:			Bank		18,000
P	3,00,000		Stock		19,000
K	2,00,000	5,00,000	Debtors	22,000	
General Reserve		1,00,000	Less : Prov. For D/d		
Creditors		50,000		1,500	20,500
Outstanding Expenses		8,000	Unexpired Insurance		5,000
C's Loan		1,20,000	Shares in X Limited		65,000
Profit and Loss Account (Profit for 2018-19)			Plant and Machinery		1,45,500
		55,000	Land and Building		5,60,000
		8,33,000			8,33,000

On April 1, 2019, they decided to admit C as a new partner for 1/4th share in profits on the following terms:

(i) C's Loan will be converted into his capital.

(ii) C will bring his share of goodwill premium by cheque. Goodwill of the firm will be calculated on the basis of Average Profits of previous three years. Profits for the year ended March 31, 2017 and March 31, 2018 were ₹ 55,000 and ₹ 1,00,000 respectively.

(iii) 10% depreciation will be charged on Plant and Machinery and Land and Building will be appreciated by 5%.

(iv) Capitals of P and K will be adjusted on the basis C's capital. Adjustments be done through bank and in case required overdraft facility be availed.

Pass necessary Journal entries on C's admission.

Solution:

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Plant and Machinery To Profit transferred to Partner's Current Accounts A 35,375 B 21,225 C 14,150	20,000 70,750	By Provision for Doubtful Debts By Land and Building	750 90,000
	90,750		90,750

Partner's Capital Account

Date	Particulars	A	B	C	Date	Particulars	A	B	C
31/3/19	To C's Current A/c	38,250	22,950		31/3/19	By Revaluation Account	35,375	21,225	14,150
	To Profit and Loss A/c	1,20,500	72,300	48,200		By A's current account			38,250
	To C's Capital Account			42,150		By B's current account			22950
						By General Reserve	37,500	22,500	15,000
						By Balance c/d	85,875	51,525	
		1,58,750	95,250	90,350			1,58,750	95,250	90,350

Partner's Capital Account

Date	Particulars	A	B	C	Date	Particulars	A	B	C
31/3/19	To Bank Account			35500	31/3/19	By Balance b/d	500000	300000	200000
	To C's Loan Account			206650		By C's Current Account			
	To Balance c/d	500000	300000						
		500000	300000	242150			500000	300000	242150

Balance Sheet as at March 31, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capitals:		Bank	21,000
A 5,00,000		Stock	9,000
B 3,00,000	8,00,000	Debtors 15,000	
C's Loan	2,06,650	Less : Prov. For D/d	
Creditors	23,000	750	14,250
Outstanding Salary	7,000	Plant and Machinery	1,80,000
B's Loan	15,000	Land and Building	6,90,000
		A's Current Account	85,875
		B's Current Account	51.525
	10,51,650		10,51,650

Illustration 13.

A and B are in partnership sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31/3/2019 is as under–

Liabilities	Amount ₹	Assets	Amount ₹
A's Capitals 88,000		Goodwill	5,000
B's Capitals 1,27,000	2,15,000	Land and Building	30,000
Workmen Compensation Reserve	10000	Investments (Market value ₹ 22,500)	25,000
Investment Fluctuation Reserve	5000	Debtors 47,500	45,000
	5000	Less Prov. For D/d	
Employee's Provident Fund	1,50,000	2,500	1,50,000
C's Loan		Stock	1,25,000
		Bank	1,25,000
		Advertisement Suspense A/c	5,000
	3,85,000		3,85,000

On April 1st 2019, they agreed to take C as a partner on the following conditions–

(i) A will sacrifice 1/3rd of his share with B sacrifices 1/10th from his share in favour of C.

(ii) C's loan will be converted into his capital.

(iii) C brings in 60% of his share of goodwill in cash.

(iv) Land and Building was found undervalued by ₹ 25,000 and Stock was found overvalued by ₹ 35,000.

(v) All debtors are good.

(vi) AB/R of ₹ 7004 discounted with bank was dishonoured, which is to be recorded in the books of account.

(vii) Claim on account of Workmen Compensation is ₹ 5,000.

(viii) An unrecorded accrued income of ₹ 5,000 to be provided for.

(ix) A debtor whose dues of ₹ 25,000 were written off as bad debts, paid ₹ 20,000 in full settlement.

(x) Goodwill is to be valued at 2 years' purchase of super profit of last 3 completed years. Profits for year ended 31st March are as follows–

2017 – ₹ 2,40,000;

2018 – ₹ 4,65,000;

2019 – ₹ 6,90,000

The normal profit is ₹ 3,15,000.

(xi) Capital Accounts of the partners to be readjusted on the basis of their profit-sharing ratio and any excess or deficiency be adjusted by payment or receipt of amount.

Prepare Revaluation Account, Partner's Capital Account and the Balance sheet.

Solution:

Revaluation Account

Particulars		Amount ₹	Particulars	Amount ₹
To Stock A/c		35,000	By Land and Building A/c	25,000
To Gain on Revaluation transferred to–			By Provision for doubtful debt A/c	2,500
A's Capital A/c	10,500		By bad debts recovered A/c	20,000
B's Capital A/c	7000	17,500	By Accrued Income A/c	5,000
		52,500		52,500

Partner's Capital Account

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Goodwill A/c	3,000	3,000	—	By balance b/d	88,000	127000	—
Suspense A/c	2,000	2,000	—	By C's Loan A/c	—	—	150000
To Bank A/c	—	13,000	—	By Premium for Goodwill A/c	36,000	18,000	—
To balance c/d	2,00,000	1,50,000	1,50,000	By C's current A/c	24,000	12,000	—
				By Revaluation A/c (Gain	10,500	7,000	—
				By Workmen compensation Reserve A/c	3,000	2,000	—
				By Investment Fluctuation Reserve A/c	1,500	1,000	—
				By Bank A/c	43,000	—	—
	206000	167000	150000		206000	167000	150000

Balance Sheet as at 1st April 2019

Liabilities		Amount ₹	Assets	Amount ₹
Workmen Compensation Claim		5,000	Land and Building	55,000
Employee's Provident Fund		5,000	Investment	22,500
Capital A/cs			Debtors (47,500 + 7004)	54,504
A	2,00,000		Stock	1,15,000
B	1,50,000		Bank	2,21,996
C	1,50,000	5,00,000	Accrued Income	5,000
			C's Current Account	36,000
		5,10,000		5,10,000

Working Note:

1. Sacrificing share = Old share – New share

A's new share = $\frac{3}{5}-\left(\frac{1}{3}\times\frac{3}{5}\right)=\frac{3}{5}-\frac{1}{5}=\frac{2}{5}$ or $\frac{4}{10}$

B's new share = $\frac{2}{5}-\frac{1}{10}=\frac{3}{10}$

C's new share = $\frac{1}{5}+\frac{1}{10}=\frac{3}{10}$

New Profit sharing ratio A : B : C = 4 : 3 : 3

Sacrificing ratio A : B = 2 : 1

2. Calculation of C's share of Goodwill–

Average profit = $\frac{2,40,000+4,65,000+6,90,000}{3}$

= ₹ 4,65,000

Normal Profit = 3,15,000

Super Profit = Average profit – Normal profit

= ₹ 4,65,000 – ₹ 3,15,000 = ₹ 1,50,000

Firm's Goodwill = Super Profit × No. of Year's purchase

= ₹ 1,50,000 × ₹ 3,00,000

Super Profit = Average profit – Normal profit

= ₹ 4,65,000 – ₹ 3,15,000 = ₹ 1,50,000

Firm's Goodwill = Super profit × No. of yrs' purchase

= ₹ 1,50,000 × 2 = ₹ 3,00,000

C's share of goodwill = ₹ 3,00,000 × 3/10 = ₹ 90,000

Journal

Bank A/c (60% 90,000)	Dr.	54,000	
To Premium for Goodwill A/c			54,000
Premium for Goodwill A/c	Dr.	54,000	
To A's Capital A/c			36,000
To B's Capital A/c			18,000
C's Current A/c	Dr.	36,000	
To A's Capital A/c			24,000
To B's Capital A/c			12,000

3. Adjustment of Capital

Total Capital of firm = ₹ 1,50,000 × $\frac{10}{3}$ = ₹ 5,00,000

A's new Capital = ₹ 5,00,000 × $\frac{4}{10}$ = ₹ 2,00,000

B's new Capital = ₹ 5,00,000 × $\frac{3}{10}$ = ₹ 1,50,000

C's Capital = ₹ 1,50,000

4. Dr. Bank A/C Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To balance b/d	1,25,000	By B's Capital A/c	13,000
To Bad debt Recovered A/c	20,000	By dishonoured B/R paid	7,004
To Premium for Goodwill A/c	54,000	By bal. c/d	2,21,996
To A's Capital A/c	43,000		
	2,42,000		2,42,000

Adjusting Capital of New Partner on the Basis of Old Partners.

Illustration 14.

A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their balance sheet was as follows on 1st January, 2019.

Balance Sheet as at 1st January 2019

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	15,000	Plant	30,000
Capital A/cs		Patents	10,000
A 30,000		Stock	20,000
B 25,000	55,000	Debtors	18,000
General reserve	10,000	Bank	2,000
	80,000		80,000

C is admitted as a partner on the above date on the following terms–

(i) He will pay ₹ 10,000 as goodwill for one-fourth share in the profit of the firm.

(ii) The assets are to be valued as under:

Plant at ₹ 32,000; Stock at ₹ 18,000; Debtors at a book figure less a provision of 5 percent for bad debts.

(iii) It was found that the creditors included a sum of ₹ 1,400 which was not be paid. But it was also, found that there was a liability for compensation to workers amount into ₹ 2,000.

(iv) C was to introduce ₹ 20,000 as capital and the capitals of other partners were to be adjusted in the new profit sharing ratio for this purpose, current accounts were to be opened.

Prepare Revaluation Account, Capital Account and Balance Sheet after C's admission.

Solution:

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Stock A/c	2,000	By Plant A/c	2,000
To Provision for Doubtful		By Creditors A/c	1,400
Debts A/c	900	By Capital A/c (loss) :	
To Outstanding liability A/c	2,000	A 3/5 900	1,500
		B 2/5 600	
	4,900		4,900

Capital Account

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Revaluation	900	600	—	By balance b/d	30,000	25,000	—
To Balance c/d	41,100	32,400	20,000	By General Reserve	6,000	4,000	—
				By Bank A/c	—	—	20,000
				By Premium for Goodwill A/c	6,000	4000	
					42,000	33,000	20,000
To Current A/c	42,000	33,000	20,000	By balance b/d	41,000	32,400	20,000
	5,100	8,400					
To Balance c/d	36,000	24,000	20,000				
	41,100	32,400	20,000		41,000	32,400	20,000

Partner's Current A/c

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Balance c/d	5,100	8,400	—	By Capital A/cs	5,100	8,400	—

Working Note: (1) Calculation of New Profit sharing ratio–

Let total share of firm = 1

$$\text{C's share} = \frac{1}{4}$$

$$\text{Remaining share} = 1-\frac{1}{4}=\frac{3}{4}$$

$$\text{A's new share} = \frac{3}{4}\times\frac{3}{5}=\frac{9}{20}$$

$$\text{B's new share} = \frac{3}{4} \times \frac{2}{5} = \frac{6}{20}$$

New Profit sharing ratio = A : B : C

$$= \frac{9}{20} : \frac{6}{20} : \frac{1}{4} = 9 : 6 : 5$$

(2) New Capital of A and B on the basis of C's Capital–

Total Capital of firms based on

$$= 20{,}000 \times \frac{4}{1} = ₹\ 80{,}000$$

therefore, $\text{A's Capital} = 80{,}000 \times \frac{9}{20}$

$$\text{B's Capital} = 80{,}000 \times \frac{6}{20}$$

Balance Sheet (After C/s admission)

As on 1st January 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/cs		Plant	32,000
A 36,000		Patents	10,000
B 24,000		Stock	18,000
C 20,000	80,000	Debtors 18,000	
Current A/cs : R		Less : Provision for D.D	
A 5,100			17,100
B 8,400	13,500	Bank	32,000
Sundry Creditors	13,600		
Outstanding liability	2,000		
	1,09,100		1,09,100

Illustration 15.

Sahaj and Nimish are partners in a firm. They share profit and losses in the ratio 2 : 1. They decided to admit Gauri for 1/3 share. At the time of her admission, Balance sheet of Sahaj and Nimish was as under–

Liabilities		Amount ₹	Assets	Amount ₹
Capital A/cs			Machinery	1,20,000
Sahaj	20,000		Furniture	80,000
Nimish	80,000	2,00,000	Stock	50,000
General Reserve		30,000	Sundry Debtors	30,000
Creditors		30,000	Cash	20,000
Employees Provident Fund		40,000		
		3,00,000		3,00,000

Gauri brought her share of Goodwill in cash and proportionate capical. It was also agreed–

(i) Reduce the value of stock by ₹ 5000.

(ii) Depreciate furniture by 10% and appreciate machinery by 5%

(iii) ₹ 3000 of the debtors proved bad. A provision of 5% was to be created on S.debtors for doubtful debts.

(iv) Goodwill of the firm was valued at ₹ 45000.

Prepare Revaluation A/c, Partner's Capital A/cs and Balance sheet of reconstituted firm.

Solution:

Revaluation Account

Particulars	Amount ₹	Particulars		Amount ₹
To Stock A/c	5,000	By Machinery A/c		6,000
To Furniture	8,000	By Loss transferred to		
To (Sundry Debtors) Bad debts	3,000	Sahay's Capital A/c	7,567	
To provision for bad debts $(30,000 - 3000) \times \frac{5}{100}$	1,350	Nimish's Capital A/c	3,783	11,350
	17,350			17,350

Partners Capital Account

Particulars	Sahaj	Nimish	Gauri	Particulars	Sahaj	Nimish	Gauri
	₹	₹	₹		₹	₹	₹
To Revaluation A/c	7,567	3,783	—	By balance b/d	120000	80000	—
To Balance c/d	142433	91217	116825	By General Reserve A/c	20000	10000	—
				By Premium for Goodwill A/c	10000	5000	—
				By Bank A/c			116825
	150000	95000	116825		150000	95000	116825

Bank A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Gauri's Capital A/c	116825	By balance c/d	131825
To Premium for Goodwill	15000		
	131825		131825

Balance Sheet of New Firm

As on 1st January 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/cs		Machinery	1,26,000
Sahaj 142433		Furniture	72,000
Nimish 91217		Stock	45,000
Gauri 116825	350475	Sundry Debtors	
Employees Provident Fund		30,000	
Creditors	40000	Less Bed debts	
	30000	(3,000)	
		Less Provision for D/d	
		(1,350)	25,650
		Cash	20,000
		Bank	1,31,825
	4,20,475		4,20,475

Working Note:

(1) Gauri's share of Goodwill

$$= 45000 \times \frac{1}{3} = ₹\ 15,000$$

(2) Total adjusted Capital Old

$$= ₹\ 14{,}2{,}433 + ₹\ 91{,}217 = ₹\ 2{,}33{,}650$$

Proportionate Capital Gauri (1/3 share)

$$= ₹\ 2{,}33{,}652 \times \frac{\cancel{3}}{2} \times \frac{1}{\cancel{3}}$$

$$= ₹\ \frac{2{,}33{,}650}{2} = ₹\ 1{,}16{,}825$$

PRACTICE EXERCISE

1. On 1-4-2016, A and B entered into partnership for sharing profits in the ratio of 4 : 3. They admitted C as a new partner on 1-4-2018 for 1/5th share which he acquired equally from A and B.

A , B and C earned profit at a higher rate than the Normal Rate of Return for 31-3-2019. Therefore, they decided to expand their business. To meet the requirements of addition at Capital they admitted D as a new partner on 1-4-2019 for 1/7th share in profits which he acquired from A and B in 7 : 3 ratio.

Calculate :

(a) New Profit Sharing Ratio of A : B : C for 2018-19.

(b) New Profit Sharing Ratio of A : B : C : D on D's admission.

2. (a) Vikram and Abhishek are partners sharing profits and Losses in the ratio of 8 : 5. They admit 'Avishi' and decide that the profit sharing ratio between Abhishek and Avishi shall be the same as existing between 'Vikram' and 'Abhishek'.

Calculate New Profit Sharing Ratio and Sacrificing Ratio.

(b) A, B and C are partners in a firm for the profit sharing ratio 4 : 3 : 1. They admitted 'D' as a new partner. 'A', sacrifice 1/3rd of his share in favour of 'D' and 'B', Sacrifice 1/4th from his share in favour of new partner C in neutral.

Calculate New Profit Sharing Ratio.

3. A and B share profits and losses in the ratio of 5 : 3. They admit Cas a partner who pays ₹ 54,000 as premium for goodwill for 1/5th share in the future profits of the firm.

Pass journal entries for goodwill and calculate new profit sharing ratio in each of the following case–

(a) If he acquires his share of profits in the Original ratio of existing partners.

(b) If he acquires his share of profits in equal proportions from the existing partners.

(c) If he acquires his share in the ratio of 3 : 1 from the existing partners.

(d) If he acquires his share of profits as 1/6th from A and 1/30th from B.

4. Rahul and Anurag are partners sharing profits in the ratio of 3 : 2. They decided to admit Bajaj as a new partner and to share future profits and losses equally.

Bajaj brings in ₹ 50,000 as his capital. Goodwill of the firm is valued at ₹ 60,000.

Pass necessary Journal entries–

(a) When no goodwill appears in books.

(b) When goodwill appears at ₹ 50,000.

(c) When goodwill appears at ₹ 1,00,000 and goodwill is raised and written off.

5. P and Q share profits in the ratio of 7 : 3. R is admitted for 2/7th share in profits. Goodwill already appears in the balance sheet at ₹ 1,00,000. Pass necessary journal entries if–

(a) R cannot bring cash for his share of goodwill ₹ 80,000.

(b) R brings in cash ₹ 40,000 out of his share of goodwill ₹ 80,000.

6. Hari, Ravi and Shri were partners in a firm sharing profits in the ratio of 3 : 2 : 1. They admitted Mihir as a new partner for 1/7th share in the profit. The new profit sharing ratio will be 2 : 2 : 2 : 1 respectively. Mihir brought ₹ 3,00,000 for his Capital and ₹ 45000 for his 1/7th share of goodwill.

Pass necessary Journal entries in the books of the firm.

7. Balance sheet of X and Y who share profit and losses in the ratio of 5 : 3 as at 31-3-2019 was as follows–

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Capital A/cs			Land and Building	3,00,000
X	2,50,000		Machinery	2,00,000
Y	1,50,000	4,00,000	Stock	70,000
Profit and Loss A/c		1,30,000	Debtors	30,000
Workmen Compensation Reserve		60,000	Cash	10,000
Sundry Creditors		50,000	Advertisement Expenditure	30,000
		6,40,000		6,40,000

They admit Z as a new partner for 1/3rd share in profits of the firm which he acquires from X and Y in the ratio of 3 : 1. Z brings in ₹ 4,00,000 as Capital. Ascertain the amount of goodwill and pass journal entries on admission of Z.

8. A, B and C are partners in a firm sharing profit and losses in the ratio of 3 : 2 : 1. D is admitted as new partner for 1/4th share in the profits of the firm, which he gets 1.8th from A and 1/16th each from B and C. The total capital of the new firm after D's admission will be ₹ 2,40,000. D is required to bring in cash equal to 1/4 of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capital of A, B and C after all adjustment in respect of goodwill and revaluation of assets and liabilities have been made are A ₹ 80,000; B ₹ 28,000.

Calculate the capitals of all the partners and record the journal Entries.

9. Krishna and Suresh are partners in a firm sharing profits in the ratio of 3 : 2.

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹
Creditors	15,000	Plant and Machinery	30,000
Reserves	5,000	Patents	5,000
Capital account		Furniture	3,000
Krishan 30,000		Stock	16,000
Suresh 20,000	50,000	Debtors	15,000
		Cash	1,000
	70,000		70,000

On that data Mohan is admitted as a partner for 1/5 share on the following terms.

(a) He is contribute ₹ 14,000 cash which includes his share of premium for goodwill and capital.

(b) Goodwill is valued at 2 years, purchase of the average profits of the last four years which were ₹ 10,000; ₹ 9,000; ₹ 8,000 and ₹ 13,000 respectively.

(c) Plant to be written down to ₹ 25,000 and patents written up by ₹ 8,000.

(d) Revaluation Account, Partners' capital accounts and the balance sheet of the new firm.

10. A and B are partners in a firm. C was taken in to partners from 1-4-2019. C brought in ₹ 40,000 as his capital but he is unable to bring any amount for goodwill. Now profit sharing ratio is 3 : 2 : 1.

Their Balance Sheet as on 31-3-2019 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Provision for Doubtful Depts.	4,000	Cash	10,000
Workmen Compensation fund	5,600	Sundry Debtors	80,000
Outstanding Expenses	3,000		
Creditors	30,000	Stock	20,000
Capitals :			
A	50,000	Fixed Assets	38,600
B	60,000	Profit and Loss	4,000
	1,52,600		1,52,600

Following terms were agreed upon–

(a) Claim on account of workmen's Compensation in ₹ 3,000.

(b) To write off Bad Debts amounting to ₹ 6,000.

(c) Creditors are to be paid ₹ 2,000 more.

(d) ₹ 2,000 be provided for an unforeseen liability.

(e) Outstanding expenses be brought down to ₹ 1,200.

(f) Goodwill is valued at 1½ years purchase of the average profits of last three years, less ₹ 12,000. Profits of 3 years amounting to ₹ 12,000; ₹ 18,000 and ₹ 30,000. Prepare Journal Entries, capital accounts and balance sheet.

11. Following is the balance sheet of A, B and C sharing profits and losses in the ratio of 6 : 5 : 3 respectively.

Liabilities		Amount ₹	Assets	Amount ₹
Creditors		18,900	Cash	1,890
Bills Payable		6,300	Debtors	24,460
General Reserve		10,500	Stock	29,400
Capitals :			Furniture	7,350
A	35,400		Land and Building	45,150
B	29,850		Goodwill	5,250
C	14,550	79,800		
		1,15,500		1,15,500

They agreed to take D into partnership and give him 1/8th share on the following terms–

(a) That furniture be depreciated by ₹ 920.

(b) An old customer, whose account was written off as bad, has promised to pay ₹ 2,000 in full settlement of his debts.

(c) That a provision of ₹ 1,320 be made for outstanding repair bills.

(d) That the value of land and building have appreciated to brought up to ₹ 54,910.

(e) That D should bring in ₹ 17,700 as his capital.

(f) That D should bring in ₹ 14,070 as his share of goodwill.

(g) That after making above adjustment, the capital accounts of old partners be adjusted on the basis of the proportion of D's capital to his share in business i.e., actual cash to be paid off or brought in by the old partners, as the case may be.

Prepare Journal Entries and prepare the balance sheet of new firm.

12. P and R were partners in a firm sharing profits in the ratio of 3 : 1. On 31-3-2019. Q admitted to the firm. On the date of admission, the Balance Sheet of the firm was as follows:

Liabilities			**Amount ₹**	**Assets**		**Amount ₹**
Creditors			27,000	Bank		27,600
Bills Payable			12,000	Debtors	6,000	
Outstanding Salary			2,200	Less : Provision	400	5,600
Provision for Legal Claims			6,000	Stock		9,000
Capitals :				Furniture		4,100
	P	66,000		Building		96,900
	R	30,000	96,000			
			1,43,200			1,43,200

On Q's admission, it was agreed that

New profit sharing ratio of P : R : Q will be 3 : 1 : 2.

Premisses will be appreciated by 2% and furniture will be appreciated by ₹ 1,700. Stock will be depreciated by 10%. 5% provision for doubtful debts was to be made on debtors and ₹ 7,200 for legal damages. Goodwill of the firm was valued at ₹ 24,000. Q will bring sufficient amount of cash for goodwill and capital in such a way that his capital is 1/3 of the capital of the firm after his admission.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of P, R and Q's.

13. Following is the balance sheet of A and B as on 31 March 2019 who were partners sharing profits and loses in the ration of 2 : 1. When they admitted C for 1/5 share on the terms that after his admission capitals of all the partners will be proportionate to their profits in the firm on the basis of the capitals of A and B after making all the adjustment.

You are required to complete the following balance sheet, revaluation A/c and capital a/cs of the partners after admission of C and the balance sheet of the Balance Sheet of A and B as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	30,000	Building	2,00000
A's capital A/c	a	Machinery	50,000
B's capital A/c	b	Debtors 20,000	
General reserves	30,000	By provision for doubtful debts (1000)	19,000
		Stock	18,000
		Goodwill	12,000
		Cash A/c	4,000
		Profit and loss A/c	c

Revaluation A/c

Liabilities	Amount ₹	Assets	Amount ₹
To stock	2000	By buiding	3000
To creditors	600	By provision for doubtful debts	500
To A's capital A/c	d		
To B's capital A/c	e		

Partners Capital A/c

Particulars	A's Capital	B's Capital	C's Capital	Particulars	A's Capital	B's Capital	C's Capital
To Goodwill	8000	4000		By balance B/d	1,30,000	1,40,000	
To profit and loss A/c	18000	9000		By general reserves	f	g	
				By premium for goodwill	20,000	10,000	
				By h	i	j	
To balance C/d	l o	m p	n q	By cash			k
	q	p	q		o	p	q

Balance Sheet of A, B and C
as on 31st March 2019

Particulars	Amount ₹	Particulars	Amount ₹
Creditors	—	Building	—
General reserves	—	Machinery	—
A's Capital A/c	—	Debtors	—
B's Capital A/c	—	By provision for doubtful debts	—
C's Capital A/c	—	Stock	—
		Goodwill	—
		Profit and loss A/c	—
		Cash	—
	—		—

14. A, B and C are partners sharing profits in the ratio of 4 : 3 : 2. Their Balance Sheet slood as under–

Liabilities		Amount ₹	Assets	Amount ₹
Outstanding Expenses		16,000	Cash	121000
Sundry Creditors		1,24,000		
Capitals : Amount				
A	7,20,000		Debtors	172000
B	4,15,000		Stock	185000
C	3,45,000	14,80000	Furniture	77000
			Plant and Machinery	465000
Reserve Fund		1800000	Landand Building	780000
		180000		1800000

D is admitted on the following terms for 1/5th share:

(a) Stock was valued at ₹ 1,72,000.

(b) Furniture were under valued by ₹ 3,000

(c) An amount due to a customer ₹ 10,000 was doubtful and provision was required.

(d) Goodwill of firm was valued ₹ 2,00,000.

(e) D was required to bring ₹ 4,00,000 and on the basis of his share, other partners will also share capital proportionately.

(f) A, B and C will share profits in the ratio of 3 : 2 : 1 were to share future profits in ratio 3 : 2.

Prepare Revaluation A/c, Partner's Capital A/c and Balance Sheet of new firm.

Multiple Choice Questions

1. When a new partner brings his share of goodwill in cash, the amount is debited to–

(a) Goodwill A/c

(b) Capital A/cs of new partner

(c) Capital A/cs of old partners

(d) Cash A/c

2. When a new partner doesn't bring his share of goodwill in cash, the amount is debited to–

(a) Cash A/c (b) Current A/c of new partner

(c) Capital A/cs of old partners

(d) Premium for Goodwill A/c

3. It, at the time of admission, some profit and loss account balance appears in the books, it will be transferred to–

(a) Profit and loss adjustment A/c

(b) Revaluation A/c

(c) Old partner's capital account

(d) All partner's capital accounts

4. If, at the time of admission, there is some unrecorded liability, it will be–

(a) Credited to revaluation account

(b) Debited to revaluation account

(c) Debited to partner's capital account

(d) Credited to partner's capital account

5. If at the time of admission, the revaluation A/c shows a loss, it should be–

(a) Credited to old partners capital A/c in old ratio.

(b) Credited to old partners capital A/c in sacrificing ratio.

(c) Debited to old partners capital A/c in old ratio.

(d) Debited to old partners capital A/c in sacrificing ratio.

6. Revaluation A/c is a–

(a) Real account (b) Asset account

(c) Personal account (d) Nominal account

7. When the balance sheet is prepared after the new partnership agreement, the assets and liabilities are recorded at–

(a) Current figures (b) Revalued figures

(c) Historical cost (d) Realisable value

8. L and M are partners sharing profits in ratio of 3 : 2 respectively. N was admitted for 1/5th share of profit. Machinery would be appreciated by 10% (Book value ₹ 80,000) and Building would be depreciated by 20% (₹ 2,00,000). Unrecorded debtors of ₹ 1250 would be brought into books new and a creditor amounting to ₹ 2750 died and need not pay anything on this account. What will be profit/loss on revaluation?

(a) Loss ₹ 28,000 (b) Profit ₹ 28,000

(c) Loss ₹ 40,000 (d) Profit ₹ 40,000

9. A and B are partners sharing profits in the ratio of 5 : 4. They admitted C for 1/5th profit, for which he paid ₹ 90,000 against capital and ₹ 45,000 against goodwill. Find the capital balance for each partner taking C's capital as base capital.

(a) ₹ 2,00,000; ₹ 90,000; ₹ 90,000

(b) ₹ 3,00,000; ₹ 2,40,000; ₹ 1,35,000

(c) ₹ 2,00,000; ₹ 1,60,000; ₹ 90,000

(d) ₹ 3,00,000; ₹ 1,35,000; ₹ 1,35,000

10. X and Y are partners sharing profits and losses in the ratio of 5 : 3. On admission, C brings ₹ 70,000 as cash and ₹ 40,000 against Goodwill. New profit ratio between X,Y and Z is 7 : 5 : 4. The Sacrificing ratio of X and Y is–

(a) 3 : 1 (b) 1 : 3

(c) 4 : 5 (d) 5 : 9

11. A and B are partners in a firm with capital of ₹ 1,80,000 and ₹ 2,00,000. C was admitted for 1/3rd share in profit and brings ₹ 3,40,000 as capital, calculate the amount of goodwill–

(a) ₹ 2,40,000 (b) ₹ 1,00,000

(c) ₹ 1,50,000 (d) ₹ 3,00,000

12. A, B, C and D are partners. A and B share 2/3rd of profits equally and C and D share remaining profits in the ratio of 3 : 2. Find the profit sharing ratio of A, B, C and D.

(a) 5 : 5 : 3 : 2 (b) 7 : 7 : 6 : 4

(c) 2.5 : 2.5 : 8 : 6 (d) 3 : 9 : 8 : 3

13. Sacrificing ratio is used to distribute .... in case of admission of a partner.

(a) Reserves (b) Goodwill

(c) Revaluation profit (d) Balance in profit and loss account

14. X, Y and Z are partners sharing profit in the ratio of 3 : 2 : 1. They agree to admit M into the firm. X, Y and Z agreed to give 1/3rd, 1/6th, 1/9th share of their profit. The share of profit of M will be–

(a) 11/54 (b) 12/54

(c) 13/54 (d) 14/54

15. A and B are partners sharing profits in the ratio of 2 : 3. Their balance sheet shows machinery at ₹ 4,00,000; stock at ₹ 1,60,000 and Debtors at ₹ 3,20,000. C is admitted and new profit sharing ratio is agreed at 6 : 9 : 5. Machinery is revalued at ₹ 3,40,000 and a provision is made for doubtful debts @ 2.5%. A's share in loss on revaluation amount to ₹ 20,000. Revalued value of stock will be–

(a) ₹ 98,000 (b) ₹ 1,00,000

(c) ₹ 60,000 (d) ₹ 62,000

Answers

1. (d)	**2.** (b)	**3.** (c)	**4.** (b)
5. (c)	**6.** (d)	**7.** (b)	**8.** (a)
9. (c)	**10.** (a)	**11.** (d)	**12.** (a)
13. (b)	**14.** (c)	**15.** (a)	

True or False

1. Contigent liability becoming a certain liability is debited to Revaluation Account at the time of admission of a partner.

2. On revaluation of assets and liabilities, capital accounts of old partners donot change.

3. Unless agreed otherwise, the new profit sharing ratio of old partners will be the same as their old profit sharing ratio.

4. It is necessary that partners should have capitals in their profit sharing ratios.

5. In the absence of any information, any surplus or deficiency in capital should be adjusted through current account.

6. Revaluation account is credited for bills accepted issued by creditors, not recorded in books earlier.

7. An old customer, whose account was written off as bad debts, has promised to pay but it will not be shown in revaluation account.

8. Employee's provident fund will be distributed among old partners in old ratio, at the time of admission of a partner.

9. General reserve, in balance sheet at the time of admission of partner be distributed among partners in their sacrificing ratio.

10. Existing Goodwill A/c in balance sheet is to be written off in old partners in odd ratio at the time of admission of partner.

Answers

1. True	**2.** False	**3.** True	**4.** False
5. False	**6.** False	**7.** True	**8.** False
9. False	**10.** True		

Fill in the Blanks with Appropriate Words–

1. Partner's current A/c balances in the balance sheet means that the capital A/cs are ....
2. For any decrease in the value of Asset, the Revaluation Account is ....
3. Investment fluctuation reserve is a reserve set aside out of profit to adjust the difference between .... and .... of investments.
4. C, the incoming partner, is to bring ₹ 6000 as goodwill for 1/5th share in the firms profits. Total goodwill of the firm will be ....
5. Revaluation A/c is prepared to record the assets and liabilities at their .... values.

Answers

1. Fixed	**2.** Debited	**3.** Book value, Market value
4. ₹ 30,000	**5.** Revised	

EXERCISE

1. (a) 33 : 23 : 14

(b) 13 : 10 : 7 : 5

2. (a) NPSR 64 : 40 : 25; SR 8 : 5

(b) NPSR 8 : 3 : 3 : 10

3. (a) Cr. A's Capital A/c by ₹ 33750 and B's Capital A/c by ₹ 20250; NPSR = 5 : 3 : 2

(b) Cr. A's Capital A/c by ₹ 27000 and B's Capital A/c by ₹ 27000; NPSR = 21 : 11 : 8

(c) Cr. A's Capital A/c by ₹ 40500 and B's Capital A/c by ₹ 13500; NPSR = 19 : 13 : 8

(d) Cr. A's Capital A/c by ₹ 45000 and B's Capital A/c by ₹ 9000; NPSR = 55 : 41 : 24

4. (a) Bajaj (Dr.) ₹ 20,000; Rahul (Cr.) ₹ 16,000; Anurag (Cr.) ₹ 4000

(b) (i) Bajaj (Dr.) ₹ 20,000; Rahul (Cr.) ₹ 16,000; Anurag (Cr.) ₹ 4000

(ii) Rahul (Dr.) ₹ 30,000; Anurag (Dr.) ₹ 20,000; Goodwill (Cr.) ₹ 50,000

(c) (i) Rahul (Dr.) ₹ 60,000; Anurag (Dr.) ₹ 40,000; Goodwill (Cr.) ₹ 1,00,000

(ii) Goodwill (Dr.) ₹ 60,000; Rahul (Dr.) ₹ 36,000; Anurag (Cr.) ₹ 24,000

(iii) Rahul (Dr.) ₹ 20,000; Anurag (Dr.) ₹ 20,000; Bajaj (Dr.) ₹ 20,000; Goodwill (Cr.) ₹ 60,000

5. (a) Rs current A/c Dr. by ₹ 80,000; P(Cr.) ₹ 56,000 and Q(Cr.) ₹ 24000

(b) (i) Bank A/c Dr. ₹ 40,000; Premium for Goodwill A/c (Cr.) ₹ 40,000

(ii) Premium for Goodwill Dr. ₹ 40,000; R's current A/c Dr. ₹ 40,000; P(Cr.) ₹ 56,000 and Q (Cr.) ₹ 24,000.

6. Premium for Goodwill Dr. 45000; Shri Dr. 37500; Hari Cr. 67500 and Ravi Cr. 15,000.

7. Hidden Goodwill = 2,40,000; Z's share of Goodwill = 80,000

(a) Z's current Dr. 80,000; X Cr. 60,000 and Y Cr. 20,000

(b) P and L Dr. 1,30,000; WCR Dr. 60,000; X Cr. 118750 and Y Cr. 71250

8. A,B and D will bring 10,000; 35,000; 60,000 respectively while C will withdraw 3000.

A's capital = ₹ 9000; B's capital = ₹ 65,000; C's capital = ₹ 25,000; D's capital = ₹ 60,000.

9. Profit on Revaluation = ₹ 3000

Krishna's Capital A/c = ₹ 37200

Suresh's Capital A/c = ₹ 24800

Mohan's Capital A/c = ₹ 10000

Balance Sheet Total = ₹ 87000

10. Loss on Revaluation = ₹ 4200

A's Capital A/c = ₹ 47200

B's Capital A/c = ₹ 60200

C's Capital A/c = ₹ 40000

Balance Sheet Total = ₹ 185600

11. Profit on Revaluation = ₹ 9520

A's Capital A/c = ₹ 44100

B's Capital A/c = ₹ 36750

C's Capital A/c = ₹ 22050

D's Capital A/c = ₹ 14700

Balance Sheet Total = ₹ 144120

13. (a) 130000 (b) 140000

(c) 27000 (d) 600

(e) 300 (f) 20000

(g) 10000 (h) Revaluation A/c

(i) 600 (j) 300

(k) 72975 (l) 144600

(m) 147300 (n) 72975

(o) 170600 (p) 16300

(q) 72975

Balance Sheet Total = ₹ 395475

14. Loss on Revaluation = ₹ 20000

A's Capital A/c = ₹ 780000

C's Capital A/c = ₹ 337000

Balance Sheet Total = ₹ 1740000

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CHAPTER 6

RETIREMENT/DEATH OF A PARTNER

Retirement of a Partner	Retirement of a partner means ceasing to be partner of the firm. A partner may retire 1. If there is Agreement to this effect 2. All Partners' give consent 3. At Will by giving written notice
Amount due to Retiring/ Deceased Partner	1. Credit Balance of his capital. 2. Credit Balance of his current account (if any). 3. Share of Goodwill. (To be given by gaining partners) 4. Share of Reserves or Undistributed Profits. 5. His share in the profit on revaluation of assets and reassessment of liabilities. 6. If retirement is during the year, the retiring partner will be given. Share in profits up to the date of retirement. 7. Interest on capital if involved. 8. Salary if any up to the date of Retirement/Death Deductions from the above Sum (To be Debited to the Capital Account) 1. Debit balance of his current account (if any) 2. Share of existing Goodwill to be written off. 3. Share of Accumulated loss. 4. Drawings and interest on drawings (if any). 5. Share of loss on account of Revaluation of assets and liabilities. 6. His share of business loss up to the date of Retirement/Death (To P & L suspense A/c)
Gaining Ratio	The ratio in which the continuing partners have acquired the share from the retiring/deceased Partner is called Gaining Ratio.

Sacrificing Ratio v/s Gaining Ratio	
Why the Retiring or Deceased Partner is entitled to his share of Goodwill at the time of Retirement/ Death?	Because the Goodwill has been earned by the firm with the efforts of the existing partners, hence at the time of retirement/death of a partner it is valued as per agreement.
Hidden Goodwill	If the firm has agreed to settle the retiring or deceased partner by paying a lump sum amount, then the amount paid to him in access of what is due shall be treated as his share of goodwill and known as hidden goodwill
Disposal Amount due to Retiring partner	The outgoing partners' account is settled as per the terms of partnership deed i.e. 1. In lump sum immediately 2. In various instalments with or without interest as agreed 3. Partly in cash immediately and partly in instalments at the agreed intervals
What are the provisions if the Retiring Partner is not paid fully at the time of Retirement	In the absence of any agreement, Section 37 of the Indian Partnership Act, 1932 is applicable, which states that the outgoing partner has an option to receive 1. Either Interest @ 6% till the date of payment 2. Such share of Profits which has been earned with his/her money

Deceased Partner share of profit may be calculated	1. On the basis of last years profit (On Average Basis) 2. On the basis of sales

Points to remember -

1. When the question is silent about the amount payable to retiring partner, then the whole amount payable is transferred to his/her loan account.
2. In case of death of a partner, Capital Account of the Deceased Partner is closed by transferring the whole amount to the executors of the deceased Partner.
3. Any payment to the executors of the deceased partner is made through executor's account, not through the deceased partners' capital account.
4. Goodwill already appeared in the books must be written off in old PSR.
5. All accumulated profits and all accumulated losses are to be distributed among old partners in their old PSR.
6. In case of specific fund, like investment fluctuation fund, market value of the investment must be considered. For workman compensation fund, actual liabilities must be considered (to be deducted from fund).
7. Revaluation profit/loss is to be distributed in old PSR.

Accounting Treatment

1. Calculation of new profit-sharing ratio and gaining ratio
2. Treatment of goodwill.
3. Revaluation account preparation with the adjustment in respect of unrecorded assets/liabilities.
4. Distribution of reserves and accumulated profits/loss.
5. Ascertainment of share of profit/loss till the date of retirement/death.
6. Adjustment of capital if required.
7. Settlement of the Accounts due to Retired/Deceased partner.

1. New Profit Sharing Ratio & Gaining Ratio

Calculation of the two ratios.

Following situations may arise

(i) When no information about new ratio or gaining ratio is given in the question

> In this case it is considered that the share of the retiring partner is acquired by the remaining partners in the old ratio. Then no need to calculate the new ratio/gaining ratio as it will be the same as before.

(ii) Gaining ratio is given which is different from the old ratio in this case,

> **New share of continuing partner = old share + share gained from the outgoing partner.**

(iii) If the new ratio is given

> **Gaining ratio = New Ratio - Old ratio**

2. Treatment Of Goodwill.

Steps to be followed

1. When old goodwill appears in the books then first of all this is written off in the old ratio. Remember **Old Goodwill in Old Ratio.**
   All Partner's capital A/c Dr.
   To Goodwill A/c
2. After written off old goodwill, adjustment of retiring partner's share of goodwill will be made through the following journal entry
   Gaining Partner's Capital A/c Dr. (in gaining ratio)
   To Retiring / Deceased Partner's Current A/c (if any)
   To Retiring/Deceased Partners' Capital A/c

OR

Alternative entry with raising of goodwill of its value and written off:-

1. Journal entries passed are : -

   Goodwill A/c Dr. (Current value of goodwill)

   To all partners capital A/c

   (Being the goodwill raised is current value) (In old profit sharing ratio)

2. Counting partners capitals A/c Dr. (In new profit sharing ratio)

   To goodwill A/c

   (Being the goodwill written of)

3. Revaluation of Assets and Reassessment of Liabilities

Revaluation A/c is prepared in the same way as in the case of admission of a new partner. Profit and loss on revaluation is transferred among all the partners in old ratio.

4. Adjustment of Reserves and Surplus (Profits)

(Appearing in the Balance Sheet - Liability Side)

(a) General Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit & Loss A/c (Credit Balance) Dr.
To all partners' Capital/Current A/c (in old ratio)

(b) Specific Funds - if the specific funds such as workmen's compensation fund or investment fluctuation fund are in excess of actual requirement, the excess will be transferred to the Capital A/c in old ratio.

Workmen Compensation Fund A/c Dr.

Investment Fluctuation Funds A/c Dr
To All Partner's Cap A/c's (in old Ratio)

(c) For distributing accumulated losses (P & A/c Dr. Balance)

All partner's Capital/Current A/c Dr. (in old ratio) To P & L A/c

5. Adjustment of Capitals

At the time of retirement /death, the remaining partners may decide to adjust their capitals in their new profit sharing Ratio. Then following situation may arise

Case 1 . When the total capital of the new firm is not given in the question

- Then the sum of their adjusted capitals of remaining partners' will be treated as the total capital of the new firm which will be divided in their New Profit Sharing Ratio.

- Excess or Deficiency of capital in the individual capital A/c is calculated.
- Such excess or shortage is adjusted by withdrawal or contribution in cash or transferring to Partner's current A/cs.

Journal Entries

(a) For excess Capital withdrawn by the partners
Partner's Capital A/c Dr.
To Cash/Bank A/c / Partner's Current A/c

(b) For deficiency, cash will be brought in by the partner
Cash/Bank A/c /Partner's Current A/c Dr.
To Partner's Capital A/c

Case 2. When the capital of the new firm as decided by the partners is specified, divide the capital in new profit sharing ratio and make adjustments accordingly.

Case 3. When the amount payable to retiring partner will be contributed by continuing partners in such a way that their capitals are adjusted proportionate to their new profit sharing ratio then calculations will be as under

> Total capital of the new firm = balance in capital accounts of remaining partners + amount payable to retiring/deceased partner

DEATH OF A PARTNER

Accounting treatment in the case of death is same as in the case of retirement except the following:

1. The deceased partners claim is transferred to his executer's account.
2. Normally the retirement takes place at the end of the Accounting Period but the death may occur at any time. Hence the claim of deceased partner shall also include his share of profit or loss, interest on capital and drawings if any from the date of the last balance sheet to the date of his death.

- Calculation of Profits/ Loss for the intervening Period

It is calculated by any one of the two methods given below:

a. On Time Basis: In this method proportionally profit for the time period is calculated either on the basis of last year's profit or on the basis of average profits of last few years and then deceased partner's share is calculated based on his share of profits.

b. On Turnover or Sales Basis: in this method the profits up to the date of death for the current year are calculated on the basis of current year's sales up to the date of death by using the formula.

Profits for the current year up to the date of death =

Sales of the current year up to the date of death/total sales of last year x Profit for the last year.

Then from this profit the deceased partner's share of profit is calculated.

> If the remaining partners decides to change their profit sharing ratio in new firm, then the adjustment entry for deceased partners' share in current year's profit will be passed.

Payment for retiring deceased partner :-

a. When payment is made in full

retiring deceased partners capitals A/c to bank Dr.

b. When Payment is made in instalments. When payment is made in instalments interest is paid on instalments at agreed price or @ 6% per annum. Journal entries are

(i) When interest is allowed

Interest A/c Dr.

To Deceased Partner's Executor or retiring partner loan A/c

(ii) When instalment is paid

retiring partners loan A/c or Desease partners executor a = A/c Dr.

To Bank A/c (interest & instalment amount)

Illustration 1: A, B and C are partners sharing profit and loss in the ratio of 3:2:1 then on retirement of a partner; the gaining ratio/new ratio will be

On A's Retirement ratio between B and C will be 2: 1

On B's Retirement ratio between A and C will be 3: 1

On C's Retirement ratio between A and B will be 3: 2

Illustration 2: A, B & C share profit and losses in the ratio 3:2:1. On C's death his share is taken by A and B in the ratio of 2:1 Calculate new ratio.

Solution: In this case gaining ratio = 2:1 (given)

A's old share = 3/6, B's old share = 2/6 & C's share = 1/6

A's gain = 2/3 of C's share 2/3* 1/6 = 2/18

B's gain = 1/3 of C's share = 1/3* 1/6 = 1/18

A's new share = A's old + A's gain

= 3/6 + 2/18 = 11/18

B's new share = B's old share + B's gain

= 2/6 + 1/18 = 7/18

New ratio = 11:7

Illustration 3 : A, B and C are partners in the ratio of 3:2:1. C retires and A & B decide to share future profit in the ratio of 5:3. Calculate Gaining ratio of A and B.

Solution: A's Gain = 5/8- 3/6=3/24

B's Gain = 3/8-2/6 = 1/24

Gaining ratio = 3:1

Illustration 4: A, B and C are partners sharing profits and losses in the ratio of 3:2:1. B retires and gifted $\frac{1}{2}$ of his share in favour of A and sells remaining share to A and C in the ratio of 1:2. Find out gaining ratio and new ratio.

Solution:

B's share = $\frac{2}{6}=\frac{1}{3}$; gifted to A = $\frac{1}{3}\times\frac{1}{2}\times\frac{1}{6}$

Remaining shares of B = $\frac{1}{3}-\frac{1}{6}=\frac{2-1}{6}=\frac{1}{6}$

A's gain = Gifted share of B + Share sold by B

Share sold by B to A = $\frac{1}{6}\times\frac{1}{3}=\frac{2\times1}{6}=\frac{1}{6}$

A's gain = $\frac{1}{6}+\frac{1}{18}=\frac{3+1}{18}-\frac{4}{18}$ or $\frac{2}{9}$

C's gain = $\frac{1}{6}\times\frac{2}{3}=\frac{2}{18}$ or $\frac{1}{9}$

Gaining ratio = $\frac{2}{9}:\frac{1}{9}$ or 2 : 1

A's new share = $\frac{3}{6}+\frac{2}{9}=\frac{9+4}{18}=\frac{13}{18}$

C's new share = $\frac{1}{6}+\frac{1}{9}=\frac{3+2}{18}=\frac{5}{8}$

New profit sharing ratio of A and C is $\frac{13}{18}:\frac{5}{18}$ or 13 : 5

Illustration 5: A, B and C were partners sharing profits in the ratio of 6:4:5. On 1st April, 2016, B retired from the firm and the new profit sharing ratio between A and C was decided as 11:4. On B's retirement, the goodwill of the firm valued at Rs. 1,80,000. Pass journal entry for treatment of goodwill on B's retirement.

(CBSE Delhi)

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April,1	A's Capital A/c Dr.		60,000	
	To B's Capital A/c			48,000
	To C's Capital A/c			12,000
	(Being adjustment of goodwill made on B's retirement)			

Working Notes:

Gaining Ratio = A's gain = $\frac{11}{15} - \frac{6}{11} = \frac{11-6}{15} = \frac{5}{15}$

C's gain = $\frac{4}{15} \times \frac{5}{15} = -\frac{1}{15}$ (sacrificed)

B's share is goodwill = 1,80,000 × $\frac{4}{15}$ = Rs. 48,000

A will compensate C to the extent of sacrifice made by C i.e. 1,80,000 × $\frac{1}{15}$
= Rs. 12,000

Illustration 6: M. N. & P are partners in a firm. P retires & the goodwill of the firm is valued at Rs. 30,000. M & N decide to share future profits in the ratio of 3:2. Pass necessary

1. If goodwill A/c already appears in the books at Rs. 18,000
2. When goodwill account raised and written books.

Solution:

Old ratio of M, N & P = 1:1:1 (since profit sharing ratio is not given it is treated as equal) New ratio = 3:2

M's gain = 3/5 - 1/3 = 4/15

N's gain = 2/5 - 1/3 = 1/15

Gaining ratio = 4 : 1

Ps share of goodwill = 30,000 ×1/3

= Rs. 10,000

Case 1. If goodwill A/c appears in the books at ₹ 18,000.

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
1.	M's Capital A/c Dr.		6,000	
	N's Capital A/c Dr.		6,000	
	P's Capital A/c Dr.		6,000	
	To Goodwill A/c			18,000
	(Being the existing goodwill written off in old ratio i.e. 1:1:1)			
2.	Goodwill		30,000	
	To M's Capital A/c Dr.			10,000
	To N's Capital A/c Dr.			10,000
	To P's Capital A/c			
	(Being adjustment made for goodwill on retirement in gaining ratio i.e. 4:1)			
3.	M's Capital A/c Dr.		18,000	
	N's Capital A/c Dr.		12,000	
	To Goodwill			
	(Goodwill writting off immidatly with new right storng ratio 3.2)			30,000

Case 2. When no goodwill account appears in the book entry as 2 above.

Illustration 7 : R, S & T are partners in a firm sharing profit & loss in the ratio of 2:2:1. T Retires and his balance in capital a/c after adjustment for reserve &

revaluation of assets & liabilities comes out to be Rs. 50,000. R &S agree to pay him Rs. 60,000. Give journal entry for the adjustment of goodwill.

Solution:

New ratio between R & S = gaining ratio = 2:2 or 1:1

T's share of goodwill (hidden) = 60,000 – 50,000 = 10,000

Hence adjustment entry is

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	R's capital A/c Dr.		5,000	
	S's capital A/C Dr.		5,000	
	To T's capital A/c			10,000
	(T's share of goodwill adjusted in gaining ratio i.e. 1:1			

Illustration 8: X, Y and Z are partners sharing profits in the ratio of 3:2:1. Y retires selling his share to X and Z for Rs. 36,000; Rs. 24,000 being paid by X and Rs. 12,000 by Z. The profit after Y's retirement is Rs. 63,000.

Pass necessary journal entries to

(i) Record the sale of Y's share to X and Z and

(ii) Distribute the profit between X and Z.

Solution:

JOURNAL

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	X's Capital A/c Dr.		24,000	
	Z's Capital A/c Dr.		12,000	
	To Y's Capital A/c			36,000
	(Being Y's share is purchase by X and Z on his retirement)			
	Profit & Loss Appropriation A/c Dr.		63,000	
	To X's Capital A/c			45,500
	To Y's Capital A/c			17,500
(ii)	(Being profit distributed between X and Z in new profit sharing ratio			

Working Notes:

Gaining ratio= 24000:12000 = 2:1

Y's share = $\frac{2}{6}$

X's gaining share = $\frac{2}{6}\times\frac{2}{3}=\frac{4}{18}$

Z's gaining share = $\frac{2}{6}\times\frac{1}{3}=\frac{2}{18}$

X's new share is = $\frac{3}{6}\times\frac{4}{18}=\frac{9+4}{18}=\frac{13}{18}$

Z's new share is = $\frac{90,000}{2,10,000}\times 42,000$

New Profit sharing Ratio between X and Z = 13: 5

Q. 9. A,B and C are partner sharing profits in the ration of 3:2:1 . A dies on 31st July 2015. The profits of the firm for the year ending 31st March 2015, were 42,000. Calculate as share of profit :-

A). On time Basis from 1 April to 31st July 2015 on the basis of Last year's Profrit

(B). On sales basis Sales for the last year ₹ 2,10,000 and for current year upto 31st July are Rs. 90,000?

Solution

(A). A's Profit = Preceding year's profit × Proportionate Period × Share of A

= Rs. 42,000 × 4/12 × 3/6

= Rs. 7,000

Journal Entries

Date	Particulars	L.F	Debit (Rs)	Credit (Rs.)
2015 July 31	Profit and Loss Suspense A/c Dr. To A's Capital A/c (A's share of profit transferred to his capital A/c)		7,000	 7,000

(B).

$$= \frac{90,000}{2,10,000} \times 42,000$$

= Rs. 18,000

A's share = Rs. 18,000×3/6

= Rs. 9,000

Illustration 10: (Death of a partner) M, N and O were partners in a firm sharing profits and losses equally.

Their Balance Sheet on 31-12.2014 was as follows:

Liabilities		(Rs)	Assets	Rs.
Capitals:			Plant and machinery	60,000
M	70,000		Stock	30,000
N	70,000		Sundry Debtors	95,000
O	70,000	2,10,000	Cash at Bank	40,000
General Reserve		30,000	Cash in Hand	35,000
Creditors		20,000		
		2,60,000		2,60,000

N died on 14th March, 2015. According to the Partnership Deed, executers of the deceased partner are entitling to:

(i) Balance of partner's capital A/c

(ii) Interest on capital @ 5% p.a.

(ii) Share of goodwill calculated on the basis of twice the average of past three years' profits.

(iv) Share of profits from the closure of the last accounting year till the date of death on the basis of twice the average of three completed year's profits before death. Profits for 2012, 2013 and 2014 were Rs. 80,000, Rs. 90,000, Rs. 1,00,000 respectively. Show the working for deceased partner's share of goodwill and profits till the date of his death. Pass the necessary journal entries and prepare N's Capital A/c to be rendered to his executers.

(CBSE 2011 Modified)

Solution

Journal

Date	Particulars	L.F.	Debit (`)	Credit (`)
2015 March, 14th	General Reserve A/c Dr.		10,000	
	To N's Capital A/c			10,000
	(Being transfer of N's share of general reserve of his Capital A/c)			
	Interest on Capital A/c Dr.		700	
	To N's Capital A/c			700
	(Being interest 5% p.a. credited to N's Capital A/c upto 14.03.2010)			
	M's Capital A/c Dr.		30,000	
	O's Capital A/c Dr.		30,000	
	To N's Capital A/c			60,000
	(Being goodwill adjusted in gaining ratio i.e. 1:1)			
	Profit and Loss Suspense A/c Dr.		12,000	
	To N's Capital A/c			12,000
	(Being the transfer of N's share of profit to his capital A/c)			
	N's Capital A/c Dr.		1,52,700	
	To N's Executor A/c			1,52,700
	(Being the transfer of amount due to N's executor A/c)			

N's Capital A/c

Dr. Cr.

Particulars	(₹)	Particulars	(₹)
To N's Executors A/c	1,52,700	By Balance b/d	70,000
		By General Reserve A/c	10,000
		By Interest on Capital A/c	
		(70,000*5/100*73/365)	700
		By M's Capital A/c	30,000
		By O's Capital A/c	30,000
		By Profit & Loss	
		Suspense A/c	
		(90,000*2*73/365*1/3)	12,000
	1,52,700		**1,52,700**

Working Note:

1. Calculation of Goodwill
   Average profit for 3 years
   (₹ 80,000 + 90,000 + 1,00,000)/3 = ₹ 90,000
   Goodwill of the firm=Average Profit × No. of years of Purchase
   = 90,000 × 2 = ₹ 1,80,000
   N's Share in Goodwill = 1,80,000 × 1/3 = 60,000
2. Time from the date of last balance Sheet (31st December, 2014) to the date of death (14th March, 2015)
   = 31 days of January + 28 days of Feb (2015 is not a leap year) + 14 days of March = 73 days

Illustration 11: The balance sheet of P, Q & R as at 31st Dec.2014 was as follows.

Liabilities	Rs.	Assets	Rs.
Bills Payable	20,000	Cash at Bank	1,58,000
Employees Provident Fund	50,000	Bills Receivable	8,000
Workmen compensation	90,000	Stock	90,000
reserve		Sundry Debtors	1,60,000
Loan	1,71,000	Furniture	20,000
Capital Accounts		Plant & Machinery	65,000
P 2,27,500		Building	3,00,000
Q 1,52,500		Advertisement	
R1,20,000	5,00,000	Suspense	30,000
	8,31,000		**8,31,000**

The profit ratio was 3:2:1 R died on 30th April 2015. The partnership deed provides that:

a. Goodwills is to be calculated on the basis of 3 years purchase of preceding 5 years' average profits. The profits were 2014. ₹ 2,40,000, 2013 ₹ 1,60,000, 2012 ₹ 2,00,000, 2011 ₹ 1,00,000 and 2010 - ₹ 50,000.

b. Deceased partner should be given share of profits upto the date of death on the basis of previous year profits.

c. The assets have been revalued as under
Stock Rs. 1,00,000, Debtors Rs. 1,50,000, Furniture Rs. 15,000. Plant and Machinery Rs. 50,000, Building Rs. 3,50,000. A bill for Rs. 6000 was found worthless.

d. A sum of Rs. 72,333 was paid immediately to R's executor & balance is paid in two equal instalments (annual) with interest of 10% p.a. On outstanding amount. Ist instalment was paid on 30th April 2016.
Prepare Revolution account & R's executor account till it is finally settled. Accounts are closed on 31st December each year.

Solution:

Revaluation Account

Dr. Cr.

Particulars		(₹)	Particulars	(₹)
To Debtors A/c		10,000	By Stock A/c	10,000
To Furniture A/c		5,000	By Building A/c	50,000
To Plant & Machinery A/c		15,000		
To Bill Receivable A/c		6,000		
To profits transferred to				
P's capital A/c	12,000			
Q's Capital A/c	8,000			
R's Capital A/c	4000	24,000		
		60,000		60,000

R's Capital Account

Dr. Cr.

Date	**Particular**	**Rs.**	**Date**	**Particular**	**Rs.**
2013 30th April	To Advertisement Suspense A/c (30,000 × 1/6)	5,000	2013	By balance b/d	1,20,000
			30th April	By Workmen Compensation reserve	15,000
			30th April	By Revaluation A/c	4,000
30th April	To R's Executor A/c	2,22,333	30th April	By P's Capital A/c (Goodwill)	45,000
			30th April	By Q's capital A/c (Goodwill)	30,000
			30th April	By P&L Suspense A/c	13,333
		2,27,333			**2,27,333**

R's Executor Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particular	Rs.
30.4.15	To Bank A/c	72,333	30.4.15	By R's capital A/c	2,22.333
31.12.15	To Balance c/d	1,60,000	31.12.15	By interest A/c (10% on 1,50,000$\times \frac{8}{12}$)	10,000
		2,32,333			**2,32,333**
30.4.16	To Bank A/c 75000 <u>15000</u>	90,000	1.1.16	By Balance b/d	1,60,000
			30.4.16	By Interest A/c	
30.12.16	To Balance c/d	80,000		$(\frac{10}{100} \times 1{,}50{,}000 \times \frac{4}{12})$	5,000
			31.12.16	$(\frac{10}{100} \times 75{,}000 \times \frac{8}{12})$	5,000
		1,70,000			**1,70,000**
				By Balance b/d	80,000
30.4.17	To Bank A/c 80,000		1.1.17	By interest A/c	
	Add Interest <u>2,500</u>	82,500	30.4.17	$(\frac{10}{100} \times 75{,}000 \times \frac{4}{12})$	2,500
		82,500			**82,500**

Working Note:

Average Profit = 2,40,000 + 1,60,000 + 2,00,000 + 1,00,000 + 50,000/5

= Rs. 1,50,000Goodwill = Rs. 1,50,000 × 3 = Rs. 4,50,000

R's share = 4, 50, 000$\times \frac{1}{6}$ = Rs. 75,000

contribution by P&Q in ratio 3:2

P's share = $\frac{3}{5}$ ×75000 = Rs. 45000 Q's share $\frac{2}{5}$ × 75,000 = Rs. 30,000

R's share of profits = 2, 40, 000 × $\frac{4}{12} \times \frac{1}{6}$ = ₹ 13,333

PRACTICE QUESTIONS

Q.1 Fiil in the missing information/figures in the following Ledger accounts and Balance of the firm

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To stock A/c	_____	By Fixed Assets	_____
To profit transferred to			
P's Capital A/c _____			
Q's Capital A/c _____			
R's Capital A/c _____	_____		
	_____		_____

Partner's Capital Account

Dr. Cr.

Particulars	P (₹)	Q (₹)	R(₹)	Particulars	P (₹)	Q (₹)	R (₹)
To ___	___	___	___	By balance b/d	___	___	___
To ___	___		___	By ____ (Profit)	___	___	___
To Q's Loan A/c		___		By ___		___	
To balance c/d	___		___	By ___		___	
	___	___	___		___	___	___

Balance sheet of P and R (After Retirement)

As at 31.03.2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry creditors	48,000	Cash	43,000
Bills Payables	20,000	Debtors _____	
Q's Loan A/c	_____	Less: provision _____	_____
Capitals:		Stock	54,000
P _____		Fixed assets (tangible)	_____
R _____	_____		
	_____		_____

Hints to answer:

Stock ₹ 6,000, Revaluation Profits Rs. 63,600 (distributed in old ratio 5:4:3)

Q's goodwill share = 72,000 × $\frac{4}{12}$ = 24,000 (in gaining ratio of P and R)

Q's Loan A/c = Rs. 1,85,200,

Ps Capital – Rs. 1,86,000

Q's Capital – Rs. 1,11,900

Balance sheet total Rs. 5,51,600.

Q.2 L, M and N were partners in a firm sharing profits in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year and balance of general reserve as on 31.03.2016 was Rs. 12,000.

N died on 1st Oct. 2016. It was agreed between his executors and the remaining partners that:

a) Goodwill be valued at 3 years purchase of the average profits of the previous eight years. The average profits of previous eight years were Rs. 12,000.

b) Revaluation profit was Rs. 18,000.

c) Profit for the year 2016-2017 be taken as having accrued at the same rate as the previous year which was Rs. 30,000.

d) Interest on Capital be provided @ 10% p.a.

Fill in the missing figures in the following accounts:

N's Capital Account

Dr. Cr.

Particulars	(₹)	Particulars	Rs.
To _____	_______	By balance b/d	_____
		By _____	_____
		By _____	_____
		By _____	_____
		By _____	_____
		By L's Capital A/c	_____
	_____	By M's Capital A/c	_____

N's Executor's Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To cash	4,250	By _______	_______
To Executors Loan A/c	25,000		

Balance is N's opening Capital & interest on Capital

29,250-13,500 = Rs. 15,750

Let N's Capital = Rs. x

Interest on capital = $x \times \frac{10}{1000} \times \frac{6}{12} = \frac{x}{20}$

Rs. 15,750 = $x + \frac{x}{20}$

₹ 15,750 =

$x = 15{,}750 \times$ = ₹ 15,000

N's Capital (opening) = ₹ 15,000

Interest on Capital = 15000 ×

Interest N's Capital = ₹ 750 x

Q.3..

Liabilities	(Rs.)	Amount	Amount
Profit & loss A/c	9,000	Cash	51,300
Capitals :		Bill receivable	10,800
		Debtors	35,600
R 80,000		Stock	44,600
S 50,000		Furniture	7,000
T 40,000	1,70,000	Plant & Machinery	19,500
Bank loan	12,800		
		Building	48,000
Creditors	25,000		
	2,16,800		2,16,800

S retired from the firm on 1-4-2009 and his share was ascertained on the revaluaton of assets as follows:

Stock Rs. 40,000; Furniture Rs. 6,000; Plant and Machinery Rs. 18,000; Building Rs. 60,000; Rs. 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at Rs. 12,000.

R & T agreed to share future profits in ratio 3 : 2. S was to be paid Rs. 17,680 in cash on retirement and the balance in three equal yearly installments. Prepare Revaluation Account, Partners' Capital Accounts, S's Loan Account and Balance Sheet on 1-4-2009.

[Ans. Profit on Revaluation Rs. 3,200; Capital A/cs : R Rs. 82,480 and T Rs. 40,040; S's Loan Rs. 42,000; Balance Sheet Total Rs. 2,02,320; Gain Ratio 1:1]

Q 4. Practical Question

P,Q and R are partners in a firm whose books are closed on 31st March every year.. R died on 24 August 2018 and R is share of profits upto date of death is to be calculated on the basis of the average profits of the last three years. Net Profits of the last three years were Rs. 10,000 Rs. 14,000 and Rs. 13,800. Calculate R's share of Profits and pass journal entry.

Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet of new firm.

[Ans. Loss on Revaluation Rs. 20,000; Capital of A Rs. 7,80,000 and C Rs. 3,37,000; Total of Balance Sheet Rs. 17,40,000)

Q.5. A, B, and C partners sharing profits in 4 : 3 : 2. Their Balance Sheet as under:

Liabilities			Assets		
Capitals :			Land & Building		1,20,000
(₹)			Stock		32,000
A	50,000		Debtors	25,000	
B	40,000		Less : Provision	500	24,500
C	26,000	1,16,000	Bank		3,500
Creditors		64,000			
		1,80,000			1,80,000

B retired on this date on the following terms.

1. Land & Building appreciated by 15%.
2. Create provision for doubtful debts @ 5% on debtors. (Hi) Stock be reduce to Rs. 28,000.
3. Liability for damages Rs. 650.
4. Goodwill of the firm was Rs. 45,000 and new profit sharing ratio was agreed as 5:3.
5. B was paid Rs. 3,100 and balance in 3 equal instalments with interest @ 5% p.a. Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet of new firm and B's loan A/c till the date of his final payment.

[Ans. Profit on Revaluation Rs. 12,600; For Goodwill: Dr. A Rs. 8.125 and C Rs. 6,875; Capital A/cs: A Rs. 47,475 and C Rs. 21,925; Bank Balance Rs. 400; Balance Sheet Rs. 1,90,000)

Q.6. B, C and D are partners, sharing profits in the ratio 2:2:1:1. B and D died in an accident and A and C decided to share future profits equally. Goodwill of the firm is valued at Rs. 60,000. Pass necessary journal entry. -

[Ans. Gaining ratio of A and C is 1:2, Dr. A Rs. 10,000, C Rs. 20,000 and Cr. B Rs. 20,000, D Rs. 10,000]

Q.7. Mohan Sohan ad Hari were partners in a firm sharing profits in 2:2:1 ratio firm closes its books on 31st March every year. Mohan died on 24-8-2017. Mohan's death, the goodwill of the firm was valued Rs. 75,000. The partnership deed provided that on the death of a partner, his share in the profits of! firm in the year of his death will be calculated on the basis of last year's profits. The profit of the firm for the year ended 31-3-2017 was Rs. 2,00,000. Calculate Mohan's share of profit till the time of his death and pass the necessary journal entries for the treatment of goodwill and his share of profit.

[Ans. Profit share Rs. 32,000, (i) Dr. Hari Rs. 20,000, Sohan Rs. 10,000 and Cr. Mohan Rs. 30,000, (ii) Dr.P&L Suspense and Cr. Mohan Rs. 32,000]

Q.29. A,B and C were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2017, their Balance sheet was as under:

Liabilities		Amount	Assets	Amount
Creditors		17,000	Buildings	20,000
General Reserve		10,000	Machinery	30,000
A's capital A/c	30,000		Stock	10,000
B's capital A/c	25,000		Patents	6,000
C's capital A/c	15,000	70,000	Debtors	8,000
			Cash	13,000
		87,000		87,000

A died on 1st October, 2017. It was agreed between his executors and the remaining partners that: (a) Goodwill to be valued at 2 years' purchase of the average profits of the previous five years, which were, 2012: Rs. 15000; 2013, 113,000; 2014 : Rs. 12,000 and 2015: 15,000 and 2016: Rs. 20,000. Patents be valued at Rs. 8,000; Machinery at Rs. 28,000; Buildings at Rs. 30,000.

(c) Profits for the year 2017-18 be taken as having accrued at the same rate as that of the previous year.

(d) Interest on capital be provided at 10% p.a.

(e) A sum of Rs. 11,500 was to be paid to his executors immediately. Prepare A's Capital A/c and his

Executor's Account at the time of his death.

\Ans: Balance of A's Executor's Account Rs. 50,000 and A's Capital Rs. 61,500: Goodwill share of Rs. 15,000(3:2), Profit share Rs. 5,000]

Q.9. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 :1. The Balance Sheet as on 31.3.2016

Liabilities		Amount	(?) Assets	Amount
Creditors		4,000	Building	20,000
Reserves		6,000	Plant & Machinery	16,000
Capitals :			Stock	5,100
A	24,000		Debtors	6,000
B	12,000		Cash at Bank	6,900
C	8,000	44,000		
		54,000		54,000

A died on 30-9-2016. Under the partnership agreement, the executors of a deceased partner were entitled to:

(a) Amount standing to the credit of partner's Capital A/c.

(b) Interest on capital® 12% p.a.

(c) Share of goodwill on the basis of four years' purchase of last three years average profit.

(d) Interest on drawings @8% p.a. A had been with drawing Rs. 500 in the beginning of every month.

(e) Share of profit from the closing of the last financial year to the date of death on the basis of the last year's profit. Profits for the year 2014, 2015 and 2016 were Rs. 8,000, Rs. 12,000 and Rs. 7,000 respectively. Prepare A's Capital A/c to be rendered to his executors.

Ans. A's Executors A/c '45120, Goodwill share = Rs 18,000

Q.10 A, B and C were partners in a firm sharing profits in the ratio of 3:3:2 The Balance Sheet as on 31-03-2017

Liabilities	Amount	Assets	Amount
Creditors	12,000	Plant & Machinery	30,000
General Reserve	8,000	Furniture & Fixtures	10,000
A's Capital A/c	30,000	Stock	20,000
B's Capital A/c	30,000	Debtors	16,000
C's Capital A/c	20,000	Investments Bank A/c	10,000 14,000
	1,00,000		1,00,000

on 1st April 2017. 'B' retired from the firm and at the same time 'D' was admitted as a new partner. It was agreed that:

(1) B's share of profit will be transferred to D.

(2) Goodwill of the firm was calculated on the basis of 2 years' profits of previous year. Profits were Rs. 24,000.

(3) That D will bring his share of goodwill and capital in cash and capital of the firm will be Rs. 50,000 more than the capital before reconstitution which will be shared by the new firm in new profit sharing ratio. Adjustment will be done by bringing or with drawing the cash.

(4) B will be paid immediately.

(5) Investment was sold for Rs. 12,000.

(6) 'Z' a debtor was declared insolvent. Amount of Rs. 2000 from him was irrecoverable. Further a provision for 5% on debtors for bad debts is required to be made.

(7) Stock was found over valued by Rs. 900. Prepare revaluation A/c partners' capital A/c and Balance sheet after reconstitution.

Ans. Revaluation loss : Rs. 1600

Capital of A = 48750

C = 32500

D = 48750

Amount to be paid to B Rs. 41400

Cash balance = 69600

Balance sheet total = Rs. 142000

Illustration 11: (Preparation of balance sheet of the reconstituted firm) Vijay, Vivek and Vinay are partners in a firm sharing profits in 2:2:1 ratio, On 31.3.2015 Vivek retires from the firm. On the date of Vivek's retirement the balance sheet of the firm was as follows:

Balance Sheet of Vijay, Vivek and Vinay

Liabilities		Rs.	Assets		Rs.
Creditors		54,000	Bank		55,200
Bills Payable		24,000	Debtor	12,000	
Outstanding Rent		4,400	Less: Provision for		
Provision for Legal Claim		12,000	Doubtful	800	11,200
Capitals:			Stock		18,000
Vijay	92,000		Furniture		8,000
Vivek	60,000		Premises		1,94,000
Vinay	40,000	1,92,000			
		2,86,400			2,86,400

On Vivek's retirement it was agreed that:

i. Premises will be appreciated by 5% and furniture will be appreciated by Rs. 2,000. Stock will be depreciated by 10%

ii. Provision for bad debts was to be made at 5% on debtors and provision for legal damages to be made for Rs.14,400.

iii. Goodwill of the firm is valued at ₹ 48000

iv. Amount due to Vivek is to be settled on the following basis

Case1. ₹50,000 from Vivek Capital A/c will be transferred to his loan A/c and the balance will be paid by cheque.

or

Case 2: - Transfer to Vivek loan A/c and Vijay and Vinay decided to adjust their capital in new Profit sharing Ratio by withdrawing or bringng cash.

or

Case 3. Transfer to Vivek loan A/c and New firm capital is fixed 1,20,000 in new profit sharing Ratio.

or

Case 4. Vivek is to be paid through cash brought in by Vinay and Vijay in a manner that their capital are proportionate to their new profit sharing ratio which was to be 3:2

or

Case 5. Remaining partners decided to bring adequate amount to pay Vivek and to manintain a bank balance of ₹ 15,200. They also adequate their capitals as per their New Profit sharing Ratio.

Prepare Revaluation A/c, Partner's Capital A/c and balance that in alone all cases after Vivek retirement.

Retirement & Death of a Partner

Q.1 A, B and C are partner's with profit sharing ratio 4:3:2. B retires and Goodwill was valued ₹1, 08,000. If A& C share profits in 5:3, find out the goodwill shared by A and C in favour B.

A) ₹ 22,500 and ₹ 13, 500 B) ₹ 16, 500 and ₹.19, 500

C) ₹ 67,500 and ₹ 40, 500 D) ₹19,500 and ₹ 16, 500

Q.2 A, B and C share profits and losses of the firm equally. B retires from business and his share is purchased by A and C in the ratio of 2:3 New Profti sharing ratio between A and C respectively would be:-

A) 1:1 B) 2:2

C) 7:8 D) 3:5

Q.3 The accounting procedure at the retirement of a partners involves:-

A) Revaluation of Assets and liabilities

B) Ascertain his share of Goodwill

C) Finding the amount due to him

D) All of them

Q.4 If the remaining partner want to continue the business, after the death of a partner, a new partnership agreement is:-

A) Necessary B) Not necessary

C) Optional D) All of them

Q.5 An account operated to ascertain the loss or gain at the death of a partner is called :-

A) Realisation A/c B) Revaluaton A/c

C) Executor Ac D) Deceased Patner's A/c

Q.6 Amout due to outgoing partner is shown on the balance sheet as his:-

A) Liability B) Assets

C) Capital D) Loan

Q. 7 Retiring partner is compensated for parting with the firm's future profits in favour of remaining partner's. The remaining partner's contribute to such compensation amount in:-

A) Gaining Ratio B) Capital Ratio

C) Sacrificing Ratio D) Profit sharing Ratio

Fill in the Blanks :-

Q.8 Intangible asset which are not shown in the Balance Sheet results in an .... in the outgoing proprietorship.

Q.9 Goodwill may be .... if all the partner's are agreed, that it should not remain in the books.

Q.10 The payment made to the retiring partner in installment is known as ....

CHAPTER 7

DISSOLUTION OF PARTNERSHIP FIRM

<table>
<tr><th>S.NO.</th><th>TOPIC</th><th colspan="3"></th></tr>
<tr><td>1.</td><td>Dissolution of partnership firm</td><td colspan="3">As per 39 of the partnership act 1932, "Dissolution of the firm means dissolution of partnership among all the partners in the firm." Its means business of the firm ends. All the assets of the firm are disposed off and all outside Liabilities and partner capital are paid.</td></tr>
<tr><td>2.</td><td>Mode of dissolution of firm</td><td colspan="3">1. Dissolution by agreement
2. Compulsory Dissolution
3. On happening of an event like insolvency of a partner
4. Dissolution by notice
5. Dissolution by court</td></tr>
<tr><td>3.</td><td>Dissolution of partnership V/S Dissolution of firm</td><td>BASIS</td><td>Dissolution of Partnership</td><td>Dissolution of firm</td></tr>
<tr><td></td><td></td><td>1. End of business</td><td>The business of the firm continue</td><td>The business of the firm closed</td></tr>
</table>

		2. Settlement of assets & liabilities	Liabilities are reassessed and new balance sheet is opened	Assets are realized and liabilities are paid off.
		3. Economic relationship	Economic relationship between the partners are changed	Economic relationship between the partners are to end.
		4. Court's intervention	No intervention of the court can be dissolved by mental agreement	A firm can be dissolved by the court's order.
		5. Closer of books and accounts	Books of accounts of the firm need not to be closed.	Books of accounts of the firm are closed.
		6. Effect	It may or may not dissolution of firm	It necessarily in dissolution of partnership.

4.	SETTLEMENT OF ACCOUNTS	As per sectin 48 of the partnership act 1932, the following rules shall apply. 1. Treatment of losses: losses including deficiencies of capital, shall be paid :- (i) first out of profit, (ii) next out of capital and (iii) if necessary, by the partners individually in the profit sharing ratio. 2. Application of assets: Assets of the firm shall be applied in the following manner. (i) In paying firm's debts to the third party. (ii) In paying each partner proportionately what is due to him on a/c of loan(i.e. partner's loan) (iii) In paying each partner proportionately what is due to him on a/c of capital (iv) The residue, if any shall be divided among the partners in their profit sharing ratio.
5.	PRIVATE DEBTS V/S FIRM'S DEBTS	SEC 49 Of the act applied as follows: (i) Firms property is applied first for settling the firms debts, surplus if any can be utilized for payment of their private debts up to received share. (ii) Private property is applied first for private debts then towards firms liability.

6.	ACCOUNTING TREATMENT ON DISSOLUTION OF FIRM	Following accounts are prepared to close the books.(i) realization A/c (ii) partner's capital A/c (iii)partner's loan A/c (iv) bank A/c
7.	REALISATION Account	It is nominal A/c opened at the time of dissolution of a firm to ascertain profit and loss from realization of assets and payment of outsider's liabilities which may be transferred to partner's capital A/c in the profit sharing ratio.
8.	SETTLEMENTS OF ASSETS	(a) Fictitious assets such as advertisement suspense, preliminary expenses etc, directly transferred to partner's capital A/c in their profit sharing ratio. (b) Unrecorded assets must be realized and shown credit side of the realization A/c
9.	SETTLEMENT OF LIABILITIES	(a) All outside liabilities must be paid off even if nothing is stated for their payment. (b) Unrecorded liabilities also paid through cash or settled by unrecorded assets or settling recorded assets. (c) Contingent liabilities discounting of B/R become liability must be settled or paid.
10.	Settlement of creditors through a recorded assets	In this case no entry in the books of A/c. if part payment is made in asset in cash , then the entry will be made for cash payment only.

11.	REALISATION EXPENSES	(i) If nothing is mentioned then paid by the firm. (ii) In case realization exp. are born by partner, clear indication should be regarding the payment there of.

PREPARATION OF REALISATION ACCOUNT

The following Journal Entries are passed:

Journal

Date	Particulars	L.F.	Cr. (₹)	Dr. (₹)
	Realisation Dr. To sundry Assets A/c (Being assets transferred to realisation A/c)			

Note:

1. Cash and Bank balance are not transferred to Realisation Account.
2. Assets (tangible and intangible) are transferred to Realisation Account at their Gross Value
3. Fictitious Asset such as Debit balance of Profit and Loss Account or Advertisement Suspense Account etc. are not transferred to Realisation Account. These are directly debited to partners' capital accounts in their profit sharing ratio by passing following entry:

Date	**Particulars**	**L.F.**	**Dr.(Rs.)**	**Cr.(Rs)**
	Partner's capital A/c Dr. To Profit and Loss A/c To Advertisement Suspense A/c (Being balance of losses transferred to capital accounts)			

For Closing Liabilities Accounts

Journal

Date	**Particular**	**L.F.**	**Dr.(Rs)**	**Cr.(Rs.)**
	Sundry Liabilities A/c Dr. To Realisation A/c (Being sundry liabilities transferred to Realisation A/c			

1. Only third parties' liabilities/outsiders 'liabilities are transferred to Realisation A/c

2. Balance of Partner's Loan Account is not transferred to Realisation Account. Separate accounts are opened to settle such liabilities.

3. Undistributed profits and reserves are also not transferred to Realisation A/c. These are directly credited to partners' capital accounts in their profit sharing ratio by passing the following entry:

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Profit and loss A/c Dr. General reserves A/c Dr. Reserve fund A/c Dr. Contingency Reserve A/c Dr. To Partner's Capital A/c's (Being balance of undistributed profits transferred to capital accounts)			

Provident Fund is a liability of the firm towards employees and hence it is transferred to Realisation A/c.

5. If any liability is expected to arise against any fund or reserve e.g., Workmen's Compensation Fund, then an amount equal to such liability is transferred to Realisation A/c and balance, if any, distributed among the partners in their profit-sharing ratio by passing the following entry.

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Workmen's Compensation Fund A/c Dr.			
	To Realisation A/c (Liability)			
	To Partner's Capital A/c (Balance if any)			
	(Being liability against workmen's compensation fund transferred to Realisation A/c and balance distributed among partners)			

Example: Workmen's Compensation Fund shown in the liability side of Balance Sheet is Rs. 50,000. At the time of dissolution liability against this fund is estimated at Rs. 30,000. Pass necessary Journal Entry:

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Workmen's Compensation Fund A/c Dr.		50,000	
	To Realisation A/c			30,000
	To A's Capital A/c			10,000
	To B's Capital A/c			10,000
	(Being liability against workmen's compensation fund transferred to Realisation A/c and balance distributed among partners)			

C. For Realisation of assets (whether recorded or unrecorded)

(a) When assets are sold for cash

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Cash/ Bank A/c Dr. To Realisation A/c (Being assets sold for cash)			

(b) When assets are taken over by any partner

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Partner's Capital A/c Dr.			
	To Realisation A/c			
	(Being assets taken over by any partner)			

(c) When assets are taken over by any creditor in part of full payment of his dues:

I. In case of Full Settlement:

(i) NO ENTRY is passed for the transfer of assets to the creditor.

(ii) NO ENTRY is passed for the payment to creditor

II. In case of Part Settlement:

i. NO ENTRY is passed for the transfer of assets to the creditor.

ii. The agreed amount of asset is deducted from the claims of the creditors and the balance is paid to him.

D. For Payment of Liabilities

(a) When liabilities are paid in cash

Journal

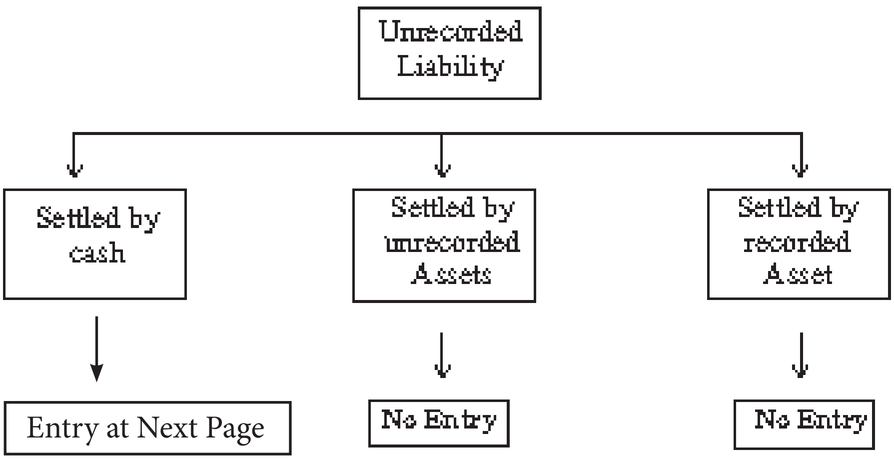
Date	Particulars	L.F.	Dr.(`)	Cr. (`)
	Realisation A/c Dr.			
	To Cash/ Bank A/c			
	(Being liabilities paid in cash)			

(b.) When liabilities are taken over by any partner

Journal

Date	**Particulars**	**L.F.**	**Dr.(Rs.)**	**Cr. (Rs.)**
	Realisation A/c Dr.			
	To Partner's capital A/c			
	(Being liabilities taken over by a partner)			

Note: If nothing is stated regarding the settlement of any outside liability, then it should be assumed that the amount equal to book value is paid.



Journal

Date	Particular	Dr. Rs.	Cr. Rs.
	Realisation A/c Dr. To cash A/c (Being cash paid for unrecorded liability)		

PREPARATION OF PARTNERS' LOAN ACCOUNT

If a partner has given any loan to firm, his loan will be paid

* After payment of all the outside liabilities: but
* Before making any payment to partners on account of capital

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Partner's loan A/c Dr. To Cash/ Bank A/c (Being loan of a partner paid)			

Partner's Loan A/c

Dr. Cr.

Particulars	Rs	Particulars	Rs
To Cash/Bank A/c	—	By Balance b/d	—
	—		—

If the firm has given a loan to any partner then such loan account will show a debit balance and will appear on the asset side of Balance Sheet of the firm. Such loan accounts are settled through partner's capital account by passing the following entry:

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Partner's Capital A/c Dr. To Partner's Loan A/c (Being loan of a partner transferred to his Capital A/c)			

Distinction between Revaluation Account and Realisation Account

Basis of Difference	Revaluation Account	Realisation Account
Purpose	It is prepared to show assets and liabilities in the books at their revised values.	It is prepared to ascertain profit or loss from sale of assets and repayment of Liabilities.
When to be prepared	It is prepared at the time of change in profit sharing ratio among the existing partner, admission, retirement and death of a partner.	It is prepared at the time of dissolution of a firm.
Preparation of Account	This account may be prepared at a number of times during the life of a firm.	This account is prepared once during the life of a firm.

Content	This account records only those assets and liabilities whose book values have been changed.	This account records all assets (except cash, fictitious assets etc.) and all outside liabilities.
Result	A Firm continues its business even after the preparation of revaluation account.	The business activities of a partnership firm comes to an end after preparation of realisation account

Practical Problem

Q1. Following is the Balance Sheet of X and Y, who share profits and losses in the ratio of 4.1, as at 31st March, 2015

BALANCE SHEETAs on 31st March, 2015

Liabilities	Rs	Assets		Rs
Sundry Creditors	8,000	Bank		20,000
Bank Overdraft	6,000	Debtors	17,000	
X's Wife Loan	8,000	Less : Provision	(2,000)	15,000
Y's Loan	3,000	Stock		15,000
Investment Fluctuation fund	5,000	Investments		25,000
Capital		Buildings		25,000
X	50,000	Goodwill		10,000
Y	40,000	Profit and Loss A/c		10,000
	1,20,000			1,20,000

The firm dissolved on the above date and the following arrangement was decided upon:

(i) X agreed to pay off his wife's loan.

(ii) Debtors of Rs. 5,000 proved bad.

(iii) Other assets realised-Investment 20% less; and Goodwill at 60%

(iv) One of the creditors for Rs. 5,000 was paid only ₹ 3,000

(v) Buildings were auctioned for Rs. 30,000 and auctioneer's commission amounted to Rs. 1,000.

(vi) Y took over part of Stock at Rs. 4,000 (being 20% less that the book value. Balance stock realised 50%.

(vii) Realisation expenses amounted to Rs. 2,000.

Prepare Realisation A/c, Partner's Capital A/cs and Bank A/c

Realisation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Goodwill	10,000	By Investment Fluctuation Fund	5,000
To Buildings	25,000	By Provision for Doubtful Debts	2,000
To Investments	25,000	By Creditors	8,000
To Stock	15,000	By Bank overdraft	6,000
To Debtors	17,000	By X's Wife Loan	8,000
To X's Capital A/c (X's wife loan)	8,000	By Bank A/c (Asset realised)	
To Bank A/c (Bank overdraft)	6,000	Debtors 12,000	
To Bank A/c (Creditors) (3000+3000)	6,000	Investment 20,000	
To Bank A/c (Expenses on Realisation)	2,000	Goodwill 6,000	
To Bank A/c (auctioneer Commission)	1000	Buildings 30,000	
		Stock 5,000	73,000
		By Y's Capital A/c (Stock)	4,000
		By Loss transferred to:	
		X's Capital A/cs 7,200	
		Y's Capital A/cs 1,800	9,000
	1,15,000		1,15,000

Y's Loan A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	3,000	By balance b/d	3,000
	3,000		3,000

Partner's Capital A/cs

Dr. Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Profit and Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c			(Cr. Balance)		
(Assets taken)	——	4,000	(By Realisation A/c	8,000	___
To Realisation A/c			Liabilities		
(Loss on Realisation	7,200	1,800	taken)		
To Bank A/c					
(Excess cash paid)	42,800	32,200			
	58,000	40,000		58,000	40,000

Bank A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	20,000	By Balance b/d	6,000
(Cash at Bank)		(Bank Overdraft)	
To Realisation A/c	73,000	By Realisation A/c	1,000
(Assets Realised)		(Liabilities Paid)	
		By Realisation A/c	6,000

		By Realisation A/c (Exp. Paid)	2,000
		By Y's Loan A/c (Partner's Loan Paid)	3,000
		By X' Capital A/c	42,000
		By Y's Capital A/c	32,200
	20,000		93,000

Q. Pass the necessary journal entries on the dissolution of a firm in the following cases:

(a) Dharama, a partner, was appointed to look after the process of dissolution at a remuneration of ₹ 12,000 and he had to bear the dissolution expenses. Dissolution expenses ₹ 11,000 were part by the Bharma.

(b) Jay a partner was to look after the process of dissolution and for this work he was allowed a remuneration of ₹ 7,000 agreed to bear all dissolution expenses. Actual expenses ₹ 6000 were pound from firm's Bank A/c.

(c) Realisation expenses ₹ 12000 born by the partner Deepa. These expenses were paid by Deepa by drawing cash from the firm. She was allowed commission ₹ 10,000 for process of dissolution.

(d) Dev, a partner, agreed to do the work of dissolution for ₹ 7500. He took away stock for his commission.

(e) A debtor of ₹ 8,000 already transferred to realization account agreed to pay the realization expenses of ₹ 78,00 in full settlement.

(f) Realisation expenses amounted to ₹ 15,000 out of this ₹ 12000 were to be born by 'A' a partner and the balance by firm.

Solution:

Journal

Date	Particular	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
(1)	Realisations A/c Dr. To Dharam's capital A/c (Being remuneration allowed to partner to carry out dissolution)		12,000	 12,000
(2)	(i) Realisation A/c To Jay's capital A/c Dr. (Being the remunerable all out to partner for bear realsiation expenses) (ii) Jay' capital A/c Dr. To Bank A/c (Being the expenses paid by firm on behalf partner)		7,000 6,000	 7,000 6,000
(3)	(i) Realisation A/c To Deepa's capital A/c (Being the commission paid for realisation expenses to Deepa) (ii) Deepa's capital A/c To cash A/c (Being the cash is drawn for payment of realisation expenses by Deepa)		10,000 12,000	 10,000 12,000
(4)	No Entry			
(5)	No Entry			
(6)	A's capital A/c Dr. Realisation A/c Dr. To Bank A/c (Being the payment of realization expenses by partner 'A' and Balance by firm)		12,000 3,000	 15,000

Q.5. Pass Journal entries for the following transactions in the book of the firm on its dissolution:

A) Bills receivable of Rs. 20000 discounted with the bank is dishonoured as drawee was declared insolvent and 30% amount is received in cash from him.

b) 100 shares of Bajaj Auto Ltd. acquired at a cost Rs. 3,600 had been written of from the books. These were valued at Rs. 12 par share, and were divided among partner's A and B in 2 : 1.

c) Mr. Verma, a creditor to whom Rs. 6,000 are due, accepted office equipment at ₹ 4,000 and the balance paid to him by cash.

d) Debtors of ₹ 5,00,000 and provision for doubtul debts of Rs. 20,000 transferred to realisation account. On dissolution bad debts were Rs. 1,00,000 and remaining debtors realised at 30% discount.

e) Loan owed by B towards firm is Rs. 30,000. It was decided by the firm that B will pay to the creditor Rs. 25,000 in settlement of his loan.

f) The firm had borrowed Rs. 35,000 from Rashmi, a partner. The firm got dissolved; Rashmi decided to take furniture against the payment of her loan.

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	(a) Cash A/c Dr. To Realisation A/c (Being 30% realized from drawer)		6,000	6,000
	Realistion A/c Dr. To Bank A/c (Being full amount paid to Bank)		20,000	20,000
	(b) As capital A/c Dr B's Capital A/c Dr. To Realisation A/c (Being shares taken by A and B)		800 400	12,00
	(c) Realisation A/c Dr To cash A/c (Being Net ₹2000 paid to Mr. Verma)		2,000	2,000
	(d) Cash A/c Dr To Realisation A/c (Being 70% realised from Debtors)		2,80,000	2,80,000
	(e) Realisation A/c Dr To B's Loan A/c (Being B's loan transferred)		30,000	30,000
	(f) Rashmi's Loan A/c Dr To Realisation A/c (Being loan settled by providing furniture)		35,000	35,000

Practice Question

Q.1 Pass the journal entries entries to effect the followings

(i) bank loan of Rs. 12000 is paid off.

(ii) Deferred advertisement expenses A/c appeared in the books at Rs.28000.

(iii) Creditors agreed to take over the machine in full settlement of their calim. (creditors Rs. 2,50,000 and machinery Rs. 2,25,000)

(iv) Z, an old customer, whose account was written off as bad in the previous year, paid Rs. 500.

(v) A contingent liability (not provided for) of Rs. 1000 was also discharge.

(vi) An unrecorded computer realized Rs. 7000.

Q.2 X and Y were partners sharing profits and losses in ratio of 4:1. Their firm was dissolved on 31.3.15. Complete the missing information:

Realisation Account

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	10,000	By Investment Fluctuation Fund A/c	5,000
To building A/c	25,000	By Provision for Doubtful Debts A/c	2,000
To Investments A/c	25,000	By Creditors A/c	8,000
To Stock A/c	15,000	By Bank Overdraft A/c	6,000
To Debtors A/c	20,000	By X's Brother Loan	8,000
To X's Capital A/c (Brother's loan)	(a)	By Bank A/c (Assets Realised) ₹	
To Bank A/c's: ₹		Debtors 12,000	
Creditors 6000		Investments 20,000	
Bank Overdraft 6000	12,000	Goodwill 7,000	
To Bank A/c (Realisation Expenses)	(b)	Buildings 30,000	
		Stock (50% of 10,000) 5,000	74,000
		By Y's Capital A/c(stock)	(c)
		X's Capital A/c (d)	
		Y's Capital A/c (e)	
	(f)		(f)

Partner's Capital Account

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To profit & Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c (Stock)		4,000	By Realisation A/c	**(k)**	
To Realisation A/c (Loss)	**(g)**	**(h)**			
To Bank A/c (Bal. Fig.)	(i)	(j)			
	(l)	**(m)**		**(l)**	**(m)**

Bank Acconut

Particulars	**Rs.**	**Particulars**	**Rs.**
To Balance b/d	20,000	By Y's loan A/c	6,000
To Realisation A/c	**(n)**	By Realisation A/c (liabilities paid off)	12,000
		By Realisation Expenses A/c	2,000
		By X's Capital A/c	**(o)**
		By Y's Capital A/c	**(p)**
	(q)		**(q)**

Hints:

a) Brother's Rs 8,000 (Given on Cr. Side of Realisation A/c)

b) Realisation Expenses Rs 2,000 (From Bank A/c Cr. side)

c) Stock Rs 4,000 (From Y's Capital A/c Dr. side)

d) ₹ 8,000 (e) ₹ 2,000 (f) 1,17,000 (g) ₹ 8,000 (h) ₹ 2,000

(i) ₹ 42,000 (j) ₹ 32,000 (k) ₹ 8,000 (l) ₹ 58,000 (m) ₹ 40,000

(n) ₹ 74,000 (o) ₹ 42,000 (p) ₹ 32,000 (q) ₹ 94,000

Q.3 A and B showing profits and losses in the ratio of 3:2 agreed upon the dissolution of the firm an 31st march 2018 at which date thair Balance sheet was as follows:

Liabilities	Rs. Amount	Assets	Rs. Amount
Trade creditor	60,000	Cash	6,000
Employee Provident Fund	15,000	Bank	30,000
Bills payable	25,000	Stock	80,000
Investment flutuation reserve	24,000	Sunday Debtors 66,000	
		Loss Provision for D/D 6,000	60,000
Profit and Loss A/c	11,000	Plant and Machinery	30,000
Capital A/c		Land and Building	33,000
A 90,000	1,20,000	Investment	10,000
B 30,000		Goodwill	15,000
Workman Compensation Reserve	20,000	Pre Paid Insurance	1,000
		Advertisement Expenditure	10,000
	2,75,000		2,75,000

The firm was dissolve on the given date and following transition took place :

(1) B undertook to pay employee provident fund.

(2) A took 60% stock at a profit of 10% and remaining stock was sold at a discount of 20% on cost.

(3) Land and building & investments realized ₹ 1,40,000 and ₹ 8,000 respectively.

(4) Trade creditor accepted plant & machinery loss 10% of value and cash ₹ 27000 in full settlement of their claim.

(5) ₹ 8,000 of Book debts proved bad bills payable were point in full.

(6) Realisation expenses paid by A ₹ 5000.

(7) There were a contingent liability of ₹ 1,000 for Bill discounted also discharge.

Prepare Realisation A/c, partner's capital A/c and Bank A/c.

(Ans. Profit of realisation ₹ 1,06,200, partner final payment ₹ 1,18,520 A, ₹ 5880 B Total & Bank A/c 2,67,400)

Q 3. Ram, Rahim and Rehman were partners in a firm sharing profits in ratio 4 :1 :5. On 28-2-2017,, the firm was dissolved. On the date of dissolution, the Balance Sheet of the firm was as follows : Rehman was appointed to realize the assets and liabilities for which he was to be given a commission of Rs. 5000 and to bear the actual expenses of realization himself.

Liabilities	'Amount(₹)	Assets	'AmoumXRs.)
Bank loan	4,34,000	Bank	48,000
Creditors	3,80,000	Debtors 2,74,000	
General reserve	1,00,000	Less provision 8,000	2,66.000
Ram's wife's loan	40,000	Stock	1,08,000
Capitals:		Furniture	1,32,000
Ram	14,00,000	Machinery	4,00,000
Rahim	6,00,000	Building	30,00,000
Rehman	10,00,000		
	39,54,000		39,54,000

Assets realised as follows: bad debts proved Rs. 4,000. Stock at 15% less. Furniture was taken over by Ram for 9,000. Building was sold for Rs. 29,00,000. Rehman took over 50% of the machinery at 5% less than the book value. Bank Loan was paid with interest of Rs. 79,500. A computer already written off was taken over by Rahim for rs. 3000. Creditors allowed a discount of 5%. Expenses of dissolution Rs. 7,000 were paid by Rehman. Remaining machinery was sold at 10% profit.

Pass journal entries at the time of dissolution.

Q.6. Complete the following journal at the time of a partner ship firm of A, B and C and D were sharing the profits & losses in the ratio of 1 : 2 : 2

Realisation A/c Dr. To stock A/c To building A/c To machinery A/c To Goodwill A/c To debtors A/c To investment A/c (——)	6,50,000	 40,000 2,10,000 2,50,0000 ———— 12,000 1,00,000
Creditors A/c Dr. Mrs. A's Loan A/c Dr. Bank Loan A/c Dr. Provision for doubtful debts A/c Dr. To realization A/c (——)	45,000 1,20,000 2,00,000 2,000	 ————
———— Dr. To ———————— (being the machinery sold at 10% less than book value, debtors realized at 20% discount and half of the investment was realized at 25% above book value)	————	 ————

(being the machinery sold at 10% less than book value, debtors realized at 20% discount and half of the investment was realized at 25% above book value)		
______ Dr. To ______ (creditors worth Rs. 36,000 took over the stock at valuation of Rs. 30,000)	______	______
______ Dr. To ______ (A agreed to pay off his wife's loan) ______ Dr. To ______ (A took over the half of the investment at 10% discount)	______ ______	______ ______
______ Dr. To ______ (Building was sold by the bank for setting off its loan for Rs. 2,50,000 and the balance amount of cash was given to the firm)		
(______Dr.______ ______To ______ ______ ______)	______	______
(______Dr______ ______To______ ______)		
B's loan A/c ______ Dr. To ______ (B's loan for Rs. 50,000 ______)		

Partners' Capital A/c

Particulars	A's capital	B's Capital	C's capital	Particulars	A's capital	B's Capital	C's capital
To realization A/c				By balance B/d	5000	175,000	1,15,000
To cash				By gen reserves	2,000	2,000	4,000
				By Profit & loss A/c	30000	30000	60000
				By realization A/c			
				By realization A/c			
				By cash			

Cash A/c

Particulars	**Amount**	**Partners**	**Amount**
balance B/d	4000		

Q. 2 Following was the balance sheet of D, G, And T on 28-2-2017

Liabilities(₹)	Amount	Assets	Amount
R's Loan	12,000	Furniture	15,000
Creditors	50,000	Land & Building	2,45,000
General Insurance	20,000	G' s Capital	20,000
G's Loan	8,000	Bank	20,000
Bills payable	10,000	Debtors	30,000
D' s Capital 1,00,000		Stock	20,000
T's Capital 1,50,000	2,50,000		
	3, 50,000		3,50,000

The firm was dissolved on the above date on the following terms:-

(i) Debtors realised Rs, 28,000 and creditores and bills payable were paid at discount of 10%

(ii) Stock was taken over by T for Rs . 15,000 and furniture was sold to N for Rs. 12,000.

(iii) Land & Building was sold for Rs. 2,80,000.

(iv) R1 Loan was Paid by Cheque for same amount ,

(v) The firm had a joint Policy of (₹) 5,00,000 with a surrender value (₹) 1,00,,000 -000 The surrender. Prepare necessary ledger A/c

Multiple Choice Question Dissolution of Partnership Firm

Q. 1 In which condition a partnership firm is deemed to be dissolved?

(A) On a Partner's admission (B) on retirement of a partner

C) On expiry of the period of partnership (D) On loss in partnership

Q.2 Contingent liability, when paid on dissolution of a firm is debited to :-

((A) Partner's Capital A/c (B) Realisation Account

(C) Liabilities A/c (D) Asset A/c

Q.3 A partnersjhip firm is compulsory dissolved:-

(A) When the business of the firm is declared illegal

(B) When a partner of the firm dies

(C) When a partner of the firm become Insolvent

(D) When a partner transfer his share to some other person without the consent of the partner

Q.4. At the time of dissolution of Partnership firm, ficitious, assets are transferred to :-

(A) Capital Account of Partners (B) Realisation Account

(C) Cash Account (D) Partner's Loan Account

Q.5. On dissolution of a firm,debtor (₹) 17,000 were shown in the balance sheet out of this (₹) 2,000 become bad. One debtor become insolvent 70 % were recovered from him out of ₹) 5,000 . Full amount was recovered from the balance debtors. On account of this item loss in realisiation account will be:-

(A) ₹) 5,100 (B) ₹) 1.500

(C) ₹) 3, 500 (D) ₹) 2,000

Q.6 Anu, Khusi and Anmol are partners, The firm had given a loan of (₹) 20,000 to khushi. On the event of dissolution, the loan will be selled by :-

(A) Transferring it to debt side of Realisation A/c

(B) Transferring it to credit side of Realisation A/c

(C) Transferring it to debti side of Partner's capital.

(D) Khusi paying Anu and Anmol Privately

Q.7 On dissolution, goodwill account is transferred to :-

(A) In the capital accounts of partners (B) On the Credit of Cash account

(C) On the debit of Realisation A/c (D) On Credit of Realisation A/c

Q.8 Where it is agreed that a partner will be paid a lumsum amount for dissiolution expenses payment is made by the firm, the payment is debited to

(A) Realisation Account (B) Concerned Partner's Capital Account

(C) All Partner's Capital A/c (D) None of these

Q.9 In case of dissolution of Partnership firm, a creditor of ₹ 3,60,000 accepted machine value at ₹ 5,00.000 and paid to the firm ₹ 140,000 and a second creditor for ₹ 50,000 accepted stock ₹ 45,000. in full settlement. What amount should be shown in Realisation for above transaction.

(A) Dr Realisation ₹ 1,40,000 Cr HIL

(B) Dr realisation and Cr. NIL ₹ 1,40,000

(C) Dr Realisation 1,40,000 &cr Realisation 500

(D) Dr Realisation ₹ 5,000 & cr ₹ 14,0,000

Q.10 Retirement and Death of a partner:-

(A) Is dissolution of partnership agreement

(B) Is dissolution of a firm

(C) a and b both (D) None of the above

Q.11 At the time of dissolution non-cash assets ared credited with :-

(A) Market value (B) Book Value

(C) As the agreedamount among partner's

(D) None of the above

Q.12 Admission of a partner is termination of .... and not dissolution of .... (agreement, firm)

Q.13 If all partners mutaually decide for the dissolution, it willbe dissolution of the .... (firm)

Q.14 .... of partner will be paid off before the settlemnt of partne's capital (Loan)

CHAPTER 8

ACCOUNTING FOR SHARE CAPITAL

Company	A Company is an artificial person created by law, having separarte entity with a perpetual succession and a common seal.
Characteristics of a company	1. A company has a separate legal entity which is distinct and separate from its members. 2. It has perpetual existence 3. It has its own common seal. 4. Shares of a company are transferrable subject to certain conditions. 5. The liability of the members of the company is limited to the extent of unpaid amount of the shares held by them.
Types of company	On the basis of the number of members, companies can be divided as follows: **(i) Public Company:** A company which is not a private company and which is not a subsidiary of a private company. **(ii) Private Company:** A private company is one which by its articles-Restricts the right to transfer its shares, must have at least 2 persons, except in case of one person company and limits the number of its members to 200 (excluding its employees) **(iii) One Person Company (OPC)** : The companies Act, 2013, defines OPC as a "company which has only one person as a member ". Rule 3 of the companies (Incorporation) Rules, 2014, provides that: Only a natural person being an Indian Citizen and resident in India can form one person company, (b) It cannot carry ot non-banking financial investment activities (c) Its paid up share capital is not more than Rs. 50 Lakhs (d) Its average annual turover of three years does not exceed Rs,. 2 Crores.

Important Terms used in Accounting for Share Capital	**a) Minimum Subscription-** It is the minimum amount stated in the prospectous that must be subscribed by the public before and allotment of any securtiy is made. **b) Share Capital:** Capital raised by issue of shares is called share capital. **c) Authorised Capital:** It is alsocalled as Nominal or registered capital. It is the Maximum amount of or Capital a company can issue. It is stated in the memorandum of Association. **d) Issued Capital:** This is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital. **e) Called Up Capital:** It is the amount of nominal values of shares that has been called up by the company for payment by the subscriber towards the share. **f) Paid Up Capital:** It is part of called up capital that the members of company or shareholders have paid. **g) Reserve Capita**l: It is part or portion of uncalled share capital of an unlimited company which can be called only in case of winding up of the company. **h) Capital Reserve:** It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholders erser's Funds. **i) Private Placement of Shares** **[Section-42]:** When Shares are offered by the compant the company to a selected group of persons, not to the public through public offer, it is called private placement of shares. This is an issue of shares to institutional investors or some selected group of persons subject to prior approval of existing shareholders. There is no need of issuing formal prospectus and it is cost and time saving method of raising capital.

	j) Calls in arrear: Any Amount which has been called or demanded by company from shareholders but not paid by the shareholder till the last date mentioned in call letter is called as call in arrear., Company can charge interest on this rate mentioned in Article of Association or 10% p.a. as per Table F **k) Calls in advance:** Any Amount paid in excess of what they has asked to pay is called as call in advance. Interest is paid on this at rate mentioned in Article of Association or 12% p.a. as per Table F

Issue of shares at discount [Section 53]POINTS TO REMEMBER

Issue of shares at discount (Sec-53)	A Company cannot issue shares at discount other than sweat equity shares.
Issue of shares at premium (Sec 52)	The Money received on premium is transferred to Security Premium Reserve (SPR) account and the amount received on SPR can be utilized for the following purpose; (Section 52) 1. Issue of fully paid bonus shares to the shareholders 2. Write off preliminary expenses of the company 3. Writing off securities issue expenses commission paid discount on issue of securities. 4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company. 5. For Buy back of its own shares as per Secion 68.

Employee stock option plan (ESOP)	ESOP or sweat equity share refers to option granted by any company to its employee to subscribe its shares at a price lesser than market price. It is employees' right to exercise or not to exercise the option, it is not an obligation on the employee to subscribe it. The difference between the market price and issue price is an expense for the company and this is accounted over the vesting period on proportioante basis on straight line basis.

POINTS TO REMEMBER

> Shares can never be issued at discount. except in case of ESOP

> Only at the time of reissue of forfeited shares, Maximum discount that can be allowed = total amount forfeited on such share.

> The reason being, the company can not issue shares at amount less than its face value, in any condition.

> It compensates the discount allowed on reissued shares out of the forfeited amount already received from the previous(first) shareholder.

> Only after reissue of shares , forfeited amount can be capitalised by transferring it to capital reserve

> Calculation of maximum amount of discount on reissue of forfeited shares can be done as per the following formula.

A) If only a part of total forfeited shares is being reissued than Maximum amount of discount that can be allowed on reissue = total amount forfeited / total no of shares forfeited x total no. Of shares being reissued.

B) If all the forfeited shares are being reissued than Maximum amount of discount that can be allowed on reissue = total amount forfeited

> If the total forfeited amount and amount received on reissue is less than face value of shares , it will be in contravention of section (78) of company's Act, 2013

Illustration 1: STL Global Ltd. was formed with a nominal Share Capital of Rs. 40,00,000 divided into 4,00,000 shares of Rs. 10 each. The Company offered 1,30,000 shares to the public payable Rs. 3 per share on Application, Rs. 3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except 2,000 shares held by. Y. First and Final Call was not made by the Company.

How would you show the relevant items in the Balance Sheet of STL Global Ltd.?

Solution 1

Balance Sheet (Extract) of S T L Global Ltd. (Relevant Part only)

As at

Particulars	Note No.	(₹)
Equity and Liabilities		
Shareholder's Funds :		
(a) Share Capital	(1)	7,14,000
Assets		
Current Assets :		
Cash and Cash Equivalents (cash at Bank)		7,14,000

Note to Accounts:

Particulars	Details	(₹)
(1) Share Capital Authorised Capital:		
4,00,000 shares of Rs. 10 each		40,00,000
Issued Capital:		
1,30,000 shares of Rs.10 each		13,00,000
Subscribed but not Fully Paid Capital:		
1,20,000 shares of Rs. 10 each; Rs. 6 per share called-up	7,20,000	7,14,000
		7,14,000
Less: Calls in Arrears (2,000 shares * Rs. 3)	– (6,000)	

Illustration 2. On1st April, 2012, Janta Ltd. was formed with an authorized capital of Rs. 50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The company issued prospectus inviting application for 90,000 Shares. The issue price was payable as under:

On application Rs. 15 on allotment Rs. 20, balance on final call

The issue was fully subscribed and the company allotted shares to all the applicants. The company did not make the call during the year.

Show the following:

(a) Share capital in the Balance sheet of the company as per revised schedule III, Part-I of the companies Act, 2013.

(b) Also prepare' Notes to Accounts for the same.

Solution:

Balance Sheet of Janta Ltd.

As at...........(As per revised schedule III)

Particulars	Note No.	Amount Current Years Rs.	Amount Previous Years Rs.
Equity & liabilities 1. Shareholder's funds (a) Share Capital	1.	31,50,000	——

Notes to Accounts

Particulars	(R s.)
1. Share Capital **Authorised Capital** 1,00,000 equity shares of Rs.50 each	50,00,000
Issued Capital 90,000 equity shares of Rs.50 each	45,00,000
Subscribed Capital Subscribed but not fully paid 90,000 shares of Rs. 50 each Rs.35 called up	31,50,000

Issue of Shares

Shares can be issued in two ways

1. for cash
2. for consideration other than cash

Terms of Issue of Shares

Shares can be issued in two ways.

1. Issue of shares at Par
2. Issue of shares at Premium

Issue of shares against Lump sum payment: When whole amount due on shares is payable in one instalment i.e, at the time of application. The journal entries will be as follow:

Illustration 3: Vaibhav Ltd. issued 1, 00,000 shares of Rs.10 each at per. The whole amount was payable with application. Pass the necessary journal entries in the books of company.

Solution

Journal

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Bank A/c Dr.		10,00,000	
	To Share Application and Allotment A/c			10,00,000
	(Being the application money received on 1,00,000 shares at Rs. 10 per share)			
	Share Application and Allotment A/c Dr.		10,00,000	
	To Share Capital A/c			10,00,000
	(Being share allotted and transfer of application money on 1,00,000 shares to shares capital account)			

Illustration 4 : X Ltd. invited application for 10,000 shares of the value of Rs. 10 each. The amount is payable as Rs.2 on application and Rs. 5 on allotment and balance on First and final Call. The whole of the above issue was applied and cash duly received. Give Journal entries for the above transaction

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr. To equity share application A/c (Being the application money received ~~on~~ 10,000 shares at Rs. 2 per share)		20,000	20,000
	Share application A/c Dr. To Share Capital A/c (Being the transfer of application money on 10,000 shares to share capital account)		20,000	20,0000
	Share Allotment A/c Dr. To share Capital A/c (Being allotment money on 10,000 shares at Rs. 5 per share) due.		50,000	50,000
	Bank A/c Dr. To Share Allotment A/c (Being the receipt of allotment money on 10,000 shares)		50,000	50,000
	Share first & final call A/c Dr. To equity Share Capital A/c (Being the amount due on 10,000 shares at Rs. 3 per share)		30,000	30,000
	Bank A/c Dr. To share equity first & final call A/c (Being the receipt of Rs. 3 on 10,000 shares)		30,000	30,000

Note: For each entry narration is compulsory

Issues of Shares at Premium: It is issue of shares at a price more than its face value.

This premium can be utilized for: (Section 52 of the Companies Act 2013 states that premium can be utilized for:-)

1. Issue of fully paid bonus shares to the shareholders.
2. Write off preliminary expenses of the company.
3. Writing off securities issue expenses, commission paid and discount on issue of securities.
4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company.
5. For Buy back of its own shares as per Section 68A.

The securities premium may be collected by the company with application money / Allotment money / First call/Final Call depend upon the terms of issue of shares. If questions is silent regarding the securities premium amount due, it is assumed that securities premium money is due with the allotment money. Following are the various situations of securities premium received with application, allotment and call.

Journal Entries for accounting of securities premium

Illustration 5: Vikram Ltd. Issued 20,000 Equity shares of Rs. 10 each at a premium of Rs. 3 payable as follows: On Application Rs. 4

On Allotment Rs. 5 (including Securities Premium) On First Call Rs. 2 On Final Call Rs. 2 All shares were duly subscribed and all money duly received. Pass necessary Journal Entries.

Solution:

In the Book of Vikram Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
	Bank A/c Dr.		80,000	
	To Equity Share Application A/c			80,000
	(Being the application money received on 20,000 Equity Shares ar Rs. 4 per Equity Share)			
	Equity Share Application A/c Dr.		80,000	
	To Equity Share Capital A/c			80,000
	(Being the transfer of application money on 20,000 Equity Share capital account)			
	Equity Share Allotment A/c Dr.		1,00,000	
	To Equity share Capital A/c			40,000
	To Securities Premium Reserve A/c			60,000
	(Being the amount due on 10,000 Equity shares at Rs. 5 including Premium Rs. 3 shares)			
	Bank A/c Dr.		1,00,000	
	To Equity Share Allotment A/c			1,00,000
	(Being the receipt of L 5 on 10,000 Equity Shares)			
	Equity Shares First Call A/c Dr.		40,000	
	To Equity Share Capital Account			40,000
	(Being the amount due on 20,000 Equity Shares at Rs. 2 per Equity Share)			

	Bank A/c Dr. To Equity Share First Call A/c (Being the receipt of Rs. 2 on 20,000 Equityshares)		40,000	40,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being the receipt of Rs. 2 on 20,000 Equity Shares)		40,000	40,000
	Bank A/c Dr. To Equity Share Final Call A/c (Being the receipt of Rs. 2 on 20,000 Equity Shares)		40,000	40,000

Shares Issued for Consideration other than Cash

When a company purchases any fixed asset or business and makes the payment to the vendor in form of shares in place of cash it is called the issue of shares for consideration other than cash.

Share can be issued at par or at premium

Journal entries for issue of shares to vendors/consideration other than cash

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	On Purchase of asset: Sundry Asset A/c Dr. To vender		Amount of purchase price	
	On Purchase of business: When purchase consideration in less than net asset			

	Sundry Assets A/c Dr. Goodwil (B/F) A/c Dr. To Sundry liability To Vender			Agreed value Agreed value purchase consideration
	When purchase consideration is less than net asset Sundry Assets Account Dr. To Liabilities To Vendor To capital Reserve A/c (B/F)		Agreed Value	Agreed Value Purchase Considertion
	On lssue of share (a) at Par Vendor's A/c Dr. To Share Capital A/c (b) On lssue of share at Premium Vender A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c			

Note: When name of vendor is given write the name of vendor

Illustration 6: Ajay Co. Ltd. Purchased a machine from Vikram Co. for Rs. 64,000. It was decided to pay Rs. 10,000 in cash and balance paid by issue of shares of Rs. 10 each.

Pass journal entries if shares are

(a) Issued at par

(b) Issued at premium of 20%

Solution:

Journal

Date	Particulars	L.F.	Debit(₹)	Credit(₹)
	Machinery Account Dr. To Vikram Ltd. (Being the machine purchased)		64,000	 64,000
	Vikram Ltd Dr. To Bank A/c (Being amount paid)		10,000	 10,000
	(a) When shares are issued at par Vikram Ltd. (Vendor) Dr. To Share Capital (Being 5,400 shares of ₹ 10 each issued par to Vikram Ltd.)		 54,000	 54,000
	(b) When shares are issued at premium Vikram Ltd. (Vendor) Dr. To Share Capital Account To Security Premium Reserve Account (Being 4,500 shares of issued to vendor at a premium of Rs. 2 per share)		 54,000	 45,000 9,000

Working Note:

No. of shares to be issued = amount to be paid / issue price per share (including premium) =

When issued at par = 54000/1 0 = 5400

When issued at premium = 54000/1 2 = 4500

Illustration 7 : A company issued 15,000 fully paid up equity shares of Rs. 100 each for the purchases of the following assets and liabilities from Gupta Bros.

Plant - Rs. 3,50,000; Stock Rs. 4,50,000; Land and Building Rs. 6,00,000; Sundry Creditors Rs. 1,00,000 Pass necessary Journal entries.

Solution:

Journal

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	Plant A/c Dr.		3,50,000	
	Land and Buildings A/c Dr.		6,00,000	
	Stock A/c Dr.		4,50,000	
	Goodwill A/c (b/f) Dr.		2,00,000	
	To Sundry Creditors A/c			1,00,000
	To Gupta Bros.			15,00,000
	(Being the purchased of business)			
	Gupta Bros. Dr.		15,00,000	
	To Equity Share Capital A/c			15,00,000
	(Being issue of 15,000 shares of Rs. 100 each as payment of business price)			

Note: Calculation: Goodwill = Purchases consideration + Liabilities - assets = Rs. 15,00,000 + Rs. 1,00,000 - Rs. 14,00,000 = Rs. 2,00,000.

Illustration 8 . Beta Ltd. issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 payable Rs. 5 on application including premium, Rs. 4 on allotment and Rs. 3 on call.

Company received applications for 55,000 shares and allotment was made as under:

(i) Applicants for 20,000 shares were allotted in full.

(ii) Applicants for 25,000 shares were allotted 20,000 shares.

(iii) Applicants for rest shares were allotted Nil shares.

Mr. X who was allotted 200 shares under category (i) paid full amount due on allotment.

Mr. Y holding 500 shares failed to pay call money. His shares were forfeited and reissued @ Rs. 8 per share fully paid.

	Ist group	lind group	Rejected	Total
Applications received	20,000	25,000	10000	55,000
Shares allotted	20,000	20,000	0	40,000
Applications received (@ 5)	1,00,000	125000	50000	275,000
Trd. to Sh cap. (@ 3)	60,000	60,000	0	120,000
Trd. To sec. permium	40,000	40,000	0	80,000
BALACE AFTER TR.	NIL	25,000	50,000 (RE	
			EUND)	25,000
Allt. money due (@ 4)	80,000	80,000	0	160,000
Less: adj from advance	Nil	(25,000)	0	25,000
(already received)			0	
Net amount due	80,000	55,000		135,000
Less default	Nil	Nil		0
Add:adv. calls received	600	Nil		600
Net amount received	80,600	55,000		135,600
First Call due (@ 3)	60,000	60,000	0	120,000
Less: adj from advance			0	
(already received)	(600)		0	(600)
Net amount due	59,400	60,000	0	119400
Less default		(1500)	0	(1500)
Add: adv. calls received		Nil	0	
Net amount received	59,400	58500		117,900

Date	Particular	Debit (₹)	Credit (₹)
	Bank A/c Dr.	2,75,000	
	To Equity Share Application A/c		2,75,000
	(Being the application money received on 40,000 Equity Shares ar Rs. 4 per Equity Share)		
	Equity Share Application A/c Dr.	2,75,000	
	To Equity Share Capital A/c		1,20,000
	To security premium A/c		80,000
	To Equity share allotment A/c		25,000
	To Bank		50,000
	(Being the transfer of application money on 40,000 Equity Share capital account)		
	Equity Share Allotment A/c Dr.	1,60,000	
	To Equity share Capital A/c		1,60,000
	(Being the amount due on 40,000 Equity shares)		
	Bank A/c Dr.	1,35,600	
	To Equity Share Allotment A/c		1,35,000
	To call-in-advance		600
	(Being the receipt of Equity Shares)		
	Equity Shares First Call A/c Dr.	1,20,000	
	To Equity Share Capital Account		1,20,000
	(Being the amount due on 40,000 Equity Shares at Rs. 3 per equity share)		

	Bank A/c Dr.		1,17,000	
	Call-in-advance Dr.		600	
	Call-in-arrear Dr.		1,500	
	To Equity Share First Call A/c			120000
	To call-in advance			
	(Being the receipt of first call Equity shares)			
	Share capital A/c Dr.		5000	
	To call-in-arrears			1500
	To share forfeiture a/c			3500
	(Being the receipt of first call Equity shares)			
	Bank A/c Dr.		4000	
	share forfeiture a/c Dr.		1000	
	To Equity share capital			5000
	(Being the reissue fo 500 forfeited shares)			
	Share forfeiture a/c Dr.		500	
	To capital reserve			500
	(Being their of forfeiture after reissue to capital reserve)			

Balance Sheet of Beta Ltd.

As at............................ (As per revised schedule III)

Paticulars	Note No.	Amount Current Years ₹	Amount Previous Years ₹
Equity & liabilities			
1. Shareholder's funds			
(a) Share Capital	1.	4,00,000	—
(b) Reserves & surpluses	2.	80,500	

Notes to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
1,00,000 equity shares of Rs. 10 each		10,00,000
Issued Capital		
40,000 shares of Rs. 10 each		4,00,000
Subscribed Capital		
Subscribed and fully paid		
40,000 shares of Rs. 10 each		
reserves and surpluses		4,00,000
Security premium	80000	
Capital reserve	500	80,500

Forfeiture of shares issued at premium

Illustration 9. Elpha ltd. Forfeited 400 shares of Rohit which were issued at Rs. 10 per share and Rs. 2 as premium for non payment of allotment money of Rs. 5 (including premium) and first call of Rs. 2, final call of Rs. 3 has not been done.

These shares were reissued @ Rs. 5 per share at Rs. 7 paid up.

No. of shares forfeited	Application (2)	Allotment (3+2)	First call (2)	2nd call (3)
400	400 * 2 = 800	400 * 3 + 400 * 2 = 1200 + 800	400 * 2 = 800	-not called
	33			----------

Share capital A/c Dr.	(800 + 1200 + 800) = 2800	
Security premium Dr.	800	
To call-in-arrears		2800
To share forfeiture a/c		800
(Being the forfeiture of 400 Equity shares, of Rohit security premium not received)		

Illustration 10 : A holds 100 share of Rs. 10 each on which he has paid Re. 1 per share on application.

B holds 200 shares of Rs. 10 each on which he has paid Re. 1 and Rs. 2 share on application and allotment respectively.

C holds 300 shares of Rs. 10 each and he has paid Re. 1, Rs. 2 and Rs. 3 per share on application, allotment and first call respectively.

They all failed to pay their arrears and the second call of Rs. 2 per share, subsequently, their shares were forfeited and then reissued at Rs. 11 per share as fully paid. Pass necessary journal entries.

	Amount forfeited	Allotment (2)	First call (3)	2nd call (2)	
A (100)	√ 100	× 200	× 300	× 200	800
B(200)	√ 200	√ 400	× 600	× 400	1600
C (300)	√ 300	√ 600	√ 900	× 600	2400
	√ 600	√ 1000 X 200	√ 900 X 900	× 1200	4800

Date	Particular	LF	Debit (₹)
Share capital Dr. To Calls in Arrear A/c To Forfeited share forfeited		4800	2300 2500
Bank A/c Dr. To equity share capital To Securities premium A/c (being reissue of 600 shares at Rs. 11 fully paid)		6600	6000 600
Share forfeiture a/c To capital reserve (Being their of forfeiture after reissue to capital reserve)		2500	2500

Illustration 11 : A Ltd. Forfeited 100 shares of Rs. 100 each issued at a premium of 50% to be paid at time allotment on which first call of Rs. 30 per equity share was not received, final call of Rs. 20 is yet to be made. These shares were reissued at Rs. 70 per share at Rs. 80 paid up. Pass necessary journal entries.

Solution:

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Share Capital A/c (100x80) Dr.		8,000	
	To Shares First Call Account (100x30)			3,000
	To Shares Forfeited Account (100x50)			5,000
	(Being 100 shares forfeited for non-payment of first call money)			

	Bank A/c (100x70) Dr.		7,000	
	Forfeited Shares A/c (100 × 10) Dr.		1,000	
	To Share Capital Account (100 × 80)			8,000
	(Being re-issued of 100 forfeited shares at Rs. 70 per share at L 80 paid up)			

Illustration 12 : AB Ltd. invited applications for 1,00,000 Equity Shares Rs. 10 each payable as Rs. 2 application, Rs. 3 on Allotment and the balance on first and final call. Application were received ror 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to the call money and his shares were forfeited and re-issued at Rs. 8 per share as fully paid. Pass necessary journal entries in the books of company prepare Cash Book and journal for the above transaction

Solution:

Cash book Bank Column only)

Dr. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Equity Share		By Equity Share	
Application A/c	6,00,000	Application A/c	1,00,000
To Equity Share First	4,95,000	By Balance c/d	10,03,000
& Final Calls A/c			
To Equity Share Capital A/c	8,000		
	11,03,000		**11,03,000**

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Equity Share Application A/c Dr.		5,00,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Share Allotment A/c			3,00,000
	(Being the transfer of application money into share capital and allotment and balance refunded)			

Equity Share allotment A/c Dr.		3,00,000	
To equity share capital			3,00,000

Equity Share First & Final CAll A/c Dr. To Equity Share Capital A/c (Being the amount on 1,00,000 Equity Shares at Rs. 5 per Equity Share)		5,00,000	 5,00,000
Equity Share Capital A/c To Equity Share First & Final A/c To Forfeited Shares A/c (Being 1000 Shares forfeited to non-payment fo first and final call money)		10,000	 5,000 5,000
Forfeited Shares A/c (1000 × 2) To Equity Share Capital A/c (Being the Reissue fo 1000 Equity Shares at RS. 8 per shave as fully paid up)		2,000	 2,000
Forfeited Shares A/c To Capital Reserve A/c (Being the transfer of profit on reissue to Capital Reserve)		3,000	 3,0000

Some Important Terms Related with ESOP

Grant date: The date at which the company and its employees agree to the conditions of ESOP.

Vesting Period: Period between Grant date and the date on which all the conditions are fulfilled.

Exercise Period: Period within which employees have to exercise the option granted under ESOP.

Exercise Price: Price to be paid by the employee on exercising the options.

EEMPLOYEE STOCK OPTION PLAN/SCHEME

Employee stock option plan scheme or sweat equity share refers to option granted by any company to its employees to subscribe its shares at a price lesser than market price. It is employees' right to exercise or not to exercise the option, it is not an obligation on the employees to subscribe it. The difference between the market price and issue price is an expense for the company and this is accounted over the vesting period on proportionate basis on straight line basis.

Objectives/Significance of ESOP:

1. It helps in creating a long term wealth for the employees.
2. It motivates the employees to have a higher participation in the company
3. It helps the company to attract efficient employees and keep them retained on long term basis.

Ques 1: A company purchased a running business from Mahesh for a sum of Rs.1,50,000 payable as Rs., 1,20,000 in fully paid equity shares of Rs. 10 each and balance in cash. The assets and liabilities consisted of the Plant and Machinery Rs.40,000; Stock Rs.50,000; Building Rs.40,000; Cash Rs.20,000 Sundry debtors Rs.30,000; Sundry creditors Rs.20,00 Pass necessary journal entries for above transactions.

Hint to Solution: Capital reserve = Net Asset - Purchase consideration = Rs. 1,60,000 -Rs. 1,50,000= 10000

Q 2 Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.

(a) Rajan Ltd. purchased machinery of Rs. 7,20,000 from Kundan Ltd. The

payment was made to Kundan Ltd. by issue of equity shares of Rs.100

each at 20% premium.

(b) Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of

Rs.2,50,000 payable as Rs.2,20,000 in fully paid equity shares of Rs.10 each and balance by a bank draft. The assets and liabilities consisted of the following:

Plant & Machinery Rs.90,000; Buildings Rs. 90,000; Sundry Debtors Rs.30,000; Stock Rs.50,000; Sundry Creditors Rs. 20,000

Ques 3. Z Co. Ltd offered 20,000 shares of Rs. 100 each to the public for subscription at a premium of Rs. 10 per share payable as Rs. 30 on application Rs. 40 on allotment (including Rs. premium) and balance on 1st call

The issue was over subscribed by 15,000 share and allotment was made as under Full allotment to the applicants of 5,000 shares . and remaining applicants were given pro-rata allotment, all money was duly received with an exception of allotment and call money of monu who had applied for 2,000 shares in the 2nd group, and his shares were forfeited. Later on, 750 of these shares were reissued at Rs. 105 per share fully paid. Pass journal entries in the books of the company and draw a proforma balance sheet as per revised schedule of the companies Act.

Ques 4: Daisy Systems Ltd. Issued 50,000 Equity Shares of Rs. 10 each, at a premium of 50%, payable as follows:

On Application (including premium)	8 per share
On Allotment	Rs. 4 per share
On First Call	Rs. 2 per share
On Final Call balance	

Applications were received for 65,000 shares and the Directors made pro-rata allotment to the applicants for 60,000 shares X did not pay allotment and first call money on 1,000 shares allotted to him. His shares were forfeited immediately, while Y did not pay the First Call on his 2,000 Shares. These shares were forfeited and 2,200 of these shares were re-issued to Mr. Gupta as Rs. 10 paid at Rs.7 per share, whole of Y's shares being included in the re-issued shares. Show the journal entries to record the above transactions and prepare the Balance Sheet.

Ques 5: A company forfeited 200 shares of Mr. X , face value of Rs. 20 per share who has paid Rs. 10 each on application, for non payment of the allotment money of Rs. 5 and 1st call of Rs. 3 per share calculate

a) the amount forfeited by the company.

b) What is maximum discount per share the company can give at the time of reissue of each share.

c) If the company sells 150 shares at Rs. 16 per share , being Rs. 18 paid up , what will be the amount of capital reserve at the time of reissue.

d) If the company sells 50 shares at Rs 18 per share, fully paid up, what amount will be transferred to the capital reserve at the time of such reissue.

Ques 6: Alok Ltd. offers 1,00,000 shares of Rs. 10 each payable Rs.3 application, Rs. 5 on allotment (including premium of Rs. 2), Rs. 4 on call (after 3 months of allotment). Company received applications for 1,42,000 shares and allotment was made as under:

I. Allotment in full to applications for 18,000 shares (Ram paid in full on allotment on 4,000 shares)

II. Allotment of 2/3 shares applied for 1,20,000

III. Allotment of 1/2 shares applied for 4,000

All money is received except first call on 200 shares which were forfeited and reissued @ Rs. 8 each. Journalise the transactions

Ques 7 . HP Ltd. issued 50,000 shares of ₹ 10 each payable ₹ 3 on application, ₹ 4 on allotment and ₹ 2 on final call.

Company received applications for 70,000 shares and allotment was made on pro-rata basis. Alok who had applied for 700 shares failed to pay allotment and his shares were forfeited after allotment. Mohit failed to pay call money on 300 shares and his shares were forfeited. Company reissued 500 shares @ ₹ 8 each fully paid up, including all the shares of Mohit.

Journalise the transactions and draw Balance Sheet.

(capital Reserve Rs. 2440)

Q 8)Sibar Media & Entertainment Ltd. invited applications for 1,00,000 shares of ₹ 10 each at a premium of 10% payable as follows:

On Application Rs. 3

On Allotment Rs. 4 (including premium)

On first & final call 4

The applications were received for 90,000 shares and all of these were accepted. All money due were received except the first and final call on 2,000 shares which were forfeited. 1,000 shares were re-issued @ ₹ 9 per share as fully paid. Assuming that all requirements of law were complied with, show how these transactions will be reflected in the compnay's Balance Sheet.

Ans. Subscribed and fully paid: Rs. 8,90,000

Q 9) ABC Ltd. issued 20,000 shares of Rs. 10 each at a premium of Rs. 4 per share, payable as under: Rs. 4 on application, Rs. 7 on allotment (including premium) and Rs. 3 on first and final call. The issue was fully subscribed. Mr. Ajay, a holder of 200 shares, failed to pay the allotment and his shares were forfeited immediately. Bhagat, a holder of 100 shares, did not pay the call money and his shares were also forfeited. 150 shares (including all the shares of Ajay) were reissued at ₹ 9 per share fully paid. Calculate the amount received on allotment. Present the Above information in the balance-sheet of star ltd. On 31st March 2018, as per revised proforma of schedule III.

Q 10) A holds 200 share of Rs. 10 each on which he has paid Re. 1 per share on application.

B holds 500 shares of Rs. 10 each on which he has paid Re. 1 and Rs. 2 share on application and allotment respectively.

C holds 600 shares of Rs. 10 each and he has paid Re. 1, Rs. 2 and Rs. 3 per share on application, allotment and first call respectively.

They all failed to pay their arrears and the second call of Rs. 2 per share, subsequently, 900 shares were forfeited (except 400 shares of C) and then reissued at Rs. 9 per share as fully paid. Pass necessary journal entries.

Q 11) A Ltd., forfeited 300 shares of Rs.10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call money of Rs. 4 per share. Out of these 250 shares were reissued to Rishi for a total payment of Rs. 2,000. Pass necessary journal entries.

Q 12) X Ltd. issued 10,000 shares of Rs. 10 each at a premium of Rs 2 per share payable as Rs. 5 on application and Rs. 4 on allotment (including premium) and Rs. 2 on first call, all the shares were fully subscribed and received except Varun, who was allotted 200 shares by the company, did not pay the allotment amount and his shares were forfeited by the company immediately, Later on 100 of these forfeited shares were reissued to Rishi at Rs. 6 , 8 paid up. Second call has not been made till 31st March, 2018. Present the Above information in the balance-sheet of star ltd. On 31st March 2018, as per revised proforma of schedule III..

Q 13) Ram Ltd., forfeited 100 shares of Rs. 10 each issued at a premium of Rs. 2 (to be paid at the time of allotment) for non payment of allotment money of Rs 5 per share and first call money of Rs. 3 per share. The final call of Rs. 2 was not made, shares were originally issued on prorate basis on an application of 150. These shares were, later on, reissued at Rs. 6 per share as Rs. 8 Paid up. Give journal entries assuming that company followed the practice of adjusting the excess application money towards the allotment.

Q 14) Mohan applied for 200 shares of Rs. 10 each at a premium of Rs. 2 per share. But he was allotted 150 shares. After having paid Rs. 2 on application, he did not pay allotment money of ₹ 5 per share (including premium). On his subsequent failure to pay the first call of Rs. 2 per share his shares were forfeited. 100 of these shares were subsequently reissued at Rs. 8 per share fully paid. Give journal entries assuming that company followed the practice of adjusting the excess application money towards the allotment.

Q 15) R.P. Ltd., has an authorised share capital of Rs. 10,00,000 divided in 1,00,000 shares of Rs. 10 each. It offered to the public for subscription 20,000 shares of Rs. 10 each at a premium of Rs. 3 per share, payable as to Rs. 3 on application (including premium Re. 1), Rs. 5 on allotment (including premium Rs. 2), Rs. 3 on first call and Rs. 2 on final call. Company received applications for 56,000 shares. Allotment was made as under

1) Rejected applications of those applicants who has either applied for 50 shares or less. Or the applicants who has attained age of 65 years or more. These applications totaled in 15,000 shares.

2) 11,000 applicants who had applied for more than 1,000 shares were given full allotment.

3) Pro-rata allotment was given to the remaining applications. Excess money was to be used on allotment or subsequent calls.

Mr. ramesh, a holder of 200 shares from the 2nd group, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mr. venkat, a holder of 100 shares, from the 3r group failed to pay the two calls. His shares were forfeited after the final call. Later on 200 share (including all the shares of venkat) forfeited shares were reissued to Chetan at Rs. 8 per share fully paid. Pass necessary journal entries in the books of the company. The company has incurred Rs. 5,000 for issuing the shares which it decided to write off from the securities premium. Show the information in the financial statements (revised proforma)of the company. Prepare cash book and other subsidiary books to record the above transactions

Ques 16) Ram holding 10 shares of Rs.10 each of which Rs.2 on application Rs.3 on allotment but could not pay Rs.3 on first call. His shares were forfeited by the Directors. The Final call is not made yet. Give Journal entries in the book of company.

Hint Share forfeited Rs. 50

Ques 17) Abhishek Ltd. Forfeited 200 shares of Rs. 10 each fully called up held by X for non-payment of allotment money of Rs. 3 per share and First & Final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were reissued to Y for Rs. 8 per shares. Pass necessary journal entries.
(Hint capital reserve rs. 200)

Ques 18) AB Ltd. invited applications for 1,00,000 Equity Shares Rs. 10 each payable as Rs. 2 application, Rs. 3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at Rs. 8 per share as fully paid. Pass necessary journal entries in the books of company

(Hint ; share forfeited a/c 5000

capital reserve Rs. 3000)

Ques 19) AB Ltd. invites application for 75,000 equities of Rs. 100 each at premium of Rs. 30 per share. The amount was payable as follows

On Application and allotment - Rs. 85 per share (including premium) First and final call - The balance amount.

Application for 1,27,500 shares were received. Applications for 27,500 shares were rejected and shares were allotted on pro-rata basis to remaining applicants. Excess money received on application and allotment was adjusted towards sum due on first and final call. The calls were made. A shareholder who applied for 1,000 shares, failed to pay the first and Final call money. His shares were forfeited. All the forfeited shares were reissued at Rs.150 per share fully paid up. Pass necessary journal entries for the above transactions in the books of AB Ltd.

Hint: Capital reserve 62500

Ques 20) Fill in the missing figures

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Machinery A/c Dr		3,00,000	
	Furniture A/c Dr		100,000	
	Stock A/c Dr			
	Goodwill A/c Dr		50,000	
			________	
	To Sundry creditors A/c			2,00,00
	A/c To Lakshika			3,00,000
	(Being Assets and liabilities acquired)			_______
	Lakshika Dr.			
	To Equity Share Capital A/c			________
	To Securities Premium Reserve A/c			________
	(Being Equity Share of Rs. 10 each issued at a premium of Rs.5 per share)			

Ques: 21) Fill in the missing figure in the following journal entries.

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Building A/c Dr.		2,00,000	
	Bills Receivable A/c Dr.		2,00,000	
	To Bills Payable A/c			1,00,000
	To Sundry creditors A/c			3,00,000
	To Anannya Ltd.			5,00,000
	To Capital Reserve A/c			---------
	(Being Assets and liabilities acquired)			
	Anannya Ltd. Dr.		-----------	
	To Bank A/c			
	(Being Part Payment mode)			
	Anannya Ltd. Dr.		4,40,000	
	To Equity Share Capital A/c			-----------
	To Securities Premium Reserve A/c			--------
	(Being Equity Share of Rs. 10 each issued at issued at 10% premium)			

Ques: 22) Fill in the missing figures:

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Equity Share Capital A/c Dr.			

Securities Premium Reserve A/c Dr. To Equity Share Allotment A/c To Equity Share First Call A/c To Equity Share final call A/c To Share Forfeited A/c (Being 200 shares of Rs. 10 each forfeited for non¬payment of allotment money of Rs. 8 per share (including Rs.5 premium) first call of Rs. 2 and final call of Rs. 3 per share)		----------	1600 --------- 600 ---------
Bank A/c Dr. Share forfeited A/c Dr. To Equity Share Capital A/c (Being 125 shares were re-issued @ Rs. 90 per share, as fully paid up)		---------- ---------- ---------	---------

Ques: 23) Fill in the missing figures:

	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 900 shares were re-issued @ Rs. 90 per share, 75 paid up) Share Forfeited A/c Dr. To capital reserve		-------- ________	67,500 --------- ________

Ques. 24) Bajaj Ltd. was formed on 15 December, 2015, with a capital of Rs. 25,00,000 divided into shares of Rs. 10 each. It offered 60% of the shares to the public. The issue price was payable as follows: 5% of the face value per share was payable with application, 30% of the face value per share was payable with allotment.

The balance as and when required. The company did not call for the balance during the year.

All the shares offered by the company were subscribed for. The company did not receive the allotment money on 5000 shares.

You are required to

(i) Show the share capital in the Balance Sheet of the company as per schedule III of the Companies Act, 2013 at the end of the financial year.

(ii) Prepare necessary notes to accounts.

(Hint: Shares offered to public 25,00,000X60/100 = Rs.15,00,000; Money payable Rs. 2.50 per share on Application, Rs. 3 per share on allotment and balance Rs. 4.50 on calls, Money received be shown under sub heading "Subscribed but not fully paid up" in the Balance Sheet)

Ques. 25) Dawar Ltd. issued 50,000 shares of 10 each at a premium of 10% payable at Rs. 2 per share on application, Rs. 3 on allotment, Rs. 3 each on first and final call. Applications were received for 70,000 shares. It was decided that:

(a) Refuse allotment to the applicants for 10,000 shares;

(b) Allot 20,000 shares to Pawan who had applied for similar number and

(c) Allot the remaining shares on pro-data basis.

Pawan failed to pay the allotment money and Monan who belonged to the category 'C and was allotted 3,000 shares, paid both the calls with allotment.

Calculate the amount received on allotment.

(Hint: Allotment due 50,000X3 = 1,50,000, Excess application money adjusted

Rs. 20,000; Calls received in Advanced Rs. 18,000; Amount Received on Allotment Rs. 88,000(1,50,000 - 20,000 - 60,000 +18,000))

Ques-26) Rama Ltd. issued 40,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. The amount was payable as follows:

On Application	-	Rs. 2 per share
On Allotment	-	Rs. 4.50 per
share And on First and Final Call	-	Rs. 6 per share

Oweing to the heavy subscription, the allotment was made on pro-rata basis as follows:

(i) Applicants for 20,000 shares were allotted 10,000 shares.

(ii) Applicants for 56,000 shares were allotted 14,000 shares.

(iii) Applicants for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilized on allotment and the surplus, If any, would be refunded.

The directors decided to forfeit the shares of one shareholder Shyam, to whom, 1000 shares were allotted, who belongs to category (i), failed to pay allotment money. Shares were forfeited after final call.

You are required to Pass necessary journal entries in the books of Rama Ltd. for the issue and forfeiture of shares,

(Hint: (1) Transfer of share application money to Share Capital A/c Rs. 80,000; to Share Allotment A/c Rs. 1,47,000; to bank A/c Rs. 21,000. (2) Share Allotment Moaey Received in Cash Rs. 30,500, (3) Amount forfeited Rs. 4,000.

Ques 27) Complete the followng journal entries of ABC lid. Which issued 60,000 equity

______________________ Dr. To __________________ (Being applications received for 90000 equity shares @ Rs. 4 per share against 60000 shares issued by the company)	_______	 _______
Equity Amount received on share application trnsferred to the ahare capital A/c as follows group 1 applicants of 20000 shares given full allotment, group 2 applicants of 60,000 shares were given 40,000 shares and rest were rejected. Excess aplication money transferred to the allotment of Rs. 4 per share including permium of Rs. 2 per share	_______	 _______ _______ _______
______________ Dr. To ______________ To ______________ (Share allotment money due)	 _______	 _______ _______
______________ Dr. ______________ Dr. To ______________ (Being share application money received after except a share holder Amit holding 400 shares from the second group did not sent the allotment money)	_______	 _______
______________ Dr. Security permium Reserve Dr. To ______________ To ______________ (Shares of the defaulting shareholder forfeited after giving him notices)	 _______ _______	 _______ _______

Equity share Ist call A/c Dr To Equity Share Capital A/c (1ts call due @ Rs. 3 per share)	1	1
____________ Dr To share Ist call A/c (Being Ist call money except 600 shares) ____________ Dr. ____________ Dr To share capital (being 600 shares reissued @ Rs. 7 per share as Rs. 7 per share as Rs. 9 paid up	____________ ____________ ____________ ____________	____________ ____________ ____________ ____________
____________ Dr. To ____________ (____________ ____________ ____________)	____________	____________

Q 28) Xyx - Ltd. Forfeited 200 shares of Mr. A for non payment of allotment money of Rs. 5 (including premium of Rs. 2) and final call of Rs. 4 and 300 shares of Mr. B for non payment of final call. Later on 400 shares were reissued to C @ Rs. 8 per share including all the shares of A. pass journal entries for the above.

______________________ Dr. Security permium Dr. To ______________________ To ______________________ (Shares of the defaulting shareholder forfeited after giving him hotices) ___________________ Dr. ___________________ Dr. To share Capital (______________________________________ ______________________________________ _________________________)	___________ ___________ ___________ ___________	 ___________ ___________ ___________
______________________ Dr. To ___________ (______________________________________ ______________________________________ ___)		

MULTIPLE CHOICE QUESTIONS

Share Capital

1. The forfeited shares can be reissued at:

   (a) Par (b) Premium

   (c) Discount (d) All of them

2. Ordinary shares are also called:

   (a) Equity shares (b) Founder's shares

   (c) Deferred shares (d) Preference shares

3. Forfeited amount is credited to

   (a) Share premium (b) Share capital

   (c) Forfeited shares (d) None of these

4. The maximum amount with which the company is registered is called.

   (a) Authorized Share Capital (b) Issued Share Capital

   (c) Paid up capital (d) Called up capital

5. When shares are issued at premium amount of premium will be credited to

   (a) Securities premium account (b) Share first call account

   (c) Share allotment account (d) Share forfeited account

6. Minimum number of members in case of public company is ....

   (a) 4 (b) 5

   (c) 6 (d) 7

7. Maximum number of members in public limited company is ....

(a) 10 (b) 20

(c) 50 (d) unlimited

8. Premium on issue of shares can be used for ....

(a) distribution of dividend (b) writing of capital losses

(c) transferring to general reserve (d) paying fees to directors

9. Share allotment account is a ....

a) personal account b) Real account

c) Nominal account d) Impersonal account

10. Fill in the blanks

(a) The portion of the authorised capital which can be called up only on the liquidation of the company is called.......

(b) G Ltd acquired assets worth 7,50,000 from H Ltd. by issue of shares of 100 at a premium of 25%.The number of shares to be issued by G Ltd. to settle the purchase.

(c) Maximum amount that can be collected as premium as a percentage of face value. ......

(d) Loss of re-issue should not exceed the .... amount

Answer

1. -a	2. b	3.b	4. a
5. a	6. d	7 . d	8.b
9.a			

10. (a) Reserve capital (b) 6,000 shares (c) Unlimited (d) forfeited

CHAPTER – 9

ACCOUNTING OR DEBENTURES

Debenture

See 2(30) of companies Act, 2013 defines debenture as "Debenture includes debenture stock, bond or any other instrument of a company evidencing a debit, whether constituting a charge on the company's assets or not".

It is a document issued by a company under its common seal acknowledging the debt and it also contains the terms of repayment of debt and payment of interest at a specified rate.

Types of Debentures

(i) Security — Secured / Unsecured

(ii) Record — Registered / Beaset

(iii) Priority — First / Second

(iv) Redemption — Redamble / Irredeemable

(v) Coupen rate — Specific / Zero

(iv) Convertibility — Convertible / Nonconvertible

Share V/S Debenture

Basis	**Share**	**Debenture**
1) Ownership	Shareholder are the owners of company	Debenture holder are the lenders of company
2) Form of Return	Dividend	Interest
3) Risk	More risk as compare to debentures	Risk free due to secured debentures
4) Voting Right	Equally shareholder have the voting right	No voting right in normal course of business

(Issue of Debentures as Collateral Security)

Collateral Security: Collateral security means security provided to lender in addition to the principal security. It is a subsidiary or secondary security. The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

(i) First method: No journal entry to be made in the books of accounts of the company for debentures issued as collateral security. A note of this fact is given in the this case.

(ii) Second method: Entry to be made in the books of accounts of the company. A journal entry is made on the issue of debentures as a collateral security; Debentures Suspense is debited because no cash is received for such issue

Following journal will be made

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Debenture Suspense A/c Dr. To % Debentures A/c (Being the issue of Debentures of Rs........ issued as collateral security)			

Debentures may be issued:

* For "Cash" (At Par, Premium or Discount)
* For "Consideration other than Cash"
* As "Collateral Securtiy"

Let us understand them one by one.

8.5 ISSUE OF DEBENTURES FOR CASH

Just like shares, debentures may be issued either at par or at a premium or at .... company may either require the amount for debentures for debentures to be paid in lumpsum installment. The accounting entries to be passed are also same as in te case of issue of shares.

When Debenture Amount is received in Lump-Sum (Assuming that debentures carry 11% interest)

Transaction	Journal Entry	
1. On Receipt of Application Money	Bank A/c Dr. To Debenture Application and Allotment A/c**	With application money receipt.
2. On Transfer of Application Money to Debentures A/c	Debenture Application A/c Dr. To 11% Debentures A/c	With application money on .... Debenture.
3. On Refund of Exess Application Money	Debenture Application A/c Dr. To Bank A/c	With surplus application transfer on partially accepted application.
4. On transfer of surplus application money on partillay accepted application	Debenture Application A/c Dr. To Debenture Allotment A/c	With the amount due on allotment.
5. On Making Allotment Money Due	Debenture Allotment A/c Dr. To 11% Debentures A/c	With the amount actually receipt on allotment.

6. On Receipt of Allotment money	Bank A/c Dr. To Debenture Allotment A/c	With the money due on call.
7. On Making the Call Money Due	Debenture Call A/c Dr. To 11% Debentures A/c	
8. On Receipt of Call Money	Bank A/c Dr. To Debenture Call A/c*	

* If more than one call is to made, then similar entries are made for the second call and third call. The word....... added to the last call.

Issue of Debentures for Consideration other than cash

When Debentures are issued for purchase of asset

When Debentures are issued for purchase of Asset at par	Sundry Assets A/c Dr. To Vendor	With the purchase consideration
	Vendor A/c Dr. % debentures	With the purchase consideration
When Debentures are issued for purchase of asset at premium	Sundry Assets A/c Dr. To Vendor	With the purchase consideration
	Vendor Dr. To Debenture A/c To Security Premium Reserve A/c	No. of debentures par value No. of debentures × permium per debentures
When business is Purchased	When Purchase consideration is equal to net value of assets Sundry Assets A/c Dr. To Sundry Liabilities A/c To Vendor	Value of asset Value of liabilities Purchases consideration

	When Purchase consideration is more than net value of assets Sundry Assets A/c Dr. Goodwill A/c (B/F) Dr. To Sundry liabilities To vendors A/c	Value fo asset Excess of purchase value (B/F) Value of liabilities Purchases consideration
	When Purchase consideration is less than net value of asset Sundry Assets A/c Dr To Sundry Liabilities A/c To Capital Reserve (B/f) To Vendor's A/c	Value of asset Value of liabilities Difference (B/F) Purchase consideration

Fill in The missing figures (?) in the following Journal entries

JOURNAL

Date	Particular	L.F.	Dr. (Rs)	Cr. (Rs.)
	Sundry Assets A/c To Sundry Liabilities A/c To ? ________________ (Being the purchase of running businers of Suncity Ltd.)		10,00,000	 1,80,000 __________
	Suncity Ltd. ____________________ Discount on issue of Debentures A/c To 10% Debentures A/c (Being ? 10% Debetures of Rs. 100 each issued at 5% discount)		7,60,000 __________	 __________

Fill in the missing figures (?) in the following Journal entries:

Date	Particulars	L.F.	Dr.(Rs)	Cr.(Rs)
	Sundry Assets A/c		5,50,000	
	______________		________	
	To Sundry Liabiities A/c			1,10,000
	To Jan Bros.			________
	(Being the assets and liabilities taken over from Jain Brothers)			
	Jain Brotheres		5,40,000	
	To 10% Debentures A/c			________
	To Securities Premium Reserves A/c			________
	(Being 4,500 10% Debentures of Rs. 100 each issued at apremium of ...%)			

Fill in the missing figures (?) in the following Journal entries:

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs)
	Building A/c		10,00,000	
	Plant and Machiery A/c		8,00,000	
	________________		________	
	To lianilites A/c			3,00,000
	To M/s. Raman & Co.			________
	(Being the purchase of running business of M/s. Raman & Co.)			

	M/s. Raman & Co. To 12% Debentures A/c To Securities Premium Reserve A/c (Being the issue of 12% Debentures of Rs. 100 each at 10% permium for consideration other than cash)		6,50,000	——— ———

JOURNAL

Illustration 1.

ABC Ltd. issued Rs. 5,00,000 10% debenture of Rs 100 each at 10% discount payable Rs. 30 on application and Balance on allotment.

These debenture were to be redemed at a premium of 5% after 5 year. All the debenture are subscribed for public.

Pass recessary jornal entries for the issue of debentures.

Solution:

JOURNAL

Date	Particular	L.F	Rs. Amount	Rs. Amount
1.	Bank A/c Dr To debenture application A/c (Being the debenture application money receivable for 5,000 debenture (Rs. 30 each)		1,50,000	1,50,000
2.	Debenture application A/c Dr. To 10% debentures A/c (Being 5000 debentures allotted)		1,50,000	1,50,000
3.	Debenture allotment A/c Dr. Loss on issue of debenture Dr. A/c To 10% debenture A/c To premium of redemption of Debentures A/c (Being the allotment money due on 5,000, 10% Debenture issued at 10% discount and redeemable at 5% premium.		3,00,000 75,000	 3,50,000 25,000
4.	Bank A/c Dr. To debenture allotment A/c (Being the allotment money received)		3,00,000	 3,00,000

Illustration 2. Pass Journal entries to record the following transaction :

(i) A Ltd. issued 15000; 8% Debentures of Rs. 100 each at discount of 5% to be repaid at par at the end of 5 years.

(ii) A Ltd. Issues 10% Debentures of ₹ 100 each for the total nominal value of Rs. 80,00,000 at a premium of 5% to be redeemed at par.

(iv) A Ltd. Issues ₹ 50,00,000; 9% Debentures of ₹ 100 each at par but redeemable at the end of 10 years at 105%.

(v) A Ltd. Issued ₹ 40,00,000, 12% debentures of ₹ 100 each at a discount of 5% repable at a premium of 10% at the end of 5 years.

(vi) A Ltd issues ₹ 70,000; 12% debentures of ₹ 100 each at a premium of 5% repable at 110% at the end of 10 years.

Journal of A Ltd.

Date	Particulars	L.F.	Dr.	Cr.
(i) (A)	Bank A/c Dr. To debenture application and allotment A/C (Being the debenture application money record)		14,25,000	 14,25,000
(B)	Debenture application & Allotment A/c Dr. Discount on issue of Deb. A/d Dr. To 10 Debentures A/c (Being the issue of 15,000, 8% debentures of Rs. 100 each at a discount of 5%.		14,25,000 75,000	 15,00,000
(ii) (A)	Bank A/c Dr. To debenture application and allotment A/c (Being the debenture application money received)		84,00,000	 84,00,000

(B)	Debenture application and allotment A/C Dr. To 10% debenture A/C To security premium A/C (Being the issue of 80,000, 10% debenture of Rs. 100 each at a premium of 5%)		84,00,000	 80,00,000 4,00,000
(iii)(A)	Bank A/C Dr. To debenture application and allotment A/C (Being the debenture application money received)		50,00,000	 50,000,00
(B)	Debenture application and allotment A/C Dr. Loss on issue of debenture A/c Dr. To 12% Debenture A/c To premium on Redemption of Debenture A/c (Being the issue of 50,000, 12% debenture of Rs. 100 each at par redeemable at 105%		50,00,000 2,50,000	 50,00,000 2,50,000
(iv) (A)	Bank A/C Dr. To debenture application and allotment A/C (Being the debentures application money received)		38,00,000	 38,00,000

(B)	Debenture application and allotment A/C Dr.		38,00,000	
	Loss on issue of debenture A/C Dr.		6,00,000	
	To 12% debenture A/C			40,00,000
	To premium on redemption of debenture A/c			4,00,000
	(Being the issue of 40,000, 12% debenture of Rs. 100 each at a discount of 5% and repayable at a premium 10%			
(v) (A)	Bank A/c Dr.		73,50,000	
	To debenture application and allotment A/c			73,50,000
	(Being the debenture application money second)			
	B) Debenture application and allotment A/c Dr.		73,00,000	
	Loss on issue of debenture A/c Dr.		7,00,000	
	To 12% debenture A/c			70,00,000
	To security Premium Reserve A/c			3,50,000
	To premium on redemption of debenture A/c.			7,00,000
	(Being the issue of 70,000, 12% debentures of Rs. 100 each at a premium of 5% and repable at a premium of 10%			

INTEREST ON DEBENTURES

Interest on Debentures is calculated at a fixed rate on its face value and is usually payable half yearly. Interest on debentures is to be paid even company is suffering from loss because it is charge against profit.

Income Tax is deducted from interest before payment to debenture holders. It is called T.D.S. (Tax deducted at source).

JOURNAL ENTRIES

1.	Debenture's Interest A/c	Dr.	(Gross Interest)
	To Debentureholder A/c		(Net interest)
	To Income Tax Payable A/c		(Incrme Tax deducted)
2.	When interest is paid		
	Debentureholder A/c	Dr.	(With Interest)
	To Bank A/c		
3.	On payment of Income Tax to Government		
	Income Tax Payable A/c	Dr.	Amount of Income
	To Bank A/c		Tax deducted at source
4.	On transfer of Interest on debentures to Statement of		
	Profit and Loss	Dr.	
	Statement of Profit & Loss A/c	Dr.	(Amount of Interest)
	To Debenture Interest A/c		

(1) Illustration 3: ABC Company Ltd., had 6% debentures of ₹ 1,00,000 on 1st April 2009 on which interest is payable on 30th September and 31st March. Pass necessary journal entries for the payment of interest for the year 2009-10, 10% tax is deducted at source from interest and remitted immediately. If books are closed on 31st March, given necessary journal entries of interest on debentures only.

Solution :

ABC Ltd.

Journal

Date	Particulars	L.F.	Debit (Rs)	Credit (Rs)
2009 Sept 30	Interest On Debenture A/c Dr. To Debentureholder A/c To Income Tax payable A/c (half yearly debenture interest due and tax deducted at source)		3,000	 2,700 300
Sep 30	Debentureholder A/c Dr. Income Tax Payable A/c Dr. To Bank (Interest & Tax paid)		2700 300	 3000
2010 March 31	Interest on Debenture A/c Dr. To Debentureholder A/c To Income Tax Payable (Half yearly debenture interest due and tax deducted at source)		3000	 27,00 300
March 31	Debentureholder A/c Dr. Income Tax Payable A/c Dr. To Bank A/c (Being Interest & Tax paid)		2700 300	 3000

	Statement of Profit and Loss Dr.		6000	
	To Interest on Debenture A/c (Debenture Interest (3000 + 3000) transferred to statement of profit and loss)			6000

Illustration 4: B.G. Ltd. issued 2,000, 12% debentures of ₹ 100 each on 1st April 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half yearly on 30th September and 31st Mach and tax deducted at source is 10%.

Pass necessary journal entries related to the debenture interest for the half-yearly ending 31st March, 2013 and transfer of interest on debentures of the year to the Statement of Profit & Loss.

Solution:

Books of B.G. Ltd. Dr.

Journal Cr.

Date	Particulars	LF.	Debit (`)	Credit (`)
2013 March 31	Interest on Debentures A/c Dr. To Debentureholder's A/c To Income Tax Payable A/c (Half yearly interest due on debentures and tax deducted at source)		12,000	 10,800 1,200

31 March	Debentureholder's A/c Dr. To Bank A/c (Payment of Interest)		10,800	10,800
March 31	Income Tax Payable / TDS from Debentures Interest A/c Dr. To Bank A/c (TDS deposited with income tax authorities)		1,200	1,200
	Statement of Profit & Loss Dr. To Interest on Debentures A/c (Interest transferred to Statement of P/L)		24,000	24,000

Writing off Discount or Loss on issue of Debentures

Discount or Loss on issue of Debentures, being Loss for a company, is to be written off by the company as early as possible but within the tenure of the debentures.

Discount or Loss on issue of Debentures should be written off by a company by using write of the entire discount or loss in the same year itself as finance cost (As per AS-16)

WRITINGS OFF DISCOUNT/LOSS ON ISSUE OF DEBENTURES

Statement of Profit shows A/c or (Amount Written off)
Securities Premium Reserve A/c or (Amount Written off)
To discount or Loss on issue of Debentures A/c

Illustration 5. X Ltd. issued ₹ 10,00,00, 8% debentures at as discount of 10 % on Ist April 2018, redeemable in 4 equal annual installments starting form 31st March 2019.

Pass necessary Journal entries for issue of Debentures & to Write off Discount on issue of debentures if

(a) There is no Securities Premium Reserve Balance

(b) The Securitie Premium Reserve A/c Shows a balance of ₹ 30,000 .

(C) The Securities Premium Reserve Ac/ Shows a balance of ₹ 1, 50,000 .

Solution

Journal

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
Ist April 2018	Bank A/c	Dr.	9,00,000	
	To Debentures Application Allotment A/c			9,00,000
	(Application for ₹ 10 lakh, 8% debentures @ 10 % discounts received).			
	Debentures Application & Allotment Dr		9,00,000	
	Discount on Issue of Debentures A/c		1,00,000	
	To 8% Debentures A/c (Application money transferred to Debentures A/c)			1,00,000

Case (a)	There is No SPR balance	Dr.		
31st Mar 2019	statement of Profit & Loss A/c		1,00,000	
	To discount on Issue of Debentures A/c (Being discount on Issue of debentures written off)			1,00,000

Case (b) The Securities Premium A/c Shows a balance of ₹ 30,000 .

Date	Particulars		Dr.	Cr.
31st Mar 2019	Securities Premium Reserve A/c	Dr.	30,000	
	Statement of Profit & Loss A/c	Dr.	70,000	
	To Discount on Issue of Debentures A/c (being discount on issue of Debentures written off)			1,00,000

Case (c) The Securities Premium Reserve A/c Shows a balance of ₹ 1,50,000 .

Date	Particulars		
31st Mar 2019	Securities Premium Reserve A/c dr. 1,00,000		
	To Discount on Issue of Debentures A/c (being discount on issue of Debentures written off)	1,00,000	

Practice Question

1. King Ltd. took over Assets of Rs. 25,00,000 and liabilities of Rs. 6,00,000 of Queen Ltd. King Ltd. paid the purchase consideration by issuing 10,000 equlity shares of Rs. 100 each at premium of 10% and Rs. 11,00,000 by issuing a Draft calculate purchase consideration and pass necessary journal enters in the book of king ltd.

2. Explain with an imaginary example how issue of debenture as collectral security is shown in the balance sheet of a company when it is recorded in the books of accounts.

3. X Ltd. invited application for issuing 1000, 9% debentures of Rs. 100 each at a discount of 6%. Application for 1,200 debentures were received. Pro. rata allotment was made to all the applicants. Pass necessary journal entries for the issue of debenture assuming that the whole amount was payable with application.

4. Z Ltd. purchased machining from K Ltd. Z Ltd. paid K Ltd. as following.

(i) By issuing 5000 equity share of Rs. 10 each at a premium of 30%.

(ii) By issuing 1000, 8% debentures of Rs. 100 at a discount of 10%.

(iii) Balance by giving a promissory note of Rs. 48,000 payable after two month. Pass the necessary journal entries for the above transaction in the books of Z ltd.

5. On 1-4-2015 ABC Ltd. issued 750, 11% debentures of Rs. 100 each at a discount of 5% redeemable at a premium of 10% after three years, interact on debentures is payable on 30th September and 31st march. ABC Ltd closes its books on 31st march every year. The rate of tax deducted at source is 10%. Pass necessary entries for the issue of debenture and the payment of interest for the year ended 31st March 2016.

6. A Ltd issued 10,000, 8% Debentures lf ₹ 100 each at par on 1st April 2018 redeemable at a premium of 5 % after 3 years.

Pass necessary journal entries for issue of debentures & to write off loss on Issue of Debentures if -

(a) There is no balance in Securities Premium Reserve A/c

(b) The Securities Premium Reserve A/c Showed a balance of ₹ 10,000.

(c) The Securities Premium Reserve A/c Showed a balance of ₹ 80,000.

CHAPTER – 10

COMPANY ACCOUNTS-REDEMPTION OF DEBENTURE

Meaning: Redemption of debentures means repayment of the due amount of debentures to the debenture holders. It may be at par or at premium.

Time of Redemption

(a) At maturity: - When repayment is made at the date of maturity of debentures which is determined at the time of issue of debentures.

(b) Before maturity: If articles of association and terms of issue mentioned in prospectus allows, then a company can redeem its debentures before maturity date.

Redemption Methods

(1) Redemption in Lump-sum: When redemption is made at the expiry of a specific period, as per the terms of issue.

(2) Redemption by draw of lots: In this method a certain proportion of debentures are redeemed each year, the debenture for which repayment is to be made is selected by draw of lots.

Sometimes company purchase’s the debentures at more than the redeemable value due to the following reasons:

1. To maintain the solvency ratio.
2. To utilize the surplus money or funds which are lying idle with the company.
3. When rate of interest on debentures is more than the current market rate of interest on debentures in the industry.

Sources of Redemption of Debentures

1. Proceeds from fresh issue of Share Capital or Debentures.
2. From accumulated profit.
3. Proceeds from sale of fixed assets.
4. A company may purchase its own debentures out of its surplus funds. Two terms which are used in the redemption of debentures:

1. **Redemption out of capital**: When a company has not used its reserve or accumulated profit for redemption of its debentures, it is called redemption out of capital, So company using this method have not transferred its profit to DRR A/c. But as per Companies Act, 2013 it is necessary for a company to transfer 25% amount of nominal value of debentures to be redeemed in DRR A/c before redemption of debentures commences.

2. **Redemption out of profit**: Redemption out of profit means that adequate amount of profits are transferred to DRR A/c from Balance in Statement of Profit & Loss A/c before the redemption of debenture commences. This reduces the amount available for dividends to shareholders.

Debenture Redemption Reserve (DRR): Section 71 (4) of the Companies Act, 2013 requires the company to create DRR out of the profits available for dividend and the amount credited in DRR shall not be utilizes for any purpose except redemption.

Rule 18(7) of Companies (Share Capital and Debentures) Rules, 2014 requires every Company to create DRR of an amount equal to 25% of the value of outstanding debentures.

Exemption to Create DRR

a) NBfc registered with RBI

b) All India financial institutions (AIfs) regulated by RBI and Banking companies (for both public as well as privately placed debentures)

c) Financial institutions other than All India finance Companies registered with RBI

d) Housing finance Companies registered with National Housing Bank.

   DRR is required for publicly issued debentures by the above three classes of companies, not for privately placed.

e) Any other Company (Whether listed or unlisted), DRR to be created for Public and Private placed debentures.

As per Rule 18(7)(c), every company required to create/maintain DRR shall invest or deposit before 30th April in specified securities a sum which shall not be less than 15% of the amount of debentures maturing for payment during the year ending 31st March of the next year.

Specified securities for Debenture Redemption Investment

1. In deposits with any scheduled bank, free from any charge or lien.
2. In unencumbered securities of central or any state Government.
3. In unencumbered securities mentioned in clause (a) to (d) and (ee) of section 20 of Indian Trusts Act, 1882.
4. In unencumbered bonds issued by a company which is notified under sec 20 (f) of Indian Trust Act, 1882.

(A) Redemption at Par

Illustration 1: X Ltd. Redeemed its 10,000 10% Debentures of ₹10 each at par on 31st March 2015.

X Ltd.

Date	Particulars	L.F	Debit (₹)	Credit (₹)
2014 March 31st	Balance in Statement of Profit & Loss A/c Dr To Debenture Redemption Reserve A/c. (Being transfer of profit to Debenture Red. Reserve)		25,000	25,000
2014 April 30th	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment made in specified securities)		15,000	15,000
2015 31st March	Bank A/c Dr. To Debenture Redemption Investment A/c (Investment being enclosed)		15,000	15,000
31st March	10% Debenture A/c Dr. To Debenture holder A/c (Being the amount due to Debenture holders)		1,00,000	1,00,000
31st March	Debenture holder A/c Dr. To Bank A/c (Being the amount paid to Debenture holder)		1,00,000	1,00,000
31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c closed by transfer to General Reserve A/c after redemption of all Debentures)		25,000	25,000

(B) Redemption at Premium

Illustration 2: Z Ltd. Redeemed its 1, 00,000 10% Debentures of ₹10 each at 5% premium on 31 March 2015.

Z Ltd.

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2014 31st March	Balance in Statement of Profit & Loss A/c Dr.		2,50,000	
	To Debenture Redemption Reserve A/c			2,50,000
	(Being transfer of profit to Debenture Redemption Reserve)			
2014 April 30	Debenture Redemption Investment A/c Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Being Investment made in specified securities)			
2015 March 31	Bank A/c Dr.		1,50,000	
	To Debenture Redemption Investment A/c			1,50,000
	(Being Investment enclosed)			
31st March	10% Debenture A/c Dr.		10,00,000	
	Premium on Redemption of Debentures A/c Dr.		50,000	
	To Debenture holders A/c			10,50,000
	(Being the amount due to Debentures holders)			
31st March	Debenture holders A/c Dr.		10,50,000	
	To Bank A/c			10,50,000
	(Being the amount paid to Debenture holders)			
31st March	Debenture Redemption Reserve A/c Dr.		2,50,000	
	To General Reserve A/c			2,50,000
	(Being DRR A/c closed by transfer to General Reserve A/c after redemption of all Debentures)			

Illustration 3: Rajesh Export Ltd. has 2,000, 9% Debentures of ₹ 100 each due for redemption on 31st march 2015. Debentures redemption reserve has a balance of ₹ 30,000 on that date. Record the necessary journal entries at the time of redemption of debentures.

Rajesh Export Ltd.

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2014 31st March	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		20,000	20,000
2014 April 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment in specified securities made)		30,000	30,000
2015 31st March	Bank A/c Dr. To Debenture Redemption Investment A/c (Being Investment enclosed)		30,000	30,000
31st March	10% Debentures A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holders)		2,00,000	2,00,000
31st March	Debentures holders A/c Dr. To Bank A/c (Being the amount paid to Debentures holders)		2,00,000	2,00,000
31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c closed by transfer to General Reserve A/c after redemption of all Debentures)		50,000	50000

Illustration 4: Rahul Ltd. has 50,000; 9% Debentures of ₹ 50 each due for redemption on 31st March 2015. Debentures redemption reserve has a balance of ₹ 5,00,000 on that date. Record the necessary journal entries at the time of redemption of debentures.

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2014 31st March	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		1,25,000	1,25,000
2014 April 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment in specified securities made)		3,75,000	3,75,000
31st March	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment are closed)		3,75,000	3,75,000
2015 31st March	10% Debentures A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holders)		25,00,000	25,00,000
31st March	Debenture holders A/c Dr. To Bank A/c (Being the amount paid to Debenture holder)		25,00,000	25,00,000
2015 31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c Closed by transfer to General Reserve A/c after redemption of all debentures		6,25,000	6,25,000

Illustration 5: HDFC Bank Ltd has outstanding 10,000; 9% Debentures of ₹ 50 each due for redemption on 31st March 2015. Record the necessary journal entries at the time of redemption of debentures

Journal of HDFC Bank Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 31st March	10% Debenture A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holder)		5,00,000	5,00,000
31st March	Debenture holder A/c Dr. To Bank A/c (Being the amount paid to Debenture holders)		5,00,000	5,00,000

Note: The Banking Companies are exempted from creating DRR as per Rule 18(7) of Companies (Share Capital and Debentures) Rules, 2014.

Illustration 6: ICICI Bank Ltd., a banking company has outstanding 10 lac, 9% Debentures of ₹ 5 each due for redemption on 30th Sept. 2015. Record the necessary entries at the time of redemption of Debentures.

Journal of ICICI Bank Ltd.

Date	Particulars	L.F.	Debit (₹ in lakh)	Credit (₹)
2015 30th Sept.	9% Debenture A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holder on Redemption)		50	 50
30th Sept.	Debenture holders A/c Dr. To Bank A/c (Being the amount due to Debenture holders paid)		50	 50

Note: As per Companies Rules, 2014 Banking companies are exempted from creating Debenture Redemption Reserve.

Illustration 7: Abha Ltd. has 5,000; 10% Debentures of ₹ 20 each due for redemption on 30th Sept. 2015. Debenture Redemption Reserve has a balance of ₹ 20,000 on that date. Record the necessary entries at the time of redemption of debentures.

Journal in the Books of Abha Ltd.

Date	**Particulars**	**L.F.**	**Debit (₹)**	**Credit (₹)**
2015 March 30	Balance in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being the require amount transferred to DRR)		5,000	 5,000
April 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made)		15,000	 15,000
30th Sept	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment are closed)		15,000	 15,000
30th Sept.	10% Debenture A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holder on redemption)		1,00,000	1,00,000
30th Sept	Debenture holders A/c Dr. To Bank A/c (Being the amount due to Debenture holder paid)		1,00,000	 1,00,000
30th Sept.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve)		25,000	 25,000

Illustration 8: Vivek Transport Ltd. has 5,000; 10% Debentures of ₹ 20 each due for redemption on 30th Sept. 2015. Debenture Redemption Reserve has a Balance of ₹ 80,000 on that date. Record the necessary entries at the time of redemption of debentures.

Solution :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 31st March	Balance in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being debenture Red. Reserve created upto 100% of amount of debentures)		20,000	2,000
30April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made for debentures redemption)		15,000	15,000
30th Sept	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment encashed)		15,000	15,000
30th Sept.	10% Debenture A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holder on redemption)		1,00,000	1,00,000
30th Sept	Debenture holders A/c Dr. To Bank A/c (Being the amount paid to Debenture holder)		1,00,000	1,00,000
30th Sept.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the Debenture Redemption Reserve Amount transferred to General Reserve)		1,00,000	1,00,000

Note: DRR exist in the books more than 25% of the debentures face value, so it assumed that redemption is out profit. In this case DRR is to be created up to 100% face value of Debentures. So DRR A/c is credited with the difference amount i.e. ₹ 1,00,000- ₹ 80,000 = ₹ 20,000.

Illustration 9: Rahul Ltd. redeemed ₹ 25, 00,000; 12% Debentures at a premium of 5% out of Profit on 30th Sept. 2015. Pass the necessary journal entries for the redemption of debentures.

Solution:

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2015 31st Apr.	Balance in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)		25,00,000	25,00,000
30th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment made equal to 15% of the debenture to be redeemed in current financial year)		3,75,000	3,75,000
30th Sep.	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holder's A/c (Being the amount due to Debenture holders)		25,00,000 1,25,000	26,25,000
30th Sep.	Bank A/c Dr. To Debenture Redemption Investment A/c (Being Debenture Redemption Investment encashed)		3,75,000	3,75,000
30th Sep.	Debenture holder's A/c Dr. To Bank A/c (Being the amount due to Debenture holders paid)		26,25,000	26,25,000
30th Sep.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve)		25,00,000	25,00,000

Note: (1) If in any question it is mentioned that redemption of debenture is out of profit, then the Debenture Redemption Reserve A/c should be created with the full face value (100%) of debentures. If DRR is created only with 25% of the total amount of debentures, it would mean that remaining 75% of the debentures have been redeemed out of capital.

(2) So, it would be clear if in a question it is mentioned that the redemption is out of profit, then an amount equal to total amount of debentures (100% of face value of debentures) is to be transferred to DRR A/c. in all other cases (except Companies exempted by the SEBI) DRR would be created with the 25% of the face value of the total debentures.

The rule **[Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014]** It means that a company shall have DRR of at least 25% of the value of outstanding debentures that are to be redeemed.

Please note that DRR is not created on Debentures that are fully convertible or on the convertible part of the partially convertible debenture. Besides, some classes of companies like AIFI, Banking Companies etc., are exempt from creating DRR.

Therefore, where the debentures are redeemed in parts, proportionate amount of DRR to the debentures redeemed shall be transferred to General Reserve after the redemption.

Illustration 10. Max Ltd. had issued 10,000, 7% Debentures of ₹ 100 each on 1st April, 2013, which were to be redeemed as follows:

(a) 2,000 Debentures on 30th June, 2016;

(b) 3,000 Debentures on 31st December, 2016; and

(c) Balance on 30th June, 2017.

Max Ltd. shall create DRR of ₹ 2,50,000 being 25% of ₹ 10, 00,000, i.e., value of outstanding debentures out of profits available for distribution as dividend to shareholders on 31st March, 2016 or in earlier years.

(a) On 30th June, 2016, after redeeming 2,000; 7% Debenture, it shall transfer ₹ 50,000 out of DRR being the amount proportionate to 2,000; 7% Debentures. The Journal entry will be:

Debenture Redemption Reserve A/c	...Dr.	₹ 50,000	
To General Reserve A/c			₹ 50,000
(Being the proportionate amount of 2,000; 7% Debentures redeemed transferred from DRR to General Reserve)			

After the transfer of ₹ 50,000 from DRR Account to General Reserve Account, balance left in DRR Account is ₹ 2,00,000 which is 25% *of the value of outstanding debentures, i.e.*, ₹ 8,00,000 (₹ 10,00,000 less ₹ 2,00,000, being the amount of debenture redeemed).

(b) On 31st December, 2016 again the company will follow the same process. After redeeming 3,000; 7% Debentures it shall transfer ₹ 75,000 from DRR Account to General Reserve Account being the amount proportionate to 3,000 Debentures. The Journal entry will be:

Debenture Redemption Reserve A/c	...Dr.	₹ 70,000	
To General Reserve A/c			₹ 70,000
(Being the proportionate amount of 3,000; 7% Debentures redeemed transferred from DRR to General Reserve)			

After the transfer of ₹ 75,000 from DRR Account to General Reserve Account, balance left in DRR Account is ₹ 1,25,000 which is 25% *of the value of outstanding debentures, i.e.*, ₹ 5,00,000 (₹ 8,00,000 *less* ₹ 3,00,000, being the amount of debentures redeemed).

(c) On 30th June, 2017 again the company will follow the same process. After redeeming the balance 5,000; 7% Debentures it shall transfer the balance amount in DRR Account, *i.e.*, ₹ 1,25,000 to General Reserve Account. The Journal entry will be:

Debenture Redemption Reserve A/c	...Dr.	₹ 1,25,000	
To General Reserve A/c			₹ 1,25,000
(Being the balance amount transferred from DRR to General Reserve)			

After the transfer of ₹ 1,25,000 from DRR Account balance left in DRR Account will be Nil.

Redemption method: 2 Draw of lots

Illustration 11: S Ltd. redeemed its ₹ 10,000, 8% Debentures out of capital by drawing a lot on 30 Nov. 2015. Journalise.

Solution

Journal of S. Ltd.

Date	Particulars	LF.	Debit(₹)	Credit(₹)
2015 March 31	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		2,500	2,500
2015 30th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment in specified securities made)		1,500	1,500
30th Nov.	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment Encashed)		1,500	1,500
30th Nov.	10% Debentures A/c Dr. To Debenture holders A/c (Being the amount due to Debenture holders)		10,000	10,000
30th Nov.	Debenture holders A/c Dr. To Bank A/c (Being the amount paid to Debenture holders)		10,000	10,000
30th Nov.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the proportionate amount of DRR transferred to General Reserve)		2,500	2,500

Illustration 12: Y Ltd redeemed its ₹ 20,000, 9% debentures out of profit by drawing of lot on 30th Nov. 2015 Journalise.

Y Ltd.

Date	Particulars		LF.	Debit (₹)	Credit (₹)
20 Apr. 2015	Balance in Statement of Profit & Loss A/c	Dr.		20,000	
	To Debenture Redemption Reserve A/c				20,000
	(Being transfer of profit to Debenture Redemption Reserve)				
2015 30th Nov.	Debenture Redemption Investment A/c	Dr.		3,000	
	To Bank A/c				3,000
	(Being Investment made)				
2015 30th Nov.	Bank A/c	Dr.		3,000	
	To Debenture Redemption Investment A/c				3,000
	(Being investment encashed)				
30th Nov.	10% Debentures A/c	Dr.		20,000	
	To Debenture holders A/c				20,000
	(Being the amount due to Debenture holders)				
30th Nov.	Debenture holders A/c	Dr.		20,000	
	To Bank A/c				20,000
	(Being the amount paid to Debenture holders)				
30th Nov.	Debenture Redemption Reserve A/c	Dr.		20,000	
	To General Reserve A/c				20,000
	(Being the proportionate amount of DRR transferred to General Reserve A/c)				

Illustration 13: Pass the necessary journal entries for this issue and redemption of Debentures in the following cases:

(i) 10,000, 10% debentures of ₹ 120 each issued at 5% premium, repayable at par.

(ii) 20,000, 9% Debentures of ₹ 200 each issued at 20% premium, repayable at 30% premium.

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr.		12,60,000	
	To Debenture Application and Allotment A/c			12,60,000
	(Being receipt of Application money)			
	Debenture Application and Allotment A/c Dr.		12,60,000	
	To 10% Debenture A/c			12,00,000
	To Securities Premium Reserve A/c			60,000
	(Being amount due to debenture holder)			
At the time of redeemption	10% Debenture A/c Dr.		12,00,000	
	To Debenture holder A/c			12,00,000
	(Being amount due to debenture holder)			
	Debenture holder A/c Dr.		12,00,000	
	To Bank A/c			12,00,000
	(Being the amount paid to debenture holders)			
(ii)	Bank A/c Dr.		48,00,000	
	To Debenture Application and Allotment A/c			48,00,000
	(Being receipt application money)			
	Debenture Application and Allotment A/c Dr.		48,00,000	
	Loss on Issue of Debenture A/c Dr.		12,00,000	
	To 9% Debenture A/c			40,00,000
	To Securities Premium Reserve A/c			8,00,000
	To Premium on Redemption of Debenture A/c			12,00,000
	(Being issue 9% debenture at premium redeemable at premium)			
At the time of redeemption	9% Debenture A/c Dr.		40,00,000	
	Premium on Redemption of Debenture A/c Dr.		12,00,000	
	To Debenture holder A/c			52,00,000
	(Being amount due to debenture holder)			
	Debenture holder A/c Dr.		52,00,000	
	To Bank A/c			52,00,0t00
	(Being the amount paid to debenture holder)			

Note- 1. It is assumed that Company has investment 15% of the redeemable amount on April 30 and enchased it as per Companies Act, 2013.

2. It is assumed that Company has created Debenture Redemption Reserve @ 25% of the redeemable debenture and transferred it to General Reserve after redemption of all the debentures.

Practice Questions

Ruchi Ltd. issued 42,000 7% debenture of Rs. 100 each on Ist April 2011, redeemable at a premium of 8% on 3/st March 2015. The company decided to reate required debenture redensption reserve on 31st March 2014. The company invested the funds as required by law in a fixed deposit with state Bank of India on Ist April 2014 easing earning @ 10% per annum. Tax was deducted as source by the bank on interest @10% per annum pass necessary journal entries regarding issue and redemption of debenture.

Practice Questions

Issue of Debenture

1. Rai ltd. company purchased assets of the book value of Rs. 99,000 from another firm. It was agreed that purchase consideration be paid by issuing 11 % debentures of Rs. 100 each.

Assume debentures have been issued

1. At par
2. At discount of 10 % and
3. At a premium journal entries

Record necessary journal letters

2. Raj Printers, Ltd; purchased building worth Rs, 1,50,000, machinery worth rs. 1,40,000 and furniture worth rs. 10,000 from XYZ co. took over its liabilities or Rs. 20,000 for a purchase considerartion of Rs. 3,15,000. Raj Printers Ltd. paid the purchase consideration by issuing 12 % debentures of Rs. 100 each at a premium of 5 % Record necessary Journal entries

3. Sanyo Ltd. purchased machinery worth Rs. 1,98,000 from Aryan Ltd. The payment was made by issue of 12 % debentures of Rs. 100 each. Pass the necessary journal enties for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium

4. Pas the journal entries relating to the issue of the debentures in the books of Axe Ltd;

(a) 1200, 8% debentures of Rs 100 each are issued at 5 % discount and repayable at par.

(b) 1500, 7% debentures of Rs 100 each are issued at 5 % discount and repayable at premium of 10 %

(c) 800, 9% debentures of Rs 100 each are issued at 5 % premium

(d) Another 4000, 8 % debentures of Rs 100 each are issued as collateral security against a loan of Rs 4,00,000.

Redemption of debenture

1. Export-Import Bank of India, an All India Financial Institution, has outstanding Rs. 50,00,000; 10% Debentures of Rs. 100 each issued in 2018, are due for redemption on 31st March 2020. State the amount of Debenture Redemption Reserve to be created before the redemption of debenture begins. Also, pass Journal entries at the time of redemption of debenture.

2. G ltd. Issued 40,000; 9 % Debentures of Rs. 100 each at a discount of 5 % and redeemable at 10 % premium after 4 years. These debentures are due for redemption on 31st July 2018. The Company invested the funds as required by law in the specified securities on 30th April 2018 earning interest @ 10 % p.a. The directors also decided to transfer the minimum required amount to Debenture Redemption Reserve Account a balance of Rs. 8,80,000 as at 1st April 2017.
Pass necessary Journal entries at the time of redemption of debenture.

3. On April o1, 2018, S Ltd. made an issue of 1,000, 6 % debentures of Rs 1,000 each at Rs 960 per debenture. The terms of issue provided for the redemption of 200 debentures every year starting from 31 March 2020 either by purchase or by draw of lot at par at the company' option. Rs 40,000 was written off as the debenture discount account in year's ending on March 31, 2018-19. On 31. 03.2020, the company purchased for cancellation debentures of the face value of Rs 80,000 at Rs 950 per debenture and of the face value of Rs 1,20,000 at Rs 900 per debenture.
Journalise the above transaction,

MCQs

Short answer type/objetive questions

1. Debentures which are transferrable by mere delivery are:
   (a) Registered debentures, (b) First Debentures,
   (c) Bearer debentures, (d) None of these

2. The following journal entry appears in the books of X Co. Ltd.
   Bank a/c Dr.. 9,50,000
   Loss on issue of debenture a/c Dr. 1,50,000
   To 12 % Debentures a/c 10,00,000
   To Premium on Redemption of Debenture A/c 1,00,000

Debentures have been issued at a discount of :
(a) 15 % (b) 5 %
(c) 10 % (d) 8 %

3. X Co. Ltd purchased assets worth Rs 14, 40,000. It issued debentures of Rs 100 each at a discount of 4 percent in full satisfaction of the purchase consideration. The number of debentures issued to vendor is:
(a) 15, 000, (b) 14,400,
(c) 16,000, (d) 30,000

4. Convertible debentures cannot be issued at a discount if:
(a) They are to be immediately converted;
(b) They are not to be immediately converted,
(c) None of the above (d) Both a and b

5. Discount on issue of debentures is shown under the following head in the Balance sheet :
(a) Statement of profit and Loss, (b) Other non-Current Assets,
(c) Debentures account (d) None of these

6. Debentures can be issued at :
(a) Par (b) Discount
(c) Premium (d) All of them

7. Debenture is also named as :
(a) Share (b) Bond
(c) Equity (d) Reserve

8. When debentures are issued at a discount and are redeemable at a premium, which of the following accounts is debited at the time of issue:
(a) Debentures account,
(b) Premium on redemption of debentures account,
(c) Loss on issue of debentures account
(d) Securities Premium Reserve Account

9. When all the debentures are redeemed, balance in the debentures redemption fund account is transferred to :
(a) Capital reserve, (b) General reserve,
(c) Statement of profits and loss (d) Any of these

10. Fill in the blanks
a) A................... may be defined as s subsidiary or secondary or additional security beside the primary security when a company obtains a loan or overdraft from a bank or any other financial Instituiton.
Ans - collateral security
b) .... is a written instrument acknowledging a debt under the common seal of the company.
Ans- Debenture

c) .... refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default. The charge may be fixed or floating

Ans- Secured debentures

d) Debentures which are convertible into equity shares or in any other security either at the option of the company or the debenture holders are called ....

Ans- convertible debentures

e) .... can be issued at dicount but............ cannot be issued at discount except ESOP.

Ans- Debentures, Shares

f) .... refers to extinguishing or discharging the liability on account of debentures in accordance with the terms of issue.

Ans- Redemption of debentures

g) The amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of ....

Ans- redemption of debentures

h) No DRR is required for debentures issued by .... regulated by Reserve Bank of India .... Companies for both public as well as privately placed debentures.

Ans- All India Financial Institutions (AIFIs) Banking

PART-B
CHAPTER 1

FINANCIAL STATEMENTS OF A COMPANY

Financial Statement

Financial Statements are the end products of accounting process and are prepared at end of the accounting period **to reveal the financial position** of the enterprise at a particular date and **the result of its business operations during an accounting period.**

As per Section 2(40) of the Companies Act, 2013 Financial Statements includes :

1. Balance Sheet or Position Statement
2. Statement of Profit and Loss or Income Statement
3. Notes to Accounts.
4. Cash Flow Statement.

Balance Sheet : It is a statement of assets, liabilities and Equities of a business and it is prepared to show the financial position of the company at a particular date.

A balance sheet of a company is prepared as per the format prescribed in Part I of Schedule III of the Companies Act, 2013.

The Schedule III prescribes only the vertical format for presentation of financial statements. Thus, a company will now not have an option to use horizontal format for the presentation of financial statements.

Important contents of Balance Sheet

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Equity is the residual interest in the assets of the enterprise after deductin g all its liabilities.

Part-I – Form of Balance Sheet

(₹ in-----)

Particulars	Note No	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			

I. ASSETS			
(5) Non-current assets			
(d) Fixed assets			
(ii) Tangible assets			
(iii) Intangible assets			
(iv) Capital work-in- progress			
(v) Intangible assets under development			
(e) Non-current investment			
(f) Deferred tax assets (net)			
(g) Long-term loans and advances			
(h) other non-current assets			
(2) Current Assets			
(a) current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(i) Short term loans and advances			
(j) other current assets			
TOTAL			

The balance of ₹1,00,000 in Surplus i.e., Balance in Statement of Profit and Loss will be shownd under Reserve and Surplus in the Balance Sheet.

Illustration 3: C Ltd. has an opening credit balance of ₹2, 50,000 in Securities Premium Reserve and also debit balance of 5,00,000 in Surplus i.e., Balance in statement of Profit and Loss in Reserve and Surplus. During the year ended 31st march, 2016, it incurred a loss of ₹3,00,000. Prepare Notes to Account on Reserve and Surplus showing the amount to be shown in Balance Sheet.

Solution:

Note to Accounts

Particulars		₹
Reserve and Surplus		
(a) Securities Premium Reserve		2,50,000
(b) Surplus i.e., Balance in statement of Profit & Loss		
Opening Balance	(5,00,000)	(8,00,000)
<u>Add-</u> Profit (loss) for the year	(3,00,000)	(5,50,000)

₹ (5,50,000) will be shown against Reserve and Surplus under shareholders' funds in the Balance Sheet.

Statement of Profit and Loss

Statement of Profit and Loss: It is a statement prepared to show the result of business operations during an accounting period.

It shows the operating performance of a company during the accounting period.

A Statement of Profit & Loss of a Company is prepared as per the format prescribed in Part II of Schedule III of the Companies Act, 2013.

PART II - FORM OF STATEMENT OF PROFIT AND LOSS

Statement of Profit & Loss

For the year ended.......

(₹ in . . . . .)

Particulars	Note No.	Figures for the current reporting period	Figures for the Previous reporting period
I. Revenue from operations		....	....
III. Other Income		....	....
IV.Total Revenue (I+II)		....	....
V. IV. Expenses:			
• Cost of Material consumed			
• Purchases of Stock-in-Trade			
• Changes in Inventories of Finished Goods, work-in-progress and stock-in-trade			
• Employees Benefit Expenses			
• Finance Cost			
• Depreciation & Amortisation Expenses		....	
• Other Expenses			....
Total Expenses		....	....
V. Profit before Tax (III–IV)		....	....
VI. Less: Tax		(............)	(............)
VII. Profit after Tax (V–VI)		....	....

BALANCE SHEET (Companies Act 2013 Schedule III Part 1)				
B/s Heading	**Major Heading**	**Sub Heading**	**Sub Sub Heading**	**Treatment if any**
Equity and Liabilities	**1. Shareholders Fund**	**a. Share Capital**	• Authorised Capital • Issued Capital • Subscribed Capital	
			• Calls in Arrear	• Subtracted from Called up capital
			• Share Forfeited Aci.ount	• Added to Called Up capital
Equity and Liabilities	**1. Shareholders Fund**	**b. Reserves and Surplus**	• Capital Reserve • Securities Premium Reserve • Debenture Redemption Reserve • Capital Redemption **Reserve** • General Reserve • Sinkind fund • Revaluation Reserve • Share Option Outs anding A/c • Surplus or Retained earnings or Accumulated Profits) *Note: -* *• This Surplus has to be after transfer to Reserves and Proposed dividend.* *• Surplus can be a Negative figure.*	-
Equity and Liabilities	**1. Shareholders Fund**	c. **Money Received Against i Share Warrants**	*Share Warrants are issued to promoters for preferential issue. This instrument gives the holder the right to acquire equity shares. Money is already allocated at the time of issue of issue of warrants.*	
Equity and Liabilities	**2. Share Application Money Pending Allotment**			
Equity and nihilities	**3. Non-Current Liabilities**	**a. Long Term Borrowing**	• Debentures • Bonds • Loans from banks/mortgauge loan • Loans from other parties • Deposits (Public Deposits, Fixed Deposits) *Note: -* 1. *They should be classified as secured and unsecured* 2. *Borrowing which is due for*	

			payment within 12 months is to be as Other Current Liabilities	
Equity and Liabilities	**3. Non-Current Liabilities**	**b. Deferred Tax Liabilities**		
Equity and Liabilities	**3. Non-Current Liabilities**	**c. Other Long Term Liabilities**	• (12 months) • Premium Payable on Redemption of Debentures • Premium Payable a on Redemption of Preference Share	
Equity and Liabilities	**3. Non-Current Liabilities**	**d. Long Term Provisions**	• Provision for employees retirement benefits. i.e. amount of earned leave etc. • Provision for Warranty Claims	
Equity and Liabilities	**4. Current Liabilities**	**a. Short Term Borrowings**	• Loans from bank • Loans from oth er parties • Deposits (Publi: Deposits, Fixed Deposits)	
Equity and Liabilities	**4. Current Liabilities**	**b. Trade Payable**	• Creditors • Bills payables	
Equity and Liabilities	**4. Current Liabilities**	**c. Other Current Liabilities**	• Current matur ties of long term loans • Interest accrued but not due on borrowings • Interest accrued and due on borrowings • Income received in Advance • Unpaid dividend / Unclaimed dividend • Unpaid matured deposit and interest accn ed there on • Unpaid matured debentures and interest accn ied thereon • Outstanding expenses • Calls in advance • Application money due for refund and • Interest thereon	
Equity and Liabilities	**4. Current Liabilities**	**d. Short Term Provisions**	• Provision foi tax • Provision fo employees benefits • Provision fo doubtful debts • Provision fo' discount on debtors	

Assets	**1. Non-Cumst Assets i**	**a. Fixed Assets u Tangible Fixed Assets**	• Land • Building • Machinery & Plant • Vehicles • Office equipment • Furniture and fixture • Live stock • Computers • Office Equipment	
Assets	**1. Non-Current Assets**	**a. Fixed Assets ii. Intangible Fixed Assets**	• Goodwill • Brands/trademarks • Copyrights & patents • Computer software • Mastheads and Publishing titles (name of newspapers/ magazines printed at the top of first page) • Mining rights • Recipes, formulae, model, designs • Licenses and franchise • Intellectual Property Rights	
Assets	**1. Non-Current Assets**	**a. Fixed Assets iii. Capital Work in Progress**	Construction of assets in progress E.g. construction of building	
Assets	**1. Non-Current Assets**	**a. Fixed Assets iv. Intangible Assets Under Development**		
Assets	**1. Non-Current Assets**	**b. Non-Current Investments**	• Investment in property • Investment in equity insti uments • Investment in preference shares • Investment in govt, securities • Investment in debenture: / bonds • Investment in mutual funds • Investments in Partnership firms Note: -Fixed deposit in banks. • They should be classified o s Trade Investment&Non-Trade Investment • Trade investment -Investment in shares and debentures di me for promoting its own busint ss. E.g. a company invests in at other company which is supplying raw material to it, so as to ensure a continuous supply.	

Assets	**1. Non-Current Assets**	**c. Deferred Tax Assets**		
Assets	**1. Non-Current Assets**	**d. Long Term Loans and Advances**	• Capital advance, (advances for acquiring fixed assets) • Security deposits • Long term loans to employees. • Long term loans to suppliers.	
Assets	**1. Non-Current Assets**	**e. Other Non-Current Assets**	• Long term trade receivables • Preliminary expenses, Underwriting Commission, Discount/Loss/Expense on Issue of Shares and Debe[1] itures which are to be amortized after a period of 12 months	
Assets	**2. Current Assets**	**a. Current Investments**	• Investment in equity instruments • Investment in preference shares • Investment in govt, securities • Investment in debentures / bonds • Investment in mutual funds • Investments in Partnership firms.	
Assets	**2. Current Assets**	**b. Inventories**	• Inventory of raw materiel • Inventory of work in progress • Inventory of finished goods • Stock in trade (goods acquired for trading) • Stores and spares • Loose tools	
Assets	**2. Current Assets**	**c. Trade Receivables**	• Debtors • Bills receivable.	
Assets	**2. Current Assets**	**d. Cash and Cash Equivalents**	• Cash • Bank balance • Cheques and drafts in hand	
Assets	**2. Current Assets**	**e. Short Term Loans and Advances**	• Loans and advances to related parties.	
Assets	**2. Current Assets**	**f. Other Current Assets**	• Prepaid expense s • Advance taxes • Interest accruee on investments • Preliminary expanses, Underwriting Commission, Discount/Loss/Expense on Issue of Shares and Debentures which are	

			to be amortized within a period of 12 months	
Contingent Liabilities			Contingent Liabilities are those liabilities which are not actual liabilities but may become so on happening of certain events. Examples are following: • Claim against the company not acknowledged as debts • Guarantees • Bills discounted fron bank	
Capital Commit-ments			Capital commitments are agreements to perform a particular activity at a certain time in the fiture under certain circumstances. Examples are followinqs: • Estimated amounts of contract remaining to be executed on capital account and not provided for Uncalled liability on investment in partly paid shares. Arrears of dividend on cumulative preference share Example of Estimated amount of contract remaining to be executed on capital account and not provided for: • A project of ₹ 100 crore to construct a bridge time is 60% complete & 40% remaining If 40% is completed on tin e the company will get entire₹100 crore and thereby make a profit. (Because ₹ 100 crore which s the contract price includes profit it). But if the project is not completed on time penalties rmay be imposed and the company may not be able to make profit out of the project.	
			NOTE:- Contingent liability always results in a loss if they are actually arise. Capital commitement may result ia profit or loss on completion	

DISCLOSURE OF IMPORT ANT ITEMS IN THE COMPANY'S BALANCE SHEET AS PER SCHEDULE III

S.No.	Items	Main Head	Sub-head
1.	Debentures	Non-current Liabilities	Long-term Borrowings
2.	Public Deposits	Non-current Liabilities	Long-term Borrowings
3.	Securities Premium Reserve	Shareholders' Funds	Reserves and Surplus
4.	Capital Reserve	Shareholders' Funds	Reserves and Surplus
5.	Forfeited Shares Account	Shareholders' Funds	Subscribed Capital (Shown by way of addition)
6.	Interest Accrued and due on Debentures	Current Liabilities	Other Current Liabilities
7.	Interest Accrued but not due on Debentures	Current Liabilities	Other Current Liabilities
8.	Bills Payable	Current Liabilities	Trade Payables
9.	Advances Received from Customers	Current Liabilities	Other Current Liabilities
10.	Sundry Creditors	Current Liabilities	Trade Payables
11.	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
12.	Calls-in-Arrears	Shareholders' Funds	Subscribed Capital (shown by way of deduction)
13.	Calls-in-Advance and Interest	Current Liabilities	Other Current Liabilities
14.	Interest Accrued but not due on Unsecured Loans	Current Liabilities	Other Current Liabilities
15.	Debentures Redemption Resrve	Shareholders' Funds	Reserves and Surplus
16.	Capital Redemption Reserve	Shareholders' Funds	Reserves and Surplus
17.	Advance from Customers Loan-term)	Non-current Liabilities	Other Long-term Liabilities
18.	Trade Payables	Current Liabilities	Trade Payables
19.	provision for Tax	Current Liabilities	Short-term Provisions
20.	surplus, Balance in Statement and Loss (Dr.)	Shareholders' Funds	Reserves and Surplus (As negative amount)
21.	surplus, Balance in ent of Profit and Los:	Shareholders' Funds	Reserves and Surplus
22.	Mortagage Loan	Non-current Liabilities	Long-term Borrowings
23.	Patents	Non-current Assets	Fixed Assets—Intangible Assets
24.	Invertment	Non-current Assets	Non-current Investments
25.	General Reserve	Shareholders' Funds	Reserves and Surplus
26.	Bills Receivable	Current Assets	Trade Receivables
27.	Borrowings Repayable after 3yrs.	Non-current Liabilities	Long-term Borrowings
28.	Loose Tools	Current Assets	Inventories
29.	current Maturities of Long-term	Current Liabilities	Other Current Liabilities

30.	Premium on Redemption of Debentures	Non-current Liabilities	Other Long-term Liabilities
31.	Balances with Banks	Current Assets	Cash and Cash Equivalents
32.	Tax Reserve	Shareholders' Funds	Reserves and surplus
33.	Stores and Spares	Current Assets	Inventories
34.	Mining Rights	Non-current Assets	Fixed Assets- Intangible Assets
35.	Encashment of Employees Earned Leave Payable on Retirement	Non-current Liabilities	Long-term Provisions
36.	Subsidy Reserve	Shareholders' Funds	Reserves and Surplus
37.	Copyrights	Non-current Assets	Fixed Assets- Intangible Assets
38.	Accrued Incomes	Current Assets	Other Current Assets
39.	Provision for Employees Benefits	Non-Current Liabilities	Long-term Provisions
40.	Unpaid/unclaimed Dividend	Current Liabilities	Other Current Liabilities
41.	Short-term Loans	Current Liabilities	Short-term Borrowings
42.	Long-term Loans	Non-Current Liabilities	Long-term Borrowings
43.	Share Options Outstanding Account	Shareholders' Funds	Reserves and Surplus
44.	Computers	Non-current Assets	Fixed Assets— Tangible Assets
45.	Goodwill	Non-current Assets	Fixed Assets— Intangible Assets
46.	Sundry Debtors	Current Assets	Trade Receivables
47	Long-term Investments	Nerve urrent Assets	Ncn-current Investment
48.	Prepaid Insurance	Current Assets	Other Current / ssets
49.	Building	Non-current Assets	Fixed Assets— Tangible Assets
50.	General Reserve	Shareholders' Funds	Reserves and'Surplus
51.	Bonds	Non-current Liabilities	Long-term Borrowings
52.	Loans repayable on demand	Current Liabilities	Short-term Borrowings
53.	Income received in advance	Current Liabilities	Other Current liabilities
54.	Office Equipments	Non-current Assets	Fixed Assets— Tangible Assets
55.	Trademarks	Non-current Assets	Fixed Assets— Intangible Assets
56.	Advance Tax	Current Assets	Other Current issets
57.	Bank Overdraft	Current Liabilities	Short-term Borrowings
58.	Cheques/Drafts in Hand	Current Assets	Cash and Cash Equivalents
59.	Stock-in-Trade	Current Assets	Inventories
60.	Long-term Provisions	Non-current Liabilities	Long-term Provisions
61.	Stock of Finished Goods	Current Assets	Inventories
62.	Computer software	Non-current Assets	Fixed Assets—Intaangible Assets
63.	Work-in-Progress (Building)	Non-current Assets	Fixed Assets—Capital Work-in-Progress
64.	Intellectual Property Rights under Development	Non-current Assets	Fixed Assets—In angible Assets under Development
65.	Provision for Expenses	Current Liabilities	Short-term Provisions
66.	Capital Advances	Non-current Assets	Long-term Loans and Advance
67.	Designs	Non-current Assets	Fixed Assets—Intangible Assets
68.	Shares in Companies	Non-current Assets	Non-current Investments

CONTENTS OF STATEMENT OF PROFIT AND LOSS

S.No.	Item/Heads	Meaning	Examples/Sub heads
1.	Revenue from operation	Revenue earned by the company from its operating activities.	• Revenue from sale of products or service. • Revenue from sale of scrap.
2.	Other income	Income earned by the company from its non-operating activities.	• Interest income • Dividend income • Profit from sale of investment or fixed assets • Bad debts recovered • Excess provision written back • Rental income etc.
3.	Cost of material consumed	Cost of raw material and other material used in manufacturing of goods.	COMC = opening inventory of raw material + net purchases of raw materials-closing stock of raw materials **Note : inventory of work in progress, finished goods and stock in trade are not considered.**
4.	Purchase of stock-in-trade	Goods purchased for reselling without any further processing.	
5.	Changes in inventories of finished goods, work-in-progress and stock-in-trade	Difference between opening and closing inventories	Change in inventory=opening inventories-closing inventories
6.	Employees benefits expenses	All expenses incurred by the company on its employees.	Direct expenses: • Wages; • Bonus • Leave encashment; • Salaries • Staff welfare expenses • Contribution to employees provident fund and other funds
7.	Finance cost	Cost incurred by the company on borrowings.	• Interest paid on term loan from bank • Interest paid on overdraft and cash credit limit from bank • Interest paid on debentures, bonds public deposits • Discount or loss on issue of debentures written off • Premium payable on redemption of debentures written off • Load processing fees • Guarantee charges • Commitment charges etc. **Note : Service charges not included like bank charges.**
8.	Depreciation and amortization expenses	Depreciation is the cost of tangible assets while amortization is the cost of intangible assets written off their useful life.	• Depreciation of plant and machinery, building, furniture etc. • Amortization of patents, trademarks, copyrights, computer software etc.
9.	Other expenses	Expenses that are not shown any of above mentioned heads are shown here.	• Carriage inwards/outwards • Audit fees; • Insurance charges • Rates and taxes; • Bank charges • Advertisement expenses • Administrative expenses • Selling and distribution expenses • Power and electricity charges • Repair of fixed assets • Rent; • Telephone expenses • Sundry expenses etc.

Illustration 2: Under which major sub-heading the following items will be placed in the Balance Sheet of a Company as per Schedule-III, Part I of the Companies Act, 2013 :

(i) Accrued Incomes

(ii) Loose Tools

(iii) Provision for employee's benefits

(iv) Unpaid dividend

(v) Short-term loans

(vi) Long-term loans

Solution:

Item	Sub-heading
Accrued Incomes	Other Current Assets
Loose tools	Inventories
Provision for Employees benefits	Long-term provisions
Unpaid Dividends	Other Current Liabilities
Short-term loans	Short-term borrowings/Short-term loans and advances
Long-term loans	Long-term borrowings/Long-term loans and advances

Illustration 3: List the items which are shown under the heading, 'Current Assets' in the Balance Sheet of a company as per provisions of Schedule III,of the Companies Act, 2013.

Solution:

(a) Current Investments

(b) Inventories

(c) Trade Receivables

(d) Cash and cash equivalents

(e) Short-term loans and advances

(f) Other Current Assets

Illustration 4: Name the major headings under which the Equity and Liabilities side of a company's Balance Sheet is organised and presented.

Solution:

The major headings on the Equity and Liabilities side are:

I. Shareholder's funds

II. Share Application money pending allotment

III. Non-Current Liabilities

IV. Current Liabilities

Illustration 5: List the items that are included under Inventories.

Solution:

(i) Raw materials

(ii) Work-in-progress

(iii) Finished goods

(iv) Stock-in-trade

(v) Stores and spares

(vi) Loose tools

Illustration 6: Name any three items that are shown under the head "Other Current Liabilities" and any three items that are shown under the head "Other Current Assets" in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013.

Solution:

Other Current Liabilities:

(a) Unpaid Dividend

(b) Interest accrued and due on borrowings

(c) Calls in advance

(d) Outstanding expenses etc.

Other Current Assets:

a) Prepaid expenses

b) Accrued Incomes

c) Advance Tax

Illustration 7: Time Ltd. is in the process of preparing its Financial statements as per schedule III, Part I and Part II of the companies Act, 2013 and provides its true and fair view of the financial statements.

a) Under which head and sub-head will the companies show 'stores and spares' in its Balance Sheet?

b) What is the accounting treatment of 'Stares and spares' when the company will calculate its Inventory Turnover Ratio?

c) The management of time Ltd. wants to analyses it financial statements. State any two objectives of such analysis.

d) Identify the values being followed by time Ltd.

Sol. a) Head-Current Assets ; Sub head- Inventories.

b) It will not included in inventories.

c) Objectives- Assessing the earning capacity of the enterprise, Assessing the ability of the enterprise to meet its short term and long term commitment.

d) Values: Transparency, Honesty, abiding by law.

MULTIPLE CHOICE QUESTIONS

1. Which of the following will not covered under finance cost?
   (a) Discount on issue of debentures written off
   (b) Interest paid on bank overdraft
   (c) Bank charges
   (d) Premium payable on redemption of debentures written off
2. Loose tools will be covered under main head .... and sub head .... (fill in the blanks)
3. Earmarked balances with bank like unpaid dividend will be shown under sub head cash and cash equivalents. (True or false with reason).
4. Long term provisions does not include:
   (a) Provision for Gratuity
   (b) Provision for earned leave
   (c) Provision for employees benefit
   (d) Provision for warrenty
5. Forfeited share account will be covered under main head .... and sub head ....

Answers:

1. C
2. Current, Assets, Inventories
3. True
4. C
5. Shareholder's Fund, Subscribed Capital (Shown by way of Addition)

CHAPTER 2

FINANCIAL STATEMENT ANALYSIS

Meaning : Financial statement analysis is a systematic process of studying the relationship among the various financial factors contained in the financial statements to have a better understanding of the working and the financial position of a business.
"Financial Analysis consists in separating facts according to some definite plan, arranging them in groups according to certain circumstances and then presenting them in a convenient and easily able and understandable form."
— Finney and Miller

Objectives or Purposes of Financial Statement Analysis

- To measure the **Profitability or Earning Capacity** of the business
- To measure the **Financial Strength** of the business
- To make **Comparative Study** within the firm (intra-firm) and with other firms (interfirm)
- To judge the **Efficiency of Management**
- To provide **Useful Information's** to the Management
- To find out the **Capability for payment of interest, dividend** etc.
- To measure the **Short-term and Long-term Solvency** of the business.

Financial Statement Analysis

- Based on basic financial statement which themselves suffer from certain limitations.
- Ignores changes in price level.
- Affected by the personal ability and bias of the analyst.
- Lack of qualitative analysis as only those transaction and events are recorded which can be measured in terms of money.
- When different accounting policies are followed by the two firms then comparison between their financial statement becomes unreliable.
- Analysis of single year's financial statement have limited use.
- Also affected by the Window dressing

Types of Financial Statement Analysis

There are two main approaches for the analysis of financial statements.

Horizontal Analysis: In this type of analysis, figure in the financial statements for two or more years are compared and analysed. It helps in knowing the trends of the business over a period of time. It is also known as **Time series analysis** or **Dynamic Analysis.** Comparative statements and cash flow statements are example of horizontal analysis.

Vertical Analysis: In this type of analysis, figures in the financial statement for a single year are analysed. It involves the study of relationship between various items of Balance Sheet or Statement of Profit & Loss of a single year or period. It is also known as **Static Analysis.** Ratio Analysis relating to a particular accounting period are examples of this type of analysis.

Significance or Importance of Financial Analysis:

- **For Management:** To know the profitability, liquidity and solvency position; to measure the effectiveness of its own decisions taken and to take corrective measure in future.
- **For Investors:** Investors want to know the earning capacity and future growth prospects of the business which helps in assessing the safety of their investment and reasonable return.
- **For Creditors:** Short-term creditors want to know the liquidity position of the business where as long term creditors want to know about the solvency position and ability to pay the interest consistently.
- **For Govt.:** To know the profitability position for taking taxation decision and to take decisions about the price regulations.
- **For Employees:** To know the progress of the company for assessing bonus, possible increase in wages and to ensure stability of their jobs.
- **For Customers:** To know about the continuance of the business in future.

CHAPTER 3

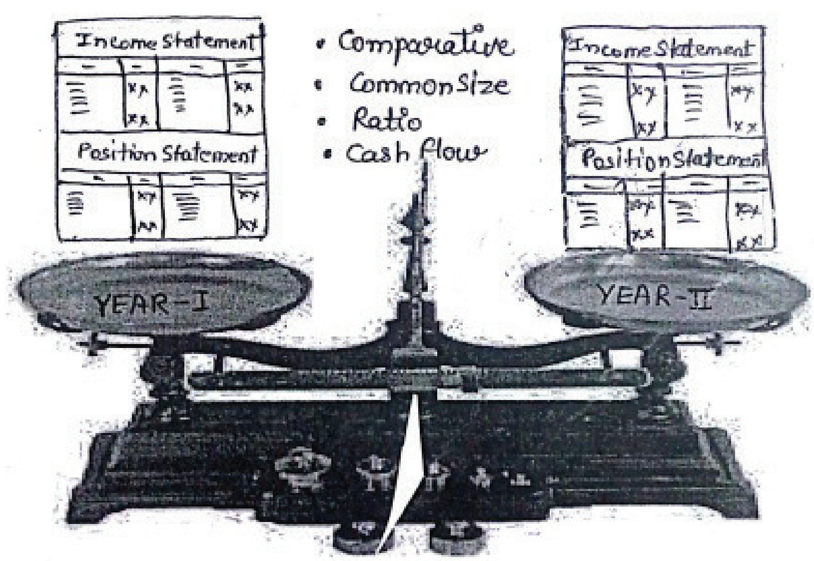
TOOLS FOR FINANCIAL STATEMENT ANALYSIS

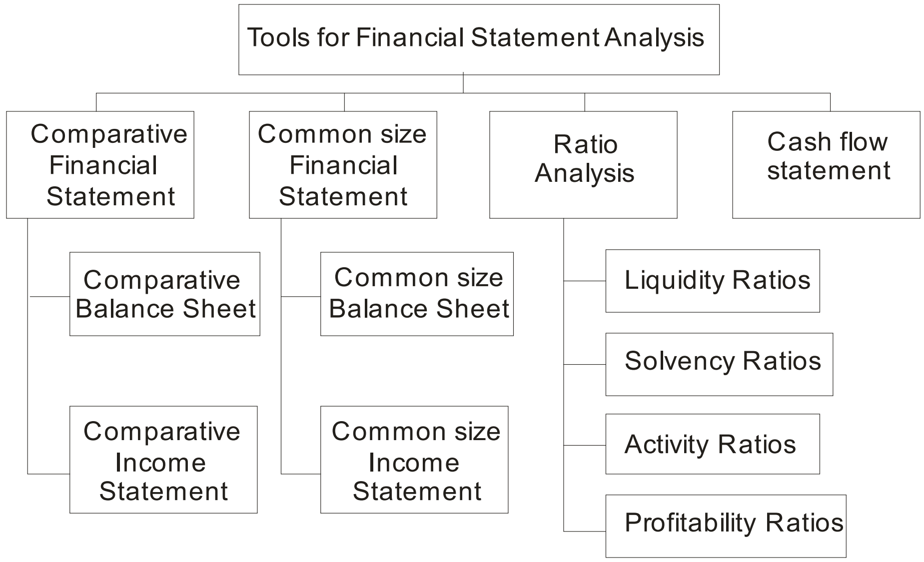
Points to remember:

1. In comparative statement deviation for current year to previous year is always divided by previous year amount.
2. In common size statement of Profit & Loss take revenue from operation as common base not the total revenue.
3. In common size Balance Sheet take Balance Sheet total amount either total assets or total liabilities as common base.

The various tools used for analysis of financial statements are:

- **Comparative Statement: Financial Statements of two years are compared** and changes in absolute terms and in percentage terms are calculated. It is a form of Horizontal Analysis.
- **Common Size Statement: Figures of Financial Statements are converted** in to percentage with respect to some common base.
- **Ratio Analysis:** It is a technique of study of relationship between various items in the Financial Statements.
- **Cash Flow Statement:** It is a statement that shows the inflow and outflow of cash and cash equivalents during a particular period which helps in finding out the causes of changes in cash position between the two balance sheet dates.





Comparative Financial Statements

It is a tool of financial Analysis that shows changes in each item of the financial statement in absolute amount and in percentage, taking the amounts of the preceding accounting period as the base.

Types of Comparative Statement:

1. Comparative Balance Sheet; and
2. Comparative Statement of Profit and Loss.

1. **Comparative Balance Sheet: It shows the increases and decreases** in various items of assets, equity and liabilities in absolute term and in percentage term by taking the corresponding figures in the previous year's balance sheet as a base.

Format for a Comparative Balance Sheet as per CBSE Circular No. 43 dated 2,July 2013

Comparative Balance Sheet of ....Ltd.

As at 31st March 2018-2019

Particulars	2018 ₹	2019 ₹	Absolute Change ₹	Percentage Change %
EQUITY AND LIABILITIES:				
Shareholders' funds				
Share Capital				
Reserve and Surplus				
Non-Current Liabilities				
Long term Borrowings				
Other long term liabilities				
Long term provisions				
Current liabilities				
Short term Borrowings				
Trade payables				
Other current liabilities Total				
Short term provision				
ASSETS:				
Non-current Assets				
Fixed Assets				
Non-current investments				
Long term Loans and Advances				
Current Assets				
Current investments				
Inventories				
Trade receivables				
Cash and cash equivalents				
Short term loans and advances				
Other current assets				
Total				

Absolute Change = Current year figure – Previous year figure

$$\% \text{ change} = \frac{\text{Related absolute change}}{\text{Related figures of Previous year}} \times 100$$

Illustration 1: From the following Balance Sheet of XYZ Ltd. as at 31st March 2016 and 2015. Prepare a comparative Balance Sheet.

Particulars	Note No.	31-3-2016	31-3-2015
I. Equity & Liabilities:			
Shareholder's funds			
(a) Share Capital		20,00,000	10,00,000
(b) Reserves & Surplus		4,00,000	6,00,000
Non-current Liabilities			
Long term borrowings		16,00,000	10,00,000
Current liabilities			
Trade payables		8,00,000	4,00,000
Total		48,00,000	30,00,000
II. Assets:			
Non-current Assets			
Fixed Assets:			
i. Tangible Assets		28,00,000	16,00,000
ii. Intangible Assets		6,00,000	4,00,000
Current Assets			
(a) Inventories		10,00,000	8,00,000
(b) Cash & Cash equivalents		4,00,000	2,00,000
Total		48,00,000	30,00,000

Solution:

Comparative Balance Sheet of XYZ Ltd.

As at 31st March 2015 & 2016

Particulars	Note No.	31-3-2015	31-3-2016	Absolute change ↑ OR ↓	% Change ↑ OR ↓
		I	II	II – I = III	$\frac{III}{I} \times 100$
Equity & Liabilities:					
(1) Shareholder's funds		10,00,000	20,00,000	10,00,000	100%
(a) Share Capital		6,00,000	4,00,000	(2,00,000)	(33.33%)
(b) Reserves & Surplus					60%
(2) Non-current Liabilities		10,00,000	16,00,000	6,00,000	60%
Long term borrowings					
(3) Current liabilities		4,00,000	8,00,000	4,00,000	100%
Trade payables					
Total		30,00,000	48,00,000	18,00,000	60%

Assets:					
(1) Non-current Assets					
Fixed Assets:		16,00,000	28,00,000	12,00,000	75%
(i) Tangible Assets		4,00,000	6,00,000	2,00,000	50%
(ii)Intangible Assets					
(2) Current Assets		8,00,000	10,00,000	2,00,000	25%
(a)Inventories		2,00,000	4,00,000	2,00,000	100%
(b)Cash & Cash equivalents					
Total		30,00,000	48,00,000	18,00,000	60%

Steps for Capital Calculations:

1. Absolute amount of share capital for 31-3-2015 = 10,00,000

   & for 31-3-2016 = 20,00,0000

   Absolute change in share capital = Current year figure – Previous year figure

   = 20, 00,000 – 10, 00,000 = 10, 00,000

$$\% \text{ change} = \frac{\text{absolute change}}{\text{Previous year figure}} \times 100$$

$$= \frac{10,00,000}{10,00,000} \times 100 = 100\%$$

2. For Reserves & Surplus = $\frac{2,00,000}{6,00,000} \times 100 = 33.33\%$

   Here absolute change is in negative figure

   ∴ % change will also be in bracket indicating -ve%

3. So on ______

COMPARATIVE STATEMENT OF PROFIT AND LOSS/COMPARATIVE INCOME STATEMENT

Comparative Income Statement: It shows the increases and decreases in various items of income Statement in absolute amount and in percentage amount by taking the corresponding figures in the previous year's Income Statement as a base.

Format for a Comparative statement of Profit & Loss as per CBSE Cr. No. 43 dated 2 July 2013

Comparative Statement of Profit and Loss

For the year ended on 31st March, 2018 and 2019

Particulars	2018 ₹	2019 ₹	Absolute Change ₹	Percentage Change %
I. Revenue from Operations				
II. Add: Other Income				
III. Total Revenue I + II				
IV. Expenses:				
a. Cost of Material Consumed				
b. Purchases of Stock-in-Trade				
c. Changes in inventories of Finished Goods, work-in-progress and Stock-in-Trade				
d. Employees benefit expenses				
e. Finance costs				
f. Depreciation				
g. Other expenses				
Total Expenses				
V. Profit before tax (III-IV)				
Less: Income Tax				
VI. Profit after tax				

Importance of Comparative Financial Statement

- To make the data simple and more understandable.
- To indicate the trend with respect to the previous year.
- To compare the firm's performance with the performance of other firm in the same business.

Illustration 2: From the following information of 'Anjali' Ltd. Prepare comparative statement of Profit & Loss.

Particulars	**Note No.**	**31st March 2016 (₹)**	**31st March 2015 (₹)**
Revenue from operations		20,00,000	16,00,000
Employees Benefit Expenses		10,00,000	8,00,000
Depreciation & Amortisation Expenses		25,000	20,000
Other expenses		75,000	1,80,000

Tax Rate 30%

Solution:

Comparative statement of profit & Loss

For the year ended 31st March 2015-2016

Particulars	**Note No.**	**31-3-2015 (₹)**	**31-3-2016 (₹)**	**Absolute change(₹) ↑ OR ↓**	**% Change(%) ↑ OR ↓**
		I	II	III=II – I	IV= $\frac{III}{I}$ ×100
A. Revenue from Operations		16,00,000	20,00,000	4,00,000	25%
B. Expenses					
(i) Employee Benefit Expenses		8,00,000	10,00,000	2,00,000	25%
(ii) Depreciation & Amortisation Expenses		20,000	25,000	5,000	25%
(iii) Other Expenses		1,80,000	75000	1,05,000	58.33%
Total Expenses		10,00,000	11,00,000	1,00,000	10%
C. Profit before tax(A-B)		6,00,000	9,00,000	3,00,000	50%
D. Less		1,80,000	2,70,000	90,000	50%
E. Profit after tax(C-D)		4,20,000	6,30,000	2,10,000	50%

Common Size Financial Statements 100% statements

Common Size Financial Statements are the statements in which amounts of the various items of financial statements are converted into percentages to a common base.

Types of Common Size Statements:

1. Common Size Balance Sheet; and
2. Common Size Statement of Profit and Loss.

Common Size Balance Sheet: It is a statement in which every item of assets, equity and liabilities is expressed as a percentage to the total of all assets or to the total of Equity and Liabilities.

Total Assets or Total Equity & Liabilities are taken as Common base

Format for a Common Size Balance Sheet:

As per CBSE Cr. No. 43 dated 2 July 2013

Common Size Balance Sheet of .... Ltd.

As at 31st March 2016 and 2017

Particulars	Absolute Amounts		Percentage of Balance Sheet Total	
	2016 ₹	2017 ₹	2016 %	2017 %
EQUITY AND LIABILITIES: Shareholders' Funds Share Capital Reserve and Surplus Non-Current Liabilities Long term Borrowings Other long term liabilities Long term provisions Current liabilities Short term Borrowings Trade payables Other current liabilities Short term provision				
Total			100	100
ASSETS: Non-current Assets Fixed Assets Non-current investments Long term Loans and Advances Current Assets Current investments Inventories Trade receivables Cash and cash equivalents Short term loans and advances Other current assets				
Total			100	100

Common Size Income Statement or Statement of Profit & Loss: It is a statement in which every item of Statement of Profit and Loss is expressed as a percentage to the amount of Revenue from Operations.
Sales (Revenue from operations) is taken as base

Format for a Common Size Statement of Profit and Loss
As per CBSE Cr. No. 43 dated 2 July 2013

Common Size Statement of Profit and Loss
For the years ended on 31st March, 2016 and 2017

Particulars	Absolute Amounts		Percentage of Revenue from operation (Net Sales)	
	2016 `	2017 `	2016 %	2017 %
I. Revenue from operations			100	100
II. Add: Other Income				
III. Total Revenue I+II				
IV. Expenses:				
a. Cost of Material Consumed				
b. Purchases of Stock in Trade				
c. Changes in inventories of Finished Goods, work in progress and Stock- in-Trade				
d. Employees benefit expenses				
e. Finance costs				
f. Depreciation				
g. Other expenses				
Total Expenses				
V. Profit before tax (III-IV)				
Less: Income Tax				
VI. Profit after tax				

Illustration 3: Prepare a 'Common Size Balance Sheet' on the basis of the information given in the Balance Sheet of Z Ltd. as at 31st March 2016.

Particulars	Note No.	31-3-16 ₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital		6,00,000
(b) Reserve and Surplus		1,00,000
2. Non-Current Liabilities		
(a) Long term borrowings		2,50,000
3. Current Liabilities		
(a) Trade Payable		50,000
Total		10,00,000
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets		6,50,000
(b) Non-Current Investments		1,50,000
2. Current Assets		
(a) Inventories		70,000
(b) Trade Receivables		50,000
(c) Cash and cash equivalents		80,000
Total		10,00,000

Solution:

Common Size Balance Sheet of Z Ltd.

As at 31st March, 2016

Particulars	Note No.	Absolute Amount (`)	Percentage of Balance Sheet Total
EQUITY AND LIABILITIES:			
1. Shareholders' Funds			
(a) Share Capital		6,00,000	60%
(b) Reserve and Surplus		1,00,000	10%
2. Non-Current Liabilities			
(a) Long term Borrowings		2,50,000	25%
3. Current liabilities			
(a) Trade payable		50,000	5%
Total		10,00,000	100%
ASSETS:			
1. Non-current Assets			
(a) Fixed Assets			
i. Tangible Assets		6,50,000	65%
(b) Non-current investments		1,50,000	15%
2. Current Assets			
(a) Inventories		70,000	7%
(b) Trade receivables		50,000	5%
(c) Cash and cash equivalents		80,000	8%
Total		**10,00,000**	**100%**

Step for calcualtion:

1. Absolute Amount of share capital = ₹ 6,00,000% of Balance Sheet Total = $\frac{6,00,000}{10,00,000} \cdot 100 = 60\%$

2. For Reserves & Surplus $\frac{1,00,000}{10,00,000} \cdot 100 = 100\%$

3. Similarly, for tangible Assets $\frac{6,50,000}{10,00,000} \cdot 100 = 65\%$
   & so on.......

Illustration 4: From the following information for the years ended on 31st March,2015 and 2016, prepare a 'Comparative Statement of Profit & Loss' of Beta Ltd.

Particulars	Note No.	2015-2016	2014-15
Revenue from operations		7,00,000	5,00,000
Expenses		4,50,000	3,75,000
Other Incomes		75,000	1,00,000

Rate of Income Tax was 50%

Solution:

Comparative Statement of Profit and Loss of Beta Ltd for the years ended 31st March, 2015 and 2016

Particulars	Note No.	2014-15	2015-16	Absolute change	Change in %
Revenue from operations		5,00,000	7,00,000	2,00,000	40%
Add: Other Income		1,00,000	75,000	(25,000)	(25%)
Total Revenue		6,00,000	7,75,000	1,75,000	29.17%
Less: Expenses		3,75,000	4,50,000	75,000	20%
Profit before tax		2,25,000	3,25,000	1,00,000	44.44%
Less: tax @ 50%		1,12,500	1,62,500	50,000	44.44%
Profit after tax		1,12,500	1,62,500	50,000	44.44%

Illustration 5: Prepare a Comparative Income Statement and Common Size Statement of Profit and Loss from the following information:

Particulars	31st March 2015	31st March 2016
Revenue from operations	125%	140%
(% of cost of Material Consumed)		
Cost of Material Consumed	2,40,000	2,50,000
Other expenses (% of Revenue from Operations)	10%	12%
Other Income	15,000	20,000
Tax Rate	30%	30%

Solution

COMMON SIZE STATEMENT OF PROFIT AND LOSS OF

For the years ended on 31st March 2015 and 2016

Particulars	Amounts	Amounts	Percentage of Revenue from operation (Net Sales)	
	31st March 2015(₹)	31st March 2016(₹)	31st March 2015 %	31st March 2016 %
I. Revenue from operations	3,00,000	3,50,000	100.00	100.00
II. Add: Other Income	15,000	20,000	5.00	5.71
III. Total Revenue (I+II)	3,15,000	3,70,000	105.00	105.71
IV. Expenses: a) Cost of Material Consumed b) Other expenses	2,40,000 30,000	2,50,000 42,000	80.00 10.00	71.43 12.00
Total Expenses	2,70,000	2,92,000	90.00	83.43
V. Profit before tax (III-IV) Less: Income Tax	45,000 (13,500)	78,000 (23,400)	15.00 (4.50)	22.28 (6.69)
VI. Profit after tax	31,500	54,600	10.50	15.59

COMPARATIVE INCOME STATEMENT

For the years ended on 31st March 2015 and 2016

Particulars	Absolute	Amount	Absolute Change	Percentage Change
	31st March 2015(₹)	31st March 2016(₹)	(₹)	%
I. Revenue from operations	3,00,00	3,50,000	50,000	16.67
II. Add: Other Income	15,000	20,000	5,000	33.33
III. Total Revenue (I+II)	3,15,000	3,70,000	55,000	17,46
IV. Expenses: a. Cost of Material Consumed b. Other expenses	2,40,000 30,000	2,50,000 42,000	10,000 12,000	4.16 40.00
Total Expenses	2,70,000	2,92,000	22,000	8.15
V. Profit before tax (III-IV) Less: Income Tax	45,000 (13,500)	78,000 (23,400)	33,000 (9,900)	73.33 (73.33)
VI. Profit after tax	31,500	54,600	23,100	73.33

Illustration 6: Fill in the missing information in the following comparative statement of profit and loss.

Comparative Statement of Profit and Loss for the year ended 31st March 2014 and 2015.

Particulars	Note No.	2014-15 (₹)	2015-16 (₹)	Absolute Change (₹)	Percentage Change %
I. Revenue from operations II. Add: Other Income		--------- 25,000	--------- --------	--------- 65,000	--------- ---------
III. Total Revenue (I+II)		---------	---------	---------	---------
IV. Expenses: a. Cost of Material Consumed b. Other expenses		------- --- 25,000	6,00,000 ---------	2,00,000 ---------	--------- 60%
Total Expenses		---------	---------	---------	---------
V. Profit before tax (III-IV) Less: Income Tax @ 30%		--------- 60,000	--------- 75,000	--------- ---------	--------- ---------
VI. Profit after tax		---------	---------	---------	---------

Solution

Comparative Statement of Profit and Loss

For the year ended 31st March 2015 and 2016

Particulars	Note No.	2014-15 (₹)	2015-16 (₹)	Absolute Change (₹)	Percentage Change %
I. Revenue from operations II. Add: Other Income		6,00,000 25,000	8,00,000 90,000	2,00,000 65,000	33.33% 260%
III. Total Revenue I+II		6,25,000	8,90,000	2,65,000	42.4%
IV. Expenses: a. Cost of Material Consumed b. Other expenses		4,00,000 25,000	6,00,000 40,000	2,00,000 15,000	50% 60%
Total Expenses		4,25,000	6,40,000	2,15,000	50.59%
c. Profit before tax (III-IV) Less: Income Tax @ 30%		2,00,000 60,000	2,50,000 75,000	50,000 15,000	25% 25%
d. Profit after tax		1,40,000	1,75,000	35,000	25%

Illustration 7: From the following statement of profit and loss of the Sakshi Ltd. for the year ended 31st March. 2017, Prepare comparative statement of Profit & Loss.

Statement of Profit & Loss

For the year indeed 31st March, 2017

Particulars	**31st March 2015-16**	**31st March 2016-17**
Revenue from operations	50,00,000	80,00,000
Expenses:		
a. Employee benefit expenses were 5% of Revenue form operation		
b. Other Expenses	11,80,000	13,60,000
Rate of Tax 35%		

Solution

Comparative Statement of Profit and Loss

For the year ended 31st March 2016 and 2017

Particulars	**2015-16** (₹)	**2016-17** (₹)	**Absolute Change** (₹)	**Percentage Change**
(i) Revenue from operations	50,00,000	80,00,000	30,00,000	60
Expenses :				
(a) Employee benefits Exp.	2,50,000	4,00,000	1,50,000	60
(b) Other expenses	11,80,000	13,60,000	1,80,000	15.25
(ii) Total Expenses:	14,30,000	17,60,000	3,30,000	23.08
(iii) Profit before tax (I-II)	35,70,000	62,40,000	26,70,000	74.79
(iv) Less : Taxes @ 35%	12,49,500	21,84,000	9,34,500	74.79
(v) Profit after tax (III-IV)	23,20,500	40,56,000	17,35,500	74.79

Things to Remember

Ø Why do we use tools for financial Analysis?

Financial statements are not ready to use/understand to the users. Therefore, we require tools to analyse them to be easily understandable by all the users.

Ø What are the tools for financial Analysis? Comparative financial statements common size financial statements Ratio Analysis cash flow statement

Ø List any two purposes of comparative statements?

1. To make the information simple & easily understandable.

2. To show the trend of changes.

Ø What are the steps for formation of comparative financial statement?

Step 1: Take the figure of previous year

Step 2: Take the figure of current year

Step 3: Find absolute change=current year figure-Previous year figure

Step 4: Find % change = $\frac{\text{Absolute change of an item}}{\text{Previous year figure of that item}}$ X100

ØHow to show the negative change in any item

By putting brackets, we can show the negative change

ØName the types of comparative financial statements

1. Comparative Balance sheet
2. Comparative Income Statement/comparative statement of profit & loss

What is change in Inventories in inventories=opening stock-closing stock

ØCommon Size statements are also known as ....

Vertical Analysis and 100% statements

ØWhy do we call common size statements as vertical Analysis?

Why do we call common size statements as 100% statements?

Because all the items of financial statements have to be expressed in terms of a base i.e. 100.

Give any 2 utility of common size statements.

1. To create a relationship between base items & other items of financial statements
2. To establish common base for comparison purposes.

ØList 2 types of common size financial statements.

1. Common size Balance sheet
2. Common size income statement or common size statement of Profit & Loss

ØWhat are the steps for formation of common size financial statement?

Step 1: Take the figure of previous year

Step 2: Take the figure of current year

Step 3: Calculate % total of each item to total of base which is 100 for previous year.

Step 4: Calculate % total of each item to total of base which is 100 for current year.

Ø What is the common base in common size Balance sheet?

Total of equity & Liabilities or total Assets.

ØWhat is the common base in common size income statement?

Revenue from operations

ØWhat are the 2 types of comparisons in comparative financial statement.

1. Intra firm comparison
2. Inter firm comparison

Ø Give any 2 limitation of comparison financial statement

1. Historical records only
2. Affected by personal judgement

ØCan we prepare common size statement for a year.

(yes)

ØCan we prepare comparative financial statements for a year.

(no)

CHAPTER 4

ACCOUNTING RATIOS

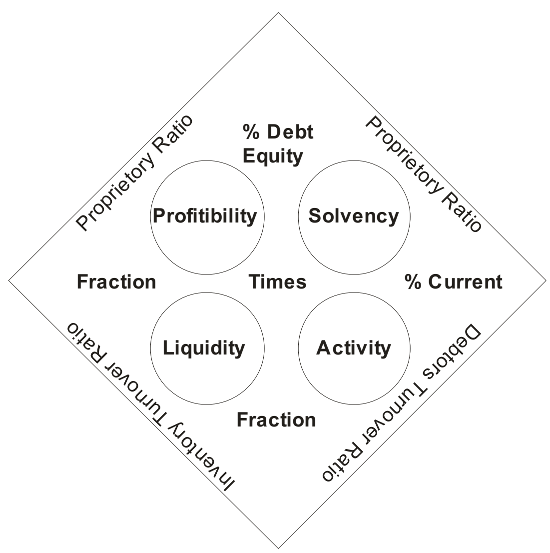
Points to Remember :

1. Loose tools and stores & spares will be excluded from inventories while calculating. Current ratio and inventories turn over ratio.
2. Provision for doubtful debt will be deducted from Trade receivables for calculating current and liquid ratios. But it will not deduct while calculating trade Receivables turnover ratio.
3. Non-trade Investment will be exclude from shareholder's funds and Capital employed and Total Assets for calculating solvency and Profitability ratios, and corresponding their income (i.e., interest on Non-trade Investment) will exelucls from Net Profit.
4. Operating cost and operating expenses are reperate concept shouldn't inter change.

Accounting Ratio: It is an arithmetical relationship between two accounting variables.

Ratio Analysis: It is a technique of analysis of financial statements to conduct a quantitative analysis of information in a company's financial statements.

"**Ratio analysis is a study of relationship among various financial factors in a business."** –Myers



RATIO ANALYSIS

Expression of ratios: Ratios are expressed in following four ways:

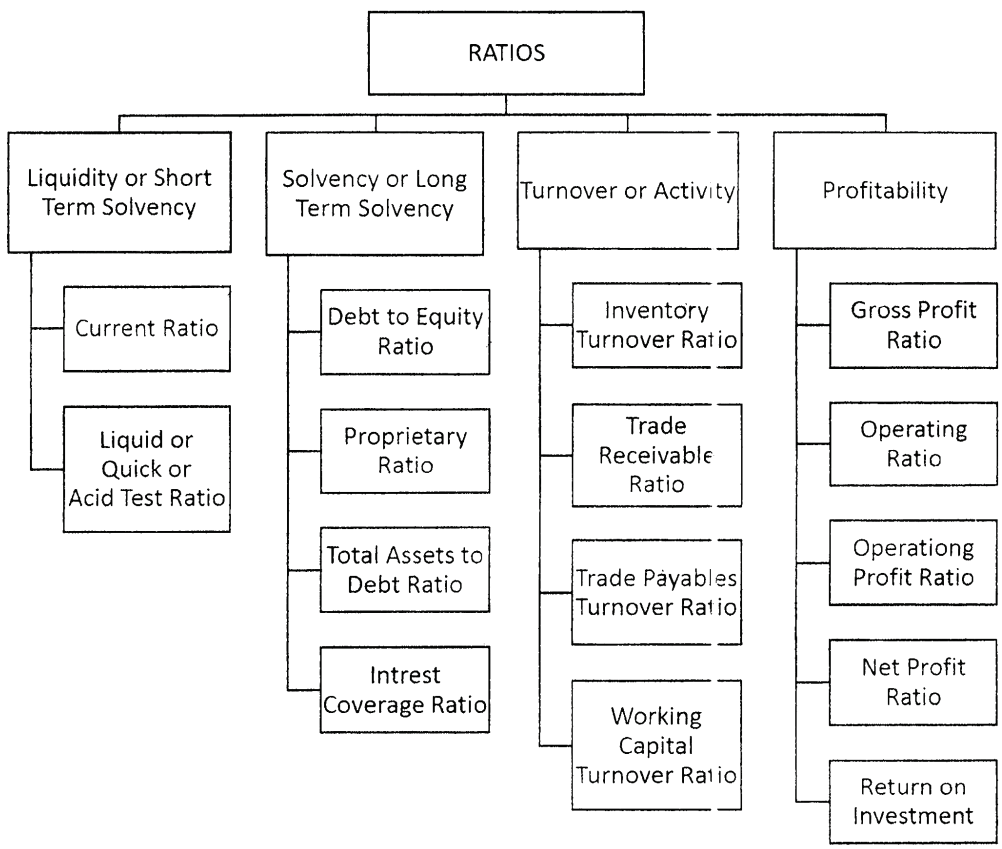
<u>Pure Ratio</u> Like 2:1. All liquidity and solvency ratios are expressed in pure form.

<u>Percentage</u> e.g. 15%. All profitability ratios are presented in percentage form.

<u>Times</u> Like 4 times. All turnover ratios and Interest Coverage Ratio are presented in this form.

<u>Fraction</u> like 3/4.

Classification or Types of Ratios:



Liquidity Ratios

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Liquid or Quick or Acid Test Ratio

$$\text{Liquid Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Supporting Formulae

1. Current Assets = Current Investments (also known as Market able Securities or S.T. Investment)

   + Inventories (except Loose Tools & Stores and Spares)

   + Trade Receivables (Debtors and B.R.) Net after provision for bdd.

   + Cash and Cash Equivalents (Cash and Bank Balances)

   + Short Term Loans and Advances

   + Other Current Assets (Prepaid Expenses, Accrued Income & Advance Tax)

2. Current Liabilities = Short Term Borrowings (Bank Overdraft and Cash Credit)

   + Trade Payables (Creditors and B.P.)

   + OtherCurrent Liabilities (O/s Expenses, Income Received in Advance, Unpaid or Ui claimed Dividend)

   + Short Term Provisions (Provision for Tax, Proposed Dividend)

3. Liquid Assets = Current Assets

   - Inventory (closing)

   - Other Current assets (Prepaid Expenses, Accrued Inicome & Advance Tax)

4. Working Capital = Current Assets - Current Liabilities

5. Total Assets = Non-Current Assets + Current Assets

6. Total Liabilities = Non-Current Liabilities + Current Liabilities

7. Non-Current Assets = Fixed Assets (tangible and intangible)
+ Non-Current Investments
+ Long Term Loans & Advances (Capital Advances, Security Deposits)

8. Non-Current Liabilities = Long Term Loans(Debentures, Bank Loans, Bonds)
+ Long Term Provisions (Provision for employee benefit & Warranties)

9. Capital Employed = Shareholders Fund
+ Borrowed Fund (Non-Current Liabilities)

10. Capital Employed = Total Assets - Current Liabilities
= Non-Current Assets + Working Capital

11. Shareholders Fund = Share Capital
+ Reserves and Surplus
Non-Current Non Trade Investments

Shareholders Fund = Total Assets - Non Current Liabilities - Current / liabilities

(Note: Total Assets wll include only Non-Current TRADE Investments for Capital Employed)

Non Current: Investment will remain Non-Current TRADE Investments in Absence of any other information.

Solvency Ratios

• Debt - Equity Ratio

$$\text{Debt - Equity Ratio} = \frac{\text{Debt (Non Current Liabilities)}}{\text{Equility (Shareholders Fund)}}$$

• Proprietary Ratio

$$\text{Proprietary Ratio} = \frac{\text{Shareholders Fund}}{\text{Total Assets}}$$

• Total Asset to Debt Ratio

$$\text{Total Asset to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt (Non Current Liabilities)}}$$

• Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{Profit BEFORE Interest, Tax and Dividend}}{\text{Interest on Long Term Loans}}$$

Activity or Turnover Ratios

- Working Capital Turnover Ratio

$$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operation}}{\text{Working Capital}}$$

- Inventory Turnover Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operation}}{\text{Average Inventory}}$$

- Receivable Turnover Ratio

$$\text{Receivable Turnover Ratio} = \frac{\text{Net Credit Revenue from Operation}}{\text{Average Debt ors+Average BR.}}$$

$$\text{Receivable Turnover Ratio} = \frac{\text{12 months or 365 days or 52 weeks}}{\text{Debt or Average Collection Period}}$$

- Payable Turnover Ratio

$$\text{Payable Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Creditors + Average B.P.}}$$

$$\text{Payable Turnover Ratio} = \frac{\text{12 months or 365 days or 52 weeks}}{\text{Average Payment Period}}$$

Supporting Formulae

a) Revenue from Operation (Net Sales) = Total Revenue from Operation
Return of Revenue from Operation

b) Total Revenue from Operation = Cash Revenue from Operation
+ Credit Revenue from Operation

c) Net Credit Revenue from Operation = Credit Revenue from Operation
- Return of Revenue from Operation

d) Cost Of Revenue From Operation (COGS) = Opening Inventory
+ Net Purchases + Direct Expenses
- Closing Inventory

e) Cost Of Revenue From Operation (COGS) = Revenue From Operation
- Gross Profit

f) Cost Of Revenue From Operation (COGS) = Cost of Raw Material Consumed
+ Purchases of Stock in Trade
+ Change in Inventory of Finished Goods, WIP, Stock in Trade
+ Direct Expenses

g) Average Inventory = $\dfrac{\text{Opening Inventory + Closing Inventory}}{2}$

h) Average Debtors = $\dfrac{\text{Opening Debtors + Closing Debtors}}{2}$

i) Average B.R. = $\dfrac{\text{Opening B.R. + Closing B.R.}}{2}$

j) Average Creditors = $\dfrac{\text{Opening Creditors + Closing Creditors}}{2}$

k) Average B.P. = $\dfrac{\text{Opening BP + Closing B. P.}}{2}$

l) Average Receivable = Average Debtors + Average B.R.

m) Average Payable = Average Creditors + Average B.P.

In absence of Information
• Debtors = Opening Debtors = Closing Debtors = Average = Debtors
• B.R. = Opening B.R. = Closing B.R. = Average B.R.
• Creditors = Opening Creditors = Closing Creditors = Average Creditors
• B.P. = Opening B.P. = Closing B.P. = Average B.P.

Profitabiliy Ratio

Gross Profit Ratio

Gross Profit Ratio = $\dfrac{\text{Groos Profit}}{\text{Revenue from Operation}} \times 100$

Net Profit Ratio

Net Profit Ratio = $\dfrac{\text{Net Profit After Tax}}{\text{Revenue from Operation}} \times 100$

Operating Ratio or Operating Cost Ratio

$$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operation}} \times 100$$

Operating Profit Ratio

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Revenue from Operation}} \times 100$$

Return on Investmetn or Return on Capital employed

$$\text{ROI} = \frac{\text{Profit BEFORE Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

<u>Supporting Formulae</u>

- Net Profit = Gross Profit + Indirect Incomes - Indirect Expenses

  = Gros profit + Non-Operating Income – (Operating Expenses + Non-Operating Expenses)

  = Gross profit + Non-Operating Incomes – Operating Expenses - Non Operating Expenses

  = Gross profit – Operating Expeses + Non-Operating Incomes - Non Operating Expenses

  = (Gross profit – Operating Expenses) + Non-Operatin, Incomes, non-Operating Expenses
- Net Profit = Operating Profit + Non-Operating Incomes - Non Operating Expenses
- Indirect Expenses = Operating Expenses + Non-Operating Expenses
- Non-Operating expenses Example Interest Paid on loans a finance cost
- Operating Expenses = Office and Administrative Expenses

  + Selling and Distribution Expenses

  + General Expenses

  + Depreciation
- Operating Expenses = Employee Benefit Expenses + Other Operating Expenses
- Indirect Incomes (also known Non-Operating Incomes)

  Example: Interest Received on Investment
- Operating Cost = Cost of Revenue from Operation + Operating Expenses
- Operating Profit = Gross Profit - Operating Expenses

  = Revenue from Operation - Cost of Revenue - Operating Expenses

  = Revenue from Operation - (Cost of Revenue + Operating Expenses)
- Operating Profit = Revenue from Operation-Operating Cost
- Operating Profit = Net Profit - Non Operating Incomes + Non-Operating Expenses

RATIO ANALYSLS

Illustration -1

A firm had current Liabilities of 60,000.After the payment, Current ratio was 3.25:1. Determine current Assets & current ratio before the payment was made.

Sol. Let the current Assets after payment be x

The current Ratio = $\frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$

$$\frac{3.25}{1} = \frac{x}{60{,}000 - 20{,}000}$$

$$3.25 * 40{,}000 = x$$

$$x = 1{,}30{,}0000$$

Hence, Current Asset after payment = 1,30,000

$\boxed{\text{Current Asset before payment}}$ = (1,30,000 + 20,000)

= $\boxed{₹\ 1{,}50{,}000}$

Current Ratio (Before payment) = $\frac{\text{CA before payment}}{\text{CL before payment}}$

= $\frac{1{,}50{,}000}{60{,}000}$

$$\boxed{CR = \frac{2.5}{1}}$$

Illustration - 2

A Ltd. has a current ratio of 3.5:1 & quick ratio of 2:1If excess of current assets over quick assets represented by stock is 24000. Calculate current Assets & current liabilities.

Sol. Current ratio = $\frac{CA}{CL}$

$$\frac{3.5}{1} = \frac{CA}{CL}$$

$$CA = 3.5\ CL \qquad - \quad 1$$

Quick ratio = $\frac{\text{QA (Quick Assets)}}{CL}$

$$\frac{2}{1} = \frac{CA - Stock}{CL}$$

$$2CL = CA - 24{,}000$$

$$2CL + 24{,}000 = CA \qquad - \quad 2$$

From 1 & 2 , we get -

$$3.5\ CL = 2CL + 24000$$
$$3.5CL - 2CL = 24000$$
$$1.5\ CL = 24000$$
$$CL = \frac{24000}{1.5}$$
$$\boxed{CL = 16,000}$$
$$CA = 3.5\ CL$$
$$= 3.5 * 16,000$$
$$\boxed{CA = 56,000}$$

Illustration - 3

The current Ratio is 2:1. State giving reason which of the following transaction would improve , reduce & not change the current Ratio :-

(a) Payment of dividend
(b) purchase of goods on credit
© Redeemed 9% Debentures of Rs 100000 at a premium of 10%
(d) Sale of goods for Rs 25000 (cost rs 20,000)
(e) Issued Rs 100000 Equity shares to the vendors of Machinery.

Sol. (a) Payment of divident will reduce the current assets & current libilities by same amount. Hence, current ratio will IMPROVE

(b) Both current Assets & current Liabilities will Increase by same amount . Hence, Current ratio will REDUCE.

© Both current Assets & current Liabilities will Decrease by the same amount. Hence, Current ratio will IMPROVE

(d) Total current Assets will Increase by Rs 5000 (profit) leaving current liabilites unchanged . hence, Current ratio will IMPROVE.

(e) Both current Assets & current Liabilities are not affected . Hence No CHANGE in current ratio.

Illustration - 4

Calculate current ratio & Quick ratio from the following:

	Rs		Rs
Total Debt			
Toatal Assets	10,00,000	Long term Borrowings	4,00,000
Fixed Assets	1,500,000	Long term provision	2,00,000
Non- current investment	5,00,000	Inventories	1,70,000
Long term Loans Advances	1,00,000	Prepaid Expenses	30,000

Sol. Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Total Assets - Non current Assets

= Total Assets - (Fixed Asset + Non Current Invt.+ Long term Loans& Adv.)

= 1500,000 - (500 000 +10 0000 +100000)

$\boxed{CA = rs\ 800\ 000}$

Current Liabilities = Total debt - Non - current liiabilites

= Total Debt - (Long term Borrowings + Long term provisions)

$= 10,00,000 - (400,000 + 200,000)$

$\boxed{CL = RS\ 400'000}$

$\boxed{\text{Current Ratio}} = \frac{Rs\ 800000}{Rs\ 400,000} = \boxed{2:1}$

$\boxed{\text{Quick ratio}} = \frac{\text{Quick Assets}}{\text{Current Liablities}} = \frac{Rs\ 600,000}{RS\ 400,000} = \boxed{1:5}$

$\boxed{\text{Quick Assets}}$ = Current Assets - inventories - prepaid expenses

= Rs 800,000 - Rs 170,000 - Rs 30000

$\boxed{QA = Rs\ 600,000}$

Illustration - 5

Trade receivable turnover ratio is 4 times

Cost of revenue from operations is Rs 320000

Gross profit ratio is 20%

Closing trade receirables were Rs 10,000 more than

Trade receivables in the begining

Cash revenue from operations is 11/3 of credit revenue from operation

Calculate

(I) Opening trade Receivables

(II) Closing Trade Receivables

Sol. Let total revenue from operations be X

Total revenue from Operations = Cost of revenue from Operations + Gros profit

$X = 320000 + 20\%\ X$

$X = \frac{20\ X}{100} = 320000$

from

$X - \frac{1}{5} X = 320000$

$\frac{4}{5} X = 320000$

$X = 320000 \times \frac{5}{4}$

$\boxed{X = Rs\ 400,000}$ Total Revenue

Let credit revenue from operations be Y

Total ravenue from operations = Cash Revenue + Credit Revenue Operations

$400,000 = \frac{1}{3} y + y$

$400,000 = \frac{4}{3} y$

$y = 400,000 * \frac{3}{4}$

$\boxed{y = Rs\ 300,000}$ Credit Revenue

$\text{Trade Receivables Turnover Ratio} = \frac{\text{Credit revenue from Operations}}{\text{Avg. trade Receivables}}$

$4 = \frac{Rs\ 3,00,000}{\text{Average Trade receivables}}$

$$\text{Average Trade Receivables} = \frac{300,000}{4} = \text{Rs } 75,000$$

Let OP.Trade receivables be z

LetCI.Trade receivable be= z + 10,000

$$\text{Avg Trade receivables} = \frac{\text{OP T|R + CI} \times \text{T|R}}{2}$$

$$75000 = \frac{z+z+10000}{2}$$

$$150000 = 2z + 1000$$

$$2z = 140000$$

$$\boxed{z = \text{Rs } 70,000} \quad \text{op. T|R}$$

$$\text{CI.. T|R} = 70000+10000 = 80000$$

Illustration - 6

Calculate the values of opening & closing inventory from the foll. -

Total Sales Rs 200,,000

Sales Reluim Rs 12,500

Gros profit 1//4 on cost

Inventory Turnover ratio = 6 times

Inventory at thr beginning is 1:5 times more than the inventory at the end.

Sol. Net sales = total sales - sales reluin

= 200,000 - 12500

= Rs 187500

Gross Profit = 1/4 on cost

Let cost of revenue from operations = 100

$$\text{Gross profit} = \frac{1}{4} * 100 = 25$$

Revenue from operations = 100+25 = 125

If revenue from operations is 125, then cost is = 100

$$\text{If revenue from operations is 187500, then cost is} = \frac{100}{125} * 187500$$

$$= 150,000$$

$$\text{Inventory turnover ratio} = \frac{\text{Cost of revenue from operations}}{\text{Average inventory}}$$

$$6 = \frac{150000}{\text{Avg inventory}}$$

$$\text{Avg Inventory} = \frac{150000}{6} = \text{Rs } 25000$$

$$\text{Avg Inventory} = \frac{\text{op..inv +cl.inv}}{2}$$

op inv +cl inv = Avg inv. * 2

= 25000*2 = Rs 50,000

Let cl. inventory be x

then op. Inventory = x +1.5x = 2.5 x

Hence, x + 2.5x = 50,000

3.5x = 50,000

$$x = \frac{50,000}{3.5}$$

$\boxed{x = 14286}$ Closing inventory

op. Inv = 2.5x

= 2.5 * 14286

$\boxed{\text{op.Inv.} = 35715}$

Illustration 7:

The Following particulars are extracted from the Balance Sheet of XYZ1+d as at 31st Mar 2019 :-

Particulars	Rs Amount
Equity share capital	2,00,000
10% preference share capital	1,80,000
capital reserve	40,000
profit & loss balance	1,00,000
12% Debenlures	50,000
10% Morlgage loan	1,50,000
Current Liabilities	4,20,000
Current Assets	300,000

calculate the following ratio:

(a) Debt - EquityRatio

(b) Proprietary ratio

© Interest coverage ratio when Net profit after tax Rs 50,400 & rate of Income tax was 40%

Sol. (a) DEBT - EQUITY RATIO $= \frac{\text{Debt}}{\text{Equity}}$

Debt (long - term) = Debentures + Mortgage loan

= Rs 50,000 + 1,50,000

= 200,000

Equity / Share holder`s Funds = Eq share cap + pref. share cap + cap. Reserve + p& L balance

= 200,000 + 180,000 + 40,000 + 100,000

= Rs 520,000

Debt - Equity Ratio $= \frac{\text{Rs } 200,000}{\text{Rs } 520,000} = \frac{0.38}{1}$

(b) Proprielary Ratio $= \frac{\text{Shareholder`s funds}}{\text{Total Assets}}$

$= \frac{\text{Rs } 520,000}{\text{Rs } 720,000}$

= 0.722 or 72.2 %

Total Assets = Non current Assets + current Assets

= Rs 4,20,000 + Rs 300,000

= 720,000

© Interest Coverage Ratio $= \frac{\text{Net profit before interest \& tax}}{\text{Fixed interest charges}}$

Fixed interest Charges = 12% int. on Deb. of Rs 50,000 + 10% Int. on mortgage loan of Rs 150,000

$= \left(\frac{12}{100} * 50{,}000\right) + \left(\frac{10}{100} * 150{,}000\right)$

$= 6000+15000 =$ Rs 21000

Let net profit bfore tax = Rs 100

Tax = Rs 40

Net profit after tax = Rs 60

Net profit after Tax is Rs 60 when net profit before Tax = 100

Net profit after tax is Rs 50,400 Then net profit before Tax = $100 * \frac{50{,}400}{60}$

Rs = 84000

Net profit before tax = Rs 84000

Net Profit before int. & tax = Rs 84000+21000

= Rs 10,5000

Interest Coverage Ratio = $\frac{\text{Rs } 105000}{\text{Rs } 21000}$ =5 times

Illustration - 8

Calculate Total Assets to Debt Ratio from foll. inf. -

Capital Employed	16,20,000	Equity share capital	8,00,000
Current Liabilities	180,000	8% Debentures	3,00,000
Fixed Asset (Gross)	9,50,000	Capital Reserve	2,40,000
Accumlaled Depreciation	1,50,000	Surplus i.e., balance in Statement of P&L - dr.)	20,000
Non - Current Investment	700,000		
Trade Receivables	2,50,00	Cash & Cash Equiralents	50,000

Sol. Total Asset to debt Ratio = $\frac{\text{Total Assets}}{\text{Debt}}$

Total Assets = Non - Current Assets + Current Assets

= [Fixed asset (Gross) (-) Accumulated Deprecialin + Non - current - Investment] + [Trade Receivable + cash & cash eq]

= [9,50,000 – 1,50,000 + 7,00,000] + [250,000 +50,000]

= 15,00,000 + 3,00,000

$\boxed{\text{Total assets = Rs 18,00,000}}$

(I) Calculate Return on investment if Net profit before tax for the year 2018-19 is Rs 7,83,600

(II) Calculate Return on investment for the yr. 2018-19 w.r.t opening Capitl Employed given -

(a) Reserves & Surplus

Surplus -

opening Balance	4,20,00	
Add Transfer from statement of profit &loss	9,72,00	13,92,000

Sol. ROI = $\frac{\text{Net profit before int. \& Tax}}{\text{Capital Employed}} * 100$

$= \frac{\text{Rs } 10{,}11{,}600}{\text{Rs } 33.72{,}000} *100 = 30\%$

Calculation of Net profit before int & tax -

Net profit before Tax	Rs 7,83,600
Add int. on long term borrowings (15% 16,00,000)	Rs 2,40,000
Less Int. on Non-Trade Investments (10% of 1,20000)	Rs (12,000)
Net profit before int. & tax	Rs 10,11,600

Calculation of capital employed -

Asset side approach :-

Capital employed = Fixed Asset + Working capital

= Non current Assets (excluding Non-Trade investment)+ Current Assets-current liabilities

= 20,00,000 + 21,72,000 - 8,00,000

= Rs 33,72,000

Capital employed = shareholders fund + long term Debts

16,20,000 = 10,20,000 + long term Debts

$\boxed{\text{Long term Debts}}$ = 16,20,000 – 10,20,000

$\boxed{\text{Rs 6,00,000}}$

Shareholders funds = Eq share cap +cap raserve (–) Surplus Balance in Statement of P & L

= 8,00,000 + 2,40,000 - 20,000

= Rs 10,20,000

$$\text{Total Asset to Debt ratio} = \frac{\text{Rs } 18,00,000}{\text{Rs } 6,00,000} = 3:1$$

Illustration - 9

Following is the balance sheet of Davi Exports ltd. As at 31st march 2019

Particulars	Rs
I. EQUITY & LIBILITIESS	
1. Shareholder`s Funds	
(a) Share Capital	5,00,000
(b) Reserve & Surplus	13,92,000
2. Non- current Liabilities	
15% Long term Borrowings	16,00,000
3. Current Liabilities	8,00,000
Total	42,92,000
II ASSETS	Rs
1. Non - current Assets	
(a) Fixed Assets	18,00,000
(b) Non - Current investment	
(I) 10% Investment	2,00,000
(II) 10% Non- Trade investment	1,20,000
2. Current Assets	21,72,000
Total	42,92,000

Liabilities side Approach :-

Capital Employed = Share capital +Reserve + Surplus+ Non Current liabilities - Non - Trade Investment

= 5,00,000 + 13,92,000 + 16,00,000 - 1,20,000
= rs 33,72,000

II ROI = $\frac{\textbf{Net profit before int \& Tax}}{\text{Opening capital Employed}}$ *** 100**

Given - Net profit RS 9,72,000
Add int. on Long term Borrowing Rs 2,40,000
(15% 16,00,000)
Less int. on Non- Trade investment Rs (12,000)
(10% 1,20,000)
Net profit before int. & tax Rs 12,00,000

Calculation of capital employed :-
Asset side Approach :-
Capital Employed = Non Current Assets (excluding Non-trade investment) + Current Assets - Current Liabilities -Current Years Profit
= Rs (20,00,000 + 21,72,000 - 8,00,000,-9,72,000)
= Rs 24,00,000

Liabilities side Approach :-
Capital Employed = Share capital + Reserve & Surplus Current year`s profit + Non current Liabilities - Non - Trade Investments
= Rs (5,00,00 + 4,20,000+16,00,000 - 1,20,000)
= Rs 24,00,000

Hence, RoI = $\frac{\text{rs } 12,00,000}{\text{Rs } 24,00,000}$ * 100 = 50%

Illustration -10
Calculate Gross profit ratio from the foll -
Cash sales 25% Net sales
Average inventory Rs 1,60,000
Inventory Turnover ratio 8 times
Average Trade Receivables Rs 2,00,000
Trade recevables Turnover ratio 6 times

Sol. Gross profit ratio = $\frac{\text{Gross Profit}}{\text{Revenue from Operations}}$ * 100
= Rs $\frac{3,20,000}{16,00,000}$ * 100 = 20%

Cost of Revenue from Opertions :-
Inventory Turnover Ratio = $\frac{\text{COGS}}{\text{Average Inventory}}$
8 = $\frac{\text{COGS}}{\text{Rs } 1,60,000}$
COGS = Rs 1,60,000 * 8
= $\boxed{\text{Rs } 12,80,000}$

Credit sales :-
Trade Receivable Turnover Ratio = $\frac{\text{Net credit sales}}{\text{average trade receivables}}$

$$6 = \frac{\text{Net cr. sales}}{\text{Rs } 2,00,000}$$

Net cr. sales = 6* Rs 2,00,000

= $\boxed{\text{Rs } 12,00,000}$

If Cash sales = 25% net sales

Then Credit sales = 75% of net sales

Rs 12,00,000 = 75% Net sales

Net sales = $\frac{\text{Rs } 12,00,000}{75\%}$ = $\boxed{16,00,000}$

Gross profit = [Revenue from operations] (Net sales) - [Cost of revenue from Operations (COGS)]

= Rs 16,00,000 - rs 12,80,000

= Rs 3,20,000

Illustration - 11

calculate Operating rato from the following

Operating cost rs 6,80,000

Operating expenses rs 80,000

Purchase of stock in trade	rs 6,06,000
change in invetories of stock in trade	rs 15,000
Employes benefits Expenses	rs 9,000
Selling & Distribution Expenses	rs 58,000
Loss on sale of fixed Asset	rs 12,000
Gross profit Ratio	- 25%

Administrative Expenses ₹ 22,000

Sol. Operating Ratio = $\frac{\text{Cost of revenue from operations} + \text{Operating Expenses}}{\text{Revenue from opertaion}} * 100$

$= \frac{\text{rs } 6,00,000 + \text{rs } 80,000}{\text{rs } 8,00,000} * 100 = 85\%$

Cost of revenue from Operation = operating cost - operating expenses

= rs 6,80,000 - rs 80,000

= rs 6,00,000

Cost of revenue from operation = Purchase of stock in Trade + Change in inventories + stock in stock + Employe Benefit Expenses

= rs 6,06,000 - rs 15,000 + rs 9000

= rs 6,00,000

Operating Expenses = Given rs 80,000

Otherwise Operating Exp. = Administrative Expenses + selling & Distribution Expenses

= Rs 22000+ rs 58000

= rs 80,000

(a) Cost of Revenue from operations -

Let Revenue from Operations be rs 100

and If Gross profit = rs 25

Then, Cost of revenue fom operation = rs 75

If cost of revenue from operation is rs 75 Revenue fom operations rs 100

If cost of revenue from operation is rs 6,00,000

Then revenue from Operation = rs 6,00,00, * $\frac{100}{\text{rs } 75}$

= 8,00,000

Illustration - 12

Ravenue from operation 8,00,000

Gross profit ratio 25%

Operating ratio 90%

Non - Operating Expenses rs 4000

Non - Operating income rs 44000

calculate Net profit ratio:

Sol. Net profit ratio = $\frac{\text{Net Profit}}{\text{Revenue from operations}}$ * 100

= $\frac{\text{rs } 1,20,000}{\text{rs } 8,00,000}$ *100 = 15%

Calculation of Net profit

Operating profit ratio = 100% Operating Ratio

= 100% − 90%

= 10%

Operating profit Ratio = $\frac{\text{Operating profit} \quad *100}{\text{Revenue from Operations}}$

$$10 = \frac{\text{operating Profit}}{8,00,000} \times 100$$

Operating profit = $\frac{\text{rs } 8,00,0000 * 10}{100}$ = 80,000

Net profit = Operating profit +Non operating Income - Non - Operating Expenses

= rs 80,000+rs 44,000 - rs 4000

rs 1,20,000

RATIO ANALYSIS

MCQ

1. Which ratio measures the firm's ability to meet its short term - obligations in time ?

(a) Profilabilily ratios
(b) liquidily ratios
© Activity ratios
(d) Solvency ratios

2. Liquid Assets = -------------------
(a) Current Assets + Inventory
(b) Current Assets - Inventory
© Current Assets - (Inventory + Debtors)
(d) Current Assets - (Inventory + prepaid Expenses)

3. A co.extends credit terms of 45 days to its customers its credit collection would be considered poor if it average collection period was -
(a) 30 days
(b) 52 days
© 41 days
(d) 36 days

4. If 365 if divided by inventory turnover ratio, it becomes a measure of -
(a) Revenue from operations efficiency
(b) Average collection period
(c)Average age of the invetory
(d) revenue from operations turnover

5. The _______ Indicates the percentage of each sales rupee remainig after the firm has paid cost of goods sold
(a) Net profit Margin
(b) Gross profit Margin
© Operating Profit margin
(d) Earning Available to Equity shre holders

6. The ideal ratio between total long - term funds & Total long- term loans is-
(a) 2:1
(b) 3:1
© 1:1
(d) 4:1

7. 100- operating profit ratio = ________
(a) Gross profit ratio
(b) Operating net profit ratio
© Operating ratio
(d) Net profit ratio

8. What is the limitation of ratio analysis?
(a) Price level changes not considered
(b) window dressing
(c) persnol Bias
(d) All of the above

9. The technique of converting figures into percentage in some common base is called _
(a) Common Size statement Analysis
(b) Comparative statement Analysis
(c) Ratio Analysis
(d) None

10. Asset while calculating current ratio ?
(a) Trade Receivable
(b) Current Investment
(c) Loose tools
(d) Cash Equivqlent

11. When will discharge of bills payable result into increase in current ratio-_
(a) If Current Ratio is 1:1
(b) If current Ratio is 2:1
© If current rtio is 0:8:1
(d) If current ratio is 1.5 : 1.5

12. If revenue from operation Rs 1,60,000 & Gross profit is rs 40,000 : Then Gross profit Ratio will be -
(a) 25%
(b) 30%
(c) 40%
(d) 45%

13. Which formula is correct for computing operating ratio -
(a) (Revenue frpm operations * 100) ÷ Operating cost
(b) (Opening cost *100) - cost of revenue from operation
(c)(Operating cost *100) - Revenue from operations
(d) None of These

14. If revenue from operation rs 900,000 Gross profit 25% on cost, operating Expenses rs 90,000 Then operatin Ratio Will be -
(a) 10%
(b) 70%
(c) 50%
(d) 100%

15. Calculate proprietary ratio . If share capital rs 5,00,000: Non-current Assets s 22,00,000: Reserves & Surplus rs 3,00,000 current Assets rs 10,00,00

(a) 100%
(b) 70%
(c) 40%
(d) 25%

16. A transaction involving a decrease in Debt - Equity ratio & Increase in current ratio is -
(a) Issue of debentures against the purchase of fixed assets
(b) Redemption of preference shares for cash
(c) Issues of shares for cash
(d) Issues of Debetures for cash

17. Simran Ltd. has a proprietary ratio of 25% to maintain this ratio at 30% , management may -
(a) Increase Equity
(b) Reduce Debt
(c)Increase Equity & Increase Debt
(d) Increase Equity & reduce Debt

18. A transaction invdving a decrease in both current ratio & Quick ratio is -
(a) Sale of Non-current Assets & fixed Assets
(b) Sale of stock - in- Trade at loss
(c)Cash payment of a current liability
(d) Purchase of stock in trade on credit

19. Working capital is the
(a) Difference between current Assets & Fixed Assets
(b) Difference between current Assets & current Liabilities
(c)Cash and bank balance
(d) Capital Borrowed from the banks

20. Cost of revenue from operations -
(a) Purchase - closing inventory
(b) Revenue from operations - closing inventory
(c)Revenue from operations - Gross profit
(d) revenue from operations - Net profit

21. State whether the following statement are true / false -
(a) In calculating Debt - Equity ratio , all external debts atre Considered
(b) In Debt to total Assets Ratio, debt include only long term borrowings & long term provision.
(c)Debit balance is surplus, i.e. balance in statement of profit & loss is not deducted to calulated share holder funds to calculate Debt - Equity ratio.
(d) Loose tools spare parts are excluded to calculate working capital while calculating working capital turnover ratio .
(e) The formula for Trade payables turnover ratio is net credit purchases / Average trae receivables.

22. Fill in the blanks with appropriate words -

(a) __________ establishes the no. of times amount invested to trade recevables is turned over in a year in relation to revenue from operation

(b) Gross profit + Other income – __________ = Net profit

© _____________ & Operating profit ratio are complimentary to each other

(d) trade payable is the sum total of creditors & _________

(e) Debit balnce is surplus i.e, Balnce in statement of profit & loss is deducted to calculate _______ to calculate Debt - Equity ratio .

Exercise

1. Calculate current ratio from the foll. Inf-

Particular		Particular	
Total Assets	3,00,000	Non current Liabilities	1,90,000
FA (Tangible)	100000	Non current investment	1,60,000
Shareholder`s funds	90,000		

Hint - CA = TA-FA-Non CI
CL = TA - Shareholder`s funds - Non current liabilities

2. Calculate current ratio -

Working capital - rs ,150,000

Total Liabilities other then shareholder`s funds) - rs 3,8,5,000

Long term debits - rs 2,85,00

3.Working capital rs 36000

Current ratio 2:8:1

Inventory rs 16000

Calculate current Assets, current Liabilities & Quick ratio

(Hint = WC = CA-CL

Quick Assets = Current Asset - Inventory)

4. Calculate working capital turnover ratio from the following information -

Revenue from operations rs 1200,000

Current Assets rs 500,000

Total Assets rs 10,00,000

Non - current Liabilities rs 4,00,000

Shareholder`s funds rs 4,00,000

(Hint - Current Assets = Total Assets - Non-CL - Sharehoder`s fund

5. Calculate Trade payables Turnover ratio -

op, sundry Creditors	rs 80,000	Closing sundry creditors	rs 90,000
op, Bill Payable	rs 10,000	CL Bill payable	rs 20,000
purchase	rs 10,00,000	cash purchase	rs 3,28,000
purchase returns	rs 72,000		

Hint - Net cr. purchas = purchase - PR - cash purchase

6. Calculate inventory turnover ratio from the folll inf-

Net sales rs 40,000

Average inventory rs 5500

Gross loss on sales is 10%

(Hint - Cost of revenue from operation = Net sales + Gross loss)

7. Calculate proprielary ratio from the foll. inf-

Long terms Debt rs 32,00,000
Working Capital rs 4,00,000
Current Assets rs 20,00,000
shareholder`s funt 18,00,000
Reserves & surplus rs 2,00,000

(Hint - Total Assets = shareholder`s funds + Long term Debt
+ Current Liab.)

8. Calculated Gross profit ratio from the foll-

Cash sales = 25% total sales
= Purchase = rs 6,90,000
credit sales = rs 6,00,000

Excess of closing inventory over opening inventory = rs 50,000

(Hint- COGS = Purchase + change in inventories
Purchase - Excess of closing inventory pver opening inventory)

9. Calculate operating ratio from the fall-

Revenue from operation = rs 8,00,000
Gp = 25% Cost
Setting Expense = 1,35,000
Administraive Expense = rs 93,000

10. Calculate operating profit Ratio from the following:

Revenue from Operations	47,99,600
COGS	24,40,200
Weges	50,98,00
Office & Administrative Expenses	4,50,400
Setting & Distribution expenses	2,51,200
interest on loan	30,000
Loss by theft	18,000
Income from investment	60,000

(Hint- operating profit = Revenue from oprations - COGS -Office Administrative Expenses - selling & Distribute Expense

11. Gross profit ratio of a company was 25% . Its cash Sales were rs2,00,000 & credit sales were 90% of the total sale If the indirect expenses of the company were rs 20,000, Calculate - Net profit Ratio.

(Hint - Net profit = Gross Profit - Intired Expenses)

12.Calculate Total Asset to Debt Ratio -

Fixed Aset (Gross)	10,00,000
Accumulated Depreciation	500,000
Non - current investment	1,50,000
Long term loans & Advance	1,00,000
Current Assets	4,50,000
Total Debt	75,000
Sundry Creditors	25,000
Expenses Payable	25,000
Bill payable	25,000
Short term bank loan	50,000

13. Calculate (a) Net Profit Ratio
(b) Debt - Equity Ratio
(c) Quick Ratio

Given Information -

Paid up capital	20,00,000
Capital reserve	20,00,000
9% Debentures	8,00,000
Net Revenue from Opertions	14,00,000
Gross profit	8,00,000
indirect Expenses	2,00,000
Current Assest	4,00,000
Current Liabilities	3,00,000
Opening Inventory	50,000

Closing inventory - 20% more than opening inventory

14. Calculate RoI from the foll -
Net profit after tax = rs 650,000 ; 12.5% Convertible Debent = rs 8,00,000 ; Income Tax = 50% ; Fixed Assets at cost = 24,60,000 ; Depreciation Reserve = rs 4,60,000 ; Current Asset = rs 15,00,000 ; Current Libilities = rs 7,00,000

15. Calculate (a) Gross profit ratio
(b) Working capital Turnover ratio
(c) Proprietary ratio

Information-

Paid up capital	8,00,000
current Assets	5,00,000
Credit Revenue from operation	3,00,000
Cash revenue from operations	75% of credit sales
9% Debentures	3,40,000
Current Liabilities	2,90,000
Cost of revenue From operation	6,80,000

16. A company has a loan rs 20,00,000 as part of its capital Employed. The interest payable on loan is 15% &the RoI of the company is 25% The rate of income Tax is 40%. What is the gain to the shareholders due to the loan raised by the company?
(Net Gain = Net profit before int. & - Interest - Tax tp shareholders)

Things to Remember

- What is a Ratio?

  It is an arithmetical relationship between 2 variables.

- What is Accounting Ratio?

  It is an arithmetical relationship between 2 accounting variables.

- In how many ways a Ratio may be expressed

  1. Pure
  2. Times
  3. %
  4. Fraction

- Give two objectives of Ratio Analysis

  1. To find out the weak areas of business
  2. To help in formulation of plans for future

- List two uses of Accounting Ratios

  1. To Analyse the financial statements
  2. To simplify the Accounting Data

- Write two limitations of Accounting Ratios

  1. Ignoring Price level changes
  2. Ignoring qualitative aspect

- Liquidity Ratios are also known as short term solvency Ratios
- List two Ratios included in liquidity Ratios

  2. Current Ratio
  3. Quick Ratio

- Current Ratio is also known as – working capital Ratio
- Quick Ratio is also called as—Acid test Ratio or Liquid Ratio

  Write formula for working capital Ratio

  Working capital Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

- What are current Assets?

  Assets which may be converted into cash or cash equivalent within, 12 months from the date of Balance sheet or operating cycle.

- What are current liabilities?

  Liabilities which are to be paid within 12 months from the date of Balance sheet or operating cycle.

- Give examples of current liabilities?

  Short term borrowing(including Bank overdraft), trade payables(Bills payables and sundry creditors),other current liabilities.

- What are liquid Assets?

  These assets which can be converted into cash or cash equivalents within short period of time.

- Give examples of Liquid Assets

  Current investments, trade receivables, cash and cash equivalents, short term loans and advances.

- What do you mean by solvency Ratios?

  Those ratios which show whether the business will be able to pay its long term commitment/ payments on time.

- How can we calculate debt?

  Debt = long term borrowings

  +long term provisions

  OR

  = Total Debt-current liabilities

- How to deal with debit balance of statement of P&L account?

  It is to be deducted from equity /shareholders' funds

- What are long term provisions?

  Provisions for those liabilities to be paid after 12 months from the date of balance sheet or after operating cycle.

- Give examples of long term provisions?

  Employees benefit expenses like provision for gratuity, provision for warranty.

- Activity Ratios are also known as performance Ratios/ turnover Ratios.

- How to deal with change in inventory Add change in inventory if opening inventory>closing inventory.

  Subtract change in inventory if opening inventory<closing inventory.

- Give a reason for ↑ or ↓ in gross profit Ratio.

  ↑ Higher selling price with constant cost of revenue from operation results in in gross profit ratio.

  ↓ Higher cost of revenue from operation with constant selling price results in gross profit ratio.

- Give examples of non-operating incomes: interest received, dividend received, profit on sale of fixed assets.
- Give examples of non-operating expenses: Interest on long term loans, loss on sale of non-current assets.

CHAPTER 5

CASH FLOW STATEMENT

Points to Remember :

1. First decide the nature of enterprise it is financial or Non-Financial.
2. For Calculating depreciation, check the Balance Sheet to find out that values of assets are given at net value (i.e., written down value) or at Gross Block (Shown Accumulated dep. A/c also). There after attempt question according to the instructions.
3. Current Investment or marketable securities is a part of Cash and Cash equivalent as per As-3 (revised.) if both are given separately than marketable securities will be consider as cash equivalent and remaining current Investment will consider in Investing activities.
4. Bank overdraft and cash credit will be consider in financial activity not under working capital changes in operating activities.

Meaning : It is a statement that shows flow (Inflow or outflow) of cash and cash equivalents during a given period of time.

As per Accounting Standard-3 (Revised) the changes resulting in the flow of cash & cash equivalent arises on account of three types of activities i.e.,

(1) Cash flow from Operating Activities.

(2) Cash flow from Investing Activities.

(3) Cash flow from Financing Activities.

Cash: Cash comprises cash in hand and demand deposits with bank.

Cash equivalents: Cash equivalents are short-term, highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value e.g. short-term investment. Generally, these investments have a maturity period of less than three months.

Some examples of cash equivalent: Short-term deposits, marketable securities, treasury bills, commercial papers, money market funds, investment in preference shares if redeemable within three months provided that there is no risk of the failure of the company.

Some types of transaction which are considered movement between cash and cash equivalents are given below:

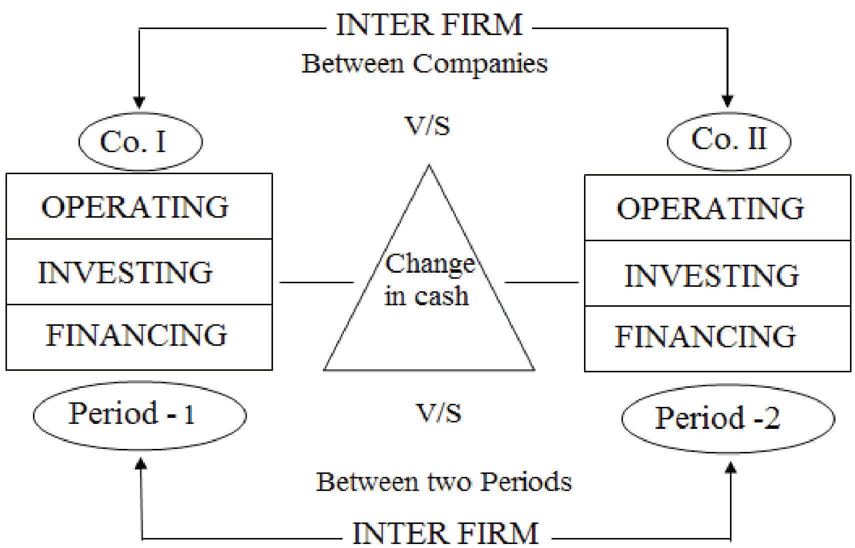
1. Cash deposited into bank.
2. Cash withdrawn from bank.

3. Sale of cash equivalent securities (e.g. Sale of short-term investment, sale of commercial papers)

4. Purchases of cash equivalent securities (e.g. Purchase of short-term investment, Purchases of Treasury bills).

The above types of transaction are part of cash and equivalents, so these are included in opening and closing cash and cash equivalent only. So these types of transaction should not be included in cash flow from different activities like operating, investing, financing activities.

Cash Flow Statement



Preparation of cash flow statement

Cash flow from operating activities (A)	....
Cash flow from investing activities (B)	....
Cash flow from financing activities (C)	....
Net increase/decrease in cash & cash equivalent (Total of the above three activities) (A+B+C)	....
Add: Cash & Cash equivalent in the beginning of the year (Given in opening balance sheet) .	....
Cash & Cash equivalent at the end of the year	....

Note 1: The student should ensure that the Cash & Cash equivalent at the end of the year as calculated above will be same as cash & cash equivalent given in closing balance sheet.

Note 2: A,B.C can have negative balance as well indicating cash used in operating investing & financing activities respectively.

Objectives of Cash Flow Statement

1. To ascertain how much cash or cash equivalents have been generated or used in different activities i.e., operating/investing/financing activity.

2. To ascertain the net changes in cash and cash equivalents.

3. To assess the causes of difference between actual cash & cash equivalent and related net earnings/income.

4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.

5. To help in short-term financial planning.

6. To ascertain the liquidity of enterprises.

Limitations of Cash Flow Statement

1. Non cash transactions are not taken into consideration like shares or debentures issued to vendors, depreciation charged during the year.
2. It is a statement related with past data.
3. It is not used for judging the profitability of enterprise.
4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included.

Computation of Cash flows from different activities.

(1) Cash flow from operating activities : Operating activities are the main revenue generating activities of the enterprises. It also includes all those transactions which are not included in investing and financing activities.

Indirect Method of calculating the cash flow from Operating Activities : Under this method Net Profit before Tax and Extra-ordinary Item is the starting point for further calculations.

(A) Calculation of Net Profit before Tax and Extra-ordinary Items:

Difference between closing balance and opening balance of Balance in Statement of Profit & Loss A/c ....

Add: 1. Dividend (final or proposel) paid during the year ....

2. Interim Dividend paid during the year ....

3. Profit Transferred to Reserve ....

(If reserve of current year increased from previous year) ....

4. Provision for Taxation made during the year ....

5. Extra Ordinary Item.
If any Debited to Statement of Profit & Loss ....

Less: 1. Refund of Tax credited to Statement of P&L (................)

2. Extraordinary-item if any credited to Statement of P&L (................)

3. Reserves transferred back to statement of Profit and Loss (................)

Net Profit before Tax and Extra-ordinary items ....)

Extraordinary items: These items are not related to normal business operation.

Format :Cash Flow from Operating Activities

		₹
I. Cash Flow from Operating Activities		
(A) Net Profit before Tax and Extraordinary Items (as per Working Note)		...
Adjustment for Non-cash anc Non-operating Items		
(B) *Add:* **Items to be Added**		
— Depreciation	...	
— Goodwill, Patents and Trademarks Amortised	...	
— Interest on Bank Overdraft/Cash Credit	...	
— Interest on Borrowings (Short-term and Long-term) and Debentures	...	
— Writing off Underwriting Commission/Share Issue Expenses	...	
— Loss on Sale of Fixe d Assets	...	
— Increase in Provision for Doubtful Debts*	...	...
		...
(C) *Less:* **Items to be Deducted**		
— Interest Income	...	
— Dividend Income	...	
— Rental Income	...	
— Gain (Profit) on Salt of Fixed Assets	...	
— Decrease in Provision for Doubtful Debts*	...	...
		...
(D) **Operating Profit before Working Capital Changes (A + B - C)**		
(E) *Add:* **Decrease in Current A isets and Increase in Current Liabilities**	...	
— Decrease in Inventories (Stock)	...	
— Decrease in Trade receivables (Debtors/Bills Receivable)	...	
— Decrease in Accrued Incomes	...	

— Decrease in Prepaid Expenses	...	
— Increase in Trade Payables (Creditors/Bills Payable)	...	
— Increase in Outstanding Expenses	...	
— Increase in Advanc: Incomes	...	...
		...
(F) *Less:* **Increase in Current Assets and Decrease in Current Liabilities**		
— Increase in Inventcries (Stock)	...	
— Increase in Trade R 'ceivables (Debtors/Bills Receivable)	...	
— Increase in Accruec Incomes	...	
— Increase in Prepaid Expenses	...	
— Decrease in Trade Payables (Creditors/Bills Payable)	...	
— Decrease in Outstanding Expenses	...	
— Decrease in Advam e Incomes	...	...
		...
(G) **Cash Generated from Operations (D + E-F)**		...
(H) *Less:* Income Tax Paid (Net of Tax Refund)		...
(I) Cash Flow before Extraordinary Items		...
Extraordinary Items (+/-)		
(U) CashFlowfrom(orUsedin)peratingActivities		...

For the calculation of provision for Taxation made during the current year, the Provision for Taxation A/c is to be prepared as follows.

Provision for Taxation Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c (Tax Paid during the current year)	....		By Balance b/d	....
				By Statement of P&L	....
	To Balance c/d	....		(Provision for taxation made during the current year)	
		....			....

Illustration1. X Ltd. made a profit of 1,00,000 after considering the following items:

1.	Depreciation of fixed assets	₹ 20,000
2.	Writing off preliminary expenses	₹ 10,000
3.	Loss on sale of furniture	₹ 1,000
4.	Provision of Taxation	₹ 1,60,000
5.	Transfer to General reserve	₹ 14,000
6.	Profit on sale of Machinery	₹ 6,000

The following additional information is available to you:

Particulars	31.03.2016 (₹)	31.03.2017 (₹)
Debtors	24,000	30,000
Creditors	20,000	30,000
Bills Receivables	20,000	17,000
Bills Payables	16,000	12,000
Prepaid Expenses	400	600

Calculate Cash Flow from Operating Activities.

Solution:

Calculation of Net Profit before Tax and Extra-ordinary items:

Net Profit (Given)	₹ 1,00,000
Add: Provision for Taxation	₹ 1,60,000
Transfer to general reserve	₹ 14,000
Net Profit before Tax and Extra-ordinary item	₹ 2,74,000

Cash Flow from Operating Activities

Particulars	₹	₹
1. Cash flow from Operating Activities		
Net Profit Before Tax And Extra-ordinary Item Adjustment for non-cash and non-operating items:		2,74,000
Add : Depreciation on fixed assets	20,000	
Preliminary expenses written off	10,000	

Loss on sale of furniture	1,000	31,000
		3,05,000
Less: Profit on sale on machinery	6000	(6,000)
Operating Profit before working capital changes		2,99,000
Adjustment for Working Capital Changes		
Add: Increase in creditors	10,000	
Decrease in Bills Receivables	3,000	13,000
Less: Increase in Debtors	6,000	3,12,000
Increase in prepaid Expenses	200	
Decrease in Bills Payable	4,000	(10,200)
Cash generated from operation before Tax		3,01,800
Less: Income tax Paid		(1,60,000)
Net Cash inflow from Operating Activities		1,41,800

2. Cash Flow from Investing Activities

Investing activities are those activities which are related to the acquisition (buying) and disposal (selling) of fixed assets and investment (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutual funds.

Inflows of Cash: (Plus items)	Outflows of Cash (minus items)
Cash Received from sale of Fixed Assets. Cash Received from sale of Investment. Excluding Marketable Securities Cash Received from sale of intangible Assets like Patents. Interest Received, Dividend Received, Rent Received	Cash paid for purchase of fixed assets. Cash paid for purchase of investment. Excluding Marketable Securities Cash paid for purchase of intangible Fixed assets like goodwill, patents and copy rights.

For the calculation of sale or purchase of fixed assets and investment, the following accounts are prepared:

1. Fixed Assets Account 2. Investment Account

Fixed Assets Account: Fixed assets accounts may be prepared by two methods:

(a) At written down value method (when provision for depreciation account/ accumulated depreciation account is not maintained):

Fixed Assets Account (at written down value).

Dr. Cr.

Date	Particulars	`	Date	Particulars	`
	To Balance b/d	....		By Bank A/c (Sale of investment)	....
	To Bank A/c (Additional Purchase)	....		By Depreciation A/c (Depreciation on fixed assets sold)	....
	To Profit on sale of fixed assets A/c	....		By Loss on sale of fixed assets A/c	....
				By Depreciation A/c (Current year Depreciation on remaining fixed assets)	....
				By Balance c/d	....
		....			....

(b) fixed Assets (at cost); When provision for depreciation account or accumulated depreciation account has been separately maintained. In this method two separate accounts named Fixed Assets Account and Provision for Depreciation account are maintained

Fixed Assets Account (at original cost)

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	....		By Bank A/c (Sale of investment)	....
	To Bank A/c (Additional Purchase)	....		By Provision for Depreciation A/c (Dep. on fixed assets sold)	....
	To Profit on sale of fixed assets A/c	....		By Loss on sale of fixed assets A/c	....
				By Balance c/d	....
		....			....

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Fixed Assets A/c (Total Depreciation provide till the date of sale on Fixed assets sold)	....		By Balance b/d	....
	To balance c/d	....		By Statement of Profit & Loss A/c (Depreciation charged on fixed assets during the current year including the part sold)	....
		....			....

Preparation of Investment Account:

Dr. Investment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	....		By Bank A/c	....
	To Bank A/c (Additional	....		(Sale of investment)	....
	Purchase)	....		By Loss on sale of	
	To Profit on sale of investment A/c			Investment A/c	
				By balance c/d	
		....			....

Illustration2. From the following information calculate cash flow from investing activities:

Particulars	31-03-2014(₹)	31-03-2015 (₹)
Machinery (at Cost)	5,00,000	5,50,000
Accumulated Depreciation	1,00,000	1,20,000
Patents	2,00,000	1,20,000
Goodwill	1,50,000	1,00,000
Investment	2,50,000	5,00,000

Additional Information

(I) During the year, a machine costing ₹50,000 with its accumulated depreciation of ₹ 25,000 was sold for ₹ 20,000.

(II) Patents were written off to the extent of ₹60,000 and some patents were sold at a profit of ₹ 10,000.

(III) 40% of the investments held in the beginning of the year were sold at 10% Profit.

(I) Interest received on investment ₹ 25,500.

( ) Dividend received on investment ₹ 8,500.

(I) Rent received ₹ 5,000.

Solution:

Cash Flow from Investing Activities

Particulars	₹
Proceeds from sale of machinery	20,000
Proceeds from sale of investment	1,10,000
Proceeds from sale of Patents	30,000
Cash paid for purchase of machinery	(1,00,000)
Cash paid for purchase of Investment	(3,50,000)
Interest Received	25,500
Dividend Received	8,500
Rent Received	5,0000
Net Cash Used in Investing Activities	(2,51,000)

Working Notes:

Investment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	2,50,000		By Bank A/c	1,10,000
	To Profit on sale of	10,000		(Sale of investment)	
	Investment A/c			By balance c/d	5,00,000
	To Bank A/c B/F) (Additional Purchase)	3,50,000			
		6,10,000			6,10,000

Machinery Account (at original cost)

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	5,00,000		By Bank A/c	20,000
	To Bank A/c (additional			(Sale of investment)	
	Purchase) (B/F)	1,00,000		By Provision for Depreciation A/c (Dep. on Machinery sold)	25,000
				By Loss on sale of Machinery A/c	5,000
				By balance c/d	5,50,000
		6,00,000			6,00,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Machinery A/c	25,000		By Balance b/d	1,00,000
	(Total Depreciation on Machinery sold)			By Statement of Profit & Loss	45,000
	To Balance c/d	1,20,000		(Depreciation charged on machinery during the current year) (B/F)	
		1,45,000			1,45,000

Patents Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	2,00,000		By Bank A/c (B/F – Sale of Patents)	30,000
	To Profit on sale of patents A/c	10,000		By Statement of Profit & Loss (Written off)	60,000
				By balance c/d	1,20,000
		2,10,000			2,10,000

3. Cash Flow from Financing Activities

Financing activities are those activities that result in the change in size and composition of the share capital (equity and preference) and borrowed fund of the business enterprises. Generally cost related to these funds are also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference share capital.

Inflows of Cash: (Plus items)	Outflows of Cash (minus items)
1. Proceeds from Issue of equity shares capital. 2. Proceeds from Issue of preference share capital. 3. Proceeds from taking long-term loan and issue of debentures. 4. Proceeds from Bank Overdraft and Cash credit.	1. Amount paid for repayment of long-term loan. 2. Redemption of Preference share capital in cash. 3. Redemption of Debenture in cash. 4. Buy back of Equity shares (Extra-Ordinary Item) 5. Payment of Bank Overdraft and Cash Credits. 6. Interest paid on long term loan and debentures 7. Final Dividend paid. 8. Interim dividend paid. 9. Dividend paid on Preference Shares.

Illustration3. From the following information, calculate the net cash flow from Financing Activities.

Particulars	31-3-2017 (₹)	31-3-2018 (₹)
Equity Share Capital	10,00,000	16,00,000
9% Debentures	1,50,000	1,00,000
Dividend Payable	....	50,000
10% Preference Share Capital	2,00,000	3,00,000

Additional Information

1. Interest paid on Debentures ₹ 12,500.
2. During the year 2017-2018, company issued bonus shares to equity shareholders in the ratio of 2:1 by capitalizing reserve.
3. The interim dividend of ₹ 75,000 has been paid during the year.
4. 9% Debentures were redeemed as 5% premium.
5. Proposed equity divined for the years ended 31/3/2017 and 31/3/2018 ended ₹ 3,00,000 and ₹ 150000 respectively.

Solution:

Cash Flow from Financing Activities

Particulars	₹
Proceeds from Issue of Equity Share Capital	1,00,000
Proceeds from Issue of 10% Preference Share Capital	1,00,000
Cash paid for Redemption of 9% Debentures (50,000 × 105%)	(52,500)
Interest paid on Debentures	(12,500)
interim Dividend paid	(75,000)
Final Dividend paid (3,00,000-50,000)	(2,50,000)
Net Cash Used in Financing Activities)	1,90,000

Note:

1. Bonus shares worth ₹ 5, 00,000 issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity.

2. As per the provisions of As-4, dividend proposed by the Directors of the company for the current year Rs. 15,0000 will be shown in the notes to accounts as contingent liability. Dividend of the previous year of Rs. 3,00,000 has been declared and approved in the annual general meeting of shareholders for current year will be shown as appropriation of profits of current year so will be added to determine the net profit before dividend, taxes and extraordinary item and as an outflow from the firm under the finacing activity.

3. Previous year proposed dividend- unpaid dividend = final dividend paid during the current year is cash used in financing activities.

Financing Business Enterprise Transaction Treatment in Cash Flow Statement

Financing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house, banks. These enterprises purchases and sale of securities as their stock, so it is treated as operating activities and interest received, dividend received and interest paid are considered as routine business activities and included in their operating activities.

Comprehensive Illustration4: From the following Balance Sheets of X Ltd. as on 31.03.2016 and 31.03.2017. Prepare a cash flow statement.

Balance Sheet as at 31st March, 2016 and 2017

Particulars	Note No.	Figures as at the end of 31.3.2016 (₹)	Figures as at the end of 31.3.2017 (₹)
I. Equity and Liabilities Shareholders' funds			
(a) Share capital		45,000	65,000
(b) Reserves and surplus		25,000	42,500
Current liabilities			

Trade payables		8,700	11,000
Total		78,700	1,18,500
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
(i)Tangible Assets		46,700	83,000
(2) Current Assets			
Inventories		11,000	13,000
Trade receivables		18,000	19,500
Cash and cash equivalents		3,000	3,000
Total		78,700	1,18,500

Notes to Accounts

Particulars	Figures as at the end of 31.3.2016 (₹)	Figures as at the end of 31.3.2017 (₹)
Note No.1. Reserve and Surplus: General Reserve	15,000	27,500
Balance in Statement of P&L A/c	10,000	15,000
Total	25,000	42,500

Additional Information:

(i) Depreciation on fixed assets for the year 2016-17 was ₹ 14,700.

(ii) An interim dividend ₹ 7,000 has been paid to the shareholders during the year.

Solution:

Calculation of Net Profit before Tax and Extraordinary item:	₹
Net Profit as per Balance in Statement of Profit & Loss A/c (15000-10,000)	5,000
Add: Transfer to General Reserve (27,500 – 15,000)	12,500
Add: Interim dividend paid during the year	7,000
Net Profit before Tax and Extraordinary item	24,500

Cash Flow Statement

For the year ended 31st March 2017

Particulars	Details (₹)	Amount (₹)
A. Cash flow from Operating Activities		
Net Profit Before Tax And Extra-ordinary Item	24,500	
Adjustment for non-cash and non-operating items	14,700	
Add : Depreciation on fixed assets		
Operating Profit before working capital changes	39,200	
Adjustment for Working Capital Changes:	2,300	
Add: Increase in Trade Payables	41,500	
Less: Increase in trade receivable	(1,500)	
Increase in Inventories	(2,000)	
Net Cash Inflow from Operating Activities	38,000	38,000
B. Cash Flow from Investing Activities	(51,000)	(51,000)
Purchase of Fixed Assets		
Net Cash Used in Investing Activities		
C. Cash Flow from Financing Activities		
Issue of share capital	20,000	
Payment of interim dividend	(7,000)	
Cash Flow from Financing Activities		13,000
Net Increase in Cash & Cash Equivalent		Nil
Add: Cash & Cash Equivalent at the beginning of year		3,000
Cash & Cash Equivalent at the end of year		3,000

Fixed Assets Account

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	46,700		By Depreciation A/c (Current year dep. on remaining fixed assets)	14,700
	To Bank A/c (additional purchase) (B.F)	51,000		By Balance c/d	83,000
		97,700			97,700

Illustration 5: Prepare a cash Statement on the basis of the information given in the Balance Sheets of Liva Ltd. as at 31.3.2017 and 31.3.2016:

Particulars	Note No.	31.3.2017 (₹)	31.3.2016 (₹)
I. Equity and Liabilities			
(1) Shareholders' funds			
(a) Share capital		2,10,000	1,80,000
(b) Reserves and surplus	1	1,32,000	24,000
(2) Non-current Liabilities			
(a) Long term-borrowings		1,50,000	1,50,000
(3) Current Liabilities			
(a) Trade Payables		75,000	27,000
Total		5,67,000	3,81,000
II. Assets			
(1) Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets		2,94,000	2,52,000
(b) Non-current Investments		48,000	18,000
(2) Current Assets			
(a) Current-Investments (Marketable)		54,000	60,000
(b) Inventories		1,07,000	24,000
(c) Trade Receivables		40,000	17,500
(d) Cash and Cash-equivalents		24,000	9,500
Total		5,67,000	3,81,000

Notes to Accounts:

Note-1

Particulars	2017 (₹)	2016 (₹)
Reserve and Surplus Surplus (Balance in statement of profit and loss)	1,32,000	24,000

Solution:

Cash Flow Statement of Liva Ltd.

For the year ended 31st March 2017 as per AS-3 (Revised)

Particulars	Details (₹)	Amounts (₹)
Cash Flows from Operating Activities:		
Net Profit before tax & extraordinary items	1,08,000	
Add : Non cash and Non-operating charges	–	
Operating profit before working capital changes	1,08,000	
Add : Increase in Current Liabilities		
Increase in trade payables	48,000	
Less : Increase in Current Assets:		
Increase in trade receivables	1,56,000	
Increase in inventories	(22,500)	
	(83,000)	
Cash generated from Operating Activities		50,500
Cash flow from Investing Activities:		
Purchase of fixed assets	(42,000)	
Purchase of noncurrent investments	(30,000)	
Cash used in investing activities.		(72,000)
Cash flows from Financing Activities:		
Issue of share capital	30,000	
Cash flow from financing activities		30,000
Net increase in cash & cash equivalents		8,500
Add: Opening balance of cash & cash equivalents:		
Marketable Securities	60,000	
Cash & cash Equivalents	9,500	69,500
Closing balance of cash & cash equivalents:		
Marketable Securities	54,000	
Cash & Cash equivalents	24,000	
		78,000

Illustration 6: From the following information, complete the Cash flow Statement of RK Ltd.

Cash flow Statement
For the year ended on 31-3-2017

Particulars	₹	₹
A. Cash flow from operating Activities:		
Net profit before tax and Extraordinary items	....	
Adjustment for Non-cash and non operating items:		
Depreciation	....	
Loss on sale of Machinery	....	
Operating profit before working capital changes	....	
Adjustment for changes in working Capital:		
Capital:		
Decrease in Trade Payables	(8,000)	
Increase in Inventory	(........)	
Cash generated from operations before tax & extraordinary items	50,000	
Less: Income tax paid	(.......)	
Net cash flow from operating activities:		....
B Cash flow from Investing Activities:		
Purchase of Machinery	(.......)	
Sale of Machinery	....	
Net cash flow from Investing Activities		....
C .Cash flow from Financing Activities:		
Proceeds from Issue of Shares	....	
Net cash flow from Financing Activities		....
(A+B+C)net Increase in cash & Cash Equivalents during the year		....
Add: Cash & cash equivalents at the beginning of the period		....
Cash & cash equivalents at the end of the period		....

Notes to Account

Particulars	31-3-2017 (₹)	31-3-2016 (₹)
Note 1. Reserve & Surplus		
General Reserve	55,000	40,000
Balance in Statement of Profit & Loss	70,000	50,000
	1,25,000	90,000
Note 2. Cash and Cash equivalents Cash at Bank	52,000	37,000
	52,000	37,000
Note 3. Short term Provisions		
Provision for Taxation	25,000	20,000
	25,000	20,000

Additional Information:

1. Depreciation charges on Building for the year 2016-17 was ₹ 10,000.
2. During the year 2016-17, machinery of ₹ 1,38,000 was purchased.
3. A part of machinery costing ₹ 20,000 with accumulated depreciation of ₹ 6,500 was sold for ₹ 8,500.
4. Income tax paid during the year 2016-17 was ₹ 18,000.

Solution:

Cash flow Statement
For the year ended on 31-3-2017

Particulars	₹	₹
B. Cash flow from operating Activities:		
Net profit before tax and Extraordinary items	58,000	
Adjustment for Non-cash and non-operating items:		
Depreciation	10,000	
Loss on sale of Machinery	5,000	
Operating profit before working capital changes	73,000	
Adjustment for charges in working Capital:		
Decrease in Trade Payables	(8,000)	
Increase in Inventory	(15,000)	
Cash generated from operations before tax & extraordinary items	50,000	
Less: Income tax paid	(18,000)	
Net cash flow from operating activities:		32,000
B Cash flow from Investing Activities:		
Purchase of Machinery	(1,38,000)	
Sale of Machinery	8,500	
Net cash flow from Investing Activities		(1,29,500)
C .Cash flow from Financing Activities:		
Proceeds from Issue of Shares	1,12,500	
Net cash flow from Financing Activities		1,12,500
(A+B+C)net Increase in cash & Cash Equivalents during the year		15,000
Add: Cash & cash equivalents at the beginning of the period		37,000
Cash & cash equivalents at the end of the period		52,000

Working Notes

1. Calculation of Net Profit before tax and extraordinary items:

	₹
Difference in Balance in Statement of P&L (70,000-50,000)	20,000
Add: Transfer to General Reserve	15,000
Provision for Taxation	23,000
	58,000

2. Provision for Taxation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	18,000	By balance b/d	20,000
To Balance c/d	25,000	By Statement of P&L (Balancing Figure- Provision made during the year)	23,000
	43,000		43,000

Note:

1. There is no need to prepare Machinery A/c as both purchase and sale values are given in the question.

2. Proceeds from issue of share have been calculated by moving backwards from the figure of Net Increase in cash & cash Equivalents i.e.;

i.e.15,000 = ₹ 32,000 + (129500) + Cash flow from financing activity

Illustration 7: Following is the Balance sheet of Thermal Power Ltd. as at 31-3- 2016 and 31-3-2017.

Particulars			31-03-2017 (₹)	31-03-2017 (₹)
I. Equity and Liabilities				
(1) Shareholders' funds				
(a) Share capital			12,00,000	11,00,000
(b) Reserves and surplus (Statement of Profit & Loss)			300,000	2,00,000
(2) Non-current Liabilities				
(a) Long term-borrowings			240,000	1,70,000
(3) Current Liabilities				
(a) Trade Payables			1,79,000	2,04,000
(b) Short term provision			50,000	77,000
Total			19,69,000	17,51,000
II. Assets				
(1) Non-current Assets				
(a) Fixed Assets				
	31-03-2017	31-03-2016		
(Tangible): Machine	12,70,000	10,00,000	10,70,000	8,50,000
Less Depreciation Provision	(200,000)	(150,000)		
(Intangible): Goodwill			40,000	1,12,000
(2) Current Asset				
(a) Current-Investments			2,40,000	1,50,000
(b) Inventories			1,29,000	1,21,000
(c) Trade Receivables			1,70,000	1,43,000
(d) Cash and Cash-equivalents			3,20,000	3,75,000
Total			19,69,000	17,51,000

Additional Information:

During the year, a piece of machinery costing 24,000 on which accumulated depreciation was 16,000 was sold for 6,000. Prepare cash flow statement.

(CBSE Modified)

Solution:

Cash flow statement

S. No.	Particulars	Details (₹)	Amount (₹)
A	**Cash Flow from Operating Activities**		
	Net Profit before tax and extraordinary items:		1,50,000
	(1,00,000Profit + 50,000Provision for tax)		
	Items to be Added		
	Goodwill (Written off)	72,000	
	Depreciation (during the year)	66,000	1,40,000
	Loss on sale of Tangible Assets	2,000	
	Operating Profit before working Capital Changes		2,90,000
	Less: increase in current assets, decrease in current liabilities		
	Decrease in Trade Payables	(25,000	
	Increase in Inventories	(8,000)	
	Increase in Trade Receivables	(27,000)	
			(60,000)
			2,30,000
	Less: Tax Paid		(77,000)
	Net cash flow from operating activities		1,53,000
B	**Cash Flow from Investing Activities:**		
	Purchase of Tangible Assets (Machine)	(2,94,000)	
	Sale of Tangible Assets (Machine)	6,000	
			(2,88,000)
C	**Cash Flow from Financing Activities:**		
	Issue of Share Capital	1,00,000	
	Issue of Long Term Loan	70,000	1,70,000
	Net Increase or Decrease in Cash & Cash Equivalents (A+B+C)		35,000
D	**Cash & Cash Equivalents: Opening Balance**	3,75,000	
	Current Investment	1,50,000	5,25,000
E	**Cash & Cash Equivalents: Closing balance**	3,20,000	
	Current Investment	2,40,000	5,60,000

Note:

1. Cash and Cash Equivalents includes cash and current investment (assuming their maturity to be less than 3 months)

2. Short term provision is assumed as provisions for tax.

Working Notes:

Machinery A/c

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To bal B/d	10,00,000	By Depreciation provision	16,000
To Bank A/c (Balancing Figure)	2,94,000	By Bank (Sale)	6,000
		By loss on sale of Machinery	2,000
		By bal c/d	12,70,000
	12,94,000		12,94,000

Provision for Depreciation A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	16,000	By balance b/d	1,50,000
To balance c/d	2,,00,000	By Statement of Profit & loss (Depreciation)	66,000
	2,1,6,000		2,16,000

Illustration 8: Following was the Balance of vasudha Ltd. as on 31st March 2017:

Particulars	Note No.	31-3-2017 (₹)	31-3-2016 (₹)
Equity & Liabilities			
(1) Shareholders Funds			
(a) Share Capital		20,00,000	15,00,000
(b) Reserves and Surplus	1	50,00,000	3,00,000
(2) Non-current Liabilities			
Long term borrowings		3,00,000	2,00,000
(3) Current Liabilities			
(a) Trade payables		1,50,000	2,00,000
(b) Short term provisions	2	70,000	60,000
Total		**30,20,000**	**22,60,000**

Assets			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible assets	3	19,00,000	15,00,000
(ii) Intangible assets	4	4,70,000	2,70,000
(2) Current Assets			
(a) Inventories		2,50,000	1,60,000
(b) Trade Receivables		2,10,000	2,10,000
(c) Cash and Cash Equivalents		1,90,000	1,20,000
Total		**30,20,000**	**22,60,000**

Notes to Accounts :

S. No.	Particulars	As on 31-3-2017 (₹)	As on 31-3-2016 (₹)
1.	Reserve and Surplus		
	Surplus (Balance in Statement of Profit and Loss)	5,00,000	3,00,000
2.	Short term provisions		
	Provision for tax	70,000	60,000
3.	Tangible Assets		
	Machinery	27,00,000	21,00,000
	Accumulated Depreciation	(8,00,000)	(6,00,000)
4.	Intangible Assets		
	Goodwill	4,70,000	2,70,000

(Prepare a Cash Flow Statement after taking into account the following adjustment)

During the year a piece of machinery costing ₹30,000 on which accumulated depreciation was ₹ 6,000, was sold for ₹ 20,000.

Cash Flow Statement of Vasuelha Ltd.

For the year ended 31st March, 2017 As per As-3 (Revised)

Particulars	Details (₹)	Amt (₹)
Cash Flows from Operating Activities:		
Net Profit before tax & extraordinary items	2,00,000	
Add: Provision for Tax	70,000	
Add: Non cash and non-operating charges		
Depreciation on machinery	2,06,000	
Loss on sale of machinery	4,000	
Operating profit before working capital changes	4,80,000	
Less: Increase in Current Assets		
Increase in inventories	(90,000)	
Less: Decrease in Current Liabilities		
Decrease in trade payables	(50,000)	
Operating profit after working capital changes	3,40,000	
Less: Tax Paid	(60,000)	
Cash generated from Operating Activities		2,80,000
Cash flows from Investing Activities :		
Purchase of Machinery	(6,30,000)	
Sale of machinery	20,000)	
Purchase of Goodwill	(2,00,000)	
Cash used in investing activities		(8,10,000)
Cash flows from Financing Activities :		
Issue of share capital	5,00,000	
Money raised from long term borrowings	1,00,000	
Cash from financing activities		6,00,000
		70,000
Net increase in cash & cash equivalents:		
Add: Opening balance of cash & cash equivalents:		1,20,000
Closing Balance of cash & cash equivalents:		1,90,000

Machinery A/c

Dr. **Cr.**

Particulars	₹	Particulars	₹
Balance b/d	21,00,000	Bank A/c	20,000
Cash/Bank A/c	6,30,000	Accumlated Dep. A/c	6,000
		Statement of P/L	4,000
		Balance c/d	27,00,000
	27,30,000		27,30,000

Accumlated Dep. A/c

Dr. **Cr.**

Particulars	₹	Particulars	₹
Machinery A/c	6,000	balance b/d	6,00,000
balance c/d	8,00,000	statement of P/L	2,06,000
	8,06,000		8,06,000

Illustration 9. From the following Balance Sheet of *B.C.R.* Ltd. as a 31st March, 2018, prepare Cash Flow Statement:

BALANCE SHEET OF *B.C.R.* LTD. *as at 31 st March, 2018*

Particulars	Note No.	31st March, 2018 (Rs.)	31 March 2017(Rs.)
EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		7,00,000	5,00,000.
(b) Resents end Surplus: Surplus, i.e., Balance in staement of Profit and Loss	1	3,50,000	2,00,000
2. Non-Currewt Liabilities			
Bank Loan		50,000	1,00,000
3. Currant Liabilities			
(a) Tract Payables (Creditors)		52,000	55,000
(b) Short-term Provisions		50,000	30,000
Total		12,02,000	8,85,000

II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets:			
(i) Tangible Assets: Equipment		5,00,000	5,00,000
(ii) Intangible Assets: Patents		95,000	1,00,000
(b) Non-current Investments		1,00,000	
2. Current Assets			
(a) Inventories (Stock)		1,30,000	55,000
(b) Trade Receivables (Debtors)		1,47,000	80,000
(c) Cash end Cash Equivalents: Bank		2,30,000	1,50,000
Total		12,02,000	8,85,000

Note to Accounts

Particulars	31st March, 2018 (Rs.)	31st March 2017 (Rs.)
1. Short-term Previsions Provision for Tax	50,000	30,000

Additional Information:

1. Proposed dividend, for the year ended 31st March, 2017, Rs. 70,000 was declared and paid in the year ended 31st March, 2018.
2. During the year Equipment costing Rs. 1,00,000 was purchased. Loss on sale of Equipment amounted to Rs. 12,000. Rs. 18,000 depreciation wa: charged on Equipment.

CASH FLOW STATEMENT

for the year e ided 21st March, 2018

Particulars	**Rs.**	**Rs.**
(a) Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (WN 1)	2,70,000	
Add: Non-cash and Non-operating Expenses:	18,000	
Depreciation on Equipment	5,000	
Patents amortised	12,000	
-Loss on sale of Equipment		
Operating Profit before Working Capital Changes	3,05,000	
Adjustment for Change in Current Assets and Current' Labilities:		
Trade Receivables (Debtors)	(67,000)	
Inventories (Stock)	(75,000)	
Trade Payables (Creditors)	(3,000)	
Cash Generated from Operations	1,60,000	
Less: Tax Paid	30,000	
Cash Flow from Operating Activities		1,30,000

(b) Cash Flow from Investing Activities		
Proceeds from Sale of Equipment (WN 2)	70,000	
Equipment Purchased	(1,00,000)	
Investment Purchased	(1,00,000)	
Cosh Used in Investing Activities		(1,30,000)
(c) Cash Flow from Financing Activities		
Cash-Proceeds from Issue of Equity Shares	2,00,000	
Repayment of Bank Loan	(50,000)	
Dividend Paid	(70,000)	
Cash Flow from Financing Activities		80,000
Net Increase in Cash and Cash Equivalents (A + B C)		80,000
Add: Opening Balance of Cash and Cash Equivalents		1,50,000
(d) Closing Balance of Cash and Cash E		2,30,000

Working Notes:

1.	Calculation of Net Profit before Tax and Extraor-binary Items:	Rs.
	Balance as per Statement of Profit and Loss	1,50,000
	Add: Provision for Tax (current year)	50,000
	Dividend paid during 2017-18	70,000
	Net Profit before Tax and Extraordinary Items	2,70,000

2. Calculation of amount of Sale of Equipment:

Equipment Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,00,000	By Depreciation A/c	18,000
To Bank A/c	1,00,000	By Bank A/c (Sale)—Balancing Figure	**70,000**
		By Loss on Sale of Equipment A/c	2,000
		(Statement of Profit and Loss)	5,00,000
		By Balance c/d	**6,00,000**
	6,00,000		

Q. From the following Balance Sheet of L.M.R. Ltd. as a 31st March, 2018, prepare Cash Flow Statement:

BALANCE SHEET OF B.C.R. LTD. as at 31 st March, 2018

Particulars	Note No.	31st March, 2018 (Rs.)	31st March 2017 (Rs.)
EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		3,50,000	2,50,00
(b) Reserves and Surplus	1	1,75,000	1,00,000
2. Non-Current Liabilities			
Long-term Borrowings; Bank Loan		25,000	50,000
3. Current Liabilities			

(a)	Trade Payables (Creditors)		26,000	27,500
(b)	Short-term Provisions	2	25,000	15,000
Total			**6,01,000**	**4,42,500**
II. ASSETS				
1.	**Non-Current Assets**			
(a)	Fixed Assets:			
	(i) Tangible Assets: Equipment		2,50,000	2,50,000
	(ii) Intangible Assets: Patents		47,500	50,000
	(iii) Non-current Investments		50,000	2,500
2.	Current Assets			
(a)	Inventories (Stock)		65,000	25,000
(b)	Trade Receivables (Debtors)		60,000	40,000
(c)	Cash end Casn Equivalents		1,28,500	75,000
Total			**6,01,000**	**4,42,500**

Note to Accounts

Particulars		**31st March 2018 (Rs.)**	**31st March 2017 (Rs.)**
1.	**Reserves and Surplus**		
	Surplus, i.e., Balance in Statement of Profit and Loss	1,75,000	1,00,000
2.	**Short-term Provison**		
	Provision for Tax	25,000	15,000
3.	**Cash and Chas Equivalents**		
	Cash at Bank	1,15,000	75,000
	Cash in Hand	13,500	-
		1,28,500	75,000

Additional Information:

1. Proposed dividend tor the year endei 31st March, 2017 was Rs. 35,000 and for ..... year ended 31st March, 2018, it was Rs. 70,000.
2. During the year equipment costing Rs. 50,000 was purchased. Loss on Sale of Equipment amounted to Rs. 6,000, Rs. 9,000 depreciation was charged on equipment.

		Rs.
Ans.	Cash Flow from Operating Activities	76,000
	Cash Used in Investing Activities	62,500
	Cash Flow from Financing Activities	40,000
	Net Increase in Cash and Cash Equivalents	53,500

PRACTICE QUESTION

Q.1 P Ltd. Earned a profit of₹ 2,50,000 after charging the following items.

S.No.	Particulars	(₹)
1.	Depreciation on Fixed Tangible Assets (Machinery)	20,000
2.	Loss on Sale of Fixed Tangible Assets (Furniture)	2,000
3.	Writing off Goodwill	9,000
4.	Provision for Doubtful Debts	2500
5.	Provision for Taxation	35,000
6.	Transfer to General Reserve	15,000
7.	Gain on sale of Fixed Tangible Assets (Machinery)	8,000

The following information about assets and Liabilities is given

Particulars	31.3.2016 (₹)	31.3.2017 (₹)
Trade Receivable (All Good)	50,000	62,000
Trade Payables	45,000	55.000
Inventory	12,000	8,000
Income Received in Advance	8,000	……
Outstanding Expenses	6,000	3,000
Prepaid Expenses	…….	5,000

You are required to calculate Cash from operating activities.

Hints of Answer.

(i) Net profit before Tax and Extraordinary items : ₹ 3,02,500

(ii) Operating profit before working capital changes : ₹ 3,25,500

(iii) Cash flow from operation Activities ₹ 2,76,500

POINTS TO REMEMBER

Q.1 When interest is received considered as financing activity?

Ans. Interest received on calls in Arrears is a financing activity.

Q.2 How is depreciation treated while computing cash flow from operating activity under indirect Method?

Ans. Added to Net Profit.

Q.3 Give an example of activity which remains financing activity for every enterprise?

Ans. Payment of Dividend, issue of shares for cash.

Q.4 Identify the following into:

(i) Operating Activities

(ii) Investing Activities

(iii) Financing Activities

(iv) Cash and cans equivalents

(a) Dividend received by finance company

(b) Dividend received by Non-finance company

Ans. (a) Operating Activity

(c) Investing Activity

Q.5 State any two items cash equivalent uses while preparing cash flow statement

Ans. Treasury Bills, Short term deposits.

Q.6 Shri Ltd. Was carrying on a business of packaging in Delhi and ear end good profit in the past years. The company wanted to expand its business and required additional funds. To meet its requirement, the company issued equity shares of ₹ 30,00,000. It purchases a computerized machine of ₹ 20,00,00. It also purchased raw material amounting to ₹ 2,00,000.

During current year the Net Profit of the company was ₹ 15,00,000. Find out cash from operating activities from the above transactions.

(CBSE Comptt. 2015)

Ans. ₹ 15,00,000

Q.7 Under which type of activity will you classify Commission and Royalty Received while preparing cash flow statement.

Ans. Operating Activity

Q.8 State whether cash deposited in bank will result in inflow, outflow or no flow of cash.

Ans. No flow as cash deposited in bank simply, represents movement between items of cash or cash equivalents.

Q.9 Under which type of activity will you classify sale of shares of another company while preparing cash flow statement.

Ans. Investing activity.

Q.10 State with reason whether discount received on making payment to suppliers would result into inflow. Out flow or not flow of cash.

Ans. No flow of cash

Reason : Discount received on payment to suppliers does not invoive cash.

PRACTICE QUESTION

Q.1 P Ltd. Earned a profit of ₹ 2,50,000 after charging the following items.

S.No.	**Particulars**	**(₹)**
1.	Depreciation on Fixed Tangible Assets (Machinery)	20,000
2.	Loss on Sale of Fixed Tangible Assets (Furniture)	2,000
3.	Writing off Goodwill	9,000
4.	Provision for Doubtful Debts	2500
5.	Provision for Taxation	35,000
6.	Transfer to General Reserve	15,000
7.	Gain on sale of Fixed Tangible Assets (Machinery)	8,000

The following information about assets and Liabilities is given

Particulars	**31.3.2016** (₹)	**31.3.2017** (₹)
Trade Receivable (All Good)	50,000	62,000
Trade Payables	45,000	55.000
Inventory	12,000	8,000
Income Received in Advance	8,000	……
Outstanding Expenses	6,000	3,000
Prepaid Expenses	…….	5,000

You are required to calculate Cash from operating activities.

Hints of Answer.

(i) Net profit before Tax and Extraordinary items : ₹ 3,02,500

(ii) Operating profit before working capital changes : ₹ 3,14,500

(iii) Cash flow from operation Activities ₹ 2,76,500

Q.1 When interest is received considered as financing activity?

Ans. Interest received on calls in Arrears is a financing activity.

Q.2 How is depreciation treated while computing cash flow from operating activity under indirect Method?

Ans. Added to not Profit.

Q.3 Give an example of activity which remains financing activity for every enterprise?

Ans. Payment of Dividend, issue of shares for cash.

Q.4 Identify the following into:

(i) Operating Activities

(ii) Investing Activities

(iii) Financing Activities

(iv) Cash and cans equivalents

(a) Dividend received by finance company

(b) Dividend received by Non-finance company

Ans. (a) Operating Activity

(c) Investing Activity

Q.5 State any two items cash equivalent uses while preparing cash flow statement

Ans. Treasury Bills, Short term deposits.

Q.6 Shri Ltd. Was carrying on a business of packaging in Delhi and ear end good profit in the past years. The company wanted to expand its business and required additional funds. To meet its requirement, the company issued equity shares of ₹ 30,00,000. It purchases a computerized machine of ₹ 20,00,00. It also purchased raw material amounting to ₹ 2,00,000.

During current year the Net Profit of the company was ₹ 15,00,000. Find out cash from operating activities from the above transactions.

(CBSE Comptt. 2015)

Sol. ₹15,00,000

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Ans. Operating Activity

Q.8 State whether cash deposited in bank will result in inflow, outflow or no flow of cash.

Ans. No flow as cash deposited in bank simply, represents movement between items of cash or cash equivalents.

Q.9 Under which type of activity will you classify sale of shares of another company while preparing cash flow statement.

Ans. Investing activity.

Q.10 State with reason whether discount received on making payment to suppliers would result into inflow. Out flow or not flow of cash.

Ans. No flow of cash

Reason : Discount received on payment to suppliers does not invoive cash.

Objective Questions

1. In cash flow statement, the item of interest in shown in

(A) Operating Activities

(B) Financing Activities

(C) Investing Activities

(a) Both A and B

(b) Both A and C

(c) Both B and C

(d) A, B, C

Answer : c) Both B and C

2. **Cash Flow Statement is based upon**

(a) Cash basis of accounting

(b) Accrual basis of accounting

(c) Credit basis of accounting

(d) None of the above

Answer : a) Cash basis of accounting

3. **A financial statement that shows the inflows and outflows of cash during a particular period of time is known as:**

(a) Income statement

(b) Statement of retained earning

(c) Balance sheet

(d) Statement of cash flows

Answer : d) Statement of cash flows

4. **Which of the following is not an operating cash flow?**

(a) Collection of cash from receivables

(b) Payment of income tax

(c) Payment of cash for operating expenses

(d) Purchase of equipment for cash

Answer : (d) purchase of equipment for cash

5. **A company sells old plant for Rs. 12,000 cash. The book value of the plant is Rs. 7,000. This transaction would affect:**

(a) Operating activities & financing activities

(b) Operating activities & investing activities

(c) Financing activities & investing activities

(d) Operating activities and foot notes

Answer : (b) operating activities & investing activities

6. **Which of the following items affects net income but does not affect cash?**

   (a) Depreciation of fixed assets

   (b) Amortization of intangible assets & bond discounts

   (c) Depletion of natural resources

   (d) All of the above

Answer : (d) All of the above

7. **In the case of financial enterprises, the cash flow resulting from interest and dividend received and interest pain should be classified as cash flow from**

   (a) Operating activities

   (b) Financing activities

   (c) Investing activities

   (d) None of the above

Answer : (a) Operating activities

8. **Fill in the blanks in the following statement:**

(a) If the net profits earned during the year is Rs. 5,00,000 and the amount of debtors in the beginning and the end of the year is Rs. 1,00,000 and Rs. 2,00,000 respectively, then the cash from operating activities will be equal to Rs.__________________

(b) If the net profits made during the year are Rs. 5,00,000 and the bills receivable have decreased by Rs. 1,00,000 during the year then the cash flow from operating activities will be equal to Rs. _____________________

(c) Expenses paid in advance at the end of the year are____________the profit made during the year.

(d) An increase in accrued income during the particular year is ______________the net profit.

(e) Goodwill amortized is _________________ the profit made during the year for calculating the cash flow from operating activities.

(f) For calculating cash flow from operating activities, provision for doubtful debts is _______ the profit made during the year.

(g) Cash & cash equivalents includes_____________________

Answer : (a) 4,00,000 (b) 6,00,000 (c) deducted from (d) deducted from (e) added to (f) added to (g) cash in hand, cash at bank and short term marketable securities

9. Match the column

(A) Taxes paid ______________ (i) Cash flow from investing activities

(B) Repayment of loans________________ (ii) Cash flow from operating activities

(C) Sale of fixed assets _________________ (iii) Cash flow from financing activities

(a) A (ii), B (iii) C (i)

(b) A (i) B (ii) C (iii)

(c) A (iii) B (i) C (ii)

Answer : (a) A (ii), B (iii) C (i)

10. For the calculation of cash flow from operating activities, payments and receipts shown in Profit & Loss account are converted into payments and receipts actually in cash.

(a) True

(b) False

Answer : True

Practice Paper Accountancy

2019-20

Class – XII

Time allowed : 3 hours **Maximum Marks : 80**

General Instructions:

i. This question paper contains two parts A and B.

ii. All parts of a question should be attempted at one place.

iii. Q. 1 to 14 and 24 to 29 carry 1 mark each.

iv. Q. 15-16 carry 3 marks each.

v. Q.17-19 and 30-31 carry 4 marks each.

vi. Q.20-21 and 32 carry 6 marks each.

vii. Q.22-23 carry 8 marks each.

Part-A

Accountancy

(Accounting for Not-for-Profit Organization, Partnership Firms and Companies)

1. Which of the following is not correct about income and expenditure account:

   (a) It is a Nominal account.

   (b) It is prepared on accrual basis.

   (c) It records all types of cash and Non cash transactions.

   (d) It is prepared on the basis of receipt and payment account and additional information.

2. In case of insufficient profit (net profit is less than the interest of capital), amount of profit is distributed in the ratio of.................(fill in the blanks)

3. Arun, Ajay and Dinesh are partners in a firm. At the time of division of profit for the year there was dispute between partners (due to absence of deed) profits before interest on partner's capital was ₹ 60,000 and Ajay determined interest @ 24% p.a. on his loan of ₹ 8,00,000. Amount payable to Arun, Ajay, Dinesh respectively will be:

(a) ₹ 20,000 to each partner.

(b) Loss of ₹ 44,000 for Arun and Dinesh and Ajay will take home ₹ 1,48,000.

(c) ₹ 4,000 for Arun, ₹ 52,000 for Ajay and ₹ 4,000 for Dinesh.

(d) ₹ 24,000 to each partner.

4. Anu, Prisha and Nipun are equal partners. Priya is admitted to the firm for one fourth share. Priya brings ₹ 2,00,000 capital and ₹ 50,000 being half of the premium for goodwill. Value of the goodwill of the firm be……………..(fill in the blanks)

5. Manish and Aanchal are partners sharing profits and losses in the ratio of 3:2 (Manish's capital is ₹ 3,00,000 and Aanchal's capital is ₹ 1,50,000). They admitted Meenu for one one-fifth share of profits. Meenu should bring ' ……………….towards his capital. (fill in the blanks)

6. Sonu, Monu and Tony are partners sharing profits in the ratio of 5:3:2. Monu retires, the new profit sharing ratio between Sonu and Tony will be 1:1. The goodwill of the firm is valued at ₹ 2,00,000 Monu's share of goodwill will be adjusted.

   (a) By debiting Sonu's capital account and Tony's capital account with ₹ 30,000 each.

   (b) By debiting Sonu's capital account and Tony's capital account with ₹ 42,858 and 17,142.

   (c) By debiting only Tony's capital account with ₹ 60,000.

   (d) By debiting Monu's capital account with ₹ 60,000.

7. Reconstitution of a firm always leads to change in …………………among the partner's (fill in the blanks)

8. Which of the following is not correct in case of dissolution by court.

   (a) A partners becomes a person of unsound mind.

   (b) A partner is found guilty of misconduct, which is likely to adversely affect the business of the firm.

   (c) On adjudication of a partner as insolvent.

(d) A partner becomes permanently incapable of performing his duties as a partner.

9. At the time of dissolution, partner's loan appeared on the asset side will be transferred to ....account. (fill in the blanks)

10. Maximum amount that a company can raise as share capital, which is stated in memorandum of association is known as:

    (a) Authorized capital

    (b) Nominal capital

    (c) Registered capital

    (d) All of the above

11. A company forfeited a share of ₹100 which was issued at a premium of 10% due to non-payment of final call of ₹ 30. Minimum price on reissue of the above share will be ₹ ....(fill in the blanks)

12. Discount or loss on issue of debentures to be written off in the year debentures are allotted from ....(if it exists) and then from.............as financial cost. (fill in the blanks)

13. Interest payable on debentures issued as collateral securities is:

    (a) 6% p.a.

    (b) 12% p.a.

    (c) Not payable

    (d) As per the market rate of interest.

14. Debentures redemption reserve is required to be created in case of:

    (a) Fully convertible debentures.

    (b) Only on the non convertible part of debentures

    (c) Banking companies

    (d) All India financial institutions regulated RBI

15. Kavya ltd. Issued ₹ 14,00,000 12% debentures of ₹ 100 each at a premium of 10% redeemable at a premium of 20% after 5 year balance of profits in statement of profit or loss on that date was ₹ 2,00,000. Pass necessary journal entries for

the issue of debentures and writing off of the premium on redemption as per AS-16.

OR

On 01-04-2018 Kavita Ltd. Purchased Plant from Sonia Ltd. And paid the amount as follow:

I. By issuing 10,000 10% debentures of ₹10 each at a premium of 30%.

II. By issuing 2,000 10% debentures of ₹ 100 each at a discount of 10%.

III. Balance by giving draft of ₹ 96,000.

Pass necessary journal entries for the purchase of plant payment to Sonia Ltd. And interest paid in the books of Kavita Ltd assuming interest payable annualy with TDS @ 10%.

16. Show the following items in the income and expenditure account and balance sheet of Prisha Ltd. As on 31st march, 2019:

    I. Donation received for sports fund during 2018-19 ₹ 50,000.

    II. 15% sports fund investment (Face value ₹ 40,000) as on 1st July 2018 ₹ 50,000

    III. Interest received on sport fund investment during 2018-19 ₹ 3,500.

    IV. Expenses on sports during the year ₹ 55,000

17. Tarun, Pratibha and Naresh were Partner in the firm sharing profits in the ratio of 5:3:2. The firm closes its books on 31st march every year. On 31st july, 2018 Naresh died. On that day his capital account showed a credit balance o ₹ 8,00,000 and Goodwill of the firm was valued at ₹ 6,20,000. There was a debit balance of ₹ 2,00,000 in the profit and loss account. Naresh's share of profit in the year of death was to be calculated on the basis of average profit of last 3 year. The average profit of last 3 year was ₹ 3,00,000. Pass necessary journal entries in the books on Naresh's death.

18. Nipun Ltd. had outstanding ₹ 10,00,000, 8% debentures of ₹ 100 each on 1st April, 2015. These debentures are redeemable at a premium of 5% on 31st March 2019. The company had a balance of ₹ 1,50,000 in debenture redemption reserve on 31st march, 2018.

    Pass necessary journal entries for redemption of debentures in the books of Nipun Ltd. for the year ended 31st march 2019.

19. Manju, Ruby and Himanshu were partners in a firm sharing in the ratio of 5:3:2. The firm dissolved on 31-3-2019. Pass the necessary journal entries for the following transaction after various assets (other than cash and bank) and third party liabilities had been transferred to realization account:

I. A creditor for ₹ 1,40,0000 accepted machinery valued at ₹ 1,80,000 and paid ₹ 40,000 to the firm.

II. Ruby's brother's loan of ₹ 50,000 was pain off along with interest of ₹ 5,000.

III. Saroj, an old customer whose account for ₹ 20,000 was written off as bad debts in the previous year, paid 95%

IV. The firm had stock of ₹ 40,000. Manju took over 75% of the stock at a discount of 10% while the remaining stock was sold at a profit of 20%.

20. Trauna, Karan and Joy were partners sharing profits in the ratio of 5:3:2. The partnership deed provides the following:

I. Salary of ₹ 3,000 per quarter to Taruna and Karan.

II. Karan's was guaranteed a profit of ₹ 76,000 p.a.

III. Joy was entitled to a commission of ₹ 20,000.

The profit for the year ended was ₹ 4,00,000 which was distributed among in the ratio of 3:3:2 without taking into consideration the provision of partnership deed. Pass necessary rectifying entry.

Show you working clearly.

OR

Ramesh and Manju started a partnership on 1st April 2018. They contributed ₹4,00,000 and ₹ 3,00,000 respectively as their capital and decided to share profits and losses in the ratio of 3:2. The partnership deed provided that Ramesh was to be paid a salary of ₹ 30,000 per quarter and Manju a commission of 2.5% on turnover. It also provided that interest on capital be allowed @4% p.a. Ramesh withidrew ₹ 10.000 on 1st august 2018 and Manju withdrew ₹ 2,500 at the beginning of each month.

Interest on drawing was charged 12% p.a. The net profit as per profit and loss account for the year ended 31st march 2019 was ₹ 2,99,500. The turnover of the firm for the year ended 31st march 2019 amounted ₹ 10,00,000. Pass necessary journal entries for the above transactions in the books of Ramesh and Manju.

21. The following receipts and payment account of Young club for the year ended 31st march, 2019:

Receipts	**Amount**	**Payments**	**Amount ₹**
Cash in hand	1,00,000	Salaries	50,000
(1-1-18)		Entertainment	
Subscription		Expenses	10,000
2017-18 2,500		Electricity	10,000
2018-19 1,25,000		General expenses	5,000
2019-20 5,000		Misc. expenses	5,000
	1,32,500	Investment (10% p.a.	
Entertainment		on 1.10.18)	50,000
Receipts	25,000	Stationery	15,000
Sale of old furniture		Newspaper	5,000
(book value ₹ 5,000)	4,000	Furniture	25,000
Sale of newspaper	1,000	cash in hand (31.3.19)	87,500
	2,62500		**2,62,500**

I. The club has 300 members each paying an annual subscription of ₹ 500; subscription outstanding for the year 2017-18 were ₹ 3,500.

II. Salaries includes ₹ 5,000 for the year 2017-18 and ₹ 10,000 for the year 2019-20 and ₹ 7,500 for 2018-19.

III. Opening stock of stationery ₹ 5,000 and closing stock of stationary ₹ 7,500.

IV. On 1.4.18, the club owned land and building ₹ 5,00,000; furniture valued ₹1,00,000 and car ₹ 1,50,000.

Prepare income and expenditure account and balance sheet for the year ended 31st march 2019.

22. Seema Limited invited application for issuing 15,00,000 Equity shares of ₹ 10 each payable at a premium of ₹ 10 each payable with final call. Amount per share was payable as follows:

	₹
On Application	2
On Allotment	3
On First Call	2
On Second & Final Call	Balance

Applications for 24,00,000 shares were received. Applications for 1,50,000 shares were rejected and the application money was refunded. Allotment was made to the remaining applicants as follows:

Category	No. of shares applied	No. of shares allotted
I	6,00,000	4,50,000
II	16,50,000	10,50,000

Excess application money received with applications was adjusted towards sums due on allotment. Balance, if any was adjusted towards future calls. Girish, a shareholder belonging to category I, to whom 4500 shares were allotted, paid his entire share money with allotment. Mohan belonging to category, II, who had applied for 33,000 shares failed to pay 'Second & Final Call money.' Mohan's shares were forfeited after the final call. The forfeited shares were reissued at ` 10 per share as fully paid up.

Assuming that the company maintains "Calls in Advance Account" and "Calls in Arrears Account", pass necessary Journal entries for the above transactions in the books of Seema Limited.

OR

(a) Kriti Limited forfeited 12,000 shares of ₹ 10 each for non-payment of First call of ₹ 2 per share. The final call of ₹ 3 per share was yet to be made. The final call was made after forfeited of these shares. Of the forfeited shares, 8,000 shares were reissued at ₹ 9 per share as fully paid up Assuming that the company maintains Calls in Advance Account and 'Calls in Arrears Account', prepare "Share Forfeited Account" in the books of Kriti Limited.

(b) Bhawna Limited issued 1,00,000 equity shares of ₹ 20 each at a premium of ₹ 5 per share. The shares were allotted in the proportion of 5:4 of shares applied and allotted to all the applicants. Deepa, who had applied for 450 shares, failed to pay allotment money of ₹ 7 per share (including premium) and on his failure to pay First & Final Call of ₹ 2 per share, his shares were forfeited 200 of the forfeited shares were reissued at ₹ 15 per share as fully paid up. Showing your working clearly, pass necessary Journal entries for the forfeited and reissue of Deepa's shares in the books of Bhawna Limited. The company maintains Calls in Arrears Account.

(c) Manish Limited forfeited 3,600 shares of ₹ 10 each allotted to Rakhi for Non payment of Second & Final Call of ₹ 5 per share (including premium of ₹ 2 per share). The forfeited shares were reissued for ₹ 32,400 as fully paid up. Pass necessary Journal entries for reissue of shares in the books of Manish Limited.

23. Ajay, Boby & Chetna were partners in a firm sharing profits & losses in proportion to their fixed capitals. Their balance sheet as at March 31, 2019 was as follows:

Balance Sheet

As at March 31, 2019

Liabilities		₹	**Assets**		₹
Capitals:			Bank		21,000
Ajay	5,00,000		Stock		9,000
Boby	3,00,000	10,00,000	Debtors	15,000	
Chetna	2,00,000		Less: Provision for Doubtful Debts	1500	13,500
General Reserve		75,000	Ajay's Loan		35,500
Creditors		23,000	Plant & Machinery		2,00,000
Outstanding Salary		7,000	Land & Building		6,00,000
Boby\s Loan		15,000	Profit & Loss Account (For the year Ending 31st March 2019)		2,41,000
		11,20,000			**11,20,000**

On the date of above Balance Sheet, Chetna retired from the firm on the following terms:

(i) Goodwill of the firm will be valued at two years purchase of the Average Profits of last three year the profits for the year ended March 31, 2017 & March 31, 2018 were ₹ 4,00,000 & ₹ 3,00,000 respectively.

(i) Provision for Bad Debts will be maintained at 5% of the Debtors

(iii) Land & Building will be appreciated by ₹ 90,000 and Plant & Machinery Will be reduced to ₹ 1,80,000.

(iv) Ajay agreed to repay his Loan.

(v) The loan repaid by Ajay was to be utilized to pay Chetna. The balance of the amount payable to Chetna was transferred to her loan account bearing interest @ 12% per annum.

Prepare Revaluation Account, Partners Capital Accounts, Partner's Current Accounts and the Balance sheet of there constituted firm.

OR

Dinesh, Yashika and Farhan are partners in a firm, sharing profits and losses in 11:7:2 respectively. The balance sheet of the firm as on 31st March 2019 was as follows:

Balance Sheet As at 31.3.2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Sunday Creditors	70,000	Factory Building	7,35,000
Public Deposits	1,19,000	Plant and Machinery	1,80,000
Reserve fund	90,000	Furniture	2,60,000
Outstanding Expenses	10,000	Stock	1,45,000
Capital Accounts		Debtors 1,50,000	
Dinesh 5,10000		Less: Provision (30000)	
			1,20,000
Yashika 3,00000		Cash at bank	1,59,000
Farhan 5,00000	13,10,000		
	15,99,000		**15,99,000**

On 1.4.2018, Aditi is admitted as a partner for one-fifth share in the profits with a capital of ₹ 4,50,000 and necessary amount for his share of good will on the following terms:

i. Furniture of ₹ 2,40,000 were to be taken over Dinesh, Yashika and Farhan equally.

ii. A creditor of ₹ 7,000 not recorded in books to be taken in to account.

iii. Goodwill of the firm is to be valued at 2.5 year purchase of average of last two year the profit of the last three years were:

 2016-17 ₹ 6,00,000; 2017-18 ₹ 2,00,000; 2018-19 ₹ 6,00,000

iv. At time of Aditi's admission Yashika also brought in ₹ 50,000 as fresh capital plant and Machinery is re-valued to ₹ 2,00,000 and expenses outstanding were brought down to ₹ 9,000. Prepare Revaluation Account, Partners Capital Account and the balance sheet of the reconstituted firm.

PART-B

Analysis of financial statement

24. Which of the following transaction will result into flow of cash?

 (a) Cash withdrawn from bank ₹ 2,00,000.

 (b) Deposited cheques of ₹ 6,00,000 into bank.

 (c) Received ₹ 9,000 from debtor

 (d) Issued ₹ 2,40,000 12% debentures for the vendor of machinery.

25. Kapil Ltd. A financing company obtained loans and advances of ₹ 4,00,0000 during the year @ 10% p.a. it will be included in the..................activities while preparing cash flow statement. (fill in the blanks)

26. Format of the balance sheet is prescribed in:

 (a) Part II of the schedule VI of the Company's act 2013.

 (b) Part I of the schedule III of the Company's act 2013.

 (c) Part I of the schedule VI of the Company's act 2013.

 (d) Part II of the schedule III of the Company's act 2013.

27. Which is not a limitation of financial statement analysis:

(a) Historical analysis

(b) Ignore price level changes

(c) Indicates trend

(d) Not free from bias

28. Which of the following item will not be shown under head of current liabilities and sub head of other current liabilities:

(a) Unclaimed dividend

(b) Calls in advances

(c) Interest accrued but not due on debentures

(d) Cash credit

29. Which of the following is correct sequence of items assets according to schedule III:

(a) Goodwill, land, building work in progress, inventories

(b) Land, building work in progress, inventories, goodwill

(c) Land, goodwill, building work in progress, inventories

(d) Building, work in progress, inventories, land

30. For the year ended March 31, 2019, Net Profit after tax of Jai Limited was ₹12,00,000. The company has ₹ 80,00,000 12% Debentures of ₹ 100 each. Calculate Interest Coverage Ratio assuming 40% tax rate. State its significance also. Will the interest Coverage Ratio change if during the year 2019-20, the company decided to redeem debentures of ₹ 10,00,000 and expects to maintain the same rate of Net Profit and assume that the Tax rate will not change.

OR

Form the following data calculate current ratio and liquid ratio:

Liquid Assets	7,50,000
Inventories (Includes Loose Tools of ₹ 20,000)	₹ 3,50000
Prepaid expenses	₹ 1,00,000
Working Capital	₹ 6,00,000

31. Form the following Statement of Profit and Loss of the Sapna Ltd. For the year ended 31st March 2018, prepare comparative Statement of Profit & Loss.

Statement of Profit & Loss for the year ended 31st March, 2019

Particulars	2017-18 (₹)	2018 (₹)
Revenue from Operations	50,00,000	80,00,000
Expenses :		
(a) Employee benefit expenses	14,00,000	20,00,000
(b) Other Expenses	6,00,000	4,00,000
Rate of Tax - 40%		

32. From the following Balance Sheet of Nupur Limited as on March 31, 2019 prepare a Cash Flow Statament

	Particulars	Note Numbers	31-3-2019 (₹)	31-3-2018 (₹)
I.	Equity and Liabilities			
	(1) Shareholder's Funs			
	(a) Equity Share Capital		10,00,000	10,00,000
	(b) Reserves and Surplus	1	2,40,000	1,20,000
(2)	Non-Current Liabilities			
	Long-Term Borrwings – 9% Debentures		3,20,000	2,40,000
(3)	Current Liabilities			
(a)	Trade Payables	2	1,80,000	2,40,000
(b)	Other Current Liabilities	3	1,80,000	1,60,000
Total			19,20,000	17,60,000
II.	Assets			
(1)	Non-Current Assets			
	(a) Fixed Assets			
	Tangible Assets	4	13,40,000	12,00,000
	(b) Non-Current Investments	5	2,40,000	1,60,000

(2)	Current Assets		
	(a) Inventories	1,20,000	1,60,000
	(b) Trade Receivables	1,60,000	1,60,000
	(c) Cash and Cash Equivalents	60,000	80,000
	Total	19,20,000	17,60,000

Notes to accounts:

1	Reserves and Surplus General Reserve	1,20,000	1,20,000
	Balance in Statement of Profit & Loss	1,20,000	…………
		2,40,000	1,20,000
2	Trade Payables		
	Creditor	1,40,000	1,20,000
	Bills Payable	40,000	1,20,000
		1,80,000	2,40,000
3	Other Current Liabilities		
	Outstanding Rent	1,80,000	1,60,000
		1,80,000	1,60,000
4	Tangible Assets		
	Plant & Machinery	14,90,000	13,00,000
	Accumulated Depreciate on	(1,50,000)	(1,00,000)
		13,40,000	12,00,000
5	Non-Current Investments		
	Shares in XYZ	2,40,000	1,60,000
		2,40,000	1,60,000

Additional Information:

(a) During the year 2018-19, a machinery costing ₹ 50,000 and accumulated depreciation thereon ₹ 15,000 was sold for ₹ 32,000.

(b) 9% Debentures ₹ 80,000 were issued on April 1, 2018.

MARKING SCHEME OF PRACTICE PAPER 2019-20

CLASS – XII

ACCOUNTNCY

1. C
2. Interest on Capital
3. C
4. ₹ 4,00,000
5. ₹ 1,12,500
6. C
7. Profit sharing ratio
8. C
9. Partner's Capital
10. D
11. ₹ 30
12. Securities Premium Reserve, Statement of Profit and Loss
13. C
14. B
15. Refer Book for journal entries
16. Expenditure : Sports exp. ₹ 500, Assets : SFI ₹ 50,000 + O/S Int. on SFI ₹1,000
17. Refer Book for journal entries
18. Refer Book For journal entries
19. Refer Book for journal entries
20. Karan's capital A/C dr. ₹ 62,000 and Taruna's Capital A/C Cr. ₹ 62,000

OR

Refer Book for Journal entries

21. Surplus ₹ 87,500, Capital found ₹ 8,53,800 Balance Sheet total ₹ 9,53,500
22. Capital reserve ₹ 1,47,500

OR

(a) Bal. c/d ₹ 20,000

(b) Capital Reserve ₹ 10,400

(c) Capital Reserve ₹ 21,600

23. Revaluation A/C profit ₹ 40,750, Ajay Current A/C ₹ 85,875 Boby's Current A/C ₹ 51,225, Ajay's Capital A/C ₹ 5,00,000, Boby's Capital A/C ₹ 3,00,000 Chetna's loan ₹ 2,06,650, Balance Sheet Total ₹ 10,51,650

OR

Revaluation profit ₹ 14,000 Capital A/C. Dinesh ₹ 5,97,200 Yashika ₹ 3,76,400, Farhan ₹ 4,50,000 Aditi ₹ 4,50,000 Balance Sheet Total ₹ 20,79,000.

24. C
25. Operating
26. B
27. C
28. D
29. C
30. 3.08 Times

OR

Current Ratio 2.5:1. Liquid Ratio 1.878:1

31. Refer Book
32. Cash Flow from operating activities ₹ 2,16,800 Cash used from inverting activities (₹ 2,88,000), Cash flow from financing activities ₹ 51,200.

Accountancy – Class XII

SQP (2019-20)

General Instructions :

(i) This question paper contains two parts – A and B.
(ii) Part A is compulsory for all.
(iii) Part B has two options – Analysis of Financial Statements and Computerised Accounting.
(iv) Attempt only one option of Part B.
(v) All parts of a question should be attempted at one place.

<table>
<tr><td></td><td>PART A
(Accounting for Not-for-Profit Organizations, Partnership Firms and Companies)</td><td></td></tr>
<tr><td>1</td><td>How are the following items presented in financial statements of a Not-for- Profit organisation:-
(a) Tournament Fund- ₹ 80,000
(b) Tournament expenses- ₹ 14,000</td><td>1</td></tr>
<tr><td>2</td><td>At what rate is interest payable on the amount remaining unpaid to the executor of deceased partner, in absence of any agreement among partners, when (s)he opts for interest and not share of profit.
(a) 12% p.a.
(b) 8% p.a.
(c) 6% p.a.
(d) 7.5%p.a.</td><td>1</td></tr>
<tr><td>3</td><td>State the order of payment of the following, in case of dissolution of partnership firm.

i. to each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (i.e. partner' loan);
ii. to each partner proportionately what is due to him on account of capital; and
iii. for the debts of the firm to the third parties;</td><td>1</td></tr>
<tr><td>4</td><td>A and B are partners in a firm having a capital of ₹ 54,000 and ₹ 36,000 respectively. They admitted C for 1/3rd share in the profits C brought proportionate amount of capital. The Capital brought in by C would be:
a) ₹ 90,000
b) ₹ 45,000
c) ₹ 5,400
d) ₹ 36,00</td><td>1</td></tr>
<tr><td>5</td><td>Amit, a partner in a partnership firm withdrew ₹ 7,000 in the beginning of each quarter. For how many months would interest on drawings be charged?</td><td>1</td></tr>
<tr><td>6</td><td>Ankit, Unnati and Aryan are partners sharing profits in the ratio of 5:3:2. They decided to share future profits in the ratio of 2:3:5 with effect from 1st April,2018. They had the following balance in their balance sheet, passing necessary Journal Entry:
<table><tr><th>Particulars</th><th>Amount(₹)</th></tr><tr><td>Profit and loss Account (Dr)</td><td>60,500</td></tr></table></td><td>1</td></tr>
<tr><td>7</td><td>A and B are partners in a firm. They admit C as a partner with 1/5th share in the profits of the firm. C brings ₹ 4,00,000 as his share of capital. Calculate the value of C's share of Goodwill on the basis of his capital, given that the combined capital of A and B after all adjustments is ₹ 10,00,000</td><td>1</td></tr>
<tr><td>8</td><td>Riyansh, Garv and Kavleen were partners in a firm sharing profit and loss in the ratio of 8:7:5. On 2nd November 2018, Kavleen died. Kalveen's share of profits till the date of her death was</td><td>1</td></tr>
</table>

<table>
<tr><td></td><td>calculated at₹ 9,375. Pass the necessary journal entry.</td><td></td></tr>
<tr><td>9</td><td>A and B are partners in a firm sharing profits and losses in the ratio of 3:2.On 1st April, 2019 they decided to admit C their new ratio is decided to be equal. Pass the necessary journal entry to distribute Investment Fluctuation Reserve of₹ 60,000 at the time of C's admission, when Investment appear in the books at₹ 2,10,000 and its market value is ₹1,90,000.</td><td>1</td></tr>
<tr><td>10</td><td>'Complete the following statement'
When a liability is discharged by a partner, at the time of dissolution, Capital Account is credited because ______________ .</td><td>1</td></tr>
<tr><td>11</td><td>A and B are in partnership sharing profits and losses in the ratio of 3:2. They admit C into partnership with 1/5th share which he acquires equally from A and B. Accountant has calculated new profit sharing ratio as 5:3:2. Is accountant correct?</td><td>1</td></tr>
<tr><td>12</td><td>Wellness Co. Ltd. has issued 20,000, 9% Debentures of ₹ 100 each at a premium of 10% on 1st April, 2018 redeemable as follows:
31st March, 2021 – 10,000 debentures
31st March, 2022 – 4,000 debentures
31st March, 2023 – balance debentures.
It transferred to Debentures Redemption Reserve the required amount as applicable rules of the Companies Act and Rules, 2014 on due date. How much amount will be transferred to General Reserve on 31st March, 2021
a) ₹ 1,00,000
b) ₹ 2,50,000
c) ₹ 5,00,000
d) ₹ 20,00,000</td><td>1</td></tr>
<tr><td>13</td><td>A portion of share capital that is reserved by the company and will be utilized only on the happening of winding up of the company is called ________.</td><td>1</td></tr>
<tr><td>14</td><td>a) Calculate the amount of medicines consumed during the year ended 31st March,2019
<table>
<tr><th>Particulars</th><th>Amount (₹)</th></tr>
<tr><td>Opening Stock of Medicines</td><td>50,000</td></tr>
<tr><td>Closing stock of Medicines</td><td>45,000 more than opening stock</td></tr>
<tr><td>Amount paid for medicines during the year</td><td>2,00,000</td></tr>
<tr><td>Opening Creditors</td><td>20,000</td></tr>
<tr><td>Closing Creditors</td><td>50% of opening creditors</td></tr>
</table>
Or
Distinguish between Income and Expenditure Account and Receipt and payment Account on basis of :-
i. Nature
ii. Nature of items
iii. Period</td><td>3

3</td></tr>
<tr><td>15</td><td>Danish, Ana and Pranjal are partners in a firm sharing profits and losses in the ratio of 5:3:2. Their books are closed on March 31st every year.
Danish died on September 30th , 2019, The executors of Danish are entitled to:-
i. His share of Capital i.e. ₹ 5,00,000 along-with his share of goodwill. The total goodwill of the firm was valued at ₹ 60,000.
ii. His share of profit up to his date of death on the basis of sales till date of death. Sales for the year ended March 31, 2019 was ₹ 2,00,000 and profit for the same year was 10% on sales. Sales shows a growth trend of 20% and percentage of profit earning is reduced by 1%.
iii. Amount payable to Danish was transferred to his executors.
Pass necessary Journal Entries and show the workings clearly.</td><td>4</td></tr>
</table>

16	Maanika, Bhavi and Komal are partners sharing profits in the ratio of 6:4:1. Komal is guaranteed a minimum profit of ₹ 2,00,000. The firm incurred a loss of ₹22,00,000 for the year ended 31st March,2018. Pass necessary journal entry regarding deficiency borne by Maanika and Bhavi and prepare Profit and Loss Appropriation Account. **OR** The partners of a firm, Alia, Bhanu and Chand distributed the profits for the year ended 31st March, 2017, ₹ 80,000 in the ratio of 3:3:2 without providing for the following adjustments: a) Alia and Chand were entitled to a salary of ₹ 1,500 each p.m. b) Bhanu was entitled for a salary of ₹ 4,000 p.a. Pass the necessary Journal entry for the above adjustments in the books of the firm. Show workings clearly.	**4**
17	Bliss Products Ltd. registered with capital of ₹ 90,00,000 divided into 90,000 equity shares of ₹ 100 each. The company issued prospectus inviting applications for 50,000 equity shares of ₹ 100 each payable as ₹ 20 on application, ₹ 30 on allotment, ₹ 20 on first call and balance on second call. Applications were received for ₹40,000 shares. Raman to whom 1600 shares were allotted failed to pay final call money and these shares were forfeited. Of the forfeited shares, 600 shares were reissued to Sukhman, credited as fully paid for ₹ 90 per share. Present the Share Capital as per Schedule III of Companies Act, 2013	**4**
18	The firm of R, K and S was dissolved on 31.3.2019. Pass necessary journal entries for the following after various assets (other than cash and Bank) and the third party liabilities had been transferred to realisation account. (i) K agreed to pay off his wife's loan of ₹ 6,000. (ii) Total Creditors of the firm were ₹ 40,000. Creditors worth ₹10,000 were given a piece of furniture costing ₹8,000 in full and final settlement. Remaining creditors allowed a discount of 10%. (iii) A machine that was not recorded in the books was taken over by K at ₹ 3,000 whereas its expected value was ₹ 5,000. (iv) The firm had a debit balance of ₹ 15,000 in the profit and loss A/c on the date of dissolution.	**4**
19	From the following Receipts and Payments Accounts of Rolaxe Club, for the year ended 31st March, 2019. Prepare Income and Expenditure Account for the year ended 31st March, 2019.	**6**

Receipts and Payments Account for the year ended 31st March, 2019

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Advertisement	13,100
Cash in hand	17,050	By Rent rates and Taxes	14,000
Current a/c with bank	18,570	By Repairs	15,000
To Donations	20,000	By Printing and Stationery	16,000
To Proceeds from charity Show	16,200	By Government Bonds	5,000
To Subscription	52,000	By Telephone Expenses	1,000
To Life membership fees	5,250	By Furniture (purchased on 1st July, 2018)	70,000
To Entrance Fees	6,000	By Balance c/d	
To Interest on investment @ 7% for the year.	7,200	Cash in hand	3,170
		Cash at Bank	5,000
	1,42,270		**1,42,270**

Additional Information :-

i) Depreciate furniture by 15% p.a.

ii) There were 416 Life Members on 31.3.2018 the subscription payable by each member, to be a life time member is ₹ 125

iii)

Subscription outstanding on 31st March, 2018	6,000
Subscription outstanding on 31st March, 2019	7,000
Subscription received in advance on 31st March, 2018	4,000
Subscription received in advance on 31st March, 2019	5,000

20 Journalise the following transactions **6**

a) Mehar Ltd. issued ₹ 1,00,000, 12% Debentures of ₹ 100 each at a premium of 5% redeemable at a premium of 2%

b) 12 % Debentures were issued at a discount of 10% to a vendor of machinery for payment of ₹ 9,00,000

c) Issue of 10,000 11% debentures of ₹ 100 each as collateral in favour of State Bank of India. Company opted to pass necessary entry for issue of debentures.

Or

Faith and Belief Ltd has total redeemable debentures of ₹ 5,00,000. It decides to redeem these debentures in two instalments of ₹ 3,00,000 and ₹ 2,00,000 on December 31st 2018 and March 31st 2020 respectively. Assuming that the Company has sufficient funds in Debenture Redemption Reserve Account, pass necessary journal entries for the year ending March 31st 2020.

21 Gautam and Yashica are partners in a firm, sharing profits and losses in 3:1 respectively. The balance sheet of the firm as on 31st March 2018 was as follows: **8**

Balance Sheet
As at 31.3.2018

Liabilities		Amt(₹)	Assets	Amt(₹)
Sundry creditors		50,000	Furniture	60,000
Bills payable		30,000	Stock	1,40,000
Capitals			Debtors	80,000
Gautam	4,00,000		Cash in hand	90,000
Yashica	1,00,000		Machinery	2,10,000
		5,00,000		
		5,80,000		**5,80,000**

Asma is admitted as a partner for 3/8th share in the profits with a capital of ₹2,10,000 and ₹50,000 for her share of goodwill. It was decided that:

i. New profit sharing ratio will be 3:2:3
ii. Machinery will depreciated by 10% and Furniture by ₹5,000.
iii. Stock was re-valued at ₹ 2,10,000.
iv. Provision for doubtful debts is to be created at 10% of debtors.
v. The capitals of all the partners were to be in the new profit sharing ratio on basis of capital of new partner any adjustment to be done through current accounts.

Prepare Revaluation Account, Partners Capital Account and the Balance Sheet of the new firm.

Or

X,Y and Z were in partnership sharing profits in proportion to their capitals. Their Balance Sheet as on 31st March, 2018 was as follows:

Liabilities	Amount (₹)	Particulars	Amount (₹)
Sundry Creditors	16,600	Cash	15,000
Workmen's Compensation Fund	9,000	Debtors 21,000 Less-Prov for Doubtful Debts (1400)	19,600
General Reserve	6,000	Stock	19,000

Capitals : X 90,000 Y 60,000 Z 30,000	1,80,000	Machinery Building	58,000 1,00,000
	2,11,600		**2,11,600**

On the above date, Y retired owing to ill health. The following adjustments were agreed upon for calculation of amount due to Y.

a) Provision for Doubtful Debts to be increased to 10% of Debtors.
b) Goodwill of the firm be valued at ₹ 36,000 and be adjusted into the Capital Accounts of X and Z, who will share profits in future in the ratio of 3:1.
c) Included in the value of Sundry Creditors was ₹ 2,500 for an outstanding legal claim, which will not arise.
d) X and Z also decided that the total capital of the new firm will be ₹ 1,20,000 in their profit sharing ratio. Actual cash to be brought in or to be paid off as the case may be.
e) Y to be paid ₹ 9,000 immediately and balance to be transferred to his Loan Account.

Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the new firm after Y's retirement.

22 Saregama Ltd invited applications for issuing 80,000 equity shares of ₹ 100 each at a premium of ₹ 10. The amount was payable as follows **8**

On Application – ₹ 30
On allotment – ₹ 30 (including a premium of ₹ 10)
On 1st call – ₹ 30
On Final Call Balance

Applications of 1,20,000 shares were received. Allotment was made on pro rata basis to all applicants. Excess money received on application was adjusted on sums due on allotment. Dhwani, who was allotted 1,600 shares, failed to pay allotment money and Sargam who applied of 6,000 shares did not pay 1st call money. These shares were forfeited immediately after 1st call. 2,000 of these shares (including all shares of Dhwani were issued to Tarang for ₹ 95 per share as 80 paid up. Pass necessary journal entries in books of Saregama Ltd. by opening call in arrear, call in advance account, if final call has not been made.

Or

a. X Ltd. forfeited 10 shares of ₹ 10 each, ₹ 7 called up on which the shareholder had paid application and allotment money of ₹ 5 per share. Out of these, 8 shares were re-issued to Y for ₹8 per share at ₹ 8 per paid up per share. Record the journal entries for forfeiture and reissue of shares by opening call in arrear, call in advance account.
b. L ltd forfeited Mr M's shares who has applied for 600 shares and was allotted 400 shares failed to pay allotment money of ₹ 4 per share including premium of ₹ 2 on which he had paid application money of ₹ 2 only. Pass necessary journal entries for forfeiture of shares by opening call in arrear, call in advance account.
c. Crown Ltd forfeited 50 shares of ₹ 10 each, for non- payment of final call money of ₹ 3 per share. Out of these 20 shares were reissued to Taj at₹ 8 per share. Record the journal entries for forfeiture and reissue of shares assuming that the company maintains call in arrear, call in advance account.

PART B
OPTION 1
(Analysis of Financial Statements)

23 What will be the effect on current ratio if a bills payable is discharged on maturity? **1**

24 The two basic measures of operational efficiency of a company are **1**

a) Inventory Turnover Ratio and Working Capital Turnover Ratio
b) Liquid Ratio and Operating Ratio
c) Liquid Ratio and Current Ratio

	d) Gross Profit Margin and Net Profit Margin	
25	Debt Equity Ratio of a company is 1:2. Purchase of a Fixed asset for ₹ 5,00,000 on long term deferred payment basis will increase, decrease or not change the ratio?	1
26	State the importance of financial analysis for labour unions.	1
27	M/s Mevo and Sons.; a bamboo pens producing company, purchased a machinery for ₹ 9,00,000. It received dividend of ₹ 70,000 on investment in shares. The company also sold an old machine of the book value of ₹ 79,000 at a loss of ₹ 10,000. Compute Cash flow from Investing Activities.	1
28	Common size analysis is also known as ——————— analysis. (fill in the blank)	1
29	While preparing Cash Flow Statement, match the following activities I. Payment of cash to acquire Debenture by an Investing Company — a. Financing activity II. Purchase of Goodwill — b. Investing Activity III. Dividend paid by manufacturing company — c. Operating activity	1
30	From the following details calculate Interest Coverage Ratio: Net profit after tax - ₹ 7,00,000 6% debentures of ₹ 20,00,000 Tax Rate 30% **Or** Under which major heads and sub-heads will the following items be placed in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013? (i) Debentures with maturity period in current financial year (ii) Securities Premium Reserve (iii) Provident Fund	3
31	Following information is extracted from the Statement of Profit and Loss of Crypto Finance Ltd. For the year ended 31st March 2017 and 31st March 2018. Fill in the missing figures	4

Comparative Statement of Profit and Loss
for the years ended 31st March 2017 and 31st March 2018

Particulars	2016-17 (₹)	2017-18 (₹)	Absolute Increase/ Decrease (₹)	Percentage Increase/ Decrease (%)
Revenue from Operations	10,00,000	?	2,00,000	20%
Add other Income	?	60,000	?	20%
Total Revenue	?	12,60,000	?	20%
Less Employee Benefit Expenses	50,000	60,000	10,000	?
Profit before tax	10,00,000	12,00,000	2,00,000	?
Less Tax (50%)	5,00,000	6,00,000	1,00,000	?
Profit after tax	5,00,000	6,00,000	1,00,000	20%

Or

From the following Balance Sheet of R Ltd., Prepare a Common Size Statement

Balance Sheet As at 31st March, 2019.

Particulars	Note no.	31.3.2019 (₹)	31.3.2018 (₹)

I EQUITY AND LIABILITIES			
1. Shareholder's Funds:			
a. Share Capital		5,00,000	4,00,000
b. Reserve and Surplus		1,60,000	1,20,000
2. Current Liabilities:			
a. Trade Payable		1,40,000	80,000
Total		**8,00,000**	**6,00,000**
II ASSETS			
1. Non-Current Assets:			
a. Fixed Assets:			
i. Tangible Assets		3,20,000	2,40,000
ii. Intangible Assets		40,000	60,000
2. Current Assets			
a. Inventories		1,60,000	60,000
b. Trade Receivables		2,40,000	2,00,000
c. Cash and Cash Equivalents		40,000	40,000
Total		**8,00,000**	**6,00,000**

32 From the following Balance Sheet of Dreams Converge Ltd as at 31.3.2018 and 31.3.2017; Calculate Cash from operating activities. Showing your workings clearly **6**

Particulars	Note No.	31.3.2018 (₹)	31.3.2017 (₹)
I. EQUITY AND LIABILITY :			
1. Shareholder's Fund:		7,00,000	5,00,000
a. Share Capital			
b. Reserve and Surplus		3,50,000	2,00,000
2. Non-Current Liabilities:			
Long Term Borrowings		50,000	1,00,000
3. Current Liabilities:			
a. Trade Payables		1,22,000	1,05,000
b. Short term Provisions (Provision for tax)		50,000	30,000
TOTAL		**12,72,000**	**9,35,000**
II. ASSETS :			
1. Non Current Assets:			
a. Fixed Assets:			
i. Tangible Assets	1	5,00,000	5,00,000
ii. Intangible Assets	2	95,000	1,00,000
b. Non-current Investments		1,00,000	Nil
2. Current Assets:			
a. Inventory		1,30,000	55,000
b. Trade Receivable		1,47,000	80,000
c. Cash and Cash Equivalents		3,00,000	2,00,000
TOTAL		**12,72,000**	**9,35,000**

Notes

Note Number	**Particulars**	**31.3.2018 (₹)**	**31.3.2017 (₹)**
1	**Tangible Assets:**		
	Machinery	2,80,000	2,00,000
	Accumulated depreciation	(1,00,000)	(80,000)
		1,80,000	**1,20,000**

	Equipment	3,20,000	3,80,000
		5,00,000	**5,00,000**
2	Intangible Assets :		
	Goodwill	95,000	1,00,000

Additional Information:

i. Machinery of the book value of 80,000 (accumulated depreciation ₹ 20,000) was sold at a loss of ₹ 18,000

Accountancy – Class XII
Marking Scheme (2019-20)

PART A
(Accounting for Not-for-Profit Organizations, Partnership Firms and Companies)

1 **Balance Sheet of ___ NPO. as on ____ Date** (1)

Liabilities	Amount (₹)	Assets	Amount (₹)
Tournament Fund 80,000 Less: Tournament expenses 14000 ______	66,000		

2 (c) 6% p.a. (1)

3
iii. for the debts of the firm to the third parties;
i. to each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (i.e. partner' loan);
ii. to each partner proportionately what is due to him on account of capital
(1)

4 b) ₹ 45,000 (1)

5 7 ½ months (1)

6 Journal (1)

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2018 April,1	Ankit's capital A/c Dr Unnati Capital A/c Dr Aryan's Capital A/c Dr To Profit and Loss A/c (Being Profit and Loss debit balance distributed at time of change in profit sharing ratio)		30,250 18,150 12,100	60,500

7
Total Capital as per C's Share (4,00,000 X (5/1)) 20,00,000
Less Actual capital of A,B,C (10,00,000 + 4,00,000) 14,00,000
____
Value of firm's Goodwill 6,00,000
======= (1/2)

C's share of Goodwill = 6,00,000X (1/5) = ₹ 1,20,000 (1/2)

8 **Journal** (1)

Date	Particulars	L.F	Dr Amount (₹)	Dr Amount (₹)
2018 Nov,2	Profit and Loss Suspense A/c Dr. To Kavleen's Capital A/c (Being Kavleen's share of profit up to the date of her death transferred to her capital account)		9,375	9,375

9 **Journal**

	<table><tr><th>Date</th><th>Particulars</th><th>L.F</th><th>Dr Amount (₹)</th><th>Dr Amount (₹)</th></tr><tr><td>2019 April, 1</td><td>Investment Fluctuation Reserve A/c Dr. To Investment A/c To A's capital A/c To B's Capital A/c (Being the transfer of excess Investment Fluctuation reserve to partner's capital account in old profit sharing ratio)</td><td></td><td>60,000</td><td> 20,000 24,000 16,000</td></tr></table>	(1)
10	because the claim of the partner against the firm is increased by the amount of liability assumed.	(1)
11	C's Share acquired from A and B each = $\frac{1}{5}$ X $\frac{1}{2}$ = $\frac{1}{10}$ A's Share = $\frac{3}{5} - \frac{1}{10} = \frac{5}{10}$ B's Share = $\frac{2}{5} - \frac{1}{10} = \frac{3}{10}$ New Profit Sharing ratio of A: B: C is 5:3: 2 Yes, new profit sharing ratio is 5:3:2	1
12	b) ₹ 2,50,000	(1)
13	Reserve Capital	(1)
14	**a) Statement Showing Expenditure on Medicine consumed during the year ending 31st March,2019:-** <table><tr><th>Particulars</th><th>Amount (₹)</th></tr><tr><td>Amount paid for medicines during the year Add: Opening Stock of medicines Less: Closing stock of medicines Less: Opening Creditors Add: Closing creditors Medicine consumed during the year</td><td>2,00,000 50,000 (95,000) (20,000) 10,000 1,45,000 ----------</td></tr></table>	½ X 6
	Or <table><tr><th>Basis of distinction</th><th>Income and Expenditure</th><th>Receipt and Payment Account</th></tr><tr><td>Nature</td><td>It is like as profit and loss account, hence is a nominal account.</td><td>It is the summary of the cash book, hence a real account.</td></tr><tr><td>Nature of Items</td><td>It records items of Revenue and expense nature only.</td><td>It records receipts and payment of cash and bank.</td></tr><tr><td>Period</td><td>Items in Income and Expenditure account relate to the current period.</td><td>Receipts and payments items may relate to preceding and succeeding periods.</td></tr></table>	1 1 1

15

Journal

Date	Particulars	L.F	Dr Amount (₹)	Dr Amount (₹)
September 30, 2019	Ana's Capital A/c Dr Pranjal's Capital A/c Dr To Danish's Capital A/c (Being Danish's share of goodwill adjusted in capital Accounts of Ana and Pranjal		18,000 12,000	 30,000
September 30, 2019	Profit and Loss Suspense A/c Dr To Danish's Capital A/c (Being Danish's share of profit up to date of his death transferred to his capital account)		5,400	 5,400
September 30, 2019	Danish's Capital A/c Dr To Danish's Executor's A/c (Being amount due to Danish transferred to his executor's account)		5,35,400	 5,35,400

(1)
(1)
(1)

Working Notes:-
Sales = 2,00,000 + 20% of 2,00,000
= 2,00,000 +40,000 (1)
Profit % = 10% - 1% = 9%
Danish's Share of Profit =₹ 2,40,000 X 9/100 X 5/10 X 6/12 = ₹ 5,400

16

Journal

Date	Particulars	L.F.	Dr Amount (₹)	Dr Amount (₹)
2018 March,31	Maanika's capital A/c Dr. Bhavi's Capital A/c Dr. To Komal's Capital A/c (Being the deficiency of komal met by Maanika and Bhavi)		2,40,000 1,60,000	 4,00,000

(2)

Dr **Profit and Loss Appropriation A/c** **Cr**
For the year ended 31st March, 2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To Net Loss (Profit and Loss A/c)	22,00,000	By Loss transferred to Maanika's capital a/c Bhavi's capital a/c Komal's Capital a/c	 12,00,000 8,00,000 2,00,000
	22,00,000		22,00,000

(1 ½

½

Working note:
Loss of the firm : 22,00,000
Komal's share of loss =22,00,000 X1/11 = 2,00,000
Guaranteed minimum profit=2,00,000

OR

Firm's		Particular's	Alia's		Bhanu's		Chand's	
Dr	Cr		Dr	Cr	Dr	Cr	Dr	Cr
	80,000	Profits Given	30,000		30,000		20,000	
40,000		Salary		18,000		4,000		18,000
40,000		Profit to be credited		15,000		15,000		10,000

			30,000	33,000	30,000	19,000	20,000	28,000

RECTIFYING JOURNAL ENTRY

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
31st March, 2017	Bhanu's Capital A/c Dr To Chand's Capital A/c To Alia's Capital A/c (Being Salary, profit share incorrectly distributed, now adjusted)		11,000	 3,000 8,000

17

Extract of Balance Sheet of Bliss Products Ltd.
As at ____

Particulars	Note No.	Amount Current Year	Amount Previous Year
I. EQUITY AND LIABILITIES **1. Shareholder's Fund** a. Share Capital	1	39,70,000	

½

Notes to Accounts:

Note No.	Particulars		Amount (₹)	
1	**Share Capital** **Authorized Capital** 90,000 Equity shares of ₹ 100 each		90,00,000	1
	Issued Capital 50,000 Equity shares of ₹ 100 each		50,00,000	1
	Subscribed Capital **Subscribed and Fully Paid Capital** 39,000 Equity shares of ₹ 100 each **Add:** Forfeited Shares (1,000 of ₹ 70 each)	 39,00,000 70,000	39,70,000	1½

18

Journal (4)

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	Realization A/c Dr To K's Capital A/c (Being wife's loan discharged by the partner)		6,000	6,000
	Realization A/c Dr To Bank A/c (Being balance creditor's paid at a discount of 10% after part payment through furniture)		27,000	27,000

		K's Capital Account Dr To Realization A/c (Being unrecorded machine taken over by a partner)	3,000	3,000	
		R's Capital A/c Dr K's Capital A/c Dr S's Capital A/c Dr To Profit and Loss A/c (being debit balance of Profit and Loss distributed amongst partners)	5,000 5,000 5,000	15,000	

19

Dr. Income and Expenditure Account Cr
For the year ended 31st March,2019

Expenditure	Amount (₹)	Income	Amount (₹)
To Advertisement	13,100	By Donations	20,000
To Rent, Rates and Taxes	14,000	By Proceeds from Charity show	16,200
To Repairs	15,000	By Subscription	52,000
To Printing and Stationery	16,000	By Entrance fees	6,000
To Telephone expenses	1,000	By Interest on investments	7,200
To Depreciation on furniture (70000x15/100x9/12)	7,875		
To excess of Income over expenditure	34,425		
	1,01,400		1,01,400

(½ X 10) = 5 + 1 (subs)

Dr Subscription Account Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Subscription in arrears in the beginning	6,000	By Subscription in advance at end	4,000
To Income and Expenditure	52,000	By Receipts and Payments	52,000
To Subscription in advance at end	5,000	By Subscription in arrears at end	7,000
	63,000		**63,000**

20

Journal

a)

Date	Particulars	L.F	Amount (₹)	Amount (₹)	
	Bank A/c Dr. To Deb Application and Allotment A/c (Being the application money received)		1,05,000	1,05,000	[2]
	Debenture Application and Allotment A/c Dr Loss on Issue of Debenture A/c Dr To 12% Debenture A/c To Security Premium Reserve To Premium on Redemption A/c (Being 1,000 debentures issued at a premium of 5% and redeemable at 2% premium)		1,05,000 2,000	100000 5000 2000	[2] [2]
	Vendor A/c Dr Discount on issue of Debenture A/c To 12% Debenture (Being Debentures issued to vendors at a		9,00,000 1,00,000	10,00,000	[2]

		discount of 10%)				
b)		Debenture Suspense A/c Dr To 11% Debenture A/c (Being 10,000 11% debentures of ₹ 100 issued as collateral security)		1000000	1000000	[2]

Or

c)

Date	Particulars	L.F	Amount (₹)	Amount (₹)	
	Debenture Redemption Investment A/c Dr To Bank A/c (being specified investments purchased)		30,000	30,000	[1 ½]
	10% Debenture A/c Dr To Debenture Holder A/c (being debenture due for redemption)		2,00,000	2,00,000	[1 ½]
	Debenture Holder A/c Dr To Bank A/c (Being payment made to debenture holders)		2,00,000	2,00,000	[1 ½]
	Debenture Redemption Reserve A/c Dr To General Reserve A/c (Being the transfer of Debenture Redemption Reserve to General Reserve on the redemption of debentures)		50,000	50,000	[1 ½]

21

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	21,000	By Stock A/c	70,000
To Furniture A/c			
To Provision for	5,000		
doubtful debts	8,000		
To partner's Capital A/c- Gain on revaluation	36,000		
Gautam's Capital A/c 27,000			
Yashica's Capital A/c 9,000			
	70,000		70,000

[3]

Dr. Partner's Capital Account Cr.

Particulars	Gautam (₹)	Yashica (₹)	Asma (₹)	Particulars	Gautam (₹)	Yashica (₹)	Asma (₹)
To Gautam's current A/c	2,67,000	----	----	By balance b/d	4,00,000	1,00,000	---
				By RevaluationA/c	27,000	9,000	---
				By Bank A/c	---	----	2,10,000
				By Premium for Goodwill	50,000	---	------
To balance c/d	2,10,000	1,40,000	2,10,000	By Yashica's current A/c		31,000	
	4,77,000	1,40,000	2,00,000		4,77,000	1,40,000	2,10,000

[3]

Balance sheet of Gautam, Yashica and Asma
As at 31.3.2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Sundry Creditors	50,000	Cash		3,50,000
Bills Payable	30,000	Debtors	80,000	
Capital Accounts:-		(-) Provision for doubtful debts	8,000	72,000
Gautam- 2,10,000				
Yashica- 1,40,000		Stock		2,10,000
Asma 2,10,000	5,60,000	Furniture	60,000	
		(-) Depreciation	5,000	55,000
Gautam's current A/c	2,67,000			
		Machinery	2,10,000	
		(-) Depreciation	21,000	1,89,000
		Yashica's current A/c		31,000
	9,07,000			9,07,000

[2]

Working Note:- Total Capital of the firm =2,10,000 x 8/3
= 5,60,000
Gautam's capital in the firm =5,60,000 x3/8
= 2,10,000
Yashica'S capital in the firm = 5,60,000x2/8
= 1,40,000

OR

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for doubtful debts	700	By Creditors A/c	2,500
To Partner's Capital A/c – Gain on Revaluation			
X 900			
Y 600			
Z 300	1,800		
	2,500		2,500

[3]

Dr. Partner's Capital Account Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Z's capital A/c	9,000	----	3,000	By balance b/d	90,000	60,000	30,000
				By Reserve A/c	3,000	2,000	1,000
To Cash a/c	---	9,000	----	By Revaluation A/c	900	600	300
To Y's Loan A/c	----	68,600	----	By Workmen compensation Fund A/c	4,500	3,000	1,500
To balance c/d	90,000		30,000				
				By X's Capital A/c	---	9,000	----
				By Y's Capital A/c	----	3,000	-----
				By Cash A/c	600	----	200
	99,000	77,600	33,000		99,000	77,600	33,000

[3]

Balance sheet of X and Z
As at 31st March, 2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Sundry Creditors	14,100	Cash		6,800
		Debtors	21,000	
Y's Loan A/c	68,600	(-) Provision for doubtful debts	2,100	18,900
Capital Accounts:-		Stock		19,000
X- 90,000		Machinery		58,000
Y- 30,000	1,20,000	Building		1,00,000
	2,02,700			2,02,700

[2]

Working note:-

1. Calculation of Gaining Ratio:

	X	Y	Z
Old Ratio	3/6	2/6	1/6
New Ratio	3/4	--	1/4
Gaining Ratio	3/12	---	1/12

2. Y's share of Goodwill 36,000X 2/6 = 12,000

22

Date	Particulars	L.F	Amount (₹)	Amount (₹)
	Bank A/c Dr To Share Application A/c (Being application money received)		36,00,000	 36,00,000
	Share Application A/c Dr To Share Capital A/c To Call in Advance A/c (being application money transferred to share capital, securities premium reserve, calls)		36,00,000	 24,00,000 12,00,000
	Share Allotment A/c Dr To Share Capital A/c To Security Premium Reserve A/c (Being allotment money due)		24,00,000	 16,00,000 8,00,000
	Bank A/c Dr Call in Advance A/c Dr Call in arrear A/c Dr To Share Allotment A/c (Being first call money received)		11,76,000 12,00,000 24,000	 24,00,000
	Share First Call A/c DR To Share Capital A/c (Being first call money due)		24,00,000	 24,00,000
	Bank A/c Dr Call in Arrears A/c Dr To Share First Call (Being first call money received)		22,32,000 1,68,000	 24,00,000
	Share Capital A/c Dr Security Premium Reserve A/c Dr To Call in Arrear A/c DR To Share Forfeited A/c (Being Dhwani and Sargam's share's forfeited for non- payment of allotment and/or call money)		4,48,000 16,000	 2,72,000 1,92,000
	Bank A/c Dr To Share Capital A/c		19,00,000	 1,60,000

[½]

[1]

[½]

[1]

[½]

[1]

			To Security Premium Reserve A/c (Being forfeited share's reissued for 95 per share ₹ 80 paid up)			30,000	[1½]
			Share Forfeited A/c Dr To Capital Reserve A/c (Being balance in share forfeiture account transferred to capital reserve)		92,000	92,000	[1]

Or

[1]

a)

Date	Particulars	L.F	Amount (₹)	Amount (₹)
	Equity Share Capital A/c Dr To Equity Share Forfeited A/c To Calls in Arrears A/c (Being forfeiture of 10 shares executed)		70	50 20
	Bank A/c Dr To Share Capital A/c (Being eight shares reissued to Y as ₹ 8 per share paid up for ₹ 8 per share)		64	64
	Equity Share Forfeited A/c Dr. To Capital Reserve A/c (Being gain on reissue of forfeited shares transferred to Capital Reserve)		40	40

[1]

[1]

b)

Date	Particulars	L.F	Amount (₹)	Amount (₹)
	Equity Share Capital A/c Dr Security Premium A/c Dr To Equity Share Forfeited A/c To Calls in Arrears A/c (Being Mr. M's shares forfeited)		1,600 800	1,200 1,200

[1]

[2]

c)

Date	Particulars	L.F	Amount (₹)	Amount (₹)
	Equity Share Capital A/c Dr To Share Forfeited A/c To Calls in Arrears A/c (Being 50 shares forfeited for non-payment of calls)		500	350 150
	Bank A/c Dr Share Forfeited A/c Dr To Share Capital A/c (Being 20 shares reissued for ₹ 8 per share)		160 40	200
	Share Forfeited A/c Dr. To Capital Reserve A/c (Being gain on reissue of forfeited shares transferred to Capital Reserve)		100	100

[1]

[1]

[1]

23	The current ratio will increase	1
24	a) Inventory Turnover Ratio and Working Capital Turnover Ratio	[1]
25	Increased	[1]
26	Labor unions analyze the financial statements: a) To assess whether an enterprise can increase their pay. b) To check whether an enterprise can increase productivity or raise the prices of products/ services to absorb a wage increase.	[½] [½]

(any other relevant point to be marked)

27 Cash flow from Investing Activities

Inflows	Amount (₹)
Dividend Received	70,000
Sale of Old Machinery	69,000
Outflows	
Purchase of Machinery	(9,00,000)
Net Cash outflow from Investing Activities	(7,61,000)

[½]

[½]

28 False. [1]

29 Answer – I-c; II- b; III- a [1]

30 Net Profit Before Tax – Tax paid = Net Profit After Tax

x – 30/100 (x) = ₹ 7,00,000

x = ₹ 7,00,000 (100/70)

x = ₹ 10,00,000

Net Profit Before Tax = ₹ 10,00,000

Interest Payment = 6/100 (₹ 20,00,000) = ₹ 1,20,000 [1]

Earning Before Interest and Tax = Net Profit Before Tax + Interest Payment

= ₹ 10,00,000 + ₹ 1,20,000

= ₹ 11,20,000 [1]

Interest Coverage ratio = $\frac{Earning\ Before\ Interest\ and\ Tax}{Interest\ Expense}$

Interest Coverage Ratio = ₹ 11,20,000/ ₹ 1,20,000

Interest Coverage Ratio = 9.33 times [1]

Or

S. No	Item	Major Head	Sub Head	
i.	Debentures with maturity period in current financial year	Current Liabilities	Other Current Liabilities	[1]
ii)	Securities Premium Reserve	Shareholder's Fund	Reserves and Surplus	[1]
iii)	Provident Fund	Non-Current Liabilities	Long Term Provision	[1]

31

Particulars	2016-17 (₹)	2017-18 (₹)	Absolute Increase/ Decrease (₹)	Percentage Increase/ Decrease (%)
Revenue from Operations	10,00,000	12,00,000	2,00,000	20%
Add other Income	50,000	60,000	10,000	20%
Total Revenue	10,50,000	12,60,000	210,000	20%
Less Employee Benefit Expenses	50,000	60,000	10,000	20%
Profit before tax	10,00,000	12,00,000	2,00,000	20%
Less Tax (50%)	5,00,000	6,00,000	1,00,000	20%
Profit after tax	5,00,000	6,00,000	1,00,000	20%

[½ X 8]

Or

Common Size Balance Sheet of R Ltd.
As at 31st March, 2018 and 2019

Particulars	Note no.	Absolute Amounts 31.3.2018 (₹)	Absolute Amounts 31.3.2019 (₹)	Percentage of Balance sheet Total 31.3.2018 (%)	Percentage of Balance sheet Total 31.3.2019 (%)
I EQUITY AND LIABILITIES					
1. Shareholder's Funds:					
a. Share Capital		4,00,000	5,00,000	66.7	62.5
b. Reserve and Surplus		1,20,000	1,60,000	20	20
2. Current Liabilities:					
a. Trade Payable		80,000	1,40,000	13.3	17.5
Total		**6,00,000**	**8,00,000**	**100**	**100**
II ASSETS					
1. Non-Current Assets:					
a. Fixed Assets:					
i. Tangible Assets		2,40,000	3,20,000	40	40
ii. Intangible Assets		60,000	40,000	10	5
2. Current Assets					
a. Inventories		60,000	1,60,000	10	20
b. Trade Receivables		2,00,000	2,40,000	33.3	30
c. Cash and Cash Equivalents		40,000	40,000	6.7	5
Total		**6,00,000**	**8,00,000**	**100**	**100**

32

Cash Flow Statement As per AS 3 (Revised)

Particulars		
I Cash from Operating Activity		
Net Profit Before Tax		
Profit during the year	1,50,000	
Add transfer to Reserve	50,000	
		2,00,000
Add:- Non Cash Non-Operating Expenses		
Depreciation provided	40,000	
Loss on Sale of Assets	18,000	
Goodwill Amortised	5,000	63,000
Less Non-Operating Income	--	--------
Operating Profit before Working Capital		2,63,000
Add Increase in Trade Payable	17,000	17,000
		2,80,000
Less : Increase in Inventory	(75,000)	
Increase in Trade Receivable	(67,000)	(1,42,000)
Cash From Operating Activities before Tax		1,38,000
Less Tax Paid		(30,000)
Cash From Operating Activities After tax		1,08,000

[4]

Dr Machinery A/c Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,00,000	By Accumulated Depreciation	20,000
To Bank A/c (Purchases)	1,60,000	By Loss on sale of Fixed Asset	18,000
		By Bank A/c	42,000
		By Balance c/d	2,80,000
	3,60,000		3,60,000

[1]

Dr Accumulated Depreciation A/c Dr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	20,000	By balance b/d	80,000
To Balance c/d	1,00,000	By Statement of Profit and loss account	40,000
	1,20,000		1,20,000

[1]

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