DIRECTORATE OF EDUCATION

GNCT of Delhi, Delhi Government

SUPPORT MATERIAL
(2021-2022)

Class : XII

ACCOUNTANCY

Under the Guidance of

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MESSAGE

I would like to congratulate the members of Core Academic Unit and the subject experts of the Directorate of Education, who inspite of dire situation due to Corona Pandemic, have provided their valuable contributions and support in preparing the Support Material for classes IX to XII.

The Support Material of different subjects, like previous years, have been reviewed/ updated in accordance with the latest changes made by CBSE so that the students of classes IX to XII can update and equip themselves with these changes. I feel that the consistent use of the Support Material will definitely help the students and teachers to enrich their potential and capabilities.

Department of Education has taken initiative to impart education to all its students through online mode, despite the emergency of Corona Pandemic which has led the world to an unprecedented health crises. This initiative has not only helped the students to overcome their stress and anxiety but also assisted them to continue their education in absence of formal education. The support material will ensure an uninterrupted learning while supplementing the Online Classes.

(H. Rajesh Prasad)

UDIT PRAKSH RAI, IAS
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MESSAGE

The main objective of the Directorate of Education is to provide quality education to all its students. Focusing on this objective, the Directorate is continuously in the endeavor to make available the best education material, for enriching and elevating the educational standard of its students. The expert faculty of various subjects undertook this responsibility and after deep discussions and persistent efforts, came up with Support Material to serve the purpose.

Every year the Support Material is revised/ updated to incorporate the latest changes made by CBSE in the syllabus of classes IX to XII. The contents of each lesson/chapter are explained in such a way that the students can easily comprehend the concept and get their doubts solved.

I am sure, that the continuous and conscientious use of this Support Material will lead to enhancement in the educational standard of the students, which would definitely be reflected in their performance.

I would also like to commend the entire team members for their contributions in the preparation of this incomparable material.

I wish all the students a bright future.

(UDIT PRAKASH RAI)

Dr. RITA SHARMA
Additional Director of Education
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D.O. No. PA/Addl.DE/Sch/31
Dated: 29.06.2021

MESSAGE

It gives me immense pleasure to present the revised edition of the Support Material. This material is the outcome of the tireless efforts of the subject experts, who have prepared it following profound study and extensive deliberations. It has been prepared keeping in mind the diverse educational level of the students and is in accordance with the most recent changes made by the Central Board of Secondary Education.

Each lesson/chapter, in the support material, has been explained in such a manner that students will not only be able to comprehend it on their own but also be able to find solution to their problems. At the end of each lesson / chapter, ample practice exercises have been given. The proper and consistent use of the support material will enable the students to attempt these exercises effectively and confidently. I am sure that students will take full advantage of this support material.

Before concluding my words, I would like to appreciate all the team members for their valuable contributions in preparing this unmatched material and also wish all the students a bright future.

(Rita Sharma)

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2021-2022)

ACCOUNTANCY

Class : XII

(English Medium)

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

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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)

(2021-22)

CLASS XII - CURRICULUM (TERM-WISE)

	TERM-1 (MCQ BASED QUESTION PAPER) Theory:40 Marks Duration:	MARKS
	Part A	
	UNIT	
	ACCOUNTING FOR PARTNERSHIP FIRMS:	18
1	FUNDAMENTALS	
2	CHANGE IN PROFIT SHARING RATIO	
3	ADMISSION OF A PARTNER	
	COMPANY ACCOUNTS:	12
1	ACCOUNTING FOR SHARES	
	PART B	
	ANALYSIS OF FINANCIAL STATEMENTS:	10
1	FINANCIAL STATEMENTS OF A COMPANY *(i) 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)* *(ii) Tools of Analysis-Ratio Analysis*	
2	ACCOUNTING RATIOS	
	OR	
	COMPUTERISED ACCOUNTING	10
1	OVERVIEW OF COMPUTERISED ACCOUNTING SYSTEM	
2	ACCOUNTING APPLICATION OF ELECTRONIC SPREADSHEET	
	Total	**40**
	Project Work (Part-1): 10 Marks	

Part - A:

Unit : Accounting for Partnership Firms

Units/Topics	Learning Outcomes
Partnership: features, Partnership Deed. Provisions of the Indian Partnership Act 1932in the absence of partnership deed. Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriationaccount- division of profit among partners, guarantee of profits. Past adjustments (relating to interest on capital, interest on drawing, salary and profitsharing ratio). Goodwill: nature, factors affecting and methods of valuation - average profit, superprofit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as a charge against profits.* Goodwill to be adjusted through partners capital/current account. *Note: Raising and writing off goodwill is excluded.* **Accounting for Partnership firms - Reconstitution** **Change in the Profit Sharing Ratio** amongthe 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 admissionof a partner on change in the profit sharing ratio, treatment of goodwill, treatment for revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits.	**After going through this Unit, the students will beable to:** state the meaning of partnership, partnershipfirm and partnership deed. describe the characteristic features of partnership and the contents of partnershipdeed. discuss the significance of provision of Partnership Act in the absence of partnershipdeed. 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 preparation profit and loss appropriation account involving guarantee of profits. develop the understanding and skill ofmaking past adjustments. state the meaning, nature and factors affecting goodwill develop the understanding and skill of valuation of goodwill using different methods. state the meaning of sacrificing ratio, gainingratio 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 ofreserves and accumulated profits by preparing revaluation account and balancesheet. explain the effect of change in profit sharingratio on admission of a new partner. develop the understanding and skill of treatment of goodwill, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, and preparation of balance sheet of the new firm.

Unit - 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 EmployeeStock Option Plan (ESOP). Accounting treatment of forfeiture and re-issue of shares. Disclosure of share capital in the BalanceSheet of a company.	**After going through this Unit, the students will beable to:** state the meaning of share and share capitaland differentiate between equity shares and preference shares and different types of share capital. understand the meaning of private placementof shares and Employee Stock Option Plan. explain the accounting treatment of sharecapital 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 inthe balance sheet of the company as per schedule III part I of the Companies Act 2013.

Part – B:

Unit : 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. **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 Payables Turnover Ratio and Working Capital Turnover Ratio.	**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'. 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 ratio. develop the skill of computation of gross

Profitability Ratios: Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	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.

OR

Part B: Computerised Accounting

Unit : 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.

TERM -II

	TERM II **Theory: 40 Marks**	**MARKS**
	Part A	
	UNIT	
1	**ACCOUNTING FOR NOT FOR PROFIT ORGANISATIONS**	**10**
	-	
	ACCOUNTING FOR PARTNERSHIP FIRMS:	**12**
1	RETIREMENT AND DEATH OF A PARTNER	
2	DISSOLUTION OF PARTNERSHIP FIRMS	
	COMPANY ACCOUNTS:	□
1	ACCOUNTING FOR DEBENTURES	
	PART B	
	ANALYSIS OF FINANCIAL STATEMENTS:	**10**
1	FINANCIAL STATEMENTS OF A COMPANY	

	(i) COMPARATIVE AND COMMON SIZE STATEMENTS	
2	CASH FLOW STATEMENT	
	OR	
	<u>COMPUTERISED ACCOUNTING</u>	**10**
1	USING COMPUTERISED ACCOUNTING SYSTEM	
2	DATABASE MANAGEMENT SYSTEM	
	Total	**40**
	PROJECT (PART 2): 10 MARKS	

<u>Part - A:</u>

<u>Unit : Accounting for Not – For Profit Organisations</u>

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.

<u>Unit : Accounting for Partnership Firms</u>

Accounting for Partnership firms - Reconstitution and Dissolution.	
Retirement and death of a partner: effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill, treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits and reserves and preparation of balance sheet. Calculation of deceased partner's share of profit till the date of death.	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. develop the skill of calculation of deceased

Dissolution of a partnership firm: meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlementof accounts - preparation of realization account, and other related accounts: capitalaccounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)). **Note:** (i) If realized value of an asset is not given, it is to be presumed that it has not realised any amount. (ii) If a partner has borne and/ or paid the realisation expenses, it should be stated.	partner's share till the time of his death. discuss the preparation of the capital 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 - Accounting for Companies

Units/Topics	Learning Outcomes
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. Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve/ Capital Reserve/ Statement of Profit and Loss as Financial Cost (AS16) in that order. *Note: Related sections of the Companies Act, 2013will apply.* *Concept of Tax Deducted at Source (TDS) is excluded.*	**After going through this Unit, the students will be able to:** 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 debentures and its accounting treatment. state the meaning of redemption of debentures.

Part – B:

Unit : Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: **Tools for Financial Statement Analysis:** Comparative statements, common size statements.	**After going through this Unit, the students will beable to:** develop the understanding and skill of preparation of comparative and common sizefinancial statements.

Unit : Cash Flow Statement

Units/Topics	Learning Outcomes
Meaning, objectives and preparation (as perAS 3 (Revised) (Indirect Method only) ***Note:*** ***(i)*** *Adjustments relating to depreciation and amortization, profit or loss on sale of assets includinginvestments, dividend (both final and interim) and tax.* ***(ii)*** *Bank overdraft and cash credit to be treated asshort term borrowings.* ***(iii)*** *Current Investments to be taken as Marketable securities unless otherwise specified.*	**After going through this Unit, the students willbe able to:** state the meaning and objectives of cash flow statement. develop the understanding of preparation ofCash Flow Statement using indirect methodas 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 declaredby the shareholders.*

OR

Part B: Computerised Accounting

Unit : Computerised Accounting

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

Students would prepare only ONE project in the entire academic session, which is divided into two terms i.e. Term – I and Term – II

Detailed guidelines for project work are as follows-

Students need to create **one specific project** only in which they would be required to cover the company profile, assessment of financial statements, and specific report analysis. The main objective of preparing the project report is for the following reason:

1. Students are able to state the meaning, objectives, and limitations of financial statement analysis.
2. Study the proper use of different tools of ‘financial statements analysis’ like comparative analysis, Ratios and Cash flow statement.
3. Capable to create Comparative Statements and Common Size Statement.
4. Understand the Meaning, objective, advantage, and limitation of Accounting Ratios.

TERM -I

PARTICULARS	**MAXIMUM MARKS**
Written Test (based on Project – Accounting Ratios)	**6**
Practical file	**2**
Viva (Ratio Analysis)	**2**

TERM -II

PARTICULARS	**MAXIMUM MARKS**
Written Test (based on Comparative Statements and Common Size Statement and Cash Flow statement)	**6**
Practical file	**2**
Viva (Comparative Statements and Common Size Statement and Cash flow Statement)	**2**

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

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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.	Non specific legacy as an income	Spacific legtacy 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, maint enance of ground, nor mal 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

Format of Receibte and Payments Account

Receipts and Payments Account

Dr. Cr.

Receipts	amount	Payments	amount
Bal b/d: Cash Bank Revenue Receipts Capital Recipts Bal c/d: Bank overdraft (if any)		Bal b/d: Bank Overdraft (if any) Revenue Expenditure Capital Expenditure Bal c/d: Cash Bank	

Format of Income any Expenditiore Accounts

Income and Expenditure Account.

Dr. Cr.

Expenditure	amount	Income	amount
Revenue Expenses/payments (after all adjustments) Surplus (bal. fig.)		Revenue Income/Recipts (after all adjustment) Deficit (bal. fig)	

If Opening Capital fund is not give, calculate it by preparing
Opening Balance sheet:

Liabilities	amount	Assets	amount
Opening liabilities (if any) Capital fund (bal. fig.)		Opening cash Opening bank Other Opening assets (if any)	

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	
Specific 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

Calculation of consumable items like stationery medicines and sports material etc.

Payment made to creditors of Consumable items During	xxxx
the current year (as per the receipts and payments account)	xxxx
Add: advance paid to creditors at the beginning of current year	xxxx
Add: creditors at the end of the current year	xxxx
Less: advance paid to creditors at the end of the current year	xxxx
Less: creditors at the end of the previous year	xxxx
Credit Purchase of consumable items during the year	xxxx
Add: Cash purchases of consumable items (if any)	xxxx
Total purchases of consumable items	xxxx
Less: Book value of consumable items sold (If any)	xxxx
Add: opening stock of consumable items	xxxx
Less: closing stock of consumable items	xxxx
Amount of consumable items consumed during the year	xxxx

Q.1 Calculate the amount of sports material to be transferred to Income and Expenditure Account of Prisha Sports Club, Delhi, for the year ended 31st March, 2020 from the following information:

Receipts	₹	Payments	₹
Sale of Sports Material (Book value ₹ 2,000)	1500	Payment to creditors of Sports Material Cash Purchase of Sports Material	10,000 4,000

Additional information:

Particulars	01.04.2019 (₹)	31.03.2020 (₹)
Stock of sports material	6,000	5,500
Creditors of sports materials	3,500	2,500
Advance paid to creditors of sports	1.000	5,000

Calculation of amount of sports material to be transferred to Income and Exp. A/C

Ans.

Payment made to creditors of Sports material During	₹
the current year (as per the receipts and payments account)	10,000
Add: advance paid to creditors at the beginning of current year	1,000
Add: creditors at the end of the current year	2,500
Less: advance paid to creditors at the end of the current year	5,000
Less: creditors at the end of the previous year	3,500
Credit Purchase of Sports material during the year	5,000

Add: Cash purchases of sports material	4,000
Total purchases of Sports material	9,000
Less: Book value of Sports material sold	2,000
Add: opening stock of sports material	6,000
Less: closing stock of sports material	5,500
Amount of consumable items consumed during the year	7,500

Must Remember

- ► If Purchase of consumable items during the year is given instead of payment made to creditors during the year than outstanding creditors and advance paid to creditors will not be adjusted (add or less) to find the amount consumed.
- ► In this case consumed amount will be =
  Purchases + Opening stock of consumable items- Closing stock of consumable items

Q.2 Calculate the amount of Stationery to be transferred to Income and Expenditure Account of Anugya Club, Delhi, for the year ended 31st March, 2020 from the following information:

Particulars	01.04.2019 (₹)	31.03.2020 (₹)
Stock of Stationery	16,000	15,500
Creditors of Stationery	13,500	12,500
Advance paid to creditors of Stationery	11,000	15,000

Net purchase of stationery during the year was ₹ 50,000

Calculation of Amount of Stationery to be transferred to Income and Expenditure Account of Anugya Club, Delhi, for the year ended 31st March, 2020:

Particulars	₹
Opening Stock of Stationery	16,000
Add : Net Purchase	50,000
Less: Closing stock of Stationery	15,500
Stationery consumed	50,500

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) to find the amount consumed.

Q.3 Calculate the amount of subscription to be included in income and expenditure account of Nipun Club as on 31.03.2020:

Particulars		₹
Subscription received during the year 2019-2020:		
for the year 2018-19	20,000	
For the Year 2019-20	3,00,000	
For the year 2020-21	30,000	
For the year 2021-22	10,000	3,60,000
Subscription outstanding as on 31.03.2019		35,000
(out of which 5,000 were considered to be irrecoverable)		
Subscription received in advance as on 31.03.2019		20,000
Subscription outstanding as on 31.03.2020		60,000

Ans.

Dr. Subscription Account Cr.

Particulars	₹	Particulars	₹
O/S Subscription	35,000	Advance subscription	20,000
Income and Exp. A/C (Bal.fig.)	3,70,000		
		Income and Exp. A/C (Sub. Written off)	5,000
		Bank	3,60,000
Advance subscription	40,000	0/S Subscription	60,000
	4,45,000		4,45,000

Calculation of Subscription

Particulars	₹
Subscription received during the year	3,60,000
Add: Subscription received in advance as on 31.03.19	20,000
Outstanding subscription as on as on 31.03.20	60,000
Less: Subscription received in advance as on 31.03.20 (30,000+10,000)	
outstanding subscription as on 31.03.19	40,000
(35,000- 5,000)	30,000
	3,70,000

NOTE: ₹ 5000 subscription written off will be shown as an expenses also.

Q.4 Case 1: When Fund and its Income is greater than its expenses.

Q. Show how you would deal with the following items in the financial statements of a Club:

Details	Debit Amount (₹)	Credit Amount (₹)
Prize Fund		1,60,000
Prize Fund Investment	1,60,000	
Income from Prize Fund Investment		16,000
Prizes awarded	1,20,000	
Prize fund received	1,04,000	

Solution:

Balance Sheet as on:

Liabilities		`	Assets	`
Prize Fund	1,60,000			
Add: Prize Fund Received	1,04,000			
Add: Income from Investment	16,000		Prize Fund Investement	1,60,000
	2,80,000			
Less: Prizes				
Awarded,	1,20,000	1,60,000		

Case 2: When Fund and its Income is less than its expenses.

Q. Show how you would deal with the following items in the financial statement a club:

Details	Debit Amount (₹)	Credit Amount (₹)
Prize Fund		1,60,000
Income from Prize Fund Investment		16,000
Prizes awarded	1,90,000	

Solution: **Balance Sheet as on:**

Liabilities		₹	Assets	₹
Prize Fund	1,60,000			
Add: Income from investment	16,000			
Less: Prizes				
Awarded,	1,76,000			

Income and expenditure Account as on:

Dr. Cr.

Expenses	₹	Income	₹
Prizes awarded (1,90,000-1,76,000)	14,000		

Q.5 Show how you would deal with the following items in the financial statement a club:

Details	Debit Amount (₹)	Credit Amount (₹)
General Fund		1,60,000
General Fund Investment	1,60,000	
Income from General Fund Investment		16,000
Accrued Income from General Fund Investment	6,000	

Solution:

Balance Sheet as on:

Liabilities	₹	Assets	₹
General Fund	1,60,000		
		General fund Investment	1,60,000
		Accured income on	
		General fund investment	6,000

Income and expenditure Account as on:

Dr. Cr.

Expenses	₹	Income	₹
		Income from General	
		fund investment 16,000	
		Add: Accured	
		Interest 6,000	22,000

Q.6 From the following particulars, prepare Receipts and Payment account and Income and Expenditure account and Balance Sheet of Arun Club, Delhi for the year ended 31" March, 2020:

Particulars	₹
Opening balance of Bank on April 1, 2019	17,000
Subscription received for current year	60,000
Subscription received for previous year	4,000
Subscription received for Next year	2,000
Life membership fees	14,000
Investment	60,000
Donation	8,000
Tournament fund	8,000
Furniture(01.07.2019)	30,000
Tournament expenses	5,000
Salary	14,000

Additional information:

Charge depreciation on furniture @10% p.a. .Salary outstanding ₹ 800, accrued interest on investment ₹ 1,000

Answer. **Receipt and Payment Account**
for the year ending March 31,2020

Receipts		₹	Payments	₹
Bal b/d				
Bank		17.000	Salary	14,000
Subscription			Furniture	30.000
2018-19	4,000		Investment	60,000
2019-20	60,000		Tournament Exp.	5,000
2020-21	2,000		Balance c/d	4,000
		66,000		
Life membershp fee		14,000		
Donation		8,000		
Tournament Fund		8,000		
		1,13,000		1,13,000

Income and Expenjiture A/c
for the year ending March 31,2020

Dr. **Cr.**

Expenditure		₹	income	₹
Salary	14,000		Subscription	60,000
Add: Outstanding			(for C/Y only)	
At the end of			Donation	8,000
C/Y	800	14,800	Accrued interest on	
Depreciation on			investment	1,000
Furniture				
(30,000x10/100x9/12)		2,250		
Surplus				
(bal.fig.)		51,950		
		69,000		09,000

Balance sheet
.for the year ending March 31,2019

Liabilities	₹	Assets	₹
Capital fund	21,000	Bank	17,000
		Outstanding Subscription	4,000
	21,000		21,000

Balance Sheet for the year ending
March 31,2020

Liabilities		₹	Assets		₹
Capital fund	21,000		Investment		60,000
Add: Surplus	51,950	72,950	furniture	30,000	
Life membership fees		14,000	Less: Depreciation	2,250	27,750
Tournament fund	8,000		Accrued interest on		
Less: Expenses	5,000	3,000	Investment		1,000
			Bank		4,000
Outstanding Salary		800			
Advance subscription		2,000			
		92,750			92,750

Q.7 From the following Receipts and Payments Account of a Club prepare Income and Expenditure Account for the year ended 31s' March, 2020

Receipts		₹	Payments	₹
Balance b/d		9,000	Rent	29,000
Subscription:			Investment	20,000
2018-19	10,000		Honorarium	4,000
2019-20	52,000		Machinery	
2020-21	4,000	66,000	(Purchased on	40,000
Sale of old furniture			1.12.19)	
(book value of ₹ 3,000)		3,600	Balance c/d	14,600
Government Grant		25,000		
Interest on investment		4,000		
		1,07,600		1,07,600

Addtional information:

i. The club had 60 members, each paying an annual subscription of ₹ 1,000. subscription ₹ 5,000 were still in arrears for the year 2018-19.

ii. On 31" March, 2020 prepaid rent was ₹ 4,000

iii. Interest was accrued on investment amounting to ₹ 1,000

iv. The club had Machinery amounting to ₹ 80,000 on 1st April 2019. Depreciate machinery @10% p.a.

Ans.

Income and Expenditure Account
for the year ending March 31,2020

Expenditure		₹	Income		₹
Rent	29,000		Subscription		60,000
Less: Prepaid	4,000	25,000	(60×1,000)		
Honorarium		4,000	Gain on sale of Furniture		
			(3,600-3,000)		600
Depreciation on			Government Grant		25,000
Machinery			Interest on		
(80,000x10/100) = 8,000			Investment	4,000	
(40,000X10/100			Add: Accrued int.	1,000	5,000
X4/12)	1,333	9,333			
Surplusfbal. fig.)		52,267			
		90,600			90,600

Balance sheet
for the year ending March 31,2019

Liabilities	₹	Assets	₹
Capital fund	1,07,000	Bank	9,000
		Outstanding Subscription	15,000
		(10,000+5,000)	
		Machinery	80,000
		Furniture	3,000
	1,07,000		1,07,000

Balance Sheet
for the year ending March 31,2020

Liabilities		₹	Assets		₹
Capital fund	1,07,000		Investment		20,000
Add: Surplus	52,267		Machinery		
		1,59,267	80,000+40,000)	1,20,000	
			Less: Dep:	9,333	1,10,667
			Subscription		

		19-20(60,000-52,000) 8,000 18-19 5,000	13,000
Advance Subscription	4,000	Prepaid rent	4,000
		Accrued interest	1,000
		Bank	14,600
	163,267		1,63,267

Q.8 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

Answer. Balance Sheet (As at=====)

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

Q. 9 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

Answer. 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. Stock 100			

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	₹	Assets	₹
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	₹	Assets	₹
Advance Subscription	100	Cash in hand	4500
Capital Fund (Ba1 fig)	25970	Subscription o/s	170
		Stock of stationery	100
		Furniture	1300
		L and & Building	20000
	26070		26070

NOT FOR PROFIT ORGANIATIONS

MCQ/OBJECTIVES

Fill In the Blanks

1. Charitable institutions, Hospitals, Schools and Clubs are examples of ________.
2. Not for Profit Organisation is a ________ entity.
3. A club has 3500 members. Each pay Rs. 100 annually as subscription, Outstanding Subscription for the year 2020-21 was Rs. 50000. Number of members who have paid their subscription during the year 2020-21 are________.
4. Arun sports club received Rs. 2,50,000 as subscription during the year 2020-21. The club has 3000 members each pay Rs. 100 annually, during the year 2019-20,100 members had paid their subscription for year 2020-2021. The amount of subscription outstanding for the year 2020-21 will be________ .
5. Income and Expenditure Account of Prisha club shows Rs. 72,000 as the amount of subscription for the year ended 31st March, 2021.Subscription outstanding at the end of year was Rs. 16,000. Subscription received in advance at the end of the year was Rs. 12,000. The amount of subscription to be shown on the receipts side of Receipts and Payments Account will be________.
6. The Balance Sheet as at 31st March, 2021 of Nipun Club of Delhi shows total asset at Rs. 8,55,500. If the creditors for Sports Materials and Stationery as at 31st March, 2021 is Rs.45,000 and Rs. 10,500 respectively. The Capital Fund as at 31st March, 2021 is________
7. The total of Expenses side of Income and Expenditure Account is more than the total of Income side by Rs.75,000. Rs.75,000 is called ________
8. Opening balance of sports material was Rs 30,000. During the year, sports material purchased for Rs 36,000; Rs 9,000 of sports material were found defective and hence returned during the year. At the end of the year, unused stock of sports material were Rs. 49,500. Amount of Sports Material consumed during the year is ________
9. Cash purchase of stationary is 20% of total purchase of stationary of current year. If amount paid for stationary Rs 1,40,000 and the creditor for the stationary in the beginning and at the end is Rs 20,000 and Rs 40,000.Amount of total purchases of stationary for the current year is ________
10. The opening balance of tournament fund was Rs 82,800. During the year, donation received towards this fund amount to Rs 15,400; amount spent tournament was Rs 1,12,300 and interest received on tournament fund investment Rs 4,000 . The closing balance of tournament fund is

True /False

1. Life membership fees and Endowment Fund are examples of revenue Receipts.
2. A NPO distributes its surplus or deficit to its members.

3. Receipts and Payments Account is a nominal account whereas Income and Expenditure Account is a real account.
4. Receipts and Payments Account includes both capital and revenue items related to any year whereas Income and Expenditure Account includes only revenue items related to current year.
5. Receipts and Payments Account is prepared on accrual basis whereas Income and Expenditure Account is a prepared on cash basis.
6. Treatment of outstanding interest on specific fund investment and outstanding interest on general fund investment is same in financial statements of NPO.
7. If Match Fund is Rs.40,000 while match expenses are Rs. 43,000, 3,000 will be debited to Income and Expenditure Account.
8. If the total of income side of Income and Expenditure Account is Rs.l, 25,000 and deficit is Rs.25, 000 then total expenditure will be Rs.l, 00,000.
9. Subscription written off is shown on the debit side of subscription account.
10. Non-Cash items like Depreciation are shown in income and expenditure account but not in Receipt and payment account.

MULTIPLE CHOICE QUESTIONS

1. Salary outstanding in the beginning of the year is Rs 20,000 and at the end of the year it is Rs 40,000, if the amount Debit to Income and Expenditure Account is Rs 2,00,000, what is the cash paid to Salary Account:

   (a) Rs. 2,20,000 (b) Rs. 2,40,000

   (c) Rs. 1,80,000 (d) Rs. 1,40,000
2. Which of the following Statement is false:
   a) Fund can be created for any Purpose.
   b) Fund can be invested in securities.
   c) Fund is a Liability.
   d) Income from Specific fund investment is a revenue receipts.
3. If there is no specific fund for tournament then tournament expenses will be :
   a) Shown as an asset
   b) Shown as a liability
   c) Deducted from capital fund
   d) Shown as an expenditure
4. Outstanding interest on specific fund investment:
   a) Added in specific fund investment and also shown as an asset.
   b) Added in specific fund and also shown as an asset
   c) shown as an income and asset
   d) Added in specific fund and also shown as a liability

5. Which of the following statement is true:
   a) General fund can use only for specific purpose.
   b) General fund cannot be invested in securities.
   c) General fund and Specific fund are synonyms.
   d) General fund can be used for any purpose.
6. Interest received on General fund investment is a/an:
   a) Capital receipts
   b) Revenue receipts
   c) Liability
   d) Revenue expenditure
7. Accrued interest on General fund investment will be:
   a) Shown as a Liability and income also.
   b) Added in General fund and also in General fund investment.
   c) Shown as an income and also as an Asset.
   d) Added in General fund investment and also in General fund.
8. Book Value of furniture as on April 1, 2020 was ₹45,000. On 30th October one third of furniture was sold at a loss of 20% on sale value. Depreciation is charged @ 10% p.a. on furniture. Loss on sale of furniture and Depreciation on furniture to be shown in income and expenditure account for the year 2020-2021 will be:
   a) Loss Rs 3531 and Dep. Rs 3875
   b) Loss Rs 3875 and Dep. Rs 3531
   c) Loss Rs 3531 and Dep. Rs 875
   d) Loss Rs 3531 and Dep. Rs 3000
9. Which of following items appearing in the Receipt and Payment Account that need not to be taken into account for determining the surplus/ deficit for the current year:
   a) Opening and closing balance of cash
   b) Life membership fees
   c) Closing and opening balance of bank
   d) All of the above
10. Find the odd one out:
   a) Donation received for Building
   b) Purchase of furniture
   c) Life membership fees
   d) Honorarium

Matching Questions

1. Match the following

Description	Options
1 Tournament Fund Rs 90,000 and Tournament Expense Rs 80,000	a. Rs 40,000 will be shown in Balance Sheet (Liabilities)
2 Tournament Fund Rs 1,20,000 and Tournament Expenses Rs 80,000	b. Rs 24,000 is Debited as expense and Rs. 36,000 is Credited as Income
3 Tournament Receipts Rs 36,000 and Tournament Expenses Rs 24,000	c. Rs 10,000 will be shown in Balance Sheet (Liabilities)
4 Tournament Receipts Rs 32000 and Tournament Exp. Rs 42000	d. Rs 10,000 will be debited to Income and Expenditure Account.

[l-c;2-a;3-b;4-d]

2. Anugya Club has 1000 Members each pays an annual subscription of Rs. 1000.15 members did not pay their subscription for the year. 10 members paid subscription in advance for next years five of them had given subscription of this year in previous year. Based on these facts, match the following items:

Description	Options
1. Subscription Income to be credited in Income and Expenditure Account	a. Rs. 15,000
2. Subscription to be debited in Receipts and Payments Account	b. Rs. 5,000
3. Subscription received in advance in the beginning	c. Rs. 10,00,000
4. Subscription received in advance at the end	d. Rs. 9,90,000
5. Subscription outstanding at the end of the year	e. Rs. 10,000

[l-c;2-d;3-b;4-e;5-a]

3. Match the following

Description Options	
1. Amount paid for sports material during the year is Rs 40,000 ; stock of sports material at the beginning and end of year Rs 6,600 and Rs 5,800 . Creditors for sports materials at the beginning and end is Rs 10,000 and Rs 8,000 . how much amount is shown on debit side of income and expenditure Account .	a)Rs 39,200

2. Purchase of sports material during the year is Rs 40,000 ; stock of sports material at the beginning and end of year Rs 6,600 and Rs 5,800 . Creditors for sports materials at the beginning and end is Rs 10,000 and Rs 8,000 . how much amount is shown on debit side of Income and expenditure Account.	b)Rs 38,800
3. Salary paid by club is Rs 2,40,000 in current year, how much amount will be shown in income & expenditure account if unpaid salary Rs 10,000 and salary paid in advance for the current year was Rs 2,000.	c)Rs 2,28,000
4. Salary paid by club is Rs 2,40,000 in current year, how much amount will be shown in income & expenditure account if unpaid salary Rs 10,000 for Previous year and salary paid in advance for the current year was Rs 2,000	d)Rs 2,48,000

[l-b;2-a;3-d;4-c]

4. Match the following

Description	Options
1. It is like a summary of cash and bank transactions.	a)Arising out of bequest or gift
2 It is like a Profit and Loss A/c	b) Income & Expenditure account
3. Endowment fund	c) Legacies
4. Amount received as per the will of a deceased person	d) Honorarium
5. Amount paid to the person who is not the regular employee of the institution.	e) Receipt & Payment account

5. Match the following

Description	Options
1. NPO's are managed by	a) Balance sheet
2. The major source of NPO's income usually is	b) Excess of Expenditure over Income
3. Deficit is	c) Excess of Opening Assets over Opening Liabilities
4. Opening capital fund is	d) Subscription
5. Closing stock of stationary is shown in	e) Trustees

Answers

Fill In the Blanks

Q.NO.	ANSWER
1.	Not For Profit Organisation
2.	Separate Legal
3.	300 members
4.	Rs. 40,000
5.	Rs. 68,000
6.	Rs. 8,00,000
7.	Deficit
8.	Rs. 7,500
9.	Rs. 2,00,000
10.	NIL

True /False

Q.NO.	ANSWER
1.	F
2.	F
3.	F
4.	T
5.	F
6.	F
7.	T
8.	F
9.	F
10.	T

MULTIPLE CHOICE QUESTIONS

Q.NO.	ANSWER
1.	c
2.	d
3.	d
4.	b
5.	d
6.	b
7.	c
8.	a

9. d

10. d

Matching Questions

Q.NO.	ANSWER
1.	[1-c; -a;3-b;4-d]
2.	[1-c; 2-d;3-b;4-e;5-a]
3.	[1-b, 2-a;3-d;4-c]
4.	[1 - e, 2-b;3-a;4-c;5-d]
5.	[1 -e, 2-d; 3-b;4-c; 5 -a]

WORK SHEET ON NOT-FOR-PROFIT ORGANISATION

Q.l From the informations given below prepare Receipts & Payments Account of Sehyog Club, Delhi for the year ended on 31st March, 2019:

Particulars	Amount (₹)
Cash in Hand as on 1st April, 2018	30,000
Cash at Bank as on 1st April, 2018	81,000
Subscriptions collected for the year ending :	
31st March, 2018	30,000
31st March, 2019	4,40,000
31st March, 2020	12,000
Donations Received	60,000
Donations Received for Pavillion	4,00,000
8% Investments Purchased on 1st April, 2018	4,00,000
Purchase of Refreshments	24,000
Rent Paid	12,000
Entrance Fees Received	36,000
Honorarium to Secretary	20,000
Interest on 8% Investments	18,000
Furniture Purchased	40,000
Sale of Old Furniture (Cost ₹ 12,000)	8,000
Sports Material Purchased	1,60,000
Sale of Refreshments	60,000
Salaries and Wages	1,48,000
Sports Expenses (including Unpaid Expenses ₹ 10,000)	50,000
Cash in Hand as on 31st March, 2019	12,400
Depreciate Furniture @ @ 10% per annum	

Hint: By Balance c/d (31st Mar. 2019)

Cash	₹ 12,400	
Bank(b/0f)	₹ 3,18,600	₹ 3,31,000

Q.2 How will you deal with the following items while preparing the Income & Expenditure A/c for the year ending 31st December, 2018 and Balance Sheet as on that date.

Subscriptions Outstanding as on 31st December, 2017 ₹ 19,000 (including ?1,000 for 2016).

Subscriptions received in advance as on 31st December, 2017 ₹ 6,000 (including ₹ 400 for 2019)

Subscriptions received during the 2018 for 2016 ₹ 800, for 2017 ₹ 17,800; for 2018 ₹ 2,68,800; for 2019 ₹ 8,000; for 2020 ₹ 2,400. Subscriptions outstanding as on 31st December, 2018 ₹ 14,000.

Hint: (Subscription transferred to ₹ 2,88,000)

Q.3 Prepare Subscription Account and show How will you deal with the following items while preparing the Income & Expenditure A/c for the year ending 31st March, 2019 and Balance Sheet as on 31st March, 2018 and on 31st March, 2019

RECEIPTS AND PAYMENTS ACCOUNT

Dr. for tlie year ending 31st March, 2019 Cr.

	Receipts	₹	Payments	₹
To Membership Subscriptions:				
2017-18	17,000			
2018-19	1,30,000			
2019-20	16,000	1,63,000		

Additional Information:

(0 Subscriptions ₹ 1,000 are still due for the year 2017-18.

(ii) There are 150 members paying an annual subscription of ₹ 1,000 each. 8 members had paid their subscription in advance for 2018-19 during last year.

Hint:

Dr. **SUBSCRIPTION ACCOUNT** **Cr.**

Particulars		Particulars	`
To Balance b/d (Outstanding at beginning)	18,000	By Balance b/d (Advance at beginning)	8,000
To Income & Expenditure A/c (500 * 150)	1,50,000	By Bank / c (Total Subscription Received)	1,63,000
To Balance c/d (Advance at end)	16,000	By Balance c/d	

		(Outstanding at end)	
		2017-18 1,000	
		2018-19 12,000	1,3000
	1,84,000		1,84,000

Q.4 The Prisha Sports Club received ₹ 3,60,000 by way of subscription during the year ended 31st March, 2019.

Additional Information: ***(₹)***	₹
Subscription received in advance on 31.3.2019	7,000
Subscription outstanding on 1.4.2018	14,000
(out of this amount ₹11,000 were received during the year 2018-19 and ₹ 750 are irrecoverable)	
Subscription received in advance on 31.3.2018	4,750
Subscription outstanding for 2018-19	13,600

Calculate the amount of subscription to be shown in income and expenditure account.

Hint: Amount to be shown in Income and Expenditure Account 3,60,350

Q.5 On 1st April, 2018 the book value of Furniture was ₹ 72,000. On 1st October, 2019 one third of the furniture was sold for ₹ 16,000. Depreciation is being charged @ 10% per annum. How the loss on sale of furniture and depreciation will be shown in the Income and Expenditure Account and how Furniture Account will appear in the Balance Sheet on 31st March, 2019. Hint: (Loss on sale -₹6,800; Depreciation-₹6,000; Furniture balance-₹43,200)

Q.6 How will you show these items in the Income and Expenditure Account and the Balance Sheet of a Club for the year ending 31.3.2021:

Sports Fund as on 1-4-2020	35,000
Sports Fund Investments	35,000
Interest on Sports Fund Investments	4,000
Donations for Sports Fund	15,000
Sports Prizes awarded	10,000
Expenses on Sports Events	4,000
General Fund	80,000
General Fund Investments	80,000
Interest on General Fund Investments	8,000

Hint: (Balance of sports fund- ₹40,000;Income-₹ 16,000)

Q.7 Show the following information in the Balance Sheet of the Arun Club as at 31st March, 2021:

Particulars	Debit (₹)	Credit (₹)
Tournament Fund	—	4,50,000
Tournament Fund Investment	4,50,000	—
Income from Tournament Fund Investment	—	54,000
Tournament Expenses	36,000	—

Additional Information:

Interest accrued on Tournament Fund Investment ₹ 18,000 Hint: (Tournament fund balance ₹4,86,000)

Q.8. Prepare Income and Expenditure Account from the following particulars of Anugya Club for the year ended on 31st March, 2018:

RECEIPTS AND PAYMENTS ACCOUNT

Dr. for the year ended March 31, 2018 Cr.

Receipts		₹	Payments	₹
To Balance b/d		32,500	By Salaries	31,500
To Subscriptions			By Postage	1,250
2016-17	1,500		By Rent	9,000
2017-18	60,000		By Printing and Stationery	14,000
2018-19	1,800	63,300	By Sports Material	11,500
To Donations			By Miscellaneous Expenses	3,100
(Billiards table)		90,000	By Furniture (1.10.2017)	20,000
To Entrance Fees		1,100	By 10% Investment (1.10.2017)	70,000
To Sale of old			By Balance c/d (31.3.18)	27,000
magazines		450		
		1,87,350		1,87,350

Additional Information.

(i) Subscription outstanding as at March 31st 2018 ₹ 16,200.

(ii) ₹1,200 is still in arrears for the year 2016-17 for subscription.

(iii) Value of sports material at the beginning and at the end of the year was ₹3,000 and ₹4,500 respectively.

(iv) Depreciation to be provided @ 10% p.a. on furniture.

Q.9 Prepare Income and Expenditure Account and Balance Sheet from the following particulars of Prem Club for the year ended on 31st March, 2018:

RECEIPTS AND PAYMENTS ACCOUNT OF SEARS CLUB

Dr. for the years Club for the 31 March, 2018 Cr.

Receipts		₹	Payments	₹
To Balance b/ d		20,000	By Stationery	23,400
To Subscriptions			By 12% Investments	8,000
2016-17	40,000		By Electric expenses	10,600
2017-18	94,000		By Expenses on lectures	30,000
2018-19	7,200	1,41,200	By Sports equipment	59,000
To Donations for building		40,000	By Books	40,000
To Interest on Investments		800	By Balance c/d	50,000
To Government Grant		17,400		
To Sale of old furniture				
(Book Value' 4,000)		1,600		
		2,21,000		2,21,000

Additional Information.

(i) The club has 200 members each paying an annual subscription of ₹ 1,000, ₹60,000 were in arrears for last year and 25 members paid in advance in the last year for the current year.

(if) Stock of stadonery on 1-4-2017 was ₹3,000 and on 31-3-2018 was ₹ 4,000.

Hint: Surplus 1,52,960

Balance Sheet Total 2,62,160

Q.10 The Ravi Charitable Society had received ₹ 3,00,000 as subscription during the year 2017-18, subscription due but not received on 1st April, 2017 was ₹ 36,000; out of which ₹14,000 was received during 2017-18. Subscription outstanding for 2017-18 is ₹ 18,000. Subscription paid in advance on 31-3-2017 was ₹24,000 and subscription paid in advance on 31-3-2018 was ₹l 7,000. Prepare Subscription Account for the year ending 31st March, 2018. Hint: [Ans. Subscription Outstanding as on 31st March, 2018 ₹ 40,000]

Q.11 From the following information calculate the amount of Subscription outstanding as at 31st March, 2019 :

	Amount (₹)
Subscriptions outstanding on 31st March, 2018	25,000
Subscriptions received in advance on 31st March, 2019	10,000
Subscriptions received in advance on 31st March, 2018	7,500

There are 100 members in the club each paying an annual subscription of ₹ 750. The Receipts & Payments for the year show a sum of ₹85,000 received as subscriptions.

Hint: [**Ans.** Subscriptions outstanding as on 31st March, 2019 is ₹17,500]

Q.12 Calculate the amount of medicines consumed during the year ended 31st March, 2019.

Particulars	Amount (₹)
Opening Stock of Medicines	1,00,000
Closing Stock of Medicines	90,000 more than Opening Stock
Amount paid for medicines during the year	4,00,000
Opening Creditors	40,000
Closing Creditors	50% of Opening Creditors

Hint: (₹ 2,90,000)

Q.13 On the basis of following information. Calculate the amount that will appear against Stationery account in the Income & Expenditure Account for the year ended 31st March, 2019.

Particulars	As at 1st April, 2018 (₹)	As at 31st March, 2019 (₹)
Creditors for Stationery	2,900	6,800
Stock of Stationery	36,000	55,750

During 2018-19, the payment made to these creditors amounted to ₹ 99,200. Stationery purchased in cash during the year was 20% of the total purchase of stationery.

Hint: **[Ans.** Stationery consumed to be debited to Income & Expenditure Account ₹ 1,09,225 Credit Purchase of Stationery ₹ 1,03,100. Cash Purchased of Stationery ₹ 25,775

How would you treat the following items in the case of a 'not-for-profit' organisation?

1. Tournament Fund Rs. 40,000. Tournament Expenses Rs. 14,000. Receipts from Tournament Rs. 16,000.
2. Table Tennis match expenses Rs. 4,000.
3. Prize Fund Rs. 22,000. Interest on Prize fund Investments Rs. 3,000. Prizes given Rs. 5,000. Prize fund Investments Rs. 18,000.
4. Receipts from Charity Show Rs. 7,000. Expenses on Charity Show Rs. 3,000

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 commi-ssions 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.	Debit ₹	Credit ₹
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) and after manager commission [1,50,000-7,500]	1,42,500
Interest on capital Sonia 30,000 Rajiv 18000	48,000		
Profit transferred to capital A/c: Sonia 41,700 Rajiv 27,800	69,500		
	1,42,500		1,42,500

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 (Credited)	(1,20,000)	(40,000)
Less: Additonal capital		(1,60,000)
	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 Aarav's capital A/c (shortage of gross fees)	7,50,000 90,000
Aarav 2, 80,000 Less: share of deficiency 4,000	2,76000		
Avika 1,40,000 Add : deficiency received from Aanchal 6,000 Aarav 4,000	1,50,000		
	8,40,000		8,40,000

Accounting for Partnership Firms - Fundamentals

MCQ/OBJECTIVES

Fill In the Blanks

1. In the absence of the date of withdrawal, interest should be charged for ________ month on the whole amount.
2. If partner's capital is fixed; interest on drawing will be recorded on________
3. A and B are Partners .A drew Rs 16,000 .If the rate of Interest on Drawing is 12% per annum then ________ will amount of interest on drawing .
4. A drew Rs 30,000 during the year. If the rate of Interest on Drawing is 10% then ________ will be the amount of Interest on Drawing.
5. According to Section 464 of the Companies Act, 2013, the Central Government has the authority to prescribe maximum number of partners in a firm however the prescribed number of partners cannot be more than________
6. As per Rule 10 of the Companies Rules (Miscellaneous) 2014, the Central Government has prescribed the maximum number of partners in a firm to be________
7. Each partner is the________ of the firm as well as of the other partners.
8. ______ is an extension of Profit & Loss A/c.
9. Salary or Commission to a partner is a/an ________ out of profit.
10. Arjun, Ajay and Vijay are partners in the ratio of 5: 4: 3. Arjun given to Vijay a guarantee of minimum Rs. 10,000 profit. For the year ending 31st March, 2021, firm's profit is Rs. 28,800. Arjun's share in profit will be ________

True /False

1. Section 4 of the Indian Partnership Act, 1932, defines partnership.
2. It is not necessary that every partner should actively participate in the conduct of the business.
3. It is not legally compulsory for every firm to have a partnership deed.
4. A charge is debited to Profit and Loss A/c only when firm incurs profit.
5. At the end of the year, if the current account shows debit balance, it will be shown in the 'liability' side of the balance sheet.
6. Fixed Capital Account can never show a debit balance.

7. One of the partners in a partnership firm has withdrawn Rs.9 000 at the end of each quarter, throughout the year. Amount of Interest on drawings for the respective partner is Rs. 810 at the rate of 6% per annum.
8. In case of fixed capitals, drawings made by a partner will be recorded on the debit side of the Current Accounts.
9. A partner can be exempted from sharing the losses in a firm if all the partner agrees to it.
10. Private assets of the partners cannot be used to meet the liability of the firm in case firm's assets are insufficient to meet its liabilities.

MULTIPLE CHOICE QUESTIONS

1. Find the odd one out:

   a) Interest on Loan b) Partner Salary

   c) Rent paid to Partner's d) Managers Commission

2. A, B, and C are partner's sharing profits in the ratio of 5:3:2. According to the partnership agreement C is to get a minimum amount of Rs. 20,000 as his share of profits every year. The net profit for the year ended 31st March, 2019 amounted to Rs. 80,000. How much amount contributed by A in favour of C?

   a) Rs. 1,500 b) Rs. 1,250

   c) Rs. 2,500 d) Rs. 4,000

3. The relation of partner with the firm is that of:

   a) An Owner b) An Agent

   c) An Owner and an Agent d) Manager

4. Arun and Anugya are Partners. They do not have any Partnership agreement (Partnership deed) Arun has provided a Capital of Rs. 70,000 whereas Anugya has provided Rs. 15,000 only as Capital. Anugya however, has provided Rs. 20,000 as loan to the Firm. What interest (if any) will be given to Arun and Anugya?

   a) Arun — Rs. 7,000 and Anugya - Rs. 1,500

   b) Anugya is entitled to claim interest on his loan of Rs.20,000 @ 6% p.a. and Arun - Nil

   c) Arun - Nil and Anugya - Rs. 3,500

   d) Anugya - Nil and Arun - Nil

5. X, Y and Z are Partners in a Firm. At the time of division of profit for the year, there was dispute between the Partners. Profits before interest on Partner's Capital were Rs. 45,000. Y demands interest @ 24% p.a. on his loan of Rs. 2,40,000. There was no agreement on this point. Share of profit of X, Y and Z will be:

   a) Rs. 15,000 to each Partner

   b) Rs. 12,600 for X and Z & Y Rs. 19,800

   c) X - Rs.10,200, Y - Rs. 39,000 and Z - Rs. 10,200

   d) Rs. 10,200 to each Partner

6. Mohit and Rajesh are partners in the ratio of 3 ; 2. Their capitals are Rs. 4,00,000 and Rs. 2,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm incurred a loss of Rs. 1,20,000 for the year ended 31st March 2021. Interest on Capital will be:

   (a) Mohit Rs. 32,000; Rajesh Rs. 16,000

   (b) Mohit Rs. 16,000; Rajesh Rs. 8.000

   (c) Mohit Rs. 28,400; Rajesh Rs. 19,000

   (d) No Interest will be allowed

7. X. Y. and Z are equal partners with fixed capitals of Rs. 1.00,000, Rs. 1,50.000 and Rs. 2.00.000 respectively. After closing the accounts for the year ending 31 st March, 2020 it was discovered that interest on capitals @ 8% p.a. was omitted to be provided. In the adjusting entry :

   a) Dr. X and Cr. Y by Rs. 4,000

   b) Cr. X and Dr. Z by Rs. 4,000

   c) Dr. X and Cr. Z by Rs. 4,000

   d) Cr. X and Dr. Y by Rs. 4,000

8. A, B, and C sharing profits in the ratio of 2 : 1: 1 have fixed capitals of Rs. 8,00,000, Rs.' 6,00,000 and Rs. 4,00,000 respectively. After closing the accounts for the year ending 31st March, 2020 it was discovered that interest on capitals was provided @ 6% instead of 8% p.a. In the adjusting entry:

   a) Cr. A Rs. 2,000; Dr. B Rs. 3,000 and Cr. C Rs. 1,000

   b) Dr. A Rs. 1,000; Cr. B Rs. 3,000 and Dr. C Rs. 2,000

   c) Cr. A Rs. 1,000; Dr. B Rs. 3,000 and Cr. C Rs. 2,000

   d) Dr. A Rs. 2,000; Cr. B Rs. 3,000 and Dr. C Rs. 1,000

9. If fixed amount is withdrawn by a partner on the first day of each quarter, interest on the total amount is charged for______months.

    a) 4.5 months b) 6 months

    c) 7.5 months d) 3 months

10. On 1st January 2021, a partner advanced a loan of Rs. 1,00,000 to the firm. In the absence of agreement, interest on loan on 31st March, 2021 will be

    a) Rs. 9,000 b) Rs. 3,000

    c) Rs. 6,000 d) Rs. 1,500

Matching Questions

1. Match the following if partnership deed is absent/silent.

Description	**Options**
1 Interest on partners' capitals.	a.@ 6% per annum.
2 Interest on partners' drawings.	b. Not allowed
3 Partners share profits and losses	c. Not Charged
4 Interest on partner's loan	d. Equally

2. Match the following items:

Description	**Options**
1. Interest on drawings of equal amounts drawn on the first day of every month	a. 7.5 months
2. Interest on drawings of equal amounts drawn on the last day of every month	b. 6 months
3. Interest on drawings of equal amounts drawn on the first day of every quarter	c. 5.5 months
4. Interest on drawings of equal amounts drawn on the last day of every quarter	d. 6.5 months
5. Interest on drawings of equal amounts drawn on the middle of every quarter	e. 4.5 months

3. Match the following

Description	**Options**
1 Drawing against profits	(a) Debited to partner's capital account
2 Drawing against capital	(b) Credited to partner's capital account

	(c) Debited to drawing account
	(d) Credited to drawing account

4. Match the following

Description	**Options**
1 A entitled to a salary of Rs 10,000 per annum and commission of 10 % of the Net profit after charging his salary but before charging his commission . The Net profit Rs 2,30,000. What will be the amount of A's Commission.	(a) Rs 23,000
2 B entitled to commission of 10 % on net profit after charging his commission . The Net profit Rs 2,20,000 what will be the amount of B's Commission .	(b) Rs 22,000
	(c) Rs 20,000
	(d) Rs 25,000
	(e) Rs 27,000

5. Match the following

Description	**Options**
1. Charge against profit	a) Rent paid to a partner
2. Appropriation of profit	b) Interest on partners loan
	c) Managers Commission
	d) Partners Salary
	e) Interest on partners' Capital

ANSWERS

Fill In the Blanks

Q.NO.	ANSWER
1.	6 (Six)
2.	Partner's Current A/c
3.	Rs. 960
4.	Rs. 3,000
5.	100
6.	50

7. Agent

8. Profit & Loss Appropriation A/c

9. Appropriation

10. Rs. 9,200

True /False

Q.NO.	ANSWER
1.	T
2.	T
3.	T
4.	F
5.	F
6.	T
7.	T
8.	T
9.	T
10.	F

MULTIPLE CHOICE Questions

Q.NO.	ANSWER
1.	b
2.	c
3.	c
4.	b
5.	d
6.	d
7.	c
8.	d
9.	c
10.	d

Matching Questions

Q.NO.	ANSWER
1.	[l-b;2-c;3-d;4-a]
2.	[l-d;2-c;3-a;4-e;5-b]
3.	[l-c;2-a]
4.	[l-b;2-c]
5.	[1 - a,b and c; 2 -d and e]

Work Sheet on Accounting for Partnership Firms Fundamentals

Q.1 Does partnership firm has a separate legal entity? Give reason in support of your answer.

Q.2 A group of 55 persons want to form a partnership business in India. Can they do so? Give reason in support of your answer.

Q.3 Why is it necessary to have a partnership deed?

Q.4 Arun and Anugya are childhood friends. Arun is a consultant whereas Anugya is an architect. They contributed equal amounts and purchased a building for Rs.5 crores. After a year, they sold it for Rs.8 crores and shared the profits equally. Are they doing the business in partnership? Give reason in support of your answer.?

Q.5 Do all forms of business organisation prepare a Profit and Loss Appropriation Account?

Q.6 List any two circumstances under which the fixed capital of partners may change.

Q.7 If the Partners' Capital Accounts are fixed, where will you record the following items: (a) Salary payable to a partner (b) Drawings made by a partner (c) Fresh capital introduced (d) Shares of profit earned by a partner.

Q.8 Can a partner be exempted from sharing the losses in a firm? If yes, under what circumstances?

Q.9 A partnership deed provides for the payment of interest on capital but there was a loss instead of profit during the year 2020-21. At what rate will interest on capital be allowed?

Q.10 Distinguish between 'Fixed Capital Account' and 'Fluctuating Capital Account'

Q.11 A and B are partners without any partnership agreement. They have difference of opinion on the following points. State who is correct in each case,

(a) A wants a salary of ₹ 12,000 p.m. as he works for the business and B does not.

(b) A has invested three times the capital invested by B. So he wants interest @ 6% p.a. B objects to it.

(c) B has given a loan of ₹ 8,00,000 to firm, without any agreement on interest. B wants interest @ 9% p.a. (Bank rate) whereas A wants to pay interest @ 6%.

(d) A wants to distribute profits in the ratio of capitals i.e., 3 : 1. B says that the profits should be divided equally,

(e) A wants to introduce his son C into his business, B has objection to it.

Q.12. The partners P and Q decided to appropriate the profits of the firm on the following terms :

(a) Interest on capital is payable @ 10% p.a.

(b) Both P and Q will get remuneration as : P — ₹3,000 per month. Q —₹ 40,000 per annum,

(c) Interest on P's Loan @ 6% p.a. which was advanced on 1-9-2019 and the amount being ₹ 2,00,000.

(d) Interest on drawings @ 2% irrespective of period. The amount of drawings being P — ₹ 1,20,000 and Q — ₹1, 60,000.

(e) Profits will be shared in the ratio 3 : 2.

(f) One-tenth of divisible profit is to be transferred to General Reserve. For the year ended 31-3-2020 the profit of the firm was ₹ 3,09,400. On 1-4-2019 the capital balances of P and Q were ₹ 3,20,000 and ₹ 4,00,000 respectively. Pass necessary journal entries and prepare Profit and Loss Appropriation A/c on that date in the books of the firm.

Q.13 X and Y are partners with capital of ₹60,000 and ₹20,000 respectively on 1st April, 2019. The net profit (before taking into account the provisions of the Deed) for the year ended 31st March, 2020 was ₹24,500. Interest on capitals is to be allowed at 6% per annum. Y is entitled to a salary of ₹6,000 per annum. The drawings of the partners were ₹6,000 and ₹8,000; the Interest for X being ₹200 and Y ₹100. Show how the profit will be divided between X and Y and also show the Capital Accounts

(i) If the capitals are fluctuating and

(ii) if the capitals are fixed.

Q.14 Nipun withdrew ₹30,000 per month from the firm for his personal use during the year ending March 31, 2021. Calculate interest on drawings at the rate of 10% p.a.

(a) When the amount is withdrawn at the beginning of each month,

(b) When the amount is withdrawn at the end of each month,

(c) When the amount is withdrawn in the middle of each month,

(d) When the amount is withdrawn at the beginning of each quarter,

(e) When the amount is withdrawn at the end of each quarter,

(f) When the amount is withdrawn in the middle of each quarter.

Q.15 Anu withdrew the following amounts from her firm, for personal use during the year ending March 31, 2020. Calculate interest on drawing, if the rate of interest to be charged is 7% p.a.

DATE	AMOUNT (₹)
April 1, 2019,,	48,000
June 30, 2019	45,000
October 31, 2019	30,000
December 31, 2019	42,000
March 1, 2020	33,000

Q.16 Sonu, Monu and Tony are partners with capital on Dec. 31, 2019 as ₹80,000. ₹70,000 and ₹50,000 respectively. Profit already divided for the year was ₹1,50,000. Drawings during the year had been ₹5,000; ₹8,000; ₹17,000 respectively. Profit sharing ratio of Sonu, Monu and Tony is 4 : 5 : 6. At the end of year, it was found that interest on capital @ 10% p.a. had not been provided. Calculate the interest on capital.

Q.17 Kapil and Ruby are partners showing profits in the ratio 3 : 2. On April, 2019 they had capitals of ₹4,00,000 and ₹4,40,000. Accoording to partnership deed.

(a) Kapil will get a half yearly salary of ₹ 9,000 and Ruby will get a quarterly salary of ₹6,000.

(b) Interest on capital will be allowed @ 6% p.a.

(c) Kapil will be allowed a commission of 5% of profits after charging salary and interest on capital but before commission,

(d) Ruby will be allowed a commission of 10% after charging all salary, interest on capital and commissions. Pofits for the year ended 31st March, 2020 amounted to ₹3,12,000. Prepare Profit and Loss Appropriation A/c.

Q.18 X, Y and Z were partners. Their Fixed capitals were ₹30,000; ₹20,000 and ₹10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital @ 5% p.a. In addition Y was also entitled to draw a salary of ₹ 500 per month. Z was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to Y. The net profits for the year were ₹ 30,000, distributed in the ratio of their capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 2 : 2 :1. Pass the necessary adjustment entry showing the workings clearly.

Q.19 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.

Q.20 Show the division of profit among the partners in the following cases:

(a) A and B are partners sharing profits in the ratio of 3 : 2. From 1st January, 2019 they admit C into partnership giving him l/5th share of the profits with a guaranteed profit of ₹ 6,000 minimum. A and B as between themselves continued to share profits as before. Profits of the firm for 2019 were ₹ 24,000.

(b) X and Y share profits and losses in the ratio of 3 : 2. As from 1st January, 2019. They admit Z who is to have a tenth share of the profits with a guaranteed minimum of ₹7,500. X and Y continued to share profits as before but agree to suffer any excess over l/10th going to Z. The profits of the firm in respect of the year are ₹50,000.

(c) Z, the manager, was admitted by X and Y with a l/3rd share in the profits and a salary of ₹3,000 p.a. X and Y were sharing profits in the ratio of 3 : 2. Z, as manager, was getting a salary of ₹9,000 p.a. and commission of 5% on net profit after charging such commission and salary.

The excess of Z's share in the profits over his remuneration (drawn in the capacity of manager) is to be borne by X and Y in the ratio of 2 : 3. Profits for the year before charging commission, but after charging salary, were ₹42,000.

Q.21 Ravi and Mohan were partners in a firm sharing profits in the ratio of 7 : 5. Their respective fixed capitals were : Ravi— ₹10,00,000 and Mohan— ₹7,00,000. The Partnership Deed provided for the following :

(i) Interest on capital @ 12% p.a.

(ii) Ravi's salary ₹6,000 per month and Mohan's salary ₹60,000 per year.

The profit for the year ended 31.3.2020 was ₹5,04,000 which was distributed equally, without providing for the above. Pass an adjustment entry.

Q.22 The partners of a firm distributed the profits for the year ended 31st March, 2021, ₹ 90,000 in the ratio of 3 : 2 : 1 without providing for the following adjustments:

(i) X and Z were entitled to a salary of ₹1,500 p.a.

(ii) Y was entitled to a commission of ₹4,500.

(iii) Y and Z had guaranteed a minimum profit of ₹35,000 p.a to X.

(iv) Profits were to be shared in the ratio of 3 : 3 : 2. Pass the necessary Journal entry for the above adjustments in the books of the firm.

Q.23 A, B and C were partners in a firm. On 1st April 2018 their fixed capitals stood at ₹50,000, ₹25,000 and ₹25,000 respectively. As per the provisions of the partnership deed :

(a) B was entitled for a salary of ₹5,000 p.a.

(b) All the partners were entitled to interest on capital at 5% p.a.

(c) Profits were to be shared in the ratio of capitals. The net profit for the year ending 31.3.2019 of ₹33,000 and 31.3.2020 of ₹45,000, was divided equally without providing for the above terms. Pass an adjustment Journal entry to rectify the above error.

Q.24 Rajiv and Sanjeev were partners in a firm. Their Partnership Deed provided that the profits shall be divided as follows : First ₹20,000 to Rajiv and the balance in the ratio of 4 : 1. The profits for the year ended 31st March, 2021 were ₹60,000 which had been distributed among the partners. On 1st April, 2020 their capitals were Rajiv ₹90,000 and Sanjeev ₹80,000. Interest on capital was to be provided @ 6% p.a. While preparing the Profit & Loss Appropriation Account interest on capital was omitted. Pass necessary rectifying entry for the same. Show your workings clearly.

Q.25 Mudit, Sudhir and Uday are partners in a firm sharing profits in the ratio of 3 : 1 : 1. Their fixed capital balances are ₹4,00,000, ₹1,60,000 and ₹1,20,000 respectively. Net profit for the year ended 31st March, 2018 distributed amongst the partners was ₹1,00,000, without taking into account the following adjustments :

(a) Interest on capitals @ 2.5% p.a.;

(b) Salary to Mudit ₹18,000 p.a. and commission to Uday ₹12,000

(c) Mudit was allowed a commission of 6% of divisible profit after charging such commission. Pass a rectifying journal entry in the books of the firm. Show workings clearly.

Q.26 On March 31, 2021 after the close of books of accounts the Capital Accounts of A, B and C stood at ₹50,000, ₹40,000 and ₹25,000 respectively. The profits of ₹42,000 were divided equally between them. Later on it was discovered that interest on capital @ 5% p.a. had been omitted. The partners shared profits in the ratio 2:2:1. Pass necessary journal entry.

Q.27 P, Q and R were partners in a firm having fixed capitals of ₹80,000; ₹90,000 and ₹1,00,000 respectively. They share profits in the ratio 5:3:2. During the year 2020-2021 interest on capital was allowed @ 12% p.a. instead of 10% p.a. Q and R noticed the error and brought it to the attention of P. You are required to pass an adjustment entry to rectify the above

Q.28 A, B and C were partners in a firm sharing profits and losses in the ratio 5 : 3 : 2. On April, 2020 their capitals were ₹1,50,000; ₹1,20,000 and ₹1,00,000 respectively. For the year ended 31st March, 2021, interest on capital was credited to them @ 9% p.a. instead of 12% p.a. Give rectifying journal entry.

WORK SHEET ANSWERS

Q.NO.	ANSWER
11	(a) B; (b) B; (c) A; (d) B; (e) B.
12	Share of Profit P ₹86,400 Q ₹57,600
13	Profit transferred to : X's Capital ₹7,000 Y's Capital ₹7,000 (i) Fluctuating Capital Method: X's Capital A/c balance ₹64,400; Y's Capital A/c balance ₹30,100 (ii) Fixed Capital Method X's Capital A/c balance ₹60,000; Y's Capital A/c balance ₹20,000 Fixed Capital Method X's Current A/c balance ₹4,400; Y's Current A/c balance ₹10,100
14	a- ₹19,500; b- ₹16,500, c- ₹18,000, d-₹22,500, e-₹13,500, f-₹18,000
15	₹7525
16	Sonu ₹4500, Monu ₹2800, Tony ₹700
17	(Share of profit Kapil- ₹1,13,792; Ruby- ₹75,862)
18	X's current A/c Dr. 5640
	To Y's current A/c 4860 To Z's Current A/c 780
19	Maanika's Capital A/c Dr. 2,40,000 Bhavi's Capital A/c Dr 1,60,000 To Komal's Capital A/c 4,00,000

20	(a) DIVISION OF PROFIT A's share ₹11,520 – 720 = ₹10,800 B's share ₹7,680 – 480 = ₹7,200 C's share = ₹ 6,000 Total = ₹24,000
	(b) X's share ₹25,500 Y's share ₹17,000 Z's share ₹7,500
	(c) X = ₹20,800 (24,000 – 3,200) Y = ₹ 11,200 (16,000 – 4,800) Z = ₹19,000 (including salary)
21	Mohan's current A/c Dr. 38,000 To Ravi's current A/c 38,000
22	X's capital A/c Dr. 8,500
	To Y's capital A/c 5,500 To Z's capital A/c 3,000
23	C's current A/c Dr. 9,000
	To A's cur rent A/c 8,000 To B's Current A/c 1,000
24	Rajiv's capital A/c Dr. 2,760 To Sanjeev's capital A/c 2,760
25	Sudhir's current A/c Dr. 6,000
	To Mudit's current A/c 1,000 To Uday's Current A/c 5,000
26	Cr. A₹3,140; B ₹2,640 and Dr. C ₹5,780
27	Current A/c's : Cr. P₹I,100; Dr. Q ₹180; Dr. R ₹920
28	Dr. A₹1,050; Cr. B₹270 and Cr. C₹780

CHAPTER 3

GOODWILL METHODS OF VALUATION OF GOODWILL

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 and Goodwill	1. Purchased Goodwill 2. Self Generated Goodwill
5. Meaning and Features of 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 and Features of Self generated 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. Need for Valuation of 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 = $\frac{\text{TOTAL OF ADJUSTED PROFIT}}{\text{No. of YEARS}}$ 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 = $\frac{\text{Opening capital employed + closing capital employed}}{2}$ 2) Calculate average maintainable profit (as above) 3) Normal of profit = Average Capital Employed $\times \frac{\text{Normal rate of return}}{100}$ 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) Deprecia-tion (10,000) Abnormal loss 30,000 Loss on sale of asset	245,000 `
			6, 40,000

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

Goodwill = Average Profit x No. of years Purchase

$= 1{,}60{,}000 \times 3 = ₹\ 4{,}80{,}000$

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)

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

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

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

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

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

Average Profit (Adjusted)	=	Average net Profit	-	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

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

$$= ₹ \frac{50,000}{20} \times 100$$

= = ₹ 2, 50, 000

Goodwill

MCQ/OBJECTIVES

Fill In the Blanks

1. Goodwill is an ________ assets.
2. If average capital employed in a firm is Rs. 7,00,000, actual profit is Rs. 90,000 and normal rate of return is 10%, then super profit is ______ .
3. The Goodwill of firm Rs 3,60,000 valued at three year's purchase of super profit. If capital employed is Rs 4,00,000 and Normal rate of return is 10% per annum The amount of average profit will be ______ .
4. _______ is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits.
5. As per Accounting Standard goodwill should not be recorded in the books of accounts _______ unless consideration is paid for it.

True /False

1. As per AS-26, self-generated goodwill cannot be raised and recorded in the books of accounts though it is considered an Asset.
2. While calculating the average profits any abnormal loss is excluded by deducting it out of the net profit of that year.
3. Any surplus profit in excess of super profit earned by a firm is known as average profit.
4. If the firm is earning only normal rate of return (or normal profits) there will be no goodwill of the firm.
5. Number of years' purchase means the years for which the firm is likely to earn that much profit because of the reputation earned by its past efforts.

MULTIPLE CHOICE QUESTIONS

1. If Goodwill is Rs. 2,40,000, Average Profit is Rs. 1,20,000 Normal. Rate of Return is 10% on Capital Employed Rs. 9,60,000. Calculate capitalized value of the firm:

   a) Rs. 12,00,000 b) Rs. 10,00,000

   c) Rs. 8,00,000 d) Rs. 14,00,000

2. Tangible Assets of the firm are Rs. 7,00,000 and Outside liabilities are Rs. 2,00,000, Profit of the firm is Rs. 75,000 and normal rate of return is 10% Calculate capital employed?

   a) Rs. 9,00,000 b) Rs. 7,50,000

   c) Rs. 5,00,000 d) Rs. 9,75,000

3. A firm had Assets of Rs 3,00,000 partner's capital account showed a balance of Rs 2,40,000 and reserves constituted the rest. If normal rate of return is 10% per annum and Goodwill is valued at Rs 96,000 at four years purchase of super profits, find the super profit of firm :

   a) Rs. 12,000 b) Rs. 36,000

   c) Rs. 16,000 d) Rs. 24,000

4. Which of the following is not correct?

   a) Super Profit = Actual (average) Profit - Normal Profit

   b) Super Profit = Actual (average) Profit + Normal Profit

   c) Value of goodwill = Total Capitalised Value of the business - Net Assets.

   d) Goodwill = Average Profit x Number of Years Purchased

5. A business has earned Super profit of Rs. 2,00,000 during the last few years and Normal rate of returns in 10% Value of goodwill as per capitalisation of super profit is:

a) Rs. 20,000 b) Rs. 20,00,000

c) Rs. 10,000 d) Rs. 20,000

Matching Questions

1. Match the following:

Description	Options
1 Closing stock under valued	a. Deducted to the current year profits and added to the previous year profits for calculating the average profits
2 Closing stock over valued	b. Added to the current year profits and deducted from previous year profits for calculating the average profits
3 Opening stock over valued	c. No effect on the average profits
4 Opening stock under valued	d. Added to the current year profits for calculating the average profits
	e. Deducted to the current year profits for calculating the average profits

2. Identify the factors affecting the value of goodwill:

Description	Options
1. If the firm is situated at a prominent centrally located convenient place	a. Favourable Contracts
2. If the firm is managed and controlled by the experienced and efficient management	b. Time Factor
3. If the business is running for the last twenty thirty years on profitable line	c. Type of Business
4 If the business is monopoly business	d. Location of Business
	e. Efficiency of Management

3. Match the following

Description	Options
1 Average Profit Method	a. Normal Profit
2 In every type of industry there is an average rate of profits which every firm is expected to earn	b. Super Profit
3 Goodwill as per Capitalised Value of Average Profits	c. Average profit
4 Any surplus profit in excess of normal profit earned by a firm is	d. This is a very simple and widely followed method of valuation of goodwill
	e. Capitalised Value of business - Net Asset

4. Match the following

Description	Options
1 A firm having the assets of Rs.25,00,000 and liabilities of Rs.11,00,000 earns annual profits of Rs.2,40,000. The rate of normal profits being 15%. Amount of goodwill by capitalisation of super profit method	(a) Rs 62,500
2 A firm earns Rs 25,000 as its annual profits, the rate of normal profit being 10%. The assets of the firm amounted to Rs 2,00,000. The value of goodwill is Rs 1,12,500. Value of outsiders' liabilities	(b) Rs 37,500
	(c) Rs 1,35,000
	(d) Rs 4,00,000
	(e) Rs 2,00,000

5. Match the following

Description	Options
1. Classification of Goodwill	a) Number of years of purchase
2. Need for Valuation of Goodwill	b) Personal Popularity and Relationship
	c) When there is a change in profit sharing ratio
	d) When there are Better Quality of Products
	e) Self-Generated Goodwill

ANSWERS

Fill In the Blanks

1. Intangible
2. Rs. 20,000
3. Rs. 1,60,000
4. Goodwill
5. 26

True /False

1. T
2. F
3. F
4. T
5. T

MULTIPLE CHOICE QUESTIONS

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

Matching Questions

1. [l-b;2-a;3-d;4-e]
2. [l-d;2-e;3-b;4-c]
3. [l-d;2-a;3-e;4-b]
4. [l-e;2-a]
5. [l-e;2-c]

Work Sheet on Goodwill

Q.1 State the meaning and characteristics of goodwill.

Q.2 State any three circumstances other than (i) admission of a new partner; (ii) retirement of a partner, and (iii) death of a partner, when need for valuation of goodwill of a firm may arise.

Q.3 Apart from Location and Profitability, list any two other factors affecting goodwill of a firm.

Q.4 Why is 'Goodwill considered an Intangible Asset' but not a 'Fictitious Asset'?

Q.5 Distinguish between average profits and super profits.

Q.6 Differentiate between self-generated goodwill and purchased goodwill.

Q.7 The profits and losses for last five years were : 1st Year —₹44,000 (including an abnormal gain of ₹8,000) 2nd Year— ₹60,000 (excluding ₹16,000 as insurance premium) 3rd Year—₹24,000 (after charging an abnormal loss of f 8,000) 4th Year —₹24,000 5th Year - ₹8,000 (Loss) Calculate the amount of goodwill on the basis of 2½ years' purchases of last five years' average profits.

Q.8 The profits of the firm of Arun, Ajay and Dinesh are given below:

Year ended 31s: March	Profit (₹)
2016	40,000
2017	56,000
2018	40,000
2019	52,000

(i) On 1st July, 2018 the firm purchased machinery costing ₹20,000 but it was charged to revenue by mistake. Depreciation @ 10% p.a. was also not provided on it.

(ii) During the year 2018-19 the personal expenses of Arun ₹6,000 and Ajay ₹4,000 were debited to miscellaneous expenses of the firm,

(iii) Value of closing stock for the year ended 31st March 2017 was undervalued by ₹3,000.

(iv) An annual insurance premium of (2,000 was not charged to Profit and Loss in any of the years.

You are required to calculate adjusted profits for all the years and the value of goodwill on the basis of two years purchase of average profits of last four years.

Q.9 A firm earned net profits during the last five years as follows :

Year ended 31st March	Profit (₹)
2016	14,000
2017	13,000
2018	16,000
2019	15,000
2020	12,000

The capital investment of the firm is (80,000. A fair return on capital in the market is 12%. Find out the value of goodwill of the business if it is based on three years' purchase of average super profits of the past five years.

Q.10 On April 1, 2021, an existing firm had assets of ₹1,50,000 including cash of ₹10,000. The partners' capital accounts showed a balance of ₹1,20,000 and reserves constituted the rest. If the normal rate of return is 10% and the goodwill of the firm is valued at ₹48,000 at 4 years' purchase of super profits, find out the average profits of the firm.

Q.11 A business has earned average profits of ₹24,000 during the last few years and the normal rate of return in a similar type of business is 12%. Ascertain the value of goodwill by capitalisation of average profits method, given that the value of net assets of the business is ₹1,40,000.

Q.12. A firm having the assets of (50,00,000 and liabilities of ₹22,00,000 earns annual profits of (4,80,000. The rate of normal profits being 15%. Calculate the amount of goodwill by capitalisation of super profit method.

Q.13 Calculate the value of goodwill of Nipun and Prisha using following information :

(i) At two years' purchase of Average Profit.

(ii) At two years' purchase of Super Profit.

(iii) On the basis of capitalisation of super profit.

(iv) On the basis of capitalisation of average profit.

It is given that : (a) Average Capital Employed is ₹12,00,000 (b) Profit for the firm for past three years : 2017— ₹1,80,000; 2018— ₹1,60,000; 2019— ₹2,60,000 (c) Normal rate of return is 10%. (d) Remuneration to each partner is ₹3,000 per month, (e) Assets—₹13,50,000 and liabilities ₹1,50,000.

Q.14 A business has earned average profits of Rs. 1,00,000 during the last few years and the normal rate of return in similar business is 10%. Find out the value of goodwill by

(i) Capitalisation of super profit method.

(ii) Super profit method, if the goodwill is valued at 3 years' purchase of super profit. The assets of the business were Rs. 10,00,000 and its external liabilities Rs. 1.80.000.

Q.15 On April 1, 2020 an existing firm had assets of Rs. 1,50,000 including cash Rs. 20,000. The Partners' Capital Accounts totaled Rs. 1,10,000 and the balance being the reserves. If the normal rate of return is 10% and the value of goodwill is valued at Rs. 36,000 at 4 years purchase of super profits, find out the average profits of the firm.

16. Calculate the value of Goodwill on the basis of three years' purchase of the average profit of the last five years. The Profit/Losses were

Year ended 31s" March	Profit (₹)
2016	82,000
2017	70,000

2018	80,000
2019	Loss (32,000)
2020	40,000

During the year 2019-2020 there was a loss of ₹25,000 due to fire which was not accounted for while calculating the profit.

Work Sheet Answers

Q. NO.	ANSWER
7	₹ 64,000
8	₹1,04,250
9	₹ 13,200
10	₹ 27,000
11	₹ 60,000
12	₹ 4,00,000
13	i. ₹2,56,000; ii. ₹16,000 ; iii. ₹80,000; iv. ₹80,000
14	i. ₹1,80,000 ; ii. ₹ 54,000
15	₹ 24,000
16	₹ 1,44,000

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"
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 firms
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. Gaining Ratio = New Rato – Old 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 GOOD-WILL IN CASE OF CHANGE IN PROFIT SHARING RATIO	A) WHEN GOODWILLIS ADJUSTED THROUGH PARTNER*S CAPITAL AC-COUNTS
	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 Dr. 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&LA/c, Deferred Revenue Expenditure i.e. Advertisement SuspenseA/c.
	A) WHENQUESTIONIS SILENTOR WHENACCUMULATEDPROFITSOR LOSSESARETOBEDISTRIBUTED ORWHENACCUMULATAEDPROFI SORLOSSESARENOTTOBE SHOWNINNEWBALANCE SHEET
	Contengency ReserveA/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 CapitalA@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) ToDefered Revenue exp. A/c
	B) WHENACCUMULATEDPROFITS ORLOSSESARENOTTOBEDISTRIBUTEDORWHENACCUMULATAEDPROFI SORLOSSESARE TOBE SHOWNINNEWBALANCE SHEETATSAME BOOK VALUE
	Calculate the net effect of Reserve Accumulated Profits & Losses- ₹ Reserves xx ACCUMULATEDPROFITS xx LessACCUMULATED LOSSES (xx) Net Effect +/–

	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 (if there is no information)	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 forWorkmen 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

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 OFASSETS & REASSESSMENT OF LIABILITIES

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

WHEN QUESTION IS SILENT OR A) WHEN REVISED VALUES OFASSETS & 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 OFASSETS & 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 × Net Effect on Revaluation

For Sacrificing Partner = Share Sacrificed × net Effect on Revaluation

i) **In case the Net Effect is Gain on revaluation**

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.

To Gaining Partner's captial/current A/Cs

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

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

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

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

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 necessasry journal entries for the treatment of goodwill- Also give journal entries if goodwill is raised & writeen off.

Solution WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL

$$\textbf{Average Profit} = ₹\ \frac{42,000\ ₹\ 4800 + ₹\ 60,000}{3} = ₹\ \textbf{50,000}$$

Goodwill = ₹ **50,000** × 2 = ₹ **1,00,000**

Sacrificing/Gaining Ratio

$$A = \frac{5}{10} - \frac{9}{20} = \frac{10-9}{20} = \frac{1}{20} \quad \text{(Sacrifice)}$$

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

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

Journal

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

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		15000	 5,000 10,000
	(Being goodwill adjusted due to change in profit sharing			

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		1,00,000	 50,000 40,000 10,000
	(Being goodwill raised in old profit sharing ratio)			
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		45,000 30,000 25,000	 1,00,000
	(Being goodwill written off in new profit sharing ratio)			

TREATMENT OF RESERVES & LOSSES

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 37,500 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		25,000 15,000 10,000	
	A/c (Being advertisement suspense transferred to lod partners in old ratio)			50,000

ii) ADJUSTMENT ENTRY

1st April 2019	Z's Capital A/c Dr.	25,500	
	To x's Capital A/c		25,500
	(Being adjustment madr for net reserves & losses)		

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
	(50,000)
Less: Advertisement Suspense A/c (Dr.)	75,000

2) Calculation of Sacrificing/Gaining Ratio

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

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

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

REVALUATION OF ASSETS & LIABILITIES

lllustration 4) Piyushm Pooja & Praveen are partners sharing Profits &losses in Ratio 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	10,00,0000	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 values 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	Revaluation A/c Dr.		56,200	
April	To Stock			20,00
2019	To Machinery			31,800
	To Provision for doubtful debts A@c			4,400
	(Revaluation of assets)			

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	 8500
1st April 2019	Revaluation A/c Dr. To Piyush's capital A/c To Pooja's capital A/c To Praveen's capital A/c (Profit on revaluation)		28,800	 10,800 10,800 7,200

Dr. **Relaluation**

Liabilites	(₹)	Assests	(₹)
To stock To Machinery To Provision for doubtful debts To profits transferred to capital accounts of: Piyush 10,800 Pooja 10,800 Praveen 7,200	20,000 31,800 4,400 28,800	By Building By Sundry creditors	80,000 5,000
	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 by	40,00,000	3,00,000	3,00,000
				Revaluation	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

Liabilites	(₹)	Assests	(₹)
Sundry creditiors Bank Loan Capital acconts Piyush 4,10,800 Pooja 3,10,800 Praveen 307200	43,000 72,000 1028800	Cash at bank Sundry debtors 88,000 Less: provision 5% (4,400) Stock Machninery Building	74,00 83,600 2,20,000 2,86,200 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.

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

Capital Accounts

Particulars	Piyush	Pooja	Praveen	Particulars	Piyush	Pooja	Praveen
To Pooja's Capital A/c To Praveen Capital A/c To Balance c/d	1,200 800 398,000	 3,01,200	 3,00,800	By bal. b/d by By Piyush's Capitial A/c	40,00,000	3,00,000 1,200	3,00,000 800
	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

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

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

Amount Sacrificed@Gained&

Piyush =	28,800 × 5/72 =	(₹)	2000 Dr.
Pooja =	28,800 × 3/72 =	(₹)	1200 Cr.
Praveen =	28,800 × 2/72 =	(₹)	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

Liabilites	(₹)	Assets	(₹)
Sundry Creditors	13,800	Furniture	16,000
General Reserve	23,400	Land and Building	56,000
Investment Fluetuation 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-

Data	Particuars	L.F.	Amounts (₹)	Amounts (₹)
31.3.18	Investment Fluctuation Fund A/c		20,000	
	To Investment			10,000
	To Bhavya's Capital A/c			6,000
	To Sakshi's Capital A/c			4,000

	(Being Investment Fluctuation Fund adjusted against the Fluctuations in market Value and balance was distributed anongst partners)			
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)		2340	2340

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

Liabilites		Rs.	Assests	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.

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

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		Amt. (₹)	Assets		Amt. (₹)
Sundry Criditors		1,10,000	Cash at Bank		2,10,000
Salaries Payable			Sundry Debtors	1,00,000	50,0009
Outstanding Expenses		30,000	Less for D/d	(10,000)	50,000
General Reserve Capital A/cs		10,000	Stock		40,000
			Furniture		2,00,00
OM	3,00,000	40,000	Computers		2,00,00
Jai	1,50,000	6,00,000	Cars		
Jagdish	1,50,000	7,90,000			7,90,000

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

(1) Stock to be reduced to ₹ 40,000

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

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

(4) Out of the salaries Payable, ₹ 10,000 was not payable

(5) Outstanding expenses 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	5,00,000	stock	1,20,000
P 2,00,000		Machinery	1,59,000
Q 2,00,000		Building	2,00,000
R 1,00,000		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:

(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 appreciated 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 April 1	Revalutution A/c To Stock To Machinery A/c Dr To Provision for Doubtful Debt A/c (For Decrease in the value of assets and provisions made for D/D)		(a)	(b) (c) (d)
April 1	Building A/c Dr. Creditors A/c Dr. To Revaluation A/c (For increase in the value of assets and decrease in the value of liablities)		(e) (f)	 (g)
April 1	P*s Capital A/c Dr. 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		(j)	
April 1	P's Capital A/c Dr. Q's Capital A/c Dr. R's Capital A/c Dr. To (n) (For tranfer of advertisement expenditure to all partners		(k) (l) (m)	

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

MCQs

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 Dr. 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 (₹) 50m,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 revalvation A/c
d) (₹) 9000 is distributed amongst partner in their Capital ratio.

Que. 4) Any change in the relationship of Existing partners Which results in an end of the eñisting 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. (c)
4. b
5. a

Answers to Practice Eñercise

Q.1	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	6,400
	To P's Capital A/c	3200
	To Q's Capital A/c	3200
Q.4.	Loss of Revaluation	= ₹ 30,000
	P's Currentl 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) 3,000	g) 43,000	h) 43,000
	i) 5,475	j) 5,475	k) 3,650	l) 1,500
	m) 1,500	n) 1,000	o) 4,000	

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)

<table>
<tr><td rowspan="3"></td><td></td><td>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)</td></tr>
<tr><td></td><td>**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.</td></tr>
<tr><td>When Goodwill is Raised Written Off (In Case Goodwill is not Brought in Full)</td><td>**Cash / Bank A/c Dr.**
To New Partner's Capital A/c
(Being capital brought in by new partner Goodwill A/c)
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)</td></tr>
</table>

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<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>
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<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
	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</td></tr>
<tr><td></td><td>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 = $\dfrac{\text{Capital of the New Partner}}{\text{Share of profitof New Partner}}$
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 $= \dfrac{\text{Total adjusted Capital of Old Partners}}{\text{Total Share of Old Partners}}$ **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 $1/5^{th}$ 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 1/4th of his share from X and 3/16th 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 3/4th share of Z = $\frac{3}{16}$ (Received from Y)

Z's 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 = $\frac{2}{5}-\frac{3}{16}=\frac{32-15}{80}=\frac{17}{80}$

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

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

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

Admission of a partner.

New Profit sharing Ratio

Illustration 4.

Guddu and Bablu are partners sharing profits and losses in 2 : 1 have decided to share profits and losses in 3 : 2 in future. On that date munna was admitted for $\frac{1}{5}$th share. Calculate new ratio and secrificing ratio:

Sol. Existing P.S.R. = 2 :1

Future ratio of Guddu and Bablu = 3 : 2

Munna's share = $\frac{1}{5}$

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

This remaining share will be distributed among old partners in their future ratio.

So, N.P.S.R.

$$\text{Guddu} = \frac{3}{5}\times\frac{4}{5}=\frac{12}{25}$$

$$\text{Bablu} = \frac{2}{5}\quad\frac{4}{5}=\frac{8}{25}$$

$$\text{Munna} = \frac{1}{5}\quad\frac{5}{5}=\frac{5}{25}$$

Sacrificing ratio = old Ratio – New Ratio

$$\text{Guddu} = \frac{2}{3}-\frac{12}{25}=\frac{50-36}{75}=\frac{14}{75}$$

$$\text{Bablu} = \frac{1}{3}-\frac{8}{25}=\frac{25-24}{75}=\frac{1}{75}=14:1$$

Illustration 5. P, Q and R are partners are sharing Profits equally. They decided to admit S as a partner for $\frac{1}{4}$th share. Q decided to retain his orginal share calcuale new profit sharing ratio.

Sol. Old profit sharing ratioo = 1 : 1

Remaining share (Afters's share) = $1-\frac{1}{4}=\frac{3}{4}$

(Treat Partner who is retaning his/her share as new partner to calculate share of Profit)

Remaining share (after Q's share) = $\frac{3}{4} - \frac{1}{3} = \frac{5}{12}$

This $\frac{5}{12}$ share will be divided b/w P and R

P's new share = $\frac{1}{2} \times \frac{5}{12} = \frac{5}{24}$

New P.S.R.

$$P = \frac{5}{24}$$

$$Q = \frac{1}{3} \times \frac{8}{8} = \frac{8}{24}$$

$$R = \frac{5}{24}$$

$$S = \frac{1}{4} \times \frac{6}{6} = \frac{6}{24}$$

$$= 5 : 8 : 5 : 6$$

ADMISSION OF A PARTNER

REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES

When revised values of assets and liabilities are to be recorded

Revaluation Account is opened.

It's a nominal account.

It is prepared to find out gain/loss on account of revaluation of assets and reassessment of liabilities.

Such gain/loss is then distributed among partners in old profit sharing ratio. At the end new values are recorded in the new balance sheet of the firm.

Journal entries of revaluation account

	Adjustments	entry
(1)	For an increase in value of assets	Assets a/c ...Dr. *** To revaluation a/c ***
(2)	For a decrease in value of assets	Revaluation a/c ...Dr. *** To assets a/c ***
(3)	For an increase in amount of liabilities	Revaluation a/c ...Dr. *** To Liabilities a/c ***

(4)	For a decrease in amount of liabilities	Liabilities A/c ...Dr. *** To revaluation A/C ***
(5)	Accounting of unrecorded Assets	Assets A/C .... Dr. ***** To Revaluation A/C ****
(6)	Unrecorded Liabilities	Revaluation A/C ...Dr. *** To Unrecorded Lia. A/C ***
(7)	Expenses Paid By Firm	Revaluation A/C ...Dr. *** To Cash/Bank A/C ***
(8)	Remuneration Paid To A Partner for the process of revaluation	Revaluation A/C ...Dr. *** To Partner's Capital ***
(9)	In Case Of Profit Ie. Excess Of Credit Side Of Revaluation A/C Over Debit Side	Revaluation A/C ...Dr. *** To old Partner's Capital A/C *** (In Their Old Profit Sharing Ratio)
(10)	In Case Of Loss i.e. Excess Of Debit Side Of Revaluation A/C Over Credit Side	Old Partner's Capital A/C ...Dr. *** To Revaluation A/C *** (In Their Old Profit Sharing Ratio)

Note : in case of fixed capital method we will use current a/c instead of capital a/c

Some Typical Cases of Revaluation of Assets & Reassessment of Liabilities.

(i) Value of stock is to be increased by Rs. 5,000 {Book value of stock is Rs. 1,00,000).

(ii) Value of stock is to be increased to Rs. 1,05,000 (Book value of stock is Rs. 1,00,000).

(iii) Value of stock is to be brought up to 105% of its value (Book value of stock is Rs. 1,00,000).

Date	Particulars	L.F.	Dr.	Cr.
	Stock A/c To Revaluation A/c (Being the increase in the value of stock recorded)		5,000	5,000

(iv) Plant is undervalued by 10% (book value of Plant Rs.90,000) or Plant is recorded at 90% in the books of account.

Book value of Plant is Rs. 90,000 which is 90%.

So 100% value is

90,000 x 100/90 = 1,00,000.

Therefore, Increase in Plant is Rs. 10,000.

Date	Particulars	L.F.	Dr.	Cr.
(iv)	Plant A/C ...Dr.		10,000	
	To Revaluation A/c			10,000
	(Being the plant is undervalued by Rs. 10,000)			

(v) Book value of Machinery is Rs.1,10,000 which is 110%.
So 100% value is
1,10,000 x 100/110 = 1,00,000 .
Therefore, Decrease in machinery is Rs. 10,000.
Revalvation A/c Dr 10,000
To Machinery 10,000

Date	Particulars	L.F.	Dr.	Cr.
(vi)	Sundry Creditors A/C ...Dr.		8,000	
	To Revaluation A/c			8,000
	(Creditors of Rs. 8,000 will be written back.)			

(vii) Write off Rs 8,000 as bad debts and maintain a 5% provision for doubtful debts on debtors.fDebtors 68,000 and Provision for doubtful debts 10,000 are appearing in the balance sheet)

Debtors	68,000	Existing PDD	10,000
Less: bad debts	(8,000)	Less: bad debts	(8,000)
Net debtors	60,000	Net PDD available	2,000
Less: PDD @5%	(3,000)	Required PDD (5% of 60,000) 3,000	
		PDD to be raised by	
		(3000- 2,000)	1,000

Date	Particulars	L.F.	Dabit	Credit
April 1	Bad debts A/c Dr.		8,000	
	To Debtors			8,000
	(Being 8,000 as bad debts)			
April 1	Provision for doubtful debts A/c Dr.		8,000	
	To Bad debts			8,000
	(Being bad debts transferred to PDD a/c)			
April 1	Revaluation A/c Dr.		1,000	
	To Provision for doubtful debts A/c			1,000
	(Being PDD Created @5% on debtors)			

Question for practice

Q. K and S are partners sharing profits in the ratio of 3:2.They share. Pass Journal entries for the following on P's admisssion

(i) Value of furniture is to be increased by Rs.10,000 (Book Rs.50,000).

(ii) Value of furniture is to be increased to Rs.50,000 (Book Rs.40,000).

(iii) Value of furniture is to be brought up to 120% of its value furniture is Rs.20,000).

(iv) Stock is found undervalued by Rs.4,000 (Book value of stock ₹ 20,000

(v) Creditors are written back by Rs. 5,000.

(vi) Debtors Rs. 80,000. Existing provision for doubtful ₹ 4,000 debts are to be written off on P's admission Rs. 5,000 and 5% Provision is to be maintained for doubtful debts on debtors.

Illustration 6.

(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 1/4th 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 = $50{,}000 \times \frac{10}{2}$ = ₹ 2,50,000

D's share in Goodwill = ₹ $2{,}50{,}000 \times \frac{1}{4}$ = ₹ 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 7. 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.		900	
	Sunita's Capital A/c Dr.		900	
	Geeta's Current A/c Dr.		600	
	To Goodwill A/c			
	(Being goodwill written off in new ratio i.e., 3 : 2 : 2)			2,400
	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 off between old partners in old ratio i.e., equal)			

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 = 600

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

Amount of Goodwill to be raised and written off = $600\times\frac{4}{1}=2400$

Illustration 8.

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

Hidden Goodwill

Illustration 9.

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. To C's Capital A/c (Being the amount of Capital brought in by new partner)		26,000	 26,000
	C's Current A/c Dr. To A's Capital A/c To B's Capital A/c (Being the Goodwill credited to sacrificing partners Capital A/cs in their sacrificing ratio, i.e., equal)		7,500	 3,750 3,750

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 10.

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.		4,000	
	To Investment A/c			4,000
	(Value of Investment brought down to market value)			

	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 11.

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

	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 (₹ 15800 – ₹ 6000)	9,800
Liabilities for Workmen's Compensation	15000	Debtors 40,000	

Capital A/cs :			Less : Provision for Doubtful Debts		
X	31,650			2,000	
Y	30,790			38,000	
Z	30,000	92,440	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 12.

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	
Rajshree 40,000		28,000	
Anshu 32,000	1,42,240	Less : Provision	
		4,000	24,800
		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

$$\text{Deepika} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10} \text{ (Sacrifice)}$$

$$\text{Rajshree} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10} \text{ (Sacrifice)}$$

(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 13.

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		Plant and Machinery	1,45,500
for 2018-19)	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.

Prepare Ladger Accounts and Balanec sheat.

Solution:

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Plant and Machinery	20,000	By Provision for Doubtful Debts	750
To Profit transferred to Partner's Current Accounts A 35,375 B 21,225 C 14,150	70,750	By Land and Building	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 14.

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	
A 2,00,000		(47,500 + 7004)	54,504
B 1,50,000		Stock	1,15,000
C 1,50,000	5,00,000	Bank	2,21,996
		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 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 $2/7^{th}$ 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 $1/7^{th}$ 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 $1/7^{th}$ 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 $1/3^{rd}$ 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 $1/4^{th}$ share in the profits of the firm, which he gets 1.8^{th} from A and $1/16^{th}$ 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	m	n	By cash			k
	o	p	q				
	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 $1/5^{th}$ 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

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

(Retirement of a Partmer)

Illustration 1. Anjali, Muskan and Jasmeet were partners in a firm sharing profits in capitial ratio. On 31st March, 2020. Their Balance sheet was as follows:

Liabilities	(₹)	Assets	(₹)
Creditors	30,000	Cash	12,000
Investment Fluctuation reserve	10,000	Bank balance	3,000
Workmen compensation Reserve	12,000	Bulding Furniture	6,00,000 1,00,000
		Investments stock	1,00,000 2,00,000
		Debtors	60,000
Profit and Loss A/c	20,000	Less : PDD (3,000)	57,000
Capitals			

Anjali 4,00,000			
Muskan 3,00,000			
Jasmeet 3,00,000	10,00,000		
	10,72,000		10,72,000

On the above date, Muskan retired and Anjali and Jasmeet agreed to continue the business with following terms:

(1) Goodwill of the firm was valued at ₹ 70,000.

(2) Workmen compensation claim is estimated 25% more than the balane in workmen compensation reserve.

(3) Investment were sold to muskan for cash ₹ 95,000.

(4) Provisian for doubtful debts is to be maintained at the existing rate after writing off. Some debtors as bad debts, and the new provision for doubtful debts amounts to ₹ 2,500.

(5) Furitture prchased for ₹ 40,000 wrongly included in the value of building.

(6) Building to be depreciated by 10%.

(7) Amount due to muskan was transterred to herr loan account after paying 30% of the tatal dues, By taking necessary loan frombankl if any.

Prepare Revaluation A/c Partners capital AICS and the Balance sheet after Muskan's Retirement.

Solution:

Dr. Cr.

Particulars	₹	Revaluation A/c	₹
To workmen			
Compensation claim	3,000		
To Bad debts	7,000		
To Provision for doubtful debts	2,500	by Loos on Revalvation A/c	68,500
	56,000		
	68,500		68,500

Dr. Cr.

Particulars	Anjali	Muskan	Jasmeet	Particulars	Anjali	Muskan	Jasmeet
To Revalva-tions A/c	27,400	20,550	20,550	by bal. b/d	4,00,000	3,00,000	3,00,000
To muskan	12,000		9,000	by Ifraic	2,000	1,500	1,500

To Bank A/c Cash A/c		92,385		by P&LA/C	8,000	6,000	6,000
To Muskan Loan	2, 15,565			By Anjali		12,000	
To balance c/d	3,70,600		2,77,950	by Jasmeet		9, 000	
	4,10,000	3,28,500	3,07,500		4,10,000	3,28,500	3,07,500

(8) Provi

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash	14,615
Workmen		Bank Balance	3,000
Compensation claim	15,000	Bulding	5,04,000
Muskan's Loan	2,15,565	Furniture	1,40,000
Capital AICS		Stock	2,00,000
Anjali 3,70,600		Debtors	47,500
Jasmeet 2,77,950	6,48,550		
	9,09,115		9,09,115

Working Note:

(1) Debtors 60,000

Less: bad debts (10,000)

50,000

Less: PDD (2,500)

47,500

Rate of Provision for doubtfuldebts = $\frac{3,000}{60,000}$ 100 = 5 %

debtors after bad debts = $\frac{2,500}{5} \times 100$ = 50,000

$\therefore$ bad debts = 60,000 – 50,000 = 10,000

Illustration 2. P, Q and R are partners in a from whose B/s as an 31.3.2019 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	18,240	Bank	16,240
Gen. Reserve	7,500	Debtors	22,500

Capitals			Plant	26,500
Capitals			Furniture	5,000
P	20,000			
Q	14,500			
R	10,000	44,500		
		70,240		70,240

Retired with the following terms:

(i) To reduce plant and furniture by 5% and 10% resp.

(ii) To provide for PDD @ 5% on debtors.

(iii) Creditors are to be for paid more ₹ 3050.

(iv) Goodwill was valved at ₹ 12,000

(v) New ratio 5 : 3.

(vi) Q should be paid and the amount required to pay Q shal be brought in by P and R in such a way that their capitals are in new profit sharing ratio. Prepare revalvation A/c. Partrner's capital A/c and B/S.

Ans. Dr. Cr.

Particulars	**Amount (₹)**	**Porticulars**	**Amount (₹)**
To plant	1,325		
To Furniture	500		
To PDD	1125	by loss on Revalation	6,000
To Creditors	3050		
	6,000		6,000

Dr. Cr.

Particulars	**P**	**Q**	**R**	**Particular**	**P**	**Q**	**R**
To (loss on Rev. Revalvatin)	2,000	2,000	2,000	by bal. b/d	20,000	14,500	10,000
To Q's Cap	3,500		500	by Gen. Reserve	2,500	2,500	2,500
To Bank A/c		19,000		by R's cap		3500	

				by bank		500	
To bal. C/d	28,750		17,250	by bank	11,750		7250
	34,250	21,000	19,750		34,250	21,000	19750

B/S

Liabilties	Amount (₹)	Assets	Amount (₹)
Creditors (1824 + 3050)	21,290	Bank	16,240
Capitals		Debtors 22,500	
		Less: PDD 1125	21,375
Capitals		Plant	25,175
P 28,750		Fruniture	4,500
R 17,250	46,000		
	67,290		67,290

W.N.

(1) Q's Share of G/w = $12,000\times\frac{1}{3}=4,000$

(2) Gaining Ratio

$$P = \frac{5}{8}-\frac{1}{3}=\frac{7}{24}$$

$$R = \frac{3}{8}-\frac{1}{3}=\frac{1}{24} = 7 : 1$$

(3) Tatal Capital of new form = adjusted capitals of P and R + amount payable to Q

= 17,000 + 10,000 + 19,000 = 46,000

(4) New Capitals

$$P = 46,000\times\frac{5}{8}=28,750$$

$$R = 46,000\times\frac{3}{8}=17,250$$

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 3: 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 4: 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 5 : 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 6: 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 = $\frac{1}{6}\times\frac{1}{3}=\frac{1}{18}$

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 7: 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:

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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 = $\frac{11}{15} - \frac{6}{15} = \frac{11-6}{15} = \frac{5}{15}$

C's gain = $\frac{4}{15} - \frac{5}{15} = -\frac{1}{15}$ (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 8: 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. N's Capital A/c Dr. P's Capital A/c Dr. To Goodwill A/c (Being the existing goodwill written off in old ratio i.e. 1:1:1)		6,000 6,000 6,000	18,000
2.	Goodwill To M's Capital A/c Dr. To N's Capital A/c Dr. To P's Capital A/c (Being adjustment made for goodwill on retirement in gaining ratio i.e. 4:1)		30,000	10,000 10,000
3.	M's Capital A/c Dr. N's Capital A/c Dr. To Goodwill (Goodwill writing off immidatly with new right strong ratio 3.2)		18,000 12,000	30,000

Case 2. When no goodwill account appears in the book entry as 2 & 3 above.

Illustration 9 : 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 10: 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)			
(ii)	Profit & Loss Appropriation A/c Dr.		63,000	
	To X's Capital A/c			45,500
	To Y's Capital A/c			17,500
	(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 = $\frac{3}{6}+\frac{4}{18}=\frac{9+4}{18}=\frac{13}{18}$

Z’s new share is = $\frac{1}{6}+\frac{2}{18}=\frac{5}{18}$

New Profit sharing Ratio between X and Z = 13: 5

Illustration 11: 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 12: (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

Death of a Partner (Share of Profit/Loss)

If books have not been closed, then share of Profit/Loss for the period of work done in current year is calulated either on the basis of previous year's average profit or on the basis of percentage of profit/loss on sales/turnonver such profit/Loss share of deceased partner can be recorded in the books in two ways:

(1) If there is no change in profit sharing ratio of remaining partners.

In this case profit and loss suspense A/c is opened entry.

For share of profit	For share of loss
P & L suspense A/c for	Deceased partner's
To deceased partners	Capital/current A/c Dr
capial/current A/c	To P&L suspense A/c

(2) If new profit sharing ratio to remaining partners changes.

In this case profit/Loss of deceased partner is recorded through capital/ current A/cs entry.

For share of profit	For share of Loss
Gaining partners's cap.current A/c	Deceased/sacrificing
	partner's cap/current A/c
To deceased/sacificing	To caining partner's
Partner's cap/current A/c	capital/current A/c

Illustration 13: Karma, Varma and Sharma are partners sharing profit and losses in the ratio 4 : 3 : 2. Verma died after 3 months of closing books of account. His share of profit calculated as 9,000. Pass Journal entries if:

(i) There is no change in profit sharing ratio

(ii) New profit sharing of karma and sharma is 1 : 1.

Sol. (i) P & C suspense A/c Dr. 9000

To Verma's Cap A/c 9,000

(ii) Gaining Ratio = New Ratio – Old Ratio

$$\text{Karma} = \frac{1}{2} - \frac{4}{9} = \frac{1}{18}$$

$$\text{Sharma} = \frac{1}{2} - \frac{2}{9} = \frac{5}{18} = 1 : 5$$

Karma's Cap A/c Dr. 1,800

Sharma's cap A/c Dr. 7,200

To verma's Cap A/c 9,000

Illustration 14: What will be the entries if in above Question there was a share of loss of ₹6,000 of verma.

Sol. (i) Verma's cap A/c Dr.. 6,000

To P & L Suspense A/c 6,000

(ii) Verma's Cap A/c Dr... 6,000
To Karma's cap A/c 1,000
To Sharma's cap A/c 5,000

Illustration 15: 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 30th April	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× $\frac{8}{12}$)	10,000
		2,32,333			**2,32,333**
30.4.16	To Bank A/c 75000 15000	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 2,500	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× $\frac{1}{6}$ = 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 = $72{,}000 \times \frac{4}{12}$ = 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		

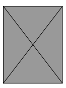
Balance is N's opening Capital & interest on Capital

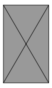
29,250-13,500 = Rs. 15,750

Let N's Capital = Rs. x

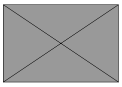
Interest on capital $= x \times \frac{10}{1000} \times \frac{6}{12} = \frac{x}{20}$

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

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.

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.8. 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

Question 10: (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><td>S.NO.</td><td>TOPIC</td><td colspan="3"></td></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.

Dissolution of a Partnership Firm

Settlement of Accounts

Section 48 of the Indian Partnership Act, 1932 deals with the settlement of accounts when the firm is dissolved.

In brief, when firm is dissolved, assets are realised, liabilities are paid and the balance, if any, is distributed among the partners.

On dissolution of the firm, the accounting treatment involves preparation of following accounts:

- Realisation A/c
- Loan by Partner A/c(If any)
- Loan by firm to Partner A/c(If any)
- Partners' Capital/Current A/c
- Cash/Bank A/c

REALISATION ACCOUNT

- It is prepared on the dissolution of a firm.
- It is prepared to find out Gain/loss on the realisation of assets and payment of liabilities.
- It's a nominal A/c.

STEPS INVOLVED IN PREPARATION OF REALISATION ACCOUNT

1. Transfer all assets from balance sheet to the debit side of realisation A/c except:

   Cash/Bank balance, Loan to partner(s). Partners" capital/current a/c,Partners' Drawings. Accumulated losses, Fictitious assets.

2. Transfer all liabilities from balance sheet to the credit side ot realisation A/c Except:

   Partners' capital/current A/c,Loan by partner(s),General reserve,Accumulated Profits,Workmen compensation reserve (surplus only).

3. Record the sale of assets at given realised value and assets(s) taken over by the partner(s) against credit side of realisation account.

   As per CBSE realisable value of assets must be given.

4. Record the payment of liabilities or agreed to be paid by partner (whether recorded or unrecorded) to the debit side of realisation A/c except investment fluctuation reserve, provision for doubtful debts, provision for depreciation, Provision for discount on debtors.

   If amount payable is not given for a liability then it is paid at book value.

5. Record Dissolution expenses and remuneration payable to a partner (if any).
6. Find gain/loss on account of realisation of assets and repayment of liabilities by balancing the account and distribute it among partners in their profit sharing ratio.

STEP:1 TO TRANSFER THE ASSETS TO REALISATION A/c

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c Dr. To Assets (Individually) A/c (Being assets are transferred to realisation A/c)			

STEP : 2 TRANSFER THE LIABILITIES TO REALISATION A/c

Date	Particulars	L.F.	Dr.	Cr.
	Liabilities (individually) Dr. To Realisation A/c (Being liabilities are transferred to realisation A/c)			

STEP:3a For sale of assets

Date	Particulars	L.F.	Dr.	Cr.
	Cash/Bank A/c Dr. To Realisation A/c (Being assets sold at given value)			

STEP:3b Asset(s) taken over by the partner

Date	Particulars	L.F.	Dr.	Cr.
	Partners capital/current A/c Dr. To Realisation A/c (Being asset(s) taken over by the partner at an agreed value)			

STEP:4a To pay liability

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c Dr. To Bank A/c (Being liability paid)			

STEP:4b Liability assumed by the partner

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c To Partners' capital/current A/c (Being liability assumed by the partner)			

STEP:5 Remuneration to a Partner

Data	Particulars	L.F.	Dr.	Cr.
	Realisation A/c To Partners' capital/current A/c (Being partner credited for remuneration)			

TEP:6 TO DISTRIBUTE GAIN ON REALISATION

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c Dr. To Partners' capital/current A/c (Being partners credited for gain on realisation in old ratio)			

To distribute

Loss on Realisation

Partners Capital/current A/c Dr.

To Realisation A/c

* Accumulated Profits, Losses & Reserves

(1) General Reserve, P & L A/c credit Balance, Contingening Reserve

General Reserve A/c Dr.

P & L A/c Dr.

Contingeny Resere A/c Dr.

To Partners capital A/c

(2) P & L A/c Debit Balance, Advertisment suspense A/c

Partner’s capital A/c Dr.

To profit and loss A/c

To deferred revenve expendture

(Advestisement suspense A/c)

(3) Workmen Compensation Reserve

(i) Workmen compensation Reserve

To Realisation A/c (To the extant of claim) (if any)

(ii) Workmen compensation A/c Dr.

To partner’s capital Aics

(Surplus in workman compensation reserve A/c after claim

JOURNAL ENTRIES FOR FEW IMPORTANT ITEMS

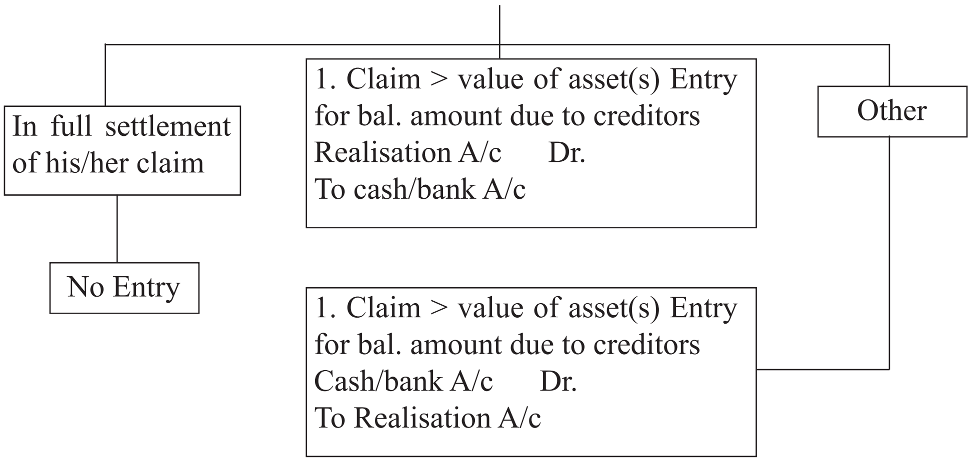
1. TO SETTLE LOAN GIVEN BY PARTNER TO THE FIRM

Date	Particulars	L.F.	Dr.	Cr.
	Partners' loan A/c Dr. To Cash/Bank / Realisation A/c (for asset given against loan) To Realisation A/c (if any, difference) (Being partners' loan discharged)			

2. TO SETTLE LOAN GIVEN TO PARTNER BY THE FIRM

Date	Particulars	L.F.	Dr.	Cr.
	Bank/ Capital A/c (if liability assumed against the loan) A/c Dr. Realisation A/c (if any, difference) Dr. To Partners' loan A/c (Being loan to partner recovered)			

3. Asset(s) taken over by the creditor



4. Realisation Expenses

To be Borne by	Paid paid by
1. Firm	Firm
2. Firm	Partner
3. Partner	Same Partner
4. Partner	Firm
5. Partner	Another partner

For Realistion Expenses Journal

Date	Particulars	L.F.	Dr.	Cr.
	Bearing Party A/c Dr. (In case of firm-Realisation A/c) In case of partner-partners capital A/c partners current A/c To Paying Party A/c (In case of firm-cash A/c or realistion A/c for asset given for expenses) In case of partner-partners capital A/c Partners current A/c			

Note: If it is not mentioned that who is bearing expenses it is assumed to be borne by FIRM

1. Record necessary journal entries in the following cases:

   [a] Creditors were Rs.16,000. They accepted Machinery valued at Rs.18,000 in full settlement of their claim.

   [b] Creditors worth Rs.85,000 accepted Rs.40,000 as cash and Investment worth Rs.43,000, in full settlement of their claim.

   [c] Creditors were Rs.90,000. They accepted Buildings valued Rs.1,20,000 and paid cash to the firm Rs.30,000.

JOURNAL

Date	Particulars	LF.	Dr.	Cr.
a.	NO ENTRY			
b.	Realisation A/c Dr.		40,000	
	To Cash A/c (Being balance due paid in cash to creditors)			40,000
	Cash A/c		30,000	
	To Realisation A/c (Being balance received in cash from creditors)			30,000

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

Illust. 2: 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	
To Buildings	25,000	Fund	5,000
To Investments	25,000	By Provision for Doubtful	
To Stock	15,000	Debts	2,000
To Debtors	17,000	By Creditors	8,000
To X's Capital A/c	8,000	By Bank overdraft	6,000
(X's wife loan)		By X's Wife Loan	8,000
To Bank A/c	6,000	By Bank A/c	
(Bank overdraft)		(Asset realised)	
To Bank A/c	6,000	Debtors 12,000	
(Creditors) (3000+3000)		Investment 20,000	
To Bank A/c	2,000	Goodwill 6,000	
(Expenses on Realisation)		Buildings 30,000	
To Bank A/c (auctioneer	1000	Stock 5,000	73,000
Commission)		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	2,000
		(Exp. Paid)	
		By Y's Loan A/c	3,000
		(Partner's Loan Paid)	
		By X' Capital A/c	42,000
		By Y's Capital A/c	32,200
	93,000		93,000

Illust. 3 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.		12,000	
	To Dharam's capital A/c			12,000
	(Being remuneration allowed to partner to carry out dissolution)			
(2)	(i) Realisation A/c		7,000	
	To Jay's capital A/c Dr.			7,000
	(Being the remunerable all out to partner for bear realsiation expenses)			
	(ii) Jay' capital A/c Dr.		6,000	6,000
	To Bank A/c			
	(Being the expenses paid by firm on behalf partner)			
(3)	(i) Realisation A/c		10,000	
	To Deepa's capital A/c			10,000
	(Being the commission paid for realisation expenses to Deepa)			
	(ii) Deepa's capital A/c		12,000	
	To cash A/c			12,000
	(Being the cash is drawn for payment of realisation expenses by Deepa)			
(4)	No Entry			
(5)	No Entry			
(6)	A's capital A/c Dr.		12,000	
	Realisation A/c Dr.		3,000	
	To Bank A/c			15,000
	(Being the payment of realization expenses by partner 'A' and Balance by firm)			

Illust. 4 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.		6,000	
	To Realisation A/c			6,000
	(Being 30% realized from drawer)			
	Realistion A/c Dr.		20,000	
	To Bank A/c			20,000
	(Being full amount paid to Bank)			
	(b) As capital A/c Dr		800	
	B's Capital A/c Dr.		400	
	To Realisation A/c			12,00
	(Being shares taken by A and B)			
	(c) Realisation A/c Dr		2,000	
	To cash A/c			2,000
	(Being Net ₹2000 paid to Mr. Verma)			
	(d) Cash A/c Dr		2,80,000	
	To Realisation A/c			2,80,000
	(Being 70% realised from Debtors)			
	(e) Realisation A/c Dr		30,000	
	To B's Loan A/c			30,000
	(Being B's loan transferred)			
	(f) Rashmi's Loan A/c Dr		35,000	
	To Realisation A/c			35,000
	(Being loan settled by providing furniture)			

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		
To Investments A/c	25,000	By Provision for Doubtful Debts A/c	2,000
To Stock A/c	15,000		
To Debtors A/c	20,000	By Creditors A/c	8,000
To X's Capital A/c (Brother's loan)	**(a)**	By Bank Overdraft A/c	6,000
		By X's Brother Loan	8,000
To Bank A/c's: ₹		By Bank A/c (Assets Realised) ₹	
Creditors 6000		Debtors 12,000	
Bank Overdraft 6000	12,000	Investments 20,000	
To Bank A/c (Realisation Expenses)	**(b)**	Goodwill 7,000	
		Buildings 30,000	74,000
		Stock (50% of 10,000) 5,000	**(c)**
		By Y's Capital A/c(stock)	
		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. 4 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.5. 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 To cash				By balance B/d By gen reserves By Profit & loss A/c By realization A/c By realization A/c By cash	5000 2,000 30000	175,000 2,000 30000	1,15,000 4,000 60000

Cash A/c

Particulars	**Amount**	**Partners**	**Amount**
balance B/d	4000		

Q. 6 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,
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 partnership 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 agreed amount 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 will be dissolution of the .... (firm)

Q.14 .... of partner will be paid off before the settlement of partner's capital (Loan)

CHAPTER 8

ACCOUNTING FOR SHARE CAPITAL

Company	A Company is an artificial person created by law, having separate 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

(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, define OPC as a Company which has only one person as a member'. Rule 3 of the companies (Incorporation) Rules, 2014, provides that: (a) Only a natural person being an Indian Citizen and resident in India can form one person company. (b) It cannot carry out nonbanking financial investment activities (c) Its paid up share capital is not more than Rs. 50 Lakhs (d) Its average annual turnover of three years does net exceed Rs,. 2 Crores.

IMPORTANT TERMS USED IN ACCOUNTING FOR SHARE CAPITAL

a) Share Capital	Capital raised by issue of shares is called share capital.
b) Authorized Capital	It is also called as Nominal or Registered capital. It is the maximum amount of Capital a company can issue. It is Stated in the memorandum of Association.
c) Issued Capital	This is part of authorized capital which is offered to public for subscription. It can not exceed authorized capital.
d) Subscribed and fully paid up capital	It is that part of the issued capital which is fully called up by the company and fully paid up by the shareholders.
e) Subscribed but not fully paid up capital	It is that part of the issued capital which is either not fully called up by the company or not fully paid up by the shareholders or both.
f) 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.
g) Paid Up Capital	It is part of called up capital that the members of company or shareholders have paid. Paid up capital = Called-up capital - Call in arrears
h) Reserve Capital	It is part or portion of uncalled share capital of a company which can be called only in case of winding up of the company.
i) 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 Funds.
j) Private Placement of Shares (Section-42)	Private Placement of Shares means issue and allotment of shares to a select group of persons privately and institutional investors, not to the public.
k) 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 calls in arrears. Company can charge interest on this rate mentioned in Article of Association or 10% p.a. as per Table F. Such amounts are shown in "Note to Accounts".
1) Calls in advance	Any Amount paid in excess of what 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

m) Issue of shares at discount (Sec 53)	A Company cannot ordinarily issue shares at discount other than sweat equity shares.
n) Issue of shares at premium (Sec 52)	The money received on premium is transferred to securities 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 Section 68.
o) Employee stock option plan (ESOP)	ESOP or sweat equity share means option granted by the company to its employees and directors to subscribe the shares of the company at a price that is lower than the market price. But it is not an obligation on the employee to subscribe for it.
p) Over Subscription	When applications for more shares of a company are received than the number of shares offered to the public for subscription, it is called over subscription. First Alternative - To fully accept some applications and totally reject the others; the application money received on rejected applications is fully refunded. Second Alternative - To make a proportionate allotment to all applicants (called 'pro-rata' allotment), the excess application money received is normally adjusted towards the amount due on allotment. Third Alternative - To reject some shares out rightly & pro-rata allotment is made to the remaining applicants.
q) Under Subscription	When number of shares applied is less than the shares offered for subscription, it is called under subscription. In this case, allotment is made in full to all the applicants if minimum subscription is followed. Acc. to SEBI guidelines, minimum subscription means if a company does not receive subscription for at least 90% of the shares issued, it cannot allot the shares. Rather it will have to refund the application money to the subscribers.

Accounting treatment of Issue of Shares to Public for Cash

Issue at par	Issue at premium	
1. For Receipt of Application Money	Bank A/c To Share Application A/c Dr.	Bank A/c To Share Application A/c (including Premium)
2. For transfer of Application Money	Share Application A/c To Share Capital A/c	Share Application A/c Dr. To Share Capital A/c To securities Premium Reserve A/c
3. For Amount Due on Allotment	Share Allotment A/c To Share Capital A/c	Share Allotment A/c To Share Capital A/c To securites Premium Reserve A/c
4. For Receipt of Al-Wment Money	Bank A/c Dr. To Share Allotment A/c	To Share Allotment A/c (including Premium)
5. For First & Final Call Amount	Share First & Final Call A/c Dr. To Share Capital A/c	Share First & Final Call A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c
6. For Receipt of First & Final call amount	Bank A/c Dr. To Share First & Final Call A/c	Bank A/c Dr. To Share First & Final Call A/c (including Premium)

If Calls in Arrear A/c is Opened

On non-receipt of call amount	Calls-in-arrears A/c Dr. To Relevant Call A/c
On receipt of Calls-in-arrear at a subsequent date	Bank A/c Dr. To Calls-in arrears A/c
Disclosure in Balance Sheet - It is shown in Note to Accounts in Share Capital as a deduction from the amount of Subscribed but not fully paid up' under Subscribed capital.	

Issue of Shares for Consideration other than Cash

On Purchase of Assets		
1. On Purchase of Assets	Sundry Assets A/c Dr. To Vendor's A/c	Sundry Assets A/c Dr. To Vendor's A/c

2. On Issue of Shares	Vendor's A/c Dr. To Share Capital A/c	Vendor's A/c Dr. To Share Capital A/c To securi-ties Premium Reserve A/c
l. On Purchase of Bu ness	Sundry Assets A/c Dr. Goodwill A/c (b/f) Dr. To Sundry Liabilities A/c To Vendor's A/c To Capital Reserve A/c (b/f)	Sundry Assets A/c Dr. Goodwill A/c (b/f) Dr. To Sundry Liabilities A/c To Vendor's A/c
2. On Issue of Shares	Vendor's A/c Dr. To Share Capital A/c	Vendor's A/c Dr. To Share Capital A/c To Securities Premium Re-serve A/c

Number of shares = Amount Payable or Purchase Consideration / Issue Price

Forfeiture of Shares

Forfeiture of shares issued at par	***Forfeiture of shares issued at premium***
(When Premium on issue of shares has been received wholly, it will be treated just like issued partially)	(When Premium has not been received wholly or partially)

If Calls-in-arrear account is not maintained

Share Capital A/c (Called up amount) To Share Forfeiture A/c (Amount already received) To Share Allotment A/c (unpaid allotment amount) To Share Calls A/c (unpaid calls amount individually)	Share Capital A/c (Called up amount) Dr. Securities Premium Reserve A/c Premium Reserve A/c To share Forfeiture A/c (Amount already received) To Share Allotment A/c (unpaid allotment amount) To Share Calls A/c (unpaid calls amount individually)

If Calls-in-arrear account is maintained

Share Capital A/c (Called up amount) Dr. To Share Forfeiture A/c (Amount already received) To Calls in Arrears A/c (unpaid allotment and calls amount)	Share Capital A/c (Called up amount) Dr. Securities Premium Reserve A/c To Share Forfeiture A/c (Amount already received) To Calls in Arrears A/c (unpaid allotment and calls amount)

Re-issue of Forfeited Shares

Reissue at par	Re-issue at premium	Reissue at Discount
Bank A/c To Share Capital A/c	Bank A/c To Share Capital A/c To Securities Premium Reserve A/c	Bank A/c (re-issued price) Shares Forfeited A/c (discount) To Share Capital A/c (at paid-up value)

Maximum discount on re-issue of forfeited shares = Amount forfeited (i.e. amount already received at the time of forfeiture)

Minimum re-issue price of a forfeited share

= Paid-up value of a share – Forfeited amount per share

= Amount not received

Transfer of Share Forfeiture A/c to Capital Reserve A/c
(Gain on Reissued Shares)

On Transfer of Share Forfeiture A/c to Capital Reserve A/c	Share Forfeiture A/c To Capital Reserve A/c

Case 1) When All Forfeited Shares are Reissued

Profit / Gain on Reissued Shares	= Balance left in Forfeited Shares Account after providing for reissue discount

Case 2) When All Forfeited Shares are not Reissued

Profit / Gain on Reissued Shares =

$$\left\{\frac{\text{Total Amount Forfeited}}{\text{No. of Shares Forfeited}} \times \text{No. of Shares Reissued}\right\} - \text{Reissue Discount}$$

- Reissue Discount means the amount with which Forfeited Shares Account was debited at the time of reissue of such shares.

CHAPTER - 8 SHARE CAPITAL

Illustration l: STL Global Ltd. was formed with a nominal Share Capital of 40,00,000 divided into 4,00,000 shares of 10 each.

The Company offered 1,30,000 shares to the. public payable □ 3 per share on Application, □ 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.?

Sol.

Balance Sheet (Extract) of S T L Global Ltd. As At

Particulars	Note No.	(?)
Equity and Liabilities Shareholder's Funds : (a) Share Capital Assets	(1)	7.14.000
Current Assets :		
Cash and Cash Equivalents (cash at Bank)		7.14.000

Notes to Accounts

Details	(?)	
(1) Share Capital Authorised Capital: 4.00.000 shares of Rs. 10 each Issued Capital:		40.00.000
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
Less: Calls in Arrears (2.000 shares * Rs. 3)	-(6.000)	

Illustration 2: Bliss Products Ltd. registered with capital of □ 90,00,000 divided into 90,000 equity-share, ti l 100 each.

The company issued prospectus inviting applications for 50,000 equity shares of n 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

Sol.

Extract of Balance Sheet of Bliss Products Ltd.

As at

Particulars	No	Amount	Amount
	te	Current	Previous
	No	Year	Year
I. EQUITY AND LIABILITIES			
1. Shareholder's Fund			
a. Share Capital	1	39.70.000	

Notes to Accounts:

Note No.	Particulars		Amount (K)
1.	**Share Capital**		
	Authorized Capital		90.00.000
	90.000 Equity shares of 5 100 each		
	Issued Capita		50.00.000
	50.000 Equity shares of * 100 each		
	Subscribed Capital		39.70.000
	Subscribed and Fully Paid Capital		
	39.000 Equity shares of I 100 each	39.00.000	
	Add: Forfeited Shares (1.000 of ? 70 each)	70.000	

Illustration 3: (a)Ram Ltd. has an authorized capital of 15,00,000 divided into 1,00,000 equity shares of 10 each and 50,000, 9% preference share of 10 each. The company invited applications for all the preference shares but only 90,000, equity shares.

All the preference shares were subscribed, called and paid while subscriptions were received for only 85,000 equity shares. During the first year 8 per share were called.

Ram holding 1,000 shares and Shyam holding 2,000 shares did not pay first call of 2. Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at 6 per share 8 called up.

Prepare Balance Sheet as per Schedule III of Companies Act.

Sol.

Extract of Balance Sheet

Particulars	Note No	Amount
Equity and Liabilities		
(i) Shareholder Fund		11,77,000
(a) Share Capital	1	6,000
(b) Reserve and Surplus	2	11,83,000

Notes to Account

Particulars	**Amount**
Share Capital	
Authorized Capital	
1,00,000 equity shares of * 10 each	10,00,000
50,000, 9% preference shares of * 10 each	5,00,000
	15,00.000

Issued Capital		
90,000 equity shares of 10 each		9,00,000
50,000, 9% preference shares of ^ 10 each		5,00,000
		14,00,000
Subscribed Capital		
Subscribed and fully paid		
50,000, 9% preference shares of * 10 each		5,00,000
Subscribed but not fully paid		
84,500 equity shares of H10 each ^ 8 called up	6,76,000	
Less: Call in arrears	(2,000)	
Add: shares forfeited	3,000	6,77,000
Reserves and Surplus		
Capital Reserve		6,000
		11,83,000

(b) DN Ltd., issued 30,000 shares of 10 each at a premium of 2 per share payable as 3 on application, 5 (including premium) on allotment and the balance on first and final call. Applications were received for 42,000 shares.

The directors resolved to allot as follows;

(i)Applicants of 20,000 shares 10,000 shares.

(ii)Applicants of 20,000 shares 20,000 shares.

(iii)Applicants of 2,000 shares Nil.

Balu who had applied 1,000 shares in category (i) and Ganesh who has allotted 600 shares in category (ii), they both failed to pay the allotment money. Calculate the amount received allotment.

Sol. Total Due on Allotment Stage (30,000 x 5) 1,50,000

Less: Amount Received in Application Stage 30,000

Less: Defaulter (600 + 500) x 5 - 1,500 4,000

Amount Received in Allotment Stage 0 1,16,000

Illustration 4: Janta Papers Limited invited applications for 1,00,000 equity shares of 25 each payable as under:

On Application 5.00 per share

On Allotment 27.50 per share

On First Call 7.50 per share (due two months after allotment)

On Second and Final Call 15.00 per share (due two months after First Call)

Applications were received for 4,00,000 shares on January 01, 2020 and allotment was made on February 01, 2020. Record journal entries in the books of the company to record these share capital transactions under each of the following circumstances:

I.The directors decide to allot 1,00,000 shares in full to selected applicants and the applications for the remaining 3,00,000 shares were rejected outright.

II.The directors decide to make a pro-rata allotment of 25 per cent of the shares applied for to every applicant; to apply the balance of application money towards amount due on allotment; and to refund the amount remaining thereafter. The company does not open Calls-in-Advance A/c.

III.The directors totally reject applications for 2,00,000 shares, accept full applications for 80,000 shares and make a pro-rata allotment of the 20,000 shares to remaining applicants and the excess application money is to be adjusted towards allotment and calls to be made.

Sol. Case I Journal

	Particulars	LF	Dr. (₹)	Cr. (₹)
1 Jan 2020	Bank A/c To Equity Share Application A/c (Being the money received on application for 4,00,000 shares @ ₹ 5 per share)	Dr.	20,00,000	 20,00,000
1 Feb 2020	Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Being shares allotted & money refunded on rejected applications)		20,00,000	 5,00,000 15,00,000
1 Feb	Equity Share Allotment A/c Dr. To Equity Share Capital		7,50,000	 7,50,000
l Feb 2020	Bank A/c Dr. To Equity Share Allotment A/c (Being the allotment money received)		7,50,000	 7,50,000
l Apr 2020	Equity Share First Call A/c Dr. To Equity- Share Capital A/c (Being first call money due on 1,00,000 shares @ Z 7.50 per share)		7,50,000	 7,50,000
l Apr 2020	Bank A/c Dr. To Equity Share First Call A/c (Being the first call money received)		7,50,000	 7,50,000
1 June 2020	Equity Share Second & Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ ₹ 5 per share)		5,00,000	 5,00,000
1 June 2020	Bank A/c Dr. To Equity Share Second and Final Call A/c (Being call money receives)		5,00,000	 5,00,000

1 Jan 2020	Bank A/c Dr. To Equity Share Application A/c (Being the money received on application for 4,00,000 shares @ _ 5 per share)		20,00,000	20,00,000
lFeb 2020	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Being shares allotted, excess application money transferred to allotment account & money refunded on rejected applications)		20,00,000	5,00,000 7,50,000 7,50,000
lFeb 2020	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being amount due on allotment of 1,00,000 shares @ 7.50 per share)		7,50,000	7,50,000
1 Apr 2020	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due on 1,00,000 shares @ □ 7.50 per share)		7,50,000	7,50,000
1 Apr 2020	Bank A/c Dr. To Equity Share First Call A/c (Being the first call money received)		7,50,000	7,50,000
1 June 2020	Equity Share Second & Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ □ 5 per share)		5,00,000	5,00,000
1 June 2020	Bank A/c Dr. To Equity Share Second & Final Call A/c (Being the final call money received)		5,00,000	5,00,000

Working Notes:

1. Application.-, received tor 4.00,000 .shares. 2.00.000 shares were rejected. Remaining 2,00,000 shares were ...lotcd 1,00.000 shares as follows:
   (a) 80.000 shares were alloted 80,000 shares (i.e. full allotment)
   (b) 1,20.000 shares were alloted 20.000 shares (i.e. pro-rata allotment in the ratio ot 1 : 6)
2. Excess Application Mono' ? IS.00.000
   Less: Iranslers:

Share allotment 20.000 shares ₹ 7.50	₹ 1.50.000	
Share first call 20,000 shares ₹ 7.50	₹ 1,50.000	
Share second and final call 20.000 shares @ ₹ S	₹ 1,00.000	₹4.00.000)
		₹ 11,00,000

Amount to be refunded (including 10,00.000 of the rejected applications)

Illustration 5: Ajay Co. Ltd. Purchased a machine from Vikram Co. for □ 64,000. It was decided to pay 10,000 in cash and balance paid by issue of shares of 10 each.

Pass journal entries if shares are -

(a) Issued at par (b) Issued at premium of 20%

Sol.

Date	Particulars	L F	Debit(t)	CieditU)
	Machinery A/c Dr To Vikram Ltd. (Bern 2 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. To Share Capital (Being 5.400 ohareo of C 10 each wed par to Vila am Ltd)		54,000	 54,0000
	(b) When shares are issued at premium Vikram Ltd (Vendor) To Share C apital Account To securities Beninun Reserve A/c (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. o hares to be issued = Amount to be paid / Issue price per share (including premium)

> When issued at par = 54000/10 = 5400

> When issued at premium = 54000/12 = 4500

Illustration 6: A company issued 15,000 fully paid up equity shares of 100 each for the purchases of the following assets and liabilities from Gupta Bros.

Plant - □ 3,50,000; Stock □ 4,50,000; Land and Building 1 6,00,000; Sundry Creditors □ 1,00,000. Pass necessary Journal entries.

Sol.

Date	Particulars	L.F	Debit (?)	Credit (?)
	Plant A/c Land and Buildings A c Stock A c Goodwill A/c (b/f) To Sundry Creditors A/c To Gupta Bros. (Being the purchased business)		3,50,000 6,00,000 4,50,000 2,00,000	 1,00,000 15,00,000
	Gupta Bros. To Equity Share Capital A c (Being issue of 15.000 shares of Rs. 100 each as payment of business price)		15,00,000	 15,00,000

Working Note:

Goodwill = Purchases consideration + Liabilities - Assets

= 15,00,000 + 1,00,000 - 14,00,000 = 2,00,000.

Illustration 7: 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 D8 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 snares 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.

Sol a) **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Equity Share Capital A'c Dr To Equity Share Forfeited A/c To Calls m Arrears Ac (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 ? S per share paid up for S per share)		64	 64
	Equity -Share Forfeited Ac Dr. To Capital Reserve A'c (Beuig gam on reissue of forfeited shares transferred to Capital Reserve)		40	 40

Sol b) Equity share capital A/c Dr. 1,600

Securities Preminum A/c Dr. 8,000

To Equity share forteited A/c 1,200

To Calls in Arreast A/c 1,200

(Being Mr. M's shares firteited)

Sol c) **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Equity Share Capital A/c Dr To Share Forfeited Ac To Calls in Arrears Ac (Being ?0 shares forfeited for non-payment of calls)		500	 350 150
	Bank Ac Di Share Forfeited Ac 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 Ac (Being gam on reissue of forfeited shares		100	 100

Illustration 8: Saregama Ltd invited applications for issuing 80,000 equity shares of □ loo each at a premium of □ 10. The amount was payable as follows

On Application - □ 30

On allotment - 30 (including a premium of C 10) On 1st call - I 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.

Sol. **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Bank A/c Dr. To Share Application A/c (Being the money received on application)		36,00,000	36,00,000

	Share Application A/c Dr. To Equity Share Capital A/c To Calls-in-advance A/c (Being application money adjusted)		36,00,000	 24,00,000 12,00,000
	Share Allotment A/c Dr. To Share Capital A/c To securities Premium Reserve A/c (Being amount due on allotment)		24,00,000	 16,00,000 8,00,000
	Bank A/c Dr. Calls-in-advance A/c Dr. Calls-in-arrear A/c Dr. To Share Allotment A/c (Being the allotment 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. Calls-in-arrear A/c Dr. To Share First Call A/c (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 Calls in Arrear A/c To Share forfeited A/c (Being Dhwani & Sargam's share forfeited for non¬payment of allotment & / or call money)		4,48,000 16,000	 2,72,000 1,92,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being forfeited share's reissued for 95 per share □ 80 paid up)		1,90,000	 1,60,000 30,000
	Share Forfeited A/c Dr. To Capital Reserve A/c (Being balance in sharev forfeiture account transferred to capital reserve)		92,000	 92,000

Illustration 9: Zocon Ltd. issued a prospectus inviting applications for 5,00,000 equity shares of Bio each issued at a premium of 10% payable as:

3 on Application

5 on Allotment (including premium) and 3 on call.

Applications were received for 6, 60,000 shares. Allotment was made as follows:

(a) Applicants of 4, 00,000 shares were allotted in full.

(b) Applicants of 2, 00,000 shares were allotted 50% on pro rata basis.

(c) Applicants of 60,000 shares were issued letters of regret.

A shareholder to whom 500 shares were allotted under category (a) paid full amount on shares allotted to him along with allotment money. Another shareholder to whom 1,000 shares were allotted under category (b) failed to pay the amount due on allotment. His shares were immediately forfeited.

These shares were then reissued at 014 per share as 07 paid up. Call has not yet been made.

Sol. **Journalise.**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Bank A/c Dr. To Equity Share Application A/c (Being the money received on application)		19,80,000	 19,80,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Being application money adjusted & balance refunded)		36,00,000	 15,00,000 3,00,000 1,80,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To securities Premium Reserve A/c (Being amount due on allotment including premium)		25,00,000	 20,00,000 5,00,000
	Bank A/c Dr. Calls-in-arrear A/c Dr. To Equity Share Allotment A/c To Calls-in-advance A/c (Being the allotment money received)		21,99,500 2,000	 22,00,000 1,500

	Equity Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeited A/c To Calls in Arrear a/c (Being 1000 shares forfeited for non-payment of allotment including premium)		7,000 1,000	 6,000 2,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being forfeited shares reissued at I 14 per share)		14,000	 7,000 7,000
	Share forfeited A/c Dr. To Capital Reserve A/c (Being share forfeited money transferred to capital reserve A/c)		6,000	 6,000

Illustration 10: A Ltd. invited application for issuing 1,00,000 equity shares of 10 each at premium of 1 per share. The amount was payable as follows: On Application 0 3 per share On Allotment 3 per share (including premium) On First Call 3 per share On Second Call Balance Amount.

Applications for 1,60,000 shares were received. Allotment was made on the following basis, (i) To applicant for 90,000 shares 40,000 shares (ii) To applicant for 50,000 shares 40,000 shares (iii) To applicant for 20,000 shares full shares

Excess money on applications was transferred towards the sum due on allotment and calls. Rishabh a holder, who applied for 1,500 shares and belonged to category (ii), did not pay the allotment, first call and final call money. Another shareholder, Sudha who applied for 1,800 shares and belonged to category (i) did not pay the first and second call money. All the shares of Rishabh and Sudha were forfeited and were subsequently Tevssvied a\"a 7 per shares fully paid. Pass the journal entry for the above transactions in the books of A Ltd. Open Calls in Arrear and Calls in Advance whereever necessary required.

Sol. **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Bank A/c Dr. To Share Application A/c (Being the money received on application)		4,80,000	 4,80,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Calls in advance A/c (Being application money adjusted)		4,80,000	 3,00,000 1,50,000 30,000

	Share Allotment A/c Dr. To Share Capital A/c To securities Premium Reserve A/c (Being amount due on allotment including premium)		3,00,000	2,00,000 1,00,000
	Bank A/c Dr. Calls-in-arrear A/c Dr. To Share Allotment A/c (Being the allotment money received)		1,47,300 2,700	1,50,000
	Share First Call A/c Dr. To Share Capital A/c (Being first call money due)		3,00,000	3,00,000
	Bank A/c Dr. Calls-in-arrear A/c Dr. Calls-in-advance A/c Dr. To Share First Call A/c (Being first call money received)		2,64,600 5,400 30,000	3,00,000
	Share Second Call A/c Dr. To Share Capital A/c (Being second call money due)		2,00,000	2,00,000
	Bank A/c Dr. Calls-in-arrear A/c Dr. To Share Second Call A/c (Being second call money received)		1,96,000 4,000	2,00,000
	Share Capital A/c Dr. Security Premium reserve A/c Dr. 0 share forfeited A/c To Calls in Arrear A/c (Being share's forfeited)		20,000 1,200	9,100 12,100
	Bank A/c Dr. Share Forfeited A/c Dr. To Share Capital A/c (Being forfeited share's reissued)		14,000 6,000	20,000
	Share Forfeited A/c Dr. To Capital Reserve A/c (Being amount transferred to capital reserve A/c)		3,100	3,100

Illustration 11: Vinod Ltd. issued for public subscription 50,000 Equity Shares of 10 each at a premium of 50% on face value payable as under:

On Application 5 each

On Allotment Amount along with premium

First & final call 3 per share

Applications were received for 75,000 shares. Allotment was made to all the applicants on pro-rata basis, excess money (if any) is to be adjusted on allotment only.

Surinder who applied for 900 shares failed to pay the allotment and call money. The Directors of the company decided to forfeit his shares after the call. Out of the forfeited shares 60% were reissued to Kamlesh as fully paid up at 08 per share. Give journal entries without opening calls in arrears and calls in advance account.

Sol. **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Bank A/c Dr. To Equity Share Application A/c (Being Application money received)		3,75,000	3,75,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Being share application money adjusted)		3,75,000	2,50,000 1,25,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Security Premium Reserve A/c (Being Allotment due)		3,50,000	1,00,000 2,50,000
	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment received)		2,22,300	2,22,300
	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Being call due)		1.50,000	1,50,000
	Bank A/c Dr. To Equity Share First & Final Call A/c (Being call money received)		1.48,200	1,48,200
	Equity Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Equity Share Allotment A/c To Equity Share First & Final Call A/c To Share Forfeiture A/c (Being 600 shares forfeited)		6.000 2,700	2.700 1.800 4.200
	Bank A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c (Being reissue of forfeited shares)		2,880 720	3,600
	Share Forfeiture A/c Dr. To Capital Reserve (Being gain on forfeiture transferred capital reserve)		1.800	1.800

Illustration 12: Alfa Ltd. invited application for 50,000 Equity Shares of 010 each at a premium of 40%, payable as:

On Application 4 along with 50% Premium

On Allotment 4 along with remaining premium

On First & final Call Balance amount

Applications were received for 1,00,000 shares and Pro-rata allotment was made to the applicants in proportion of 3:2 after refunding 1,50,000 to the applicants and a letter or regret. The excess money was adjusted towards allotment only.

Sonal, to whom 100 shares were allotted, did not pay allotment and call money. Shweta who applied for 75 shares, failed to pay the call money. All these shares were forfeited after the call. All forfeited Shares were reissued @ 8 per share fully paid up. Give necessary entries.

Sol. **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Bank A/c Dr. To Equity Share Application A/c (Being Application money received)		6,00.000	6,00.000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve To Bank A/c To Equity Share Allotment A/c (Being share application money adjusted)		6.00,000	2.00.000 1.00.000 1.50.000 1.50.000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Security Premium Reserve A/c (Being Allotment due)		3,00,000	2,00,000 1.00.000
	Bank A/c ' Dr. To Equity Share Allotment A/c (Being allotment received)		1,49.700	1,49.700
	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Being call due)		1.00,000	1.00.000
	Bank A/c Dr. To Equity Share First & Final Call A/c (Being call money received)		99,700	99,700

	Equity Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Equity Share Allotment A/c To Equity Share First & Final Call A/c To Share Forfeiture A/c (Being 100 shares forfeited)		1,000 200	300 200 700
	Equity Share Capital A/c Dr. To Equity Share First & Final Call A/c To Share Forfeiture A/c (Being 50 shares forfeited)		500	100 400
	Bank A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c (Being reissue of forfeited shares)		1.200 300	1,500
	Share Forfeiture A/c Dr. To Capital Reserve (Being gain on forfeiture transferred capital reserve)		800	800

Illustration 13: X Ltd. has offered 50000 equity shares of 100 each at a premium of 20, payable as follows:

Application 050

Allotment 40 (including premium) and balance on first and final call.

The bank account of the company has received 35, 00,000 on account of share application money. X Ltd decided to allot shares to all the applicants on Pro Rata basis. The balance in calls in arrears account at the time of allotment and first and final call amounted to 1,00,000 and 1,50,000 respectively. These shares were forfeited and re-issued at 090 per share as fully paid up. Journalize.

Sol. **Journal**

Date	Particulars	L.F	Amount (?)	Amount (?)
	Bank A/c Dr. To Equity Share Application A/c (Being application money received)		35,00.000	35,00,000
	Equity Share Application A/c Dr. To Equity Share capital A/c To Equity Share Allotment A/c (Being Shares allotted on proportionate basis and excess amount received on application adjusted towards allotment)		35,00.000	25,00,000 10,00,000

	Equity Share Allotment A/c Dr. To Equity Share capital A/c To Securities Premium Reserve A/c (Being Share allotment money including premium due)		20,00,000	10.00,000 10,00,000
	Bank A/c Dr. Calls in Arrears A/c To Equity Share Allotment A/c (Being allotment money received .except for 5,000 shares)		9,00,000 1,00,000	10.00,000
	Equity Share First and Final call A/c Dr. To Equity Share capital A/c [Being share first and final call money due)		15,00,000	15,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First and Final call A/c (Being first and final call money received .except for 5,000 shares)		13,50,000 1,50,000	15,00,000
	Equity Share Capital A/c Securities premium Reserve A/c Dr. To Shares Forfeited A/c Dr. To Calls In Arrears A/c (Being 5000 shares forfeited for non-payment of allotment money and first and final call money)		5,00,000 1,00,000	3,50,000 2,50,000
	Bank A/c Dr. Shares Forfeited A/c Dr. To Share Capital A/c (Being forfeited shares reissued at' 90 per share, as fully paid up)		4,50.000 50,000	5,00,000
	Shares Forfeited A/c Dr.		3,00,000	
	To Capital Reserve A/c (Being share forfeited money transferred to Capital Reserve)			3,00.000

Illustration 14:

From following information complete Journal entries.

Date	Particulars	L.F	Debit (?)	Credit (?)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. Share Forfeiture A/c To Calls in Arrears A/c (Being shares forfeited for non-payment of including premium of '2 per share)		? 1000	? 3,500
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being_?shares reissued at '9 per share as fully paid)		? ?	?
	Share forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture money transferred to capital reserve)		600	600

Dr. Share forfeiture Cr.

Date	Particulars	Amount	Data	Particulars	Amount
	To Share Capital A/c To Capital reserve A/c To Balance c/d		? 600 600	By Share Capital A/c	1500
		1500			1500

(face value of share is 210 each)

Date	Particulars	L.F	Debit (?)	Credit (?)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Calls in Arrears A/c (Being 500 shares forfeited for non-payment of 7 per share including premium of 2 per share).		4,000 1,000	1,500 3,500

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being_300 shares re-issued at 9 per share as fully paid).		2.700 300	3000
	Share forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture money transferred to capital reserve)		600	600

Dr. Share forfeiture Cr.

Date	Particulars	Amount	Data	Particulars	Amount
	To Share Capital A/c To Capital reserve A/c To Balance c/d	300 600 600		By Share Capital A/c	1500
		1500			1500

Illustration 15: Vinod Ltd. forfeited 5,000 shares of Rs.10 each, fully called-up, on which they had received only Rs.35,000. Out of the forfeited shares 125 were reissued for Rs.9 per share fully paid up. Fill the following missing figures:

Date	Particulars	L.F	Debit (?)	Credit (?)
	Share Capital A/c Dr. To Share Forfeiture A/c To Calls in Arrears A/c (Being 5,000 shares forfeited for non-payment ofRs.15,000)		?	?
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c(Being 125 forfeited shares reissued)		? ?	?
	Share Forfeiture A/c Dr. To Capital Reserve (Being gain on reissue of shares)		?	?

Sol. **Journal**

Date	Particulars	L.F	Debit (?)	Credit (?)
	Share Capital A/c Dr. To Share Forfeiture A/c To Calls-in-arrear A/c (Being 5000 shares forfeited for non-payment of □ 15000)		50,000	35,000 15,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 125 forfeited shares reissued)		1,125 125	1,250
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being gain on reissue of shares)		750	750

PRACTICE QUESTIONS

Q.1. On 1st April, 2012, .Janta Ltd. was formed with an authorized capital of □ 50,00,000 divided into 1,00,000 equity shares of "50 each. The company issued prospectus inviting application for 90,000 Shares. The issue price was payable as under:

On application □ 15 on allotment 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 re\ised schedule III, Part-I of the companies Act, 2013.

(b) Also prepare' Notes to Accounts for the same. {Hint: Subscribed but not fully paid up - □ 31,50,000}

Q.2. Sibar Media & Entertainment Ltd. invited applications for 1,00,000 shares of □ 10 each at a premium of 10% payable as follows:

On Application □ 3

On Allotment □ 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 company's Balance Sheet.

{Hint: Subscribed and fully paid: 8,90,000}

Q.3. Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.

(a) Rajan Ltd. purchased machinery of 7,20,000 from Kundan Ltd. The payment was made to Kundan Ltd. by issue of equity shares of I 100 each at 20% premium.

(b) Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of _ 2,50,000 payable as □2,20,000 in fully paid equity shares of 10 each and balance by a bank draft. The assets and liabilities consisted of the following:

Plant & Machinery 90,000; Buildings 90,000; Sundry Debtors]30,000; Stock 50,000; Sundry Creditors 20,000; Cash 20,000

{Hint: (a) Equity shares issued = 6000 ; (b) Capital reserve - C 10,000}

Q.4. Elpha ltd. Forfeited 400 shares of Rohit which were issued at □ 10 per share and □ 2 as premium for non payment of allotment money of I 5 (including premium) and first call of □ 2, final call of 3 has not been done.

{Hint: Share forfeiture A/c - _ 800}

Q.5. Ram holding 10 shares of . 10 each of which 12 on application 3 on allotment but could not pay 3 on first call. His shares were forfeited by the Directo The Final call is not made yet. Give Journal entries in the book of company.

{Hint: Share forfeited J 50}

Q.6. Abhishek Ltd. Forfeited 200 shares of □ 10 each fully called up held by X for non-payment of allotment money of 3 per share and First & Final call of 4 per share. He paid the application money of 3 per share. These shares were reissued to Y for 8 per shares. Pass necessary journal entries.

{Hint: capital reserve □ 200}

Q.7. AB Ltd. imited applications for 1,00,000 Equity Shares □ 10 each payable as 2 application, □ 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 □ 8 per share as fully paid. Pass necessary journal entries in the books of company.

{Hint: Share forfeited A/c 7 5000 ; capital reserve 3000}

Q.8. AB Ltd. invites application for 75,000 equities of 100 each at premium of 30 per share. The amount was payable as follows.

On Application and allotment - □ 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 150 per share fully paid up. Pass necessary journal entries for the above transactions in the books of AB Ltd.

{Hint: Capital reserve I 62500}

Q.9. A holds 100 share of 10 each on which he has paid Re. 1 per share on application. B holds 200 shares of 10 each on which he has paid Re. 1 and 2 share on application and allotment respectively.

C holds 300 shares of □ 10 each and he has paid Re. 1, 2 and 3 per share on application, allotment and first call respectively.

They all failed to pay their arrears and the second call of 2 per share, subsequently, their shares were forfeited and then reissued at   11 per share as fully paid. Pass necessary journal entries.

{Hint: Amount transferred to Capital Reserve - □ 2500}

	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 × 200	✓ 900 × 900	× 1200	4800

Q.10. AB Ltd. invited applications for 1,00,000 Equity Shares   10 each payable as □ 2 application,   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 the call money and his shares were forfeited and re-issued at □ 8 per share as fully paid. Pass necessary journal entries in the books of company prepare Cash Book and journal for the above transaction.

{Hint: Cash book Total - 11,03,000 ; Amount transferred to Capital Reserve - □ 3000}

Q.11. Beta Ltd. issued 40,000 shares of □ 10 each at a premium of 2 payable 5 on application including premium, 4 on allotment and   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 @ n 8 per share fully paid.

{Hint: Amount transferred to Capital Reserve - _ 500}

Q.12. 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 prorata 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.

{Hint: Amount transferred to capital Reserve -   2440}

Q.13. Dawar Ltd. issued 50,000 shares of 10 each at a premium of 10% payable at 2 per share on application, 3 on allotment, 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) After 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 Mohan who belonged to the category 'C and was allotted 3,000 shares, paid both the calls with allotment. Calculate the amount received on allotment.

{Mint: Allotment due 50,000X3 = 1,50,000,

Excess application money adjusted □ 20,000; Calls received in Advanced □ 18,000; Amount Received on Allotment 88,000(1,50,000 - 20,000 -60,000 +18,000)}

Q.14. Rama Ltd. issued 40,000 shares of □ 10 each at a premium of □ 2.50 per share. The amount was payable as follows:

On Application - 2 per share

On Allotment - 4.50 per share

On First and Final Call □ 6 per share

Owing 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 80,000; to Share Allotment A/c □ 1,47,000; to bank A/c D 21,000. (2) Share Allotment Money Received in Cash 30,500, (3) Amount forfeited ~~ 4,000}

Q.15. High Light India Ltd. imited applications for 30,000 Shares of 100 each at a premium of □20 per share payable as follows:

On Application 40 (including 10 premium)

On Allotment 30 (including 10 premium)

On First Call 30

On Second and Final Call 20

Applications were received for 40,000 shares and pro-rata allotment was made on the application for 35,000 share. Excess application money was utilised towards allotment. Rohan to whom 600 shares were allotted failed to pay the allotment money and his shares were forfeited immediately after allotment. Aman who applied for 1,050 shares failed to pay first call and his share were forfeited immediately after first call. Second and final call was made. All the money due on second call have been received.

Of the shares forfeited, 1,000 share were reissued as fully paid-up for n8o per share, which included the whole of Aman's shares.

Recoiv. necessary journal entries in the books of High Light India Ltd. Also present the share capital in Balance Sheet of the company showing above transactions. As a matter of policy, the company does not maintain Calls-in-arrear account.

{Hint: Amount transferred to Capital Reserve - □ 28,667 ; Subscribed & fully paid up - □ 29,50,000 ; Share Forfeited A/c - □ 18,333}

MULTIPLE CHOICE QUESTIONS

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. A company forfeited 3,000 shares of Gi0 each (which were issued at par) held by Kishore for non-payment of allotment money of 5 per share. The called up value per share was 8 on forfeiture, the amount debited to share capital -
    (a) 30,000 (b) 24,000
    (c) □ 15,000 (d) 6,000
11. Z limited issued shares of □ 100 each at a premium of 10%. Premium is to be adjusted with allotment. Mr. Q holding 500 shares paid 7J20 on application but did not pay the allotment money of □30. If the company forfeited his 30% shares immediately after allotment, the share forfeiture account will be credited by -
    (a) 4,500 (b) 13,500
    (c) 1,650 (d) 3,000
12. Mu.ias Limited was formed with share capital of _50,00,000 divided into 50,000 shares of 100 each. 9,000 shares were issued to the vendor as fully paid for purchase consideration of a furniture acquired. 30,000 shares were allotted in payment of cash on which _70 per share was called and paid. State the amount of subscribed capital.
    (a) 50,00,000 (b) 30,50,000
    (c) 30,00,000 (d) 120,00,000
13. Metacaf Ltd. issued 50,000 shares of □ 100 each payable 20 on application (on 1st May 2018): 30 on allotment (on 1st January 2019); 20 on first call (on 1st July 2019) and the balance on final call (on 1st February 2020). Shankar, a shareholder holding 5,000 shares did not pay the first call on the due date. The second call was made and Shankar paid the first call amount along with the second call. All sums due were received. Total amount received on 1st February was
    (a) 15,00,000 (b) □ 16,00,000
    (c) 10,00,000 (d) 11,00,000
14. A company allotted 20,000 shares to the applicants of 50,000 shares after rejecting 10,000 applications. The ratio in which company allotted the shares will be
    (a) 2 : 5 (b) 3 : 5
    (c) 1: 2 (d) 1: 3

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.

(e) The subscribed capital of a company is 80,00,000 and the nominal value of the share is 100 each. There were no calls in arrear till the final call was made. The final call made was paid on 77,500 shares only. The balance in the calls in arrear amounted to 55,000. The final call amount per share is_______.

(f) At the time of forfeiture of shares, Share Capital Account will be debited with Value.

(g) On forfeiture of shares,______account is credited with the allotment money and/or calls money unpaid.

(h) If the premium amount has not been received, either wholly or partially, in respect of the shares forfeited,______Account will also be debited with the amount of______along with share capital account at the time of forfeiture.

True / False

1. Securities premium received on issue of shares cannot be used for the purpose of buy back of shares.
2. Maximum amount of discount allowed at the time of reissue of forfeited shares should not exceed the forfeited amount.
3. Minimum amount at which shares can be reissued is the amount received at the time of forfeiture of shares.
4. The options granted by the company to its employees and employee directors at a price that is lower than the market price is Employee Stock Option Plan.
5. A Company can issue and allot shares to a select group of people privately.
6. Calls-in-advance on shares is added to the amount of paid up share capital in the company's Balance Sheet.

MCQs Solution

Que. No.	1	2	3	4	5	6	7
Alls.	A	B	B	A	A	D	D
Que. No.	8	9	10	11	12	13	14
Ans.	B	A	B	D	C	B	C

Fill in the blanks Solution

Que. No.	(a)	(b)	(c)	(d)	(e)
Ans.	Reserve Capital	6000 shares	Unlimited	Forfeited	□ 22
Que. No.	(f)	(g)	(h)		
	Called up	Calls-in-arrear	Securities Premium Reserve ; Premium not received		

True / False Solution

Que. No.	1	2	3	4	5	6
Ans.	False	True	False	True	True	False

CHAPTER 9

ISSUE OF DEBENTURES

Debentures	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	
Secured Debentures	It refer to those debentures which are secured either by a fixed or floating charge on the assets of the company.
Unsecured Debentures	They are not secured by a charge on the assets of the company.
Redeemable Debentures	It refers to those debentures which are payable on the expiry of the specific period either in lump sum or in installments during the life time of the company.
I Irredeemable Debentures	It refers to those debentures that are not repayable during the life time of the company & hence are repaid only when the company is liquidated.
Convertible Debentures	It refers to those debentures which are convertible into equity shares or in any other security. They are either fully convertible or partly convertible.
Non-Convertible Debentures	It refers to those debentures which cannot be converted into shares or in any other securities.
Specific Coupon Rate Debentures	These debentures are issued with a specified rate of interest, which is called the coupon rate.
Zero Coupon Rate Debentures	These debentures do not carry a specific rate of interest. In order to compensate the investors, such debentures are issued at substantial discount.
Registered Debentures	Registered debentures are those debentures that are registered in the company's record in the name of the holder.
Bearer Debentures	Bearer debentures are the debentures that are not registered in the records of the company & can be transferred by mere delivery.

ISSUE OF DEBENTURES	
Issue of Debentures for Cash	Just like shares, debentures may be issued either at par or at a premium or at discount. The accounting entries are same as in case of issue of shares.
Issue of Debentures for Consideration other than cash	Issue of debentures to vendors as purchase consideration of assets/business purchased. ***On purchase of Asset*** Sundry Assets A/c Dr. To Vendor's A/c (purchase consideration) *On issue of debentures at par* Vendor's A/c Dr. To x% debentures A/c *On issue of debentures at premium* Vendor's A/c Dr. To x% debentures A/c To Securities Premium Reserve A/c *On issue of debentures at discount* Vendor's A/c Dr. Discount on issue of debenture A/c To x% debentures A/c *On purchase of Business* Sundry Assets A/c Dr. To Sundry Liabilities A/c To Vendor's A/c If purchase consideration > net assets; difference is debited to Goodwill & If purchase consideration < net assets; difference is credited to Capital Reserve
Issue of Debentures as Collateral Security	When the company issues debentures to lenders as an additional security in addition to the principal security, it is called issue of debentures as collateral security. No interest is paid on such debentures. ***First method*** No entry is made in the books of accounts since no liability is created. However, a note of this fact is given in the liability-side of Balance sheet.

	Second method Debentures Suspense A/c will appear in Balance Sheet as a deduction from debentures in notes to accounts of Long term Borrowings. Debenture Suspense A/c Dr. To x% Debentures A/c
TERMS OF ISSUE OF DEBENTURES	
Issued at par and redeemable at par	***For receipt of application money*** Bank A/c Dr. To x% Debenture Application & Allotment A/c ***For allotment of debentures*** x% Debenture Application & Allotment A/c Dr. To x% Debentures A/c
Issued at a discount and redeemable at par	*For receipt of application money*
	Bank A/c Dr. To x% Debenture Application & Allotment A/c ***For allotment of debentures at a discount*** x% Debenture Application & Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To x% Debentures A/c
Issued at premium and redeemable at par	***For receipt of application money*** Bank A/c Dr. To x% Debenture Application & Allotment A/c ***For allotment of debentures at a premium***
	Debenture Application & Allotment A/c Dr. To x% Debentures A/c (with nominal value of deb.) To Securities Premium Reserve A/c (premium)
Issued at par and redeemable at a premium	***For receipt of application money*** Bank A/c Dr. To Debenture Application & Allotment A/c ***For allotment of debentures at par and redeemable at premium*** Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c (prem. on redem.) Dr. To x% Debentures A/c (nominal value of deb.) To Premium on Redemption of Debenture A/c

Issued at a discount and redeemable at a premium	***For receipt of application money*** Bank A/c Dr. To x% Debenture Application & Allotment A/c ***For allotment of debentures at a discount and redeemable at premium*** x% Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. (with dis. on issue and prem. on redemption) To x% Debentures A/c (nominal value of deb.) To Premium on Redemption of Debentures A/c
Issued at a premium and redeemable at a premium	***For receipt of application money*** Bank A/c Dr. To Debenture Application & Allotment A/c ***For allotment of debentures at premium and redeemable at premium*** x% Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c prem. on redeem.) Dr. To Debentures A/c (nominal value of deb.) To Securities Premium Reserve A/c (prem. on issue) To Premium on Redemption of Debentures A/c
Writing-off Discount or Loss on Issue of Debentures (AS 16)	• *Discount or loss on issue of debentures is to be written off in the year debentures are allotted from Secuities S c Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost.* Securities Premium Reserve A/c Dr. Statement of Profit and Loss Dr. To Discount or Loss on Issue of Debentures A/c
Interest on debentures	• *It is calculated at a fixed rate on its face value and is to be paid even when company is suffering from loss because it is charge against profit. Income Tax deducted from interest before payment to debenture holders is called T.D.S. (Tax deducted at source).*
	When interest is due Debenture Interest A/c Dr. To TDS Payable/Income Tax Payable A/c To Debentureholders A/c

	For payment of interest to debentureholders Debentureholders A/c Dr. To Bank A/c ***On payment of tax deducted at source to the Government*** TDS Payable/Income Tax Payable A/c Dr. To Bank A/c ***On transfer of Debenture Interest to Statement of Profit and Loss*** Statement of Profit and Loss To Debenture Interest A/c Dr.

Illustration 1. ABC Ltd. issued ₹ 5, 00,000 10% debenture-of Rs 100 each at 10% discount payable □ 30 on application and Balance on allotment. These debentures were to be redeemed at a premium of 5% after 5 year. All the debentures are subscribed for public.

Pass necessary journal entries for the issue of debentures.

Sol. **Journal**

Date	Particulars	LF	Dr. ( )	Cr. ( )
	Bank A/c Dr. To Debenture application A/c (Being the debenture application money receivable for 5,000 debenture □ 30 each)		1,50,000	1,50,000
	Debenture Application A/c Dr. To 10% Debentures A/c (Being 5000 debentures allotted)		1,50,000	1,50,000
	Debenture Allotment A/c Dr. Loss on issue of Debenture A/c Dr. 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
	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) 120 , 8% debentures of 1000 each are issued at 5% discount & repayable at par.

(ii) 150 , 7% debentures of 1000 each are issued at 5% discount & repayable at premium of 10%.

(iii) 700 , 9% debentures of □ 1000 each are issued at 5% premium & repayable at premium of 10%.

Date	Particulars	LF	Dr. ( )	Cr. ( )
	Bank A/c Dr. To 8% Debenture Application & Allotment A/c (Being the debenture application money received)		1,14,000	 1,14,000
	8% Debenture Application & Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 8% Debentures A/c (Being debentures application money transferred to debentures A/c)		1,14,000 6,000	 1,20,000

Sol: (ii)

Date	Particulars	LF	Dr. ( )	Cr. ( )
	Bank A/c Dr. To 7% Debenture Application & Allotment A/c (Being the debenture application monev received)		1,42,500	 1,42,500

Sol: (iii)

Date	Particulars	LF	Dr. ( )	Cr. ( )
	Bank A/c Dr. To 9% Debenture Application & Allotment A/c (Being the debenture application money received)		7,35,000	 7,35,000
	9% Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being debentures application money transferred to debentures A/c)		7,35,000 70,000	 7,00,000 35,000 70,000

Illustration 3: Journalise the following transactions :-

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 Z 100 each as collateral in favour of State Bank of India.
Company opted to pass necessary entry for issue of debentures.

Sol.

Date	Particulars	LF	Dr. ( )	Cr. ( )
	Bank A/c Dr. To Deb Application and Allotment Ac (Being the application money received)		1,05,000	 1,05,000
	Debennire Application and Allotment A/c Dr Loss on Issue of Debenture Ac Dr To 12% Debenture Ac To Securities Premium Reserve To Premium on Redemption A/c (Bemg 1.000 debentures issued at a premium of 5°o and redeemable at 2°o premium)		1,05,000 2,000	 1,00,000 5,000 2,000
	Vendor Ac Discount on issue of Debenture Ac To 12% Debennire (Berne Debentures issued to vendors at a discount of 10%)		9,00,000 1,00,000	 10,00,000
	Debennire Suspense A/c Dr To 11% Debennire A/c (Bemg 10.000 11% debeunires of ₹ 100 issued as collateral security)		1000000	 1000000

Illustration 4: Give entries in the following cases assuming that company wiite off all its capital losses in the year in which it occurs-

(i) Vinod Ltd. took over running business with assets of 6. 00,000 and liabilities of □ 60,000 from Fukrey Ltd for the purchase consideration of □ 5,50,000. It paid the purchase consideration by issuing 8% debentures of Z 100 each at 10% premium.

(ii) Vinod Ltd. purchased land from King Ltd. for 4, 50,000. The consideration was paid by issuing 5% debentures at a discount of 10% (Face value Rs 100).

(iii) Vinod Ltd. issued 1,000, 6% debentures of 100 each at a discount of 7%, repayable after 5 years at a premium of 10%.

Sol. **Journal**

Date	Particulars	LF	Dr. ( )	Cr. ( )
(i)	Assets A/c Dr.		6,00,000	
	Goodwill A/c Dr.		10,000	
	To Liabilities A/c			60,000
	To Fukrey Ltd.			5,50,000
	(Being assets and liabilities acquired)			
	Fukrey Ltd. Dr.		5.50.000	
	To 8% Debentures A/c			5,00.000
	To Securities Premium Reserve			50.000
	(Being purchase consideration paid by issuing debentures)			
(ii)	Land A/c Dr.		4,50,000	
	To King Ltd.			4,50,000
	(Being land purchased)			
	King Ltd. Dr.		4,50,000	
	Discount on issue of Debentures A/c		50,000	
	To 5% Debentures A/c			5,00,000
	(Being consideration paid through debentures)			
	Statement of P/L Dr.		50,000	
	To Discount on issue of Debentures			50,000
	(Being Discount written off)			
(iii)	Bank A/c Dr.		93.000	
	To Debentures App. & Allot. A/c			93.000
	(Being debentures issued at discount)			
	Debentures App. & Allot. A/c Dr.		93,000	
	Discount on issue of Debentures A/c Dr.		7,000	
	Loss on issue of Debentures A/c Dr.		10.000	
	To 6% Debentures A/c			1,00,000
	To Premium on Redemption of Deb. A/c			10,000
	(Being debentures issued at discount, redeemable at premium)			
	Statement of P/L Dr.		17,000	
	To Loss on issue of Debentures A/c			10,000
	To Discount on issue of Debentures			7,000
	(Being loss written off)			

Illustration 5: B Ltd. purchased assets of the book value 4, 00,000 & took over the liability of 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at 3, 80,000, be paid by issuing 8% debentures. Pass necessary journal entries if debentures are issued at 10% discount & balance is paid in cash.

Sol. **Journal**

Date	Particulars	LF	Dr. ( )	Cr. ( )
(i)	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Mohan Bros. A/c (For purchase of business of Mohan Bros.)		4,00,000 30,000	 50,000 3,80,000
	Mohan Bros. A/c Discount on Issue of Debentures A/c To 8% Debentures A/c To Cash/ Bank A/c (Being debentures issued at discount as purchase consideration & balance paid in cash)		3,80,000 42,220	 4,22,200 20

Illustration 6: S. Singh Limited obtained a loan of □ 5,00,000 from State Bank of India (5 10 % Interest. The company issued □ 7, 50,000,10 % debentures of □ 100/- each, in favor of State Bank of India as collateral security. Pass necessary journal entries for the above transactions:

i. When company decided not to record the issue of 10 % Debentures as collateral security.
ii. When company decided to record the issue of 10 % Debentures as collateral security.

Sol. **Journal**

(i)

Date	Particulars	LF	Dr. ( )	Cr. ( )
	Bank Account Dr. To Bank Loan Account (Being loan obtained from State Bank of India @ 10 % p.a. interest, against collateral security of 7,500 10 % debentures of ₹ 100 each)		5,00,000	 5,00,000

Sol. **Journal**

(ii)

Date	Particulars	LF	Dr. ( )	Cr. ( )
(i)	Bank Account Dr. To Bank Loan Account (Being loan obtained from State Bank of India @ 10 % p.a. interest, against collateral security of 7,500 10 % debentures of ₹ 100 each)		5,00,000	 5,00,000

	Debenture Suspense Account Dr. 10% Debentures Account (Being 10 % Debentures issued as collateral security in favour of State Bank of India)		7,50,000	 7,50,000

Illustration 6: B.G. Ltd. issued 2,000,12% debentures of 100 each on 1st April 2018. 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%.

As necessary journal entries related to the debenture interest for the half-yearly ending 31st March, 19 and transfer of interest on debentures of the year to the Statement of Profit & Loss.

Sol. **Journal**

Date	Particulars	LF	Dr. ( )	Cr. ( )
31st March 2019	Interest on Debentures A/c Dr. To Debenture holder'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
31st March 2019	Debenture holder's A/c Dr. To Bank A/c (Payment of Interest)		10,800	 10,800
31st March 2019	Income Tax Payable A/c Dr. To Bank A/c (TDS deposited with income tax authorities)		1,200	 1,200
31s' March 2019	Statement of Profit & Loss Dr. To Interest on Debentures A/c (Interest transferred to Statement of P/L)		24,000	 24,000

Illustration 8. X Ltd. issued □ 10,00,00, 8% debentures at as discount of 10 % on 1st 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 Securities Premium Reserve A/c shows a balance of 30,000.

(c) The Securities Premium Reserve A/c shows a balance of 1,50,000.

Sol. **Journal**

Date	Particulars	LF	Dr. ( )	Cr. ( )
1st April 2018	Bank A/c Dr. To Debentures Application & Allotment A/c (Application for □ 10 lakh, 8% debentures @ 10% discounts received).		9,00,000	9,00,000
1st April 2018	Debentures Application & Allotment Dr. Discount on Issue of Debentures A/c To 8% Debentures A/c (Application money transferred to Debentures A/c)		9,00,000 1,00,000	10,00,000
Case (a) There is no Securities Premium Reserve Balance				
31 March 2019	Statement of Profit & Loss A/c Dr. To discount on Issue of Debentures A/c (Being discount on Issue of debentures written off)		1,00,000	1,00,000
Case (b) The Securities Premium Reserve A/c Shows a balance of 1 30,000				
31 March 2019	Securities Premium Reserve A/c Dr. Statement of Profit & Loss A/c Dr. To Discount on Issue of Debentures A/c (Being discount on issue of Debentures written off)		30,000 70,000	1,00,000
Case (c) The Securities Premium Reserve Ac/ Shows a balance of □ l, 50,000				
31 March 2019	Securities Premium Reserve A/c Dr. To Discount on Issue of Debentures A/c (Being discount on issue of Debentures written off)		1,00,000	1,00,000

PRACTICE QUESTIONS

Que. 1) On April 1, 2019 Z Ltd. issued, 10,000, 8% Debentures of 100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 yea The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. Give journal entries for the issue of debentures and writing off loss on issue of debentures.

Sol. **Journal**

Date	Particulars	LF	Dr. ( )	Cr. ( )
2019 Apr-01	Bank A/c		21,00,000	
	To Debenture Application and Allotment A/c			21,00,000
	(Being application money received on 20,000 8% debentures)			
Apr-01	Debenture Application and Allotment A/c		21,00,000	
	Loss on Issue of Debentures A/c		1,00,000	
	To 8% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			50,000
	To Premium on Redemption of Debentures A/c			1,00,000
	To Bank A/c			10,50,000
	(Being debentures allotted and the balance refunded)			
2020 Mar-31	Securities Premium Reserve A/c		50,000	
	Statement of Profit and Loss A/c		50,000	
	To Loss on Issue of Debentures A/c			1,00,000
	(Being loss on Issue of Debentures written off)			

Que. 2) Neeraj Ltd. took over business of Ajay enterprises on 1-04-2020. The details of the agreement regarding the assets and liabilities to be taken over are:

Particulars	Book Value (`)	Agreed Value (`)
Building	20,00,000	35,00,000
Plant & Machinery	12,00,000	8,00,000
Stock	4,00,000	4,00,000
Trade Receivables	5,00,000	4,00,000
Creditors	2,00,000	3,00,000
Outstanding Expenses	50,000	1,00,000

It was decided to pay for purchase consideration as 7, 00,000 through Cheque and balance by issue of 2,00,000, 9% Debentures of: 20 each at a premium of 25%. Journalize.

{Hint: Goodwill - 10,00,000 ; SPR – □ 10,00,000}

Que. 3) R Ltd. issued 1,000,16% Debentures of 100 each on 1st January 2018. Interest on these debentures is paid half yearly, i.e., on 30th June and 31st December. Pass the necessary journal entrv for the period, assuming income tax is deducted @ 20% on the amount of interest.

{Hint: Interest on debentures – 25000 ; TDS Payable - 2500 ; Statement of P&L A/c debited by - 50000}

Que. 4) Pass journal entries:

(a) Mayur Ltd., issued 5,000,12% Debentures of 100 each. The debentures are issued at a discount @ 10% and redeemable at premium @ 5%.

(b) A Ltd issued 6,000, 12% debentures of 100 each. The debentures are issued to a supplier of machine costing 5,50,000.

(c) J Ltd., took a loan of 5,30,000 the Bank of India for which the company placed with the bank, debenture 6,00,000 as collateral security.

{Hint: (a) Premium on red. Of deb. - 25000 ; Loss on issue of deb. – 50000

(b) Discount on issue of deb. - 50000

(c) Bank Loan – ` 5,30,000 ; Deb. Suspense A/c – 6,00,000 }

Que. 5) Deepak Ltd. purchased furniture of J 2, 20,000 from M/s Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a bill of exchange & for the balance the company issued 9% debentures of 100 each at a premium of 10% in favor of Furniture Mart.

Pass necessary journal entries in the books of Deepak Ltd. for the above transactions.

{Hint: Bills Payable - 1,10,000 ; Securities Premium Reserve - 10,000}

Que. 6) X Ltd. invited application for issuing 1000, 9% debentures of □ 100 each at a discount of 6%. Applications 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.

Que. 7) Z Ltd. purchased machining from K Ltd. Z Ltd. paid K Ltd. as following:

(i) By issuing 5000 equity share of □ 10 each at a premium of 30%.

(ii) By issuing 1000, 8% debentures of 100 at a discount of 10%.

(iii) Balance by giving a promissory note of 48,000 payable after two month.

Pass the necessary journal entries for the above transaction in the books of Z ltd.

Que. 8) On 1-4-2015 ABC Ltd. issued 750,11% debentures of 100 each at a discount of 5% deemable at a premium of 10% after three years, Interest on debentures is payable on 30th eptember 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 or the year ended 31st March 2016.

Que. 9) A Ltd issued 10,000, 8% Debentures If 100 each at par on 1st April 2018 redeemable at a premium of 5 % after 3 year 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.

MCQs

1. At the time of issue of debentures, debentures account is:

   A) Credited by the amount Received

   B) Credited by the issue price of the debentures

   C) Credited by nominal value of the debenture

   D) none of the above

2. Return on debenture is called:

   A) Interest B) Dividend

   C) A &B both D) None of the above

3. Perpetual Debenture is the other name of:

   A) Convertible debentures B) Irredeemable debenture

   C) Naked debenture D) None of the above

4. In case of debenture of RS 10,000 are issued at par but redeemable at a premium of 10%, the premium payable is debited to :

   A) Debenture suspense account

   B) Premium on redemption of debentures

   C) Loss on issue of debentures

   D) A&B both

5. Debenture holder account are:

   (a) Personal B) Real

   C) Nominal D) None of the above

6. X Ltd has purchased the building and debentures are issued at discount which account will be debited for discount:

   A) Discount on issue of Debentures

   B) Loss on issue of debenture

   c) Both of A& B

   D) None of the above

7. Debentures are shown in the balance sheet of the company under the head of;

   A) Non-current liabilities B) Current liability

   C) Share capital D) None of the these

8. Discount or loss of issue of debenture to be written off after 12 months from the date of balance sheet or after the period of operating cycle in shown as:

   A) Other current assets B) Other noncurrent assets

   C) Other long term liability D) Other current liabilities

9. ABC Ltd Purchase a machinery worth Rs. 98,000.The payment made by issue of debenture of Rs. 100 each at 10% Discount in this case no. of debenture will be:

   A) 1100 B) 2200

   C) 3300 D) 4400

10. Which of the following do not have voting right in the company?

   A) Debenture holders B) Shareholders

   C) Both A & B D) None of these

11. When 100 debenture issued at 5% discount 100 each but redeemable at premium of 8%. How much amount will be credited as premium on redemption of debentures account:

   A) 5000 B) 4000

   C) 8000 D) 6000

12. A Ltd took over Assets of Rs 5,00,000 and liability of Rs 50,000 from B Ltd in the agreed consideration of Rs 4,80,000 and Issued Debentures of Rsioo each at the premium of Rs 20 number of Debenture issued are:

   A) 48,000 B) 40,000

   C) 4,000 D) 4,800

13. A company issued 1000 7% Debentures of Rs 100 at 5% Discount and repayable at 10% Premium. What will be the amount of Loss on issue of Debentures?

   (a) Rs 10,000 B) Rs 20,000

   (c) Rs 15,000 D) Rs 30,000.

14. A Company issued 1000 7% Debentures of Rs 100 each at 5% Premium and repayable atio% Premium. What will be the amount of Loss on issue of Debentures:

   A) Rs 5,000 B) Rs 10,000

   C) Rs 5,000 D) Rs 20,000.

15. A company redeem 1,000 6% Debentures of Rs 100 each at 10% Discount and repayable at 10 % Premium. Interest on Debentures are payable half yearly on which tax deducted at source of 10% p.a. What will the amount of tax deduction of a year :

   A) Rs 3,000 B) Rs 4,000

   C) Rs 5-000 D) Rs 6,000

True /False

1. Debentures can be redeemed at premium
2. Unsecure debentures can be issued in India
3. A debenture holders is the owner of the company
4. A debenture is written instrument acknowledging a debt

FILL IN THE BLANKS

1. Debenture holder are the_______of the company.
2. A collateral security is a_______security besides the primary security when a company obtains a loan from a Bank or any other financial institution.
3. Interest on debenture is charge against_______and is to be paid even if there is no profit in the company.
4. A debenture is said to be issued at a discount when the issue value is_______ than its nominal value.
5. Debentures are issued as other than cash, number of debentures will be calculated as purchase price dividing by_______.
6. Discount on issue of debenture is_______loss of the company.
7. Interest payable on Debenture is calculated at the value of debentures.
8. Security premium reserve A/c is shown   side of the balance sheet under the head _______.
9. When debentures issued at par and redeemable at premium, loss on issue of debentures A/c will be _______.
10. A company issued 100 debentures@ Rs. 100 each at par redeemable at 5% premium Rs_______will be debited to loss on issue of debenture A/c.
11. A company issued 500 debenture @ Rs. 100 each at 5% discount and redeemable at 7% premium Rs._______will be credited as premium on redemption of debenture A/c.
12. A company took a Bank loan of Rs 10,00,000 byissue of 10,00,000 6% Debenture as collateral _______amount will be shown in non-current liabilities in the balance sheet.

ICQs Solution

Que. No.	1	2	3	4	5
Ans	C	A	B	B	A
Que. No.	6	7	8	9	10
Ans	A	A	C	B	A
Que. No.	li	12	13	14	15
Ans	C	A	C	B	D

True /False Solution

Que. No.	1	2	3	4
Ans	T	F	F	T

Fill in the blanks Solution

Que. No.	1	2	3	4
Ans	Creditors	Secondary	Profit	Less
Que. No.	5	6	7	8
Ans	Issue price	Capital	Nominal/face value	Liabilities; Reserve & surplus
Que. No.	9	10	11	12
Ans	Debited	Rs. 5,000	Rs. 7,000	Rs. 1,00,0000

CHAPTER 10

REDEMPTION OF DEBENTURES OUT OF CAPITAL

Redemptioh of Debentures	Redemption of debentures means repayment of the due amount of debentures to the debenture holders. It may be at par or at premium.
METHODS OF REDEMPTION	
Redemption in Lump-sum	When redemption is made at the expiry of a specific period, as per the terms of issue.
Redemption by draw of lots	In this method a certain proportion of debentures are redeemed each year, the debenture for which repayment it to be made is selected by draw of lots.
SOURCES OF REDEMPTION OF DEBENTURES	
Redemption Out of Capital	When no profits are set aside for redemption of debentures, it is called redemption out of capital. Hence, no profits are transferred to DRR A/c.
Redemption Out of Profits	Redemption out of profit means that an amount equal to debentures issued is transferred to DRR A/c from Surplus in Statement of Profit & Loss A/c. This reduces the amount available for dividends to shareholders.
Redemption Out of Capital & Profits	It means the redemption of debentures partly out of capital & party out of profits.
REDEMPTION OF DEBENTURES OUT OF PROFITS BY CAPTIAL	
Step I Entry for due	***If debentures are to be redeemed at par***
	Debentures A/c Dr. To Debenture holders A/c ***If debentures are to be redeemed at premium*** Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c
Entry for due Step 2	Debenture holders A/c Dr. To Bank A/c
REDEMPTION OF DEBENTURES OUT OF PROFITS BY CREATING DRR	
Step l Creation of Debenture Redemption Reserve (DRR)	**Surplus, i.e. Balance in Statement of P&L A/c Dr.** **To Debenture Redemption Reserve A/c** *{DRR can be created out of General Reserve, Dividend Equalization Reserve or Surplus}*

	As per Sec 71 (4) of the Companies Act, 2003 & Rule 18(7) (b) of the Companies (Share Capital & Debentures) Rules, 2014 • A company is required to transfer an amount equal to at least 10% of the nominal (face) value of outstanding debentures to DRR A/c. • If redemption of debentures is out of profits only, 100% of nominal (face) value is transferred to DRR. • DRR is created before the Redemption of Debentures starts. • The amount credited to DRR can be utilized for the purpose of redemption of debentures only.
	Exemption from Creating DRR *a) All India financial institutions (AlFIs) regulated by RBI and Banking companies (for both public as well as privately placed debentures);* *b) Housing finance Companies registered with National Housing Bank for public issue of debentures;* *c) NBFCs registered with RBI for public issue of debentures;* *d) Other Listed Companies* *Note: DRR is not created on fidly convertible debentures. And where the debentures are partly convertible, DRR is created only on the non convertible part of partly convertible debentures.*
Step 2 Purchase of Debenture Redemption Investment (DRI)	**Debenture Redemption Investment A/c Dr.** **To Bank A/c** ***As per Rule 18(7) (c) of the Companies (Share Capital & Debentures) Rules, 2014*** • company required to create DRR shall invest on or before 30th April in specified securities a sum which shall **not be less than 15% of the amount of its debentures** maturing during the year ending on 31st March of the next year. • The amount invested shall not be used for any purpose other than redemption of debentures. ***Specified securities for Debenture Redemption Investment*** 1. In deposits with any scheduled bank, free from any charge. 2. In unencumbered securities of central or any state Govt. 3. In unencumbered securities mentioned in clause (a) to (d) and (e) 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.

Step a **Interest received on DRI after deducting TDS**	Bank A/c Dr. TDS Collected / Deposited A/c Dr. To Interest on DRI A/c
Step 4 **Sale / Realization of DRI**	***Sale at Par*** Bank A/c To Debenture Redemption Investment A/c ***Sale at Profit*** Bank A/c To Debenture Redemption Investment A/c To Debenture Redemption Reserve A/c ***Sale at Loss*** Bank A/c Debenture Redemption Reserve A/c To Debenture Redemption Investment A/c
Step 5 **Redemption of Debentures at Par or Premium**	***If debentures are to be redeemed at par*** Debentures A/c To Debentureholders A/c Debentureholders A/c To Bank A/c ***If debentures are to be redeemed at premium*** Debentures A/c. Premium on Redemption of Debentures A/c To Debentureholders A/c Debentureholders A/c To Bank A/c
Step 6 Transfer of Interest on DRI	Interest on Debenture Redemption Investment To Statement of Profit and Loss
Step 7 **Transferring DRR to GR**	Debenture Redemption Reserve A/c To General Reserve A/c

MIND MAP FOR DRR

DRR is not required

Debentures issued by

1. All India Financial Institutions (AIFI) regulated by Reserve Bank of India (RBI) and banking companies for both public as well as private placement Debentures
2. Other Financial Institutions within the meaning of Clause (72) of Section 2 of the companies Act 2013.
3. Listed Companies(other than AlFIs and Banking Companies (for bothpublic issue and Private placement of Debentures)

a) Non-Banking Financing Companies (NBFCs), registered With RBI Under section 45-1A of the RBI Act, 1934.

b) Housing Finance Companies (HFCs) registered with National Housing Bank.

c) Other Listed Companies.

d) Unlisted Companies (NBFCs & HFCs)

DRR is required

DRR shall be 10% of the value of the outstanding Debentures in case of Debentures issued by

Unlisted Companies (Other than AlFIs, Banking Companies, NBFCs & HFCs).

Note:

1. In case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debentures only.
2. The amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.

MIND MAP FOR DRI

In case of debentures issued by

a) Unlisted companies (other than AIFI, Banking Companies, NBFC's, HFC's).

b) All listed companies (For both public issue and private placement of debentures).

i. NBFC's registered with RBI under Section 45-IA of the RBI Act, 1934;

ii. HFCs, registered with National Housing Bank;

iii. Other Listed Companies.

DRI is required not be less than 15% of the amount of its debentures maturing during the year, ending on 31st day of March of that year,

REDEMPTION OF DEBENTURES

Illustration 1)

a) Z Ltd. (an unlisted company) redeemed its 1, 00,000 10% Debentures of Rs.10 each par on 31 March 2020.

b) Z Ltd. (an unlisted company) redeemed its 1, 00,000 10% Debentures of Rs.10 each at 5% premium on 31 March 2020.

Sol. (a) **ZLtd.**

Date	Particulars		LF	Dr. (Rs.)	Cr. (Rs.)
31 March 2019	Balance in Statement of P&L A/c To Debenture Redemption Reserve A/c (Being transfer ofprofit to DRR)	Dr.		1,00,000	 1,00,000
30 April 2019	Debenture Redemption Investment A/c To Bank A/c (Being investment made in specified securities)	Dr.		1,50,000	 1,50,000

31 March 2020	Bank A/c To Debenture Redemption Investment A/c (Being specified investments sold)	Dr.		1,50,000	1,50,000
31 March 2020	10% Debentures A/c To Debenture holders A/c (Being the amount due to debenture holders)	Dr.		10,00,000	10,00,000
31 March 2020	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.		10,00,000	10,00,000
31 March 2020	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)	Dr.		1,00,000	1,00,000

Sol. (b) **Z Ltd.**

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
31 March 2019	Balance in Statement of P&L A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to DRR)		1,00,000	1,00,000
30 April 2019	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities)		1,50,000	1,50,000
31 March 2020	Bank A/c Dr. To Debenture Redemption Investment A/c (Being specified investments sold)		1,50,000	1,50,000
31 March 2020	10% Debentures A/c Dr. Premium on redemption of debentures A/c To Debenture holders A/c (Being the amount due to debenture holders)		10,00,000 50,000	10,50,000
31 March 2020	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		10,50,000	10,50,000
31 March 2020	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred to general reserve)\		1,00,000	1,00,000

Illstration 2) HDFC Bank Ltd has outstanding 10,000; 9% Debentures of Rs. 50 each due for T liption on 31st March 2015. Record the necessary journal entries at the time of redemption of jentures.

Sol. Journal of HDFC Bank Ltd.

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
2015 31" March	10% Debenture Ajc Dr. To Debenture holders A/c (Being the amount due to Debenture holder)		5.00.000	5.00.000
31w March	Debenture holder A/c Dr. To Bank A/c (Being the amount paid to Debenture holders)		5.00.000	5.00.000

Note:

1) The Banking Companies are exempted from creating DRR as per Rule 18(7) of Companies (Share Capital and Debentures) Rules, 2014.
2) Banking Companies are also exempted from Investing 15% amount.

Illustration 3) XYZ Ltd. issued 200,15% debentures of Rs. 100 each on April 01, 2016 at discount of 10% redeemable at premium of 10% out of profits. Give journal entries at the time of issue and redemption of debentures if debentures are to be redeemed in lump sum at the end of 4th year. The company has invested the requisite amount as stipulated in the Act for the redemption of debentures. Pass the necessary journal entries if.

(a) XYZ Ltd. is a listed company

(b) XYZ is "other unlisted" company.

Sol. (a) XYZ Ltd. is a listed company.

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
1 April 2016	Bank A/c To Debenture Application & Allotment A/c (Being application money received on debentures)		18,000	18,000
1 April 2016	Debenture Application & Allotment A/c Loss on Issue of Debenture A/c To 15% Debentures A/c To Premium on Redemption of Debentures A/c (Being issue of debentures at 10% discount, redeemable at 10% premium)		18,000 4,000	20,000 2,000

30 April 2016	Debenture Redemption Investment A/c Dr. To Bank A/c (Being required amount invested in DRI)		3,000	3,000
31 March 2020	Bank A/c Dr. To Debenture Redemption Investment A/c (Being specified investments sold		3.000	3.000
31 March 2020	15% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Being amount due on redemption)		20,000 2,000	22,000
31 March 2020	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		22,000	22,000

Sol. (b) XYZ Ltd. is a listed company.

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
i April 2016	Bank A/c To Debenture Application & Allotment A/c (Being application money received on debentures)		18,000	18,000
l April 2016	Debenture Application & Allotment A/c Loss on Issue of Debenture A/c To 15% Debentures A/c To Premium on Redemption of Debentures A/c (Being issue of debentures at 10% discount, redeemable at 10% premium)		18,000 4,000	20,000 2,000
30 April 2016	Debenture Redemption Investment A/c Dr. To Bank A/c (Being required amount invested in DRI)		3,000	3,000
31 March 2020	Bank A/c Dr. To Debenture Redemption Investment A/c (Being specified investments sold		3.000	3.000
31 March 2020	15% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Being amount due on redemption)		20,000 2,000	22,000
31 March 2020	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		22,000	22,000

31 March 2020	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred to general reserve)		2,000	2,000

Illustration 4) Rahul Ltd. (an unlisted company) has 10,000; 8% Debentures of Rs. 100 each due for redemption on 31st March 2018. Debentures redemption reserve has a balance of Rs. 40,000 on 31st March 2017. It was decided to invest the required amount in DRI. Investments were realized at 104% less 0.5% brokerage & debentures were redeemed. Record the necessary journal entries at the time of redemption of debentures.

Sol. **Books of Rahul Ltd. Journal**

Sol. (b) XYZ Ltd. is a listed company.

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
31 March 2017	Balance in Statement of P&L A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to DRR)		60,000	60,000
30 April 2017	Debenture Redemption Investment A/c Dr. To Bank A/c (Being required amount invested in DRI)		1,50,000	1,50,000
31 March 2018	Bank A/c Dr. To Debenture Redemption Investment A/c To Profit on Sale of Investments A/c (Being specified investments sold at 104% less 0.5% brokerage)		1,55,220	1,50,000 5,220
31 March 2018	Profit on Sale of Investments A/c Dr. To Statement of Profit & Loss A/c (Being transfer of profit on sale of investments)		5,220	5,220
31 March 2018	8% Debentures A/c To Debenture holders A/c (Being amount due on redemption)		10,00,000	10,00,000
31 March 2018	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)		10,00,000	10,00,000
31 March 2018	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)		1,00,000	1,00,000

Note :

1) Amount realized from sale of Investments
   1,50,000 × 104/100 = 1,56,000
   Less brokerage (1,56,000 × 0.5/100) (780)
   1,55,220
2) Amount transferred to DRR
   10% × 10,00,000 = 1,00,000
   Less Existing Balance (40,000)
   60.000

Illustration 5) Vivek Transport Ltd. (an unlisted company) has 5,000; 10% Debentures of Rs. 20 each due for redemption on 30th Sept. 2015. Debenture Redemption Reserve has a Balance of Rs. 80,000 on that date. Record the necessary entries at the time of redemption of debentures.

Sol. (b) XYZ Ltd. is a listed company.

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
2015 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	20,000
30 April	Debenture Redemption Investment A/c Dr To Bank A/c (Being investment made for debentures redemption)		15.000	15.000
30-Sept	Bank A/c Dr To Debenture Redemption Investment A/c (Being investment encashed)		15,000	15,000
30-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
31 March 2018	Debenture holders A/c Dr To Bank A/c (Being the amount paid to Debenture holder)		1.00.000	1.00.000
3cr 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 10% 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. Rs. 1,00,000- Rs. 80,000 = Rs. 20,000.

Illustration 6) X Ltd. (an unlisted company) has a balance of Rs.4,00,000 in Surplus, i.e. Balance in statement of P&L . The company decided not to pay dividend & instead redeem Rs. 3,50,000; 12% Debentures on 30th September, 2018 at a premium of 10% in accordance with the terms of issue. Debentures interest is payable annually on 31st March even- year when the accounts are closed. The company also had a balance of Rs. 2,00,000 in the Debenture Redemption Reserve.

Tax was deducted @io% on interest on debentures & deposited in Government account. The required investment was made by the company in Government Securities on 30th April, 2018. Journalise the transactions.

Sol. (b) XYZ Ltd. is a listed company.

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
1 April 2018	Balance in Statement of P&L A/c To Debenture Redemption Reserve A/c (Being transfer of profit to DRR) Wote 1*		1,50,000	1,50,000
30 April 2018	Debenture Redemption Investment A/c To Bank A/c (Being investment made in specified securities)		52,500	52,500
30 Sep 2018	Bank A/c To Debenture Redemption Investment A/c (Being specified investments sold)		52,500	52,500
30 Sep 2018	Debentures Interest A/c Dr. To Debenture holders A/c To TDS Payable A/c (Being interest on deb. Due for 6 mths, 350000 × 6/12 × 12% & tax deducted) *Note 2**		21,000	18,900 2,100
30 Sep 2018	12% Debentures A/c Premium on redemption of debentures A/c To Debenture holders A/c (Being the amount due to debenture holders)		3,50,000 35,000	3,85,000
30 Sep 2018	Debenture holders A/c To Bank A/c (Rs.3,85,000 + Rs. 18,900) (Being amount paid to debenture holders)		4,03,900	4,03,900

30 Sep 2018	TDS Payable A/c To Bank A/c (Being amount paid to debenture holders)		2,100	2,100
30 Sep 2018	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)		3,50,000	3,50,000
	Statement of P&L A/c (Finance Cost) Dr. To Debentures Interest A/c (Being interest on deb. transferred to Stm. Of P&L)		21,000	21,000

Note 1: The balance in DRR is more than 10% of the nominal (face) value of debentures outstanding. Thus, requirement of Companies Act,20i3 is met. However, redemption is out of profits, therefore, Rs. 1,50,000 is further transferred to DRR to make it Rs.3,50,000 (100% face value of debentures outstanding).

Note 2: Although debentures' interest is payable on 31st March , yet it will have to be paid before redemption on 30th Sep. 2018 as interest has accrued for 6 months.

Illustration 7) Faith and Belief Ltd (Listed co.) has total redeemable debentures of Rs. 5,00,000. It decides to redeem these debentures in two installments of Rs. 3,00,000 and Rs. 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.

Sol. **Journal**

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
30 April 2019	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities (©15% of Rs. 2,00,000)		30,000	30,000
31 March 2020	Bank A/c Dr. To Debenture Redemption Investment A/c (Being specified investments sold)		30,000	30,000
31 March 2020	10% Debentures A/c Dr. To Debenture Holders A/c		2,00,000	2,00,000
31 March 2020	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		2,00,000	2,00,000

31 March 2020	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred to general reserve i.e. 10% of Rs. 2,00,000)		20,000	20,000

Illustration 8) Tata Motors Ltd. (an unlisted company) issued 40,000; 7% Debentures of Rs. 100 each on 1st July, 2012 redeemable at premium of 5% as under:

On 31st March, 2018- 16,000 Debentures

On 31st March, 2019 - 16,000 Debentures

On 31st March, 2020 - 8,000 Debentures

It was decided to transfer amount out of profit to Debentures Redemption Reserve Rs. 1,20,000 on 31st March, 2015; Rs. 80,000 on 31st March, 2016 and balance on 31st March, 2017. It invested the required amount in terms of the Companies Act, 2013 in Government Securities. Pass journal entries ignoring interest.

Sol. **Journal**

Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
1 July 2012	Bank A/c Dr. To Debenture Application A/c (Being debenture application money received)		40,00,000	40,00,000
1st July 2012	Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr. To 7% Debenture A/c To Premium on Redemption A/c (Being 40,000 7% debenture of Rs.100 each issued)		40,00,000 2,00,000	40,00,000 2,00,000
31 March 2015	Statement of P&L A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		1,20,000	1,20,000
31 March 2016	Statement of P&L A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		80,000	80,000
31 March 2017	Statement of P&L A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		2,00,000	2,00,000

30 April 2017	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities 1996)		2,40,000	2,40,000
31 March 2018	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now realized)		2,40,000	2,40,000
11 March 2018	7% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture Holders A/c (Being 16000 7% debenture of Rs. 100 each due for redemption along with 5% premium on redemption)		16,00,000 80,000	16,80,000
1 March 018	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		16,80,000	16,80,000
1 March 018	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred to general reserve)		1,60,000	1,60,000
jo April >0i8	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities @15%)		2,40,000	2,40,000
31 March 2019	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now realized)		2,40,000	2,40,000
31 March 2019	7% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture Holders A/c (Being 16000 7% debenture of Rs. 100 each due for redemption along with 5% premium on redemption)		16,00,000 80,000	16,80,000
31 March 2019	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		16,80,000	16,80,000

1 March 2020	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)		1,60,000	1,60,000
1 April 2020	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities @15%)		1,20,000	1,20,000
31 April 2020	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now realized)		1,20,000	1,20,000
31 March 2020	7% Debenture A/c Premium on Redemption of Debenture A/c To Debenture Holders A/c (Being 8000 7% debenture of Rs. 100 each due for redemption along with 5% premium on redemption)		8,00,000 40,000	8,40,000
31 March 2020	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)		8,40,000	8,40,000
31 March 2020	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)		80,000	80,000

Note :

Calculation of amount of Debenture Redemption Reserve

Amount of DRR 10% × 40,00,000	=	Rs. 4,00,000
Less Amount transferred in 2015		Rs. (1,20,000)
Less Amount transferred in 2016		Rs. (80.000)
Amount transferred in 2017		Rs. 2.00,000

PRACTICE QUESTIONS

Que. 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. {Hint: No DRR & DRI is required for AIFI regulated by RBI}

Que. 2) Tata Limited issued 5,000, 9% Debentures of Rs. 500 each. Pass the necessary journal entries for the issue of debentures in the books of the company in the following cases:

(i) When Debentures are issued at 10% premium and redeemable at par.

(ii) When debentures are issued at par and redeemable at 10% premium

(iii) When Debentures are issued at 5% premium and redeemable at 10% premium.

{Hint: (i) Security Premium Reserve Rs. 2,50,000 ; (ii) Premium on redemption debentures Rs. 2,50,000 , Loss on issue of debentures Rs. 2,50,000 ; (iii) Premium on redemption debentures Rs. 1.25,000 , Loss on issue of debentures Rs. 1,25,000 ; (iii) Premium on redemption debentures Rs. 2,50,000 , Loss on issue of debentures Rs. 2,50,000}

by law in a fixed deposit with state Bank of India on 30th April 2019 earning interest @ 6% « pjnum. Pass necessary journal entries regarding issue and redemption of debenture, fjnt: Amount of DRR created - Rs. 1,80,000 ; Amount invested in DRI - Rs. 1,50,000 ; Interest 'jceived - Rs. 8,250 ; DRR transferred to GR Rs. 1,00,000}

Que. 3) On 1-1-2015 an unlisted company issued 15000 10% Debentures of Rs. 100 each at par which were repayable at a premium of 15% on 31-3-2020. On the date of maturity, the company decided to redeem the above mentioned 10% Debentures as per the terms of issue, out of profits. Required investment is made on 30"' April 2019 in fixed deposit bearing interest @ 8% p.a. Bank deducted TDS @ 10% on its maturity i.e. 31s1 March 2020. Record necessary entries for issue and redemption of debentures.

{Hint: Amount of DRR created - Rs. 15,00,000 ; Amount invested in DRI - Rs. 2,25,000 ; Interest on Investment - Rs. 16,500 ; TDS - Rs. 1,650}

Que. 4) Mohit Ltd. issued 5,000,10% Debentures of Rs. 100 each on 1st April, 2018. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March and tax deducted at source is 10%. Pass the necessary journal entries related to the debenture interest for the half yearly ending on 31st March, 2019 and transfer of interest on debentures to Statement of Profit and Loss.

{Hint: Interest on debentures - 50,000 ; TDS- 5,000 ; Amount paid to debenture holder - 45,000}

Que. 5) BG. Ltd. issued 2,000,10% debentures of 100 each on 1st April 2018. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March and the tax deducted at source is 15%. Pass necessary journal entries related to the debenture interest for the half yearly ending 31st March, 2019 and transfer of interest on debentures of the year

{Hint: Interest on debentures - 20,000 ; TDS- 3,000 ; Amount paid to debenture holder - 17,000}

Que. 6) Poonam Ltd. (an unlisted company) had a balance of Rs. 5500000 in its Statement of Profit & Loss. Instead of declaring a dividend it decided to redeem its Rs. 50, 00,000, 8% debentures at a premium of 10% out of profits on 31st March, 2020. The Company invested the required amount in fixed deposit in a bank in 30th April ,2019 earning interest @ 8% p.a. Tax was deducted on interest earned @ 10% by the bank. Pass the necessary journal entries in the books of the company for the redemption of debentures.

{Hint: Amount of DRR created - 50,00,000 ; Amount invested in DRI - 7,50,000}

Que. 7) Tata Power Ltd. (an unlisted company) issued 90,000 , 9% Debentures of Rs. 100 each on 1st July 2014 redeemable at a premium of 5% as under:

On 31st March 2018	30,000 Debentures
On 31st March 2019	25,000 Debentures
On 31st March 2020	35,000 Debentures

It was decided to transfer to Debenture Redemption Reserve Rs. 2,00,000 on 31st March 2015 ; Rs. 3,00,000 on 31st March 2016 & the balance on 31st March 2017. Record necessary journal entries ignoring for interest.

{Hint: Investment made for Rs. 4,50,000 on 30tl1 April 2017 ; Investment realized for Rs. 75,000 on 31st March 2018 ; Investment made for Rs. 1,50,000 on 30th April 2019 ; Investment realized for Rs. 5,25,000 on 31st March 2020 ; Amount of DRR created Rs. 4,00,000 on 31st March 2017 ; DRR transferred to GR on 31st March 2018 Rs. 3,00,000 , on 31st March 2019 Rs. 2,50,000 & on 31s1 March 2020 Rs.3,50,000]

MCQs

Que 1) Interest on Debenture is:

A) Appropriation of profit B) Capital gain
C) Charge against profit D) Dividend

Que. 2) X Ltd. wants to redeem 5,000, 5% Debentures of Rs. 100 each at 5% premium. How much amount it transfer to Debenture Redemption Reserve, if it has already a balance of Rs. 20,000 in Debenture Redemption Reserve Account ?

(A) Rs. 1, 05,000 (B) Rs. 30,000
(C) Rs. 2,30,000 (D) Rs. 4, 80,000

Que. 3) Where is Debenture Redemption Reserve transferred after the redemption of all debentures?

A) Capital Reserve Account B) General Reserve Account
C) Statement of Profit and Loss D) Sinking Fund Account

Que. 4) Profit on redemption of debentures is transfer to which account?

A) Capital Reserve Account B) General Reserve Account

C) Statement of Profit and Loss D) Sinking Fund Account

Que. 5) As per SEBI guidelines an amount equal to of the debenture issue must be transferred to Debenture Redemption Reserve before redemption begins for an unlisted company.

A) 50% B) 80%

C) 10% D) 100%

Que. 6) Debentures can be redeemed:

A) By issue of new shares B) By existing resources

C) By Accumulated profits D) By all of the above

Que. 7) Premium on Redemption of Debentures Account is a:

A) Personal Account B) Real Account

C) Nominal Account D) None of these

Que. 8) The amount set aside out of surplus for redeeming the debentures is known as:

A) General Reserve B) Securities Premium reserve

C) Debenture Redemption Reserve D) None of the above

Que. 9) On 1st April 2007, Sunrise Limited issued 5,000, 8% debentures of Rs. 100 each at a discount of 5%. What will be the amount of interest for the year ending 31st March 2008?

A) Rs. 38,000 B) Rs. 42,000

C) Rs. 40,000 D) Rs. 25,000

Que. 10) Premium on redemption of debentures is a

a) Liability account b) Asset Account

c) Expense Account d) None of these

Que. 11) Best Company Ltd decides to redeem 10000 ,10% debentures of Rs 100 each on 30th June 2018.The Company shall invest in specified securities on or before

a. 30th April 2017 b. 30th April 2016

c. 30th June 2017 d. 30th April 2018

Que. 12) Amount is set aside to Debenture redemption reserve (DRR) by

a. All the Companies

b. All companies except banking companies

Companies except All India Financial Institutions Companies except Banking Company and all India Financial Institutions regulated by RBI.

Que. 13) Amount is not set aside to Debenture redemption reserve if

a. The debentures are not convertible

b. The debentures are partly convertible

c. The debentures are fully convertible

d. None of these

Que. 14) Premium payable on redemption of debentures is in the nature of

a. Liability Account   b. Asset Account

c. Expense Account   d. None of these

Fill in the Blanks

1. Debentures are redeemed setting aside 10% of the nominal value of debentures to Debenture Redemption Reserve .It is redemption out of
2. Amount to be set aside to before redemption of debentures.
3. Debenture Redemption Investment should be made 30th April of the year in which Debentures redeemed.
4. Discount or loss on issue of debentures is a
5. Once the debentures redeemed, amount of DRR is transferred to

State True or False

1. Debenture Redemption Investment is made by companies required to set aside amount to Debenture Redemption Reserve.
2. Debenture redemption reserve may be set aside by a company out of any reserve.
3. Surplus cannot be transferred to Debenture Redemption Reserve.
4. Debenture Redemption Investment can be used by the Company for any purpose after the debentures have been redeemed.
5. General Reserve can be transferred to Debenture Redemption Reserve.

MCQs

Ques No	1	2	3	4	5	6	7	8
Ans	C	B	B	A	C	D	A	C
Ques No	9	10	11	12	13	14		
Ans	C	A	D	D	C	A		

Fill in the Blanks

Ques No	1	2	3	4	5
Ans.	Profit and capital	DRR	On or before	Capital loss	General reserve

True or False

Ques No	1	2	3	4	5
	T	F	F	T	T

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 thte 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 deducting 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		
(ii) other current assets		
TOTAL		

Illustration 1: 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)
Add- 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		....	....
II. Other Income		....	....
III. Total Revenue (I+II)		....	....
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 Account	• 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 • Sinking fund • Revaluation Reserve • Share Option Outsanding 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 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 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 • Loan 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 treated 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**	• Trade Payables if settled after (12 months) • Premium Payable on Redemption of Debentures • Premium Payable 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 other parties • Deposits (Public 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 maturities 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 accrued there on • Unpaid matured debentures and interest accrued 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 for tax • Provision for employees benefits • Provision for doubtful debts • Provision for discount on debtors
As-sets	**1. Non-Cumst As-sets**	**a. Fixed Assets (i) Tangible Fixed Assets**	• Land • Building • Machinery & Plant • Vehicles • Office equipment • Furniture and fixture • Live stock • Computers • Office Equipment
As-sets	**1. Non-Current Assets**	**a. Fixed As-sets ii. Intan-gible 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, de-signs • Licenses and franchise • Intellectual Property Rights
As-sets	**1. Non-Current Assets**	**a. Fixed As-sets iii. Cap-ital Work in Progress**	Construction of assets in progress E.g. construction of building
As-sets	**1. Non-Current Assets**	**a. Fixed As-sets iv. Intan-gible Assets Under Devel-opment**	

As-sets	**1. Non-Current Assets**	**b. Non-Current Investments**	• Investment in property • Investment in equity instruments • Investment in preference shares • Investment in govt. securities • Investment in debentures/ bonds • Investment in mutual funds • Investments in Partnership firms Note: -Fixed deposit in banks. • They should be classified as 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 (Net)**	
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 Debentures 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 material • 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 expenses • Advance taxes • Interest accrued on investments • Preliminary expenses, 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 Commitments			Capital commitments are agreements to perform a particular activity at a certain time in the future 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 time the company will get entire ₹ 100 crore and thereby make a profit. (Because ₹ 100 crore which is the contract price includes profit). 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.

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 (Long-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 of profit and Loss (Dr.)	Shareholders' Funds	Reserves and Surplus (As negative amount)
21.	surplus, Balance in statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus

22.	Mortagage Loan	Non-current Liabilities	Long-term Borrowings
23.	Patents	Non-current Assets	Fixed Assets—Intangible Assets
24.	Investment	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	Non-Current Assets	Non-current Investment
48.	Prepaid Insurance	Current Assets	Other Current / Assets
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 Assets
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—Intangible 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—Intangible 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 in 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.

Financial Statement of a company
Practice Questions

Q.1. Under what format, balance sheet of a company is required to prepared?

Sol. Schedule III, Part I

Q.2. How calls in arrears appear in a company's balance sheet?

Sol. Major Head- Shareholder's funds

Sub-head- By way of deduction from subscribed but not fully paid-up

Q.3. How fixed deposits appear in a company balance sheet?

Sol. Major Head- Non-current liabilities

Sub-head- Long-term borrowing

Q.4. 'Accumulated Dividend Arrear' on preference shares is shown in the company balance sheet as

Sol. Commitments

Q.5. How share forfeited account appears in a company's balance sheet?

Sol. Major head- Shareholders' fund

Sub head- By way of addition to subscribed but not fully paid-up

Q.6. How prepaid expenses appear in a company's balance sheet?

Sol. Major head- Current Assets

Sub-head- Other current assets.

Q.7. How 70,000 8% debentures redeemable within 12 months from the date of balance sheet appear in a companys' balance sheet?

Sol. Major head- Current liability

Sub-head- Other current liability

Q.8. Claim for ₹ 1,75,000 is pending against the company in the court. How this item will be presented in company balances sheet?

Sol. Contingent liability

Q.9. How 'Stock of finished good' is presented in companys' balance sheet?

Sol. Major head- Current Assets

Sub-head- Inventories

Q.10 State whether the following statements are True/False

(a) A Company's balance sheet may be prepared in vertical or horizontal form.

(b) Divident is paid on called up capital.

(c) Reserve capital is shown under share capital head.

(d) Unpaid dividend is a current liability.

(e) Contingent liabilities are shown in the balance sheet under the heading other current liabilities.

(f) 7% debenture reedeemable with 12 months of the date of balance sheet are shown under the head 'contingent liabilities'.

(g) Interest accrued but not due is shown in a company's balance sheet under 'other current assets'.

(h) Balance sheet is also shown as position statement.

(i) Bank charges is finance cost.

(j) Audit fee is included in other income while preparing income statement of a company.

Solution : (a) False (b) False (c) False (d) True (e) False (f) False (g) True (h) True (i) False (j) False

Q.11 Fill in the balance

1. Computer software will be shown under the head _____.
2. Debit balance of statement of profit & loss will be shown under the head.
3. Current assets are realisable within ____ months or _____ which ever is larger.
4. Capital reserve is shown under the major head ______

   Sub head _____ in balance sheet.
5. _____ and _____ are two basic financial statements.
6. While preparing statement of profit and loss of a company, sale of services is shown under the head _____.
7. Calls in advance will be covered under major head ____ sub-head ____
8. Live stock will be covered under major head ____ sub head ____.
9. Loan repayable on demand will be covered under major head ____ subhead _____.
10. Self-generated good will _____ be shown in balance sheet.

Solution1. Non-current assets fixed assets- Intangible

2. Shareholders funds by way of deduction under reserve and surplus
3. 12 operation cycle.

4. Shareholders’ funds; reserve and surplus
5. Balance sheet; statement of profit & loss
6. Revenue from operation
7. Current liabilities; other current liabilities
8. Non-current assets fixed assets- Tangible

   Sol. 9 Major head- Current liabilities

   Sub-head- Short term borrowing
10. not

CHAPTER-2

FINANCIAL STATEMENTS 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 the 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

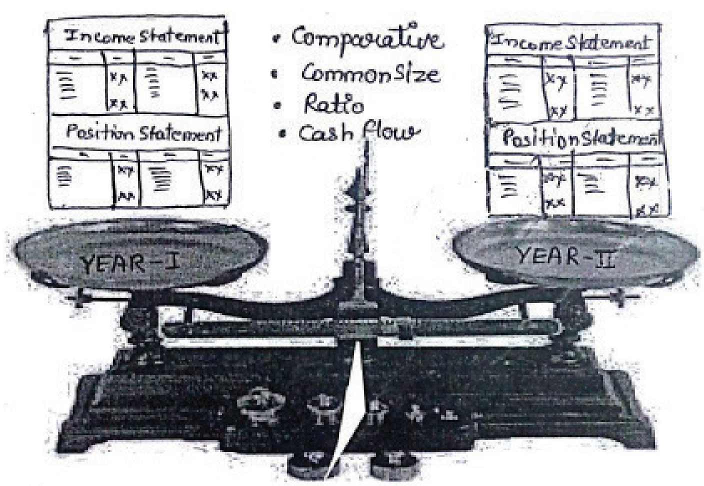
TOOLS FOR FINANCIAL STATEMENT ANALYSIS

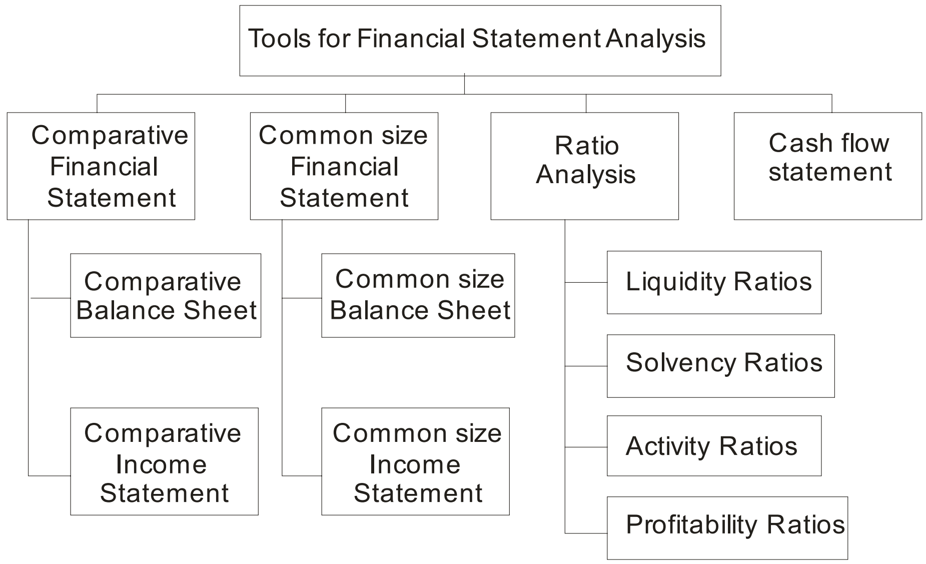
Points to remember :

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					
(a) Share Capital		10,00,000	20,00,000	10,00,000	100%
(b) Reserves & Surplus		6,00,000	4,00,000	(2,00,000)	(33.33%)
(2) Non-current Liabilities					
Long term borrowings		10,00,000	16,00,000	6,00,000	60%
(3) Current liabilities					
Trade payables		4,00,000	8,00,000	4,00,000	100%
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		30,00,000	48,00,000	18,00,000	60%
Total					

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

% change = $\dfrac{\text{absolute change}}{\text{Previous year figure}} \times 100$

$= \dfrac{10,00,000}{10,00,000} \times 100 = 100\%$

2. For Reserves & Surplus = $\dfrac{2,00,000}{6,00,000} \times 100 = 33.33\%$

   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				

Tools for financial analysis

Illustration 2. From the following information of Garg Ltd. prepare comparative statement of profit & loss

Particulars	31.03.2021 (₹)	31.03.2020 (₹)
Revenue from operation	48,00,000	42,00,000
Sales return	8,00,000	4,00,000
Cost of revenue from operation	60% of revenue from operation (net)	50% of revenue from operation (net)
Other of expenses %	10%	20%
(on cost of revenue from operations)		
Income Tax @ 30%		

Solution. Comparative statement of profit and loss for the year ended 31st March, 2021 and 2020

		Note No.	31.03.2020	31.03.2021	Absolute change (+/-)	% change
A.	Revenue from operation (sales-sales return)		38,00,000	40,00,000	2,00,000	5.26
B.	Expenses cost of revenue from operations Other expenses		19,00,000 3,80,000	24,00,000 3,60,000	5,00,000 1,40,000	26.3 36.8
	Total expenses		22,80,000	26,40,000	3,60,000	15.79
C.	Profit before tax (A - B)		15,20,000	13,60,000	1,60,000	10.53
D.	Less: Tax @ 30%		(4,56,000)	(4,08,000)	48000	10.53
E.	Profit after Tax (C - D)		10,64,000	9,52,000	1,12,000	10.53

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: I. Shareholders' Funds (i) Share Capital (ii) Reserve and Surplus II. Non-Current Liabilities (i) Long term Borrowings (ii) Other long term liabilities (iii) Long term provisions III. Current liabilities (i) Short term Borrowings (ii) Trade payables (iii) Other current liabilities (iv) Short term provision				
Total			100	100
ASSETS: I. Non-current Assets (i) Fixed Assets (ii) Non-current investments (iii) Long term Loans and Advances II. Current Assets (i) Current investments (ii) Inventories (iii) Trade receivables (iv) Cash and cash equivalents (v) Short term loans and advances (vi) 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 = $\frac{6,00,000}{10,00,000} \times 100 = 60\%$

2. For Reserves & Surplus $\frac{1,00,000}{10,00,000} \times 100 = 100\%$

3. Similarly, for tangible Assets $\frac{6,50,000}{10,00,000} \times 100 = 65\%$
   & so on.......

Illustration 4. Fill in the missing figures in the following common size balance sheet.

Common size balance sheet as at 31st March, 2020 and 2021

	Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
			2020	2021	2020	2021
I.	Equity and Liabilities		₹	₹	%	%
1.	Shareholder's funds					
	(a) Share capital		-	-	-	-
	(b) Reserve and surplus		-	-	8	15
2.	Non-current liabilities		16,00,000	24,00,000	-	-
3.	Current liabilities					
	(a) Trade payable		-	-	16	20
	(b) Short-term provision		2,00,000	8,00,000	-	-
			-	-	100	100
II.	Assest					
1.	Non current assets					
	(a) Fixed assets		-	-	-	-
	(b) Non current investment		-	-	4	5
2.	Current assets		1,00,000	2,00,000	20	25
			-	-	100	100

Sol. : Common Size Balance Sheet as at 31st March 2020 and 2021

		Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
			2020	2021	2020	2021
I.	Equity and Liabilities		₹	₹	%	%
1.	Shareholder's fund					
	(a) Share capital		20,00,000	29,00,000	40	25
	(b) Reserve and surplus		4,00,000	12,00,000	8	15
2.	Non-current liabilities		16,00,000	24,00,000	32	30
3.	Current liabilities					
	(a) Trade payable		8,00,000	16,00,000	16	20
	(b) Short-term provision		2,00,000	8,00,000	4	10
		Total	50,00,000	80,00,000	100	100
II.	Assets					
1.	Non current assets					
	(a) Fixed assets		38,00,000	56,00,000	76	70
	(b) Non current investment		2,00,000	4,00,000	4	5
2.	Current assets		10,00,000	20,00,000	20	25
			50,00,000	80,00,000	100	100

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 operation (% of ost of material consumed)	125%	140%
Cost of material consumed	2,40,000	2,50,000
Other expenses (% of revenue from operation)	10%	12%
Other income	15,000	20,000
Tax rate	30%	30%

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	2,40,000	2,50,000	80.00	71.43
b) Other expenses	30,000	42,000	10.00	12.00
Total Expenses	2,70,000	2,92,000	90.00	83.43
V. Profit before tax (III-IV)	45,000	78,000	15.00	22.28
Less: Income Tax	(13,500)	(23,400)	(4.50)	(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	2,40,000	2,50,000	10,000	4.16
b. Other expenses	30,000	42,000	12,000	40.00
	2,70,000	2,92,000	22,000	8.15
Total Expenses	45,000	78,000	33,000	73.33
V. Profit before tax (III-IV)	(13,500)	(23,400)	(9,900)	(73.33)
Less: Income Tax				
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		------- ---	6,00,000	2,00,000	---------
b. Other expenses		25,000	---------	---------	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		6,00,000	8,00,000	2,00,000	33.33%
II. Add: Other Income		25,000	90,000	65,000	260%
III. Total Revenue I+II		6,25,000	8,90,000	2,65,000	42.4%
IV. Expenses:					
a. Cost of Material Consumed		4,00,000	6,00,000	2,00,000	50%
b. Other expenses		25,000	40,000	15,000	60%
Total Expenses		4,25,000	6,40,000	2,15,000	50.59%
c. Profit before tax (III-IV)		2,00,000	2,50,000	50,000	25%
Less: Income Tax @ 30%		60,000	75,000	15,000	25%
d. Profit after tax		1,40,000	1,75,000	35,000	25%

Practice Questions

Q. Prepare comparative statement of profit and loss of Narang Co. Ltd. for the year ended March 31st, 2016 and March 2017.

	Particulars	Note No.	2016-17	2015-16
1.	Revenue from operation		40,00,000	35,00,000
2.	Other income		50,000	50,000
3.	Cost of material consumed		15,00,000	18,00,000
4.	Change in inventories of finished goods		10,000	(15,000)
5.	Employee benefit expenses		2,40,000	2,40,000
6.	Depreciation and amortization		25,000	22,500
7.	Other expenses		2,66,000	3,02,000
8.	Profit		20,09,000	14,27,300
Notes to Accounts				
	Particulars		2016-17	2015-16
1.	Other expenses			
(i)	Power and fuel		36,000	40,000
(ii)	Carriage outwards		7,500	9,500
(iii)	License fees		2,500	2,500
(iv)	Selling and distribution exp.		1,70,000	1,90,000
(v)	Provision for tax		50,000	60,000
			2,66,000	3,02,000

Hint: Find absolute change (current year-previous year (+/-) and then find percentage change item wise. $\left(\frac{\text{Absolute Change}}{\text{Previous year}} \times 100\right)$

Q. 2 Fill in the blanks

(i) When financial statements of two or more years of the same firm are compared. It is known as _______ comparison.

(ii) In a ______ total of assets or equity and liabilities is assumed to be equal to 100.

(iii) ______ is also called dynamic analysis.

(iv) Common size statements are prepared in the form of _____

(v) Vertical analysis is also called ____ analysis.

(vi) Individual items of financial statements are converted into percentage to some common base in _____.

(vii) A comparison of two companies is _____ .

(viii) In common size statement, the total of percentage of assets and liabilities is taken as _____

Solution

(i) Intra firm (ii) common-size statement (iii) Horizontal analysis (iv) percentage (v) static (vi) common size statement (vii) Inter-firm comparison (viii) 100

CHAPTER – 4

ACCOUNTING RATIOS

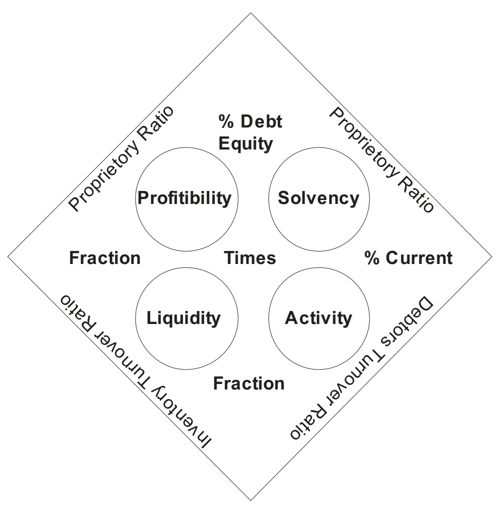
Points to Remember:

1. Loose tools and stores & spares will be excluded from inventories while calculating. Current ratio and inventories Turnover ratio.
2. Provision for doubtful debt will be deducted from Trade receivables for calculating current and liquid ratios. But it will not be deducted while calculating trade Receivables turnover ratio.
3. Non-trade Investment will be excluded 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 be excluded from Net Profit.
4. Operating cost and operating expenses are seperate concept hence 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:

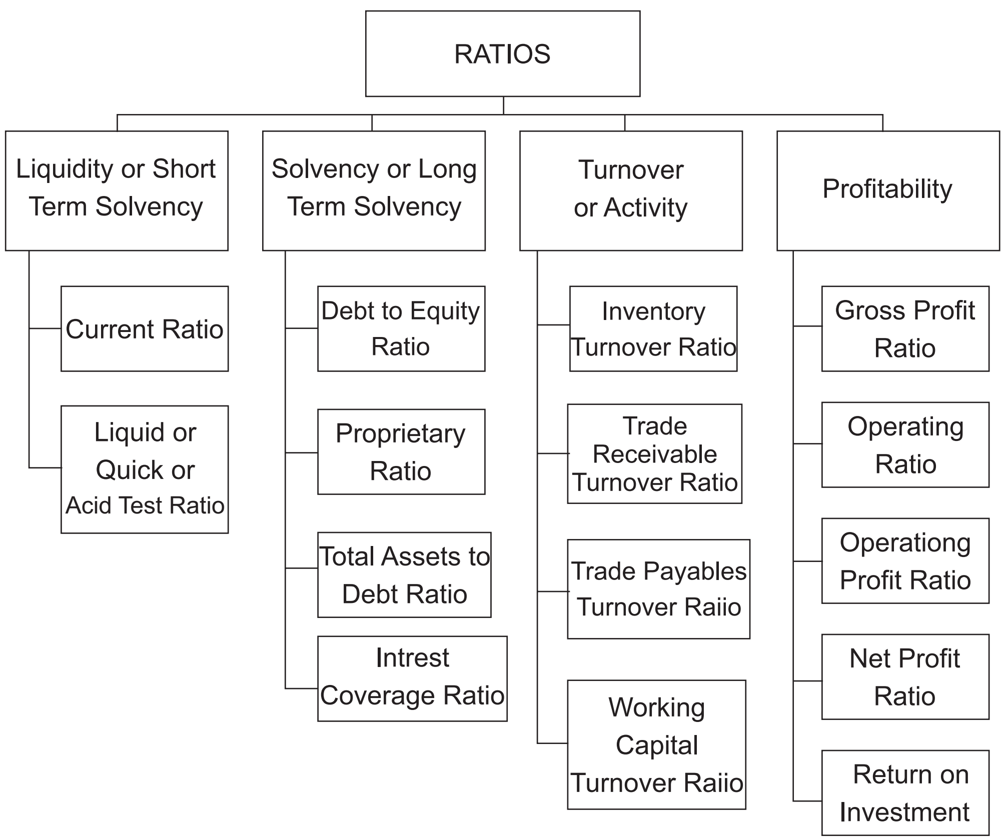
<u>**Pure Ratio**</u> Like 2:1. All liquidity and solvency ratios are expressed in pure form.

<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 Marketable Securities or ST. 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 unclaimed Dividend)

   + Short Term Provisions (Provision for Tax)

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 : Non-Current trade Investments will be included for Capital employed purpose.

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 = $\frac{\text{Opening Inventory + Closing Inventory}}{2}$

h) Average Debtors = $\frac{\text{Opening Debtors + Closing Debtors}}{2}$

i) Average B.R. = $\frac{\text{Opening B.R. + Closing B.R.}}{2}$

j) Average Creditors = $\frac{\text{Opening Creditors + Closing Creditors}}{2}$

k) Average B.P. = $\frac{\text{Opening BP + Closing B. P.}}{2}$

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.

<u>Profitabiliy Ratio</u>

Gross Profit Ratio

Gross Profit Ratio = $\frac{\text{Groos Profit}}{\text{Revenue from Operation}} \times 100$

Net Profit Ratio

Net Profit Ratio = $\frac{\text{Net Profit After Tax}}{\text{Revenue from Operation}} \times 100$

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

  = Gross 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-Operating 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)
- Non-operating expense Example: Interest Paid on loans
- 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 from operation - Operating Expenses

  = Revenue from Operation - (Cost of Revenue from operation + 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 = $\frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$

$$\frac{3.25}{1} = \frac{x}{60{,}000 - 20{,}000}$$

$$3.25 \times 40{,}000 = x$$

$$x = 1{,}30{,}0000$$

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 -

$$3.5\ CL = 2CL + 24000$$

$$3.5CL - 2CL = 24000$$

$$1.5\ CL = 24000$$

$$CL = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\boxed{CL = 16,000}$$

CA = 3.5 CL

= 3.5 * 16,000

$$\boxed{CA = 56,000}$$

Illustrations 3. Deb equity ratio is 0.8:1. State giving reason which of the following transaction would improve, reduce or not change the debt-equity ratio.

(a) Issue of bonus shares

(b) Conversation of debenture into equity shares

(c) Purchase of machinery by taking long-term loan

(d) Issue of preference shares for cash

(e) Sale of furniture (Book value ₹ 1,00,000) at ₹ 1,30,000

Sol. (a) **No Change** Only equity will increase and decrease by same amount.

(b) **Reduce** Debt will decrease and equity will increase

(c) **Improve** Debt will increase but equity will remain unchanged.

(d) **Reduce** Equity will increase but debt will remain unchanged.

(e) **Reduce** Equity will increase by profit margin and debt will remain unchanged.

Illustration - 4 Calculate current ratio & Quick ratio from the following Total Debt

	Rs		Rs
Total 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)

$\boxed{\text{CA} = \text{Rs } 800{,}000}$

Current Liabilities = Total debt - Non - current liiabilites

= Total Debt - (Long term Borrowings + Long term provisions)

= 10,00,000 - (400,000 + 200,000)

$\boxed{\text{CL = RS 400'000}}$

$\boxed{\text{Current Ratio}} = \frac{\text{Rs } 800000}{\text{Rs } 400{,}000} = \boxed{2:1}$

$\boxed{\text{Quick ratio}} = \frac{\text{Quick Assets}}{\text{Current Liablities}} = \frac{\text{Rs } 600{,}000}{\text{RS } 400{,}000} = \boxed{1.5:1}$

$\boxed{\text{Quick Assets}}$ = Current Assets - inventories - prepaid expenses

= Rs 800,000 - Rs 170,000 - Rs 30000

$\boxed{\text{QA} = \text{Rs } 600{,}000}$

Illustration - 5

Trade receivable turnover ratio is 4 times

Cost of revenue from operations is Rs 320000

Gross profit ratio is 20%

Closing trade receivables were Rs 10,000 more than Trade receivables in the begining

Cash revenue from operations is 1/3 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

$X = \frac{20\ X}{100} = 320000$

$$X - \frac{1}{5}X = 320000$$

$$\frac{4}{5}X = 320000$$

$$X = 320000 \times \frac{5}{4}$$

$\boxed{X = Rs\ 400{,}000}$ Total Revenue

Let credit revenue from operations be Y

Total ravenue from operations = Cash Revenue + Credit Revenue Operations

$$400{,}000 = \frac{1}{3}y + y$$

$$400{,}000 = \frac{4}{3}y$$

$$y = 400{,}000 \times \frac{3}{4}$$

$\boxed{y = Rs\ 300{,}000}$ Credit Revenue

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Credit revenue from Operations}}{\text{Avg. trade Receivables}}$$

$$4 = \frac{Rs\ 3{,}00{,}000}{\text{Average Trade receivables}}$$

$$\text{Average Trade Receivables} = \frac{300{,}000}{4} = Rs\ 75{,}000$$

Let OP.Trade receivables be z

LetCI.Trade receivable be= z + 10,000

$$\text{Avg Trade receivables} = \frac{\text{OP T|R + CI T|R}}{2}$$

$$75000 = \frac{z+z+100000}{2}$$

$$150000 = 2z + 10000$$

$$2z = 140000$$

$\boxed{z = Rs\ 70{,}000}$ op. T|R

CI.. T|R = 70000+10000 = 80000

Illustration 6. Calculate (i) Operating ratio; (ii) Inventory turn over ratio

Cash revenue from operation ₹ 10,00,000

Credit revenue from operation 120% of cash revenue from operation

Operating expenses- 10% of total revenue from operation

Rate of gross profit- 40%

Opening inventory- ₹ 1,50,000

Closing inventory- ₹ 20,00 more than opening inventory

Solution. Operating ratio

$$= \frac{\text{Cost of revenue from operation} + \text{operating expenses}}{\text{Revenue from operation}} \times 100$$

Credit revenue from operation $= \frac{120}{100} \times 10,00,000 = ₹12,00,000$

Total revenue from operation = 12,00,000 + 10,00,000 = ₹ 22,00,000

Operating expenses = 10% of ₹ 22,00,000 = ₹ 2,20,000

Gross profit = 40% of 22,00,000 = ₹ 8,80,000

Cost of revenue from operation = ₹ 22,00,000 - ₹ 8,80,000 = ₹ 13,20,000

Operating ratio $= \frac{13,20,000 + ₹2,20,000}{22,00,000} \times 100 = \boxed{70\%}$

(ii) Inventory turnover ratio $= \frac{\text{Cost of revenue from operation}}{\text{Average inventory}}$

(iii) Average inventory $= \frac{\text{Opening inventory + Closing inventory}}{2}$

Closing inventory = Opening inventory + ₹ 20,000

= 1,50,000 + 20,000 = ₹ 1,70,000

Inventory Turnover Ratio $= \frac{13,20,000}{1,70,000} = \boxed{7.76}$

Illustration 7:

The Following particulars are extracted from the Balance Sheet of XYZ ltd. 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% Mortgage laon	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) Proprietory 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 $= \frac{\text{Net profit before interest \& tax}}{\text{Int. on Long term Loans}}$

Interest on Long term Loans = 12% int. on Deb. of Rs 50,000 + 10% Int. on mortgage loan of Rs 150,000

$= \left(\frac{12}{100} \times 50{,}000\right) + \left(\frac{10}{100} \times 150{,}000\right)$

= 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 $= 100 \times \frac{50{,}400}{60}$

Rs = 84000

Net profit before tax = Rs 84000

Net Profit before int. & tax = Rs 84000+21000

= Rs 10,5000

$$\text{Interest Coverage Ratio} = \frac{\text{Rs } 105000}{\text{Rs } 21000} = 5 \text{ times}$$

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,		
Accumulated Depreciation	1,50,000	Surplus (i.e., balance in	20,000
Non - Current Investment	700,000	Statement of P&L - dr.)	
Trade Receivables	2,50,00	Cash & Cash Equivalents	50,000

$$\text{Sol. Total Asset to debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}}$$

Total Assets = Non - Current Assets + Current Assets

= [Fixed asset (Gross) (-) Accumulated Depreciation + 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

$\boxed{\text{Total assets = Rs 18,00,000}}$

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 reserve (–) 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

I. Calculate Return on investment if net profit before tax for the year 2018-19 is ₹ 7,83,600

II. Calculate Return on investment for the year 2018-19 W.r.t. opening capital employed given–

(a) Reserve & surplus

Surplus	4,20,000
Opening balance	9,72,000
	13,92,000

Solution: (I) If Net profit before tax = ₹ 7,83,600

$$\text{ROI} = \frac{\text{Net profit before int. \& fax}}{\text{Capital Employed}} \times 100$$

$$= \frac{₹\ 10,11,600}{₹\ 33,72,000} \times 100 = 30\%$$

Net Profit before interest & fax:

	Net Profit before tax	₹ 7,83,600
Add	Int on long term borrowing (15% 1600000)	₹ 2,40,000
Less	Int on Non-trade Investments (10% of 120000)	₹ (12000)
	Net Profit before Int & tax	₹ 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

= ₹ 33,72,000

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

= Rs33,72,000

II ROI = **Net profit before int & Tax** × **100**

Opening capital Employed

Given - Net profit	RS 9,72,000
Add Int. on Long term Borrowing (15% 16,00,000)	Rs 2,40,000
Less Int. on Non- Trade investment (10% 1,20,000)	Rs (12,000)
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 = $\frac{\text{Rs}12,00,000}{\text{Rs } 24,00,000} \times 100 = 50\%$

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 $= \dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$

$= \dfrac{\text{Rs } 3,20,000}{16,00,000} \times 100 = 20\%$

Cost of Revenue from Opertions :-

Inventory Turnover Ratio $= \dfrac{\text{COGS}}{\text{Average Inventory}}$

$8 = \dfrac{\text{COGS}}{\text{Rs } 1,60,000}$

COGS = Rs 1,60,000 × 8

$= \boxed{\text{Rs } 12,80,000}$

Credit sales :-

Trade Receivable Turnover Ratio $= \dfrac{\text{Net credit sales}}{\text{average trade receivables}}$

$6 = \dfrac{\text{Net cr. sales}}{\text{Rs } 2,00,000}$

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 $= \text{Rs } \dfrac{12,00,000}{75\%} = \boxed{16,00,000}$

Gross profit = [Revenue from operations] - [Cost of revenue from
(Net sales) 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 = $\dfrac{\text{Cost of revenue from operations} + \text{Operating Expenses}}{\text{Revenue from opertaion}} \times 100$

$= \dfrac{\text{Rs}6,00,000 + \text{Rs}80,000}{\text{Rs}8,00,000} \times 100$

Cost of revenue from Operation = operating cost - operating expenses

= Rs6,80,000 - Rs 80,000

= Rs6,00,000

Cost of revenue from operation = Purchase of stock in Trade + Change in inventories + stock in stock + Employe Benefit Expenses

= Rs6,06,000 –Rs15,000 + Rs9000

=Rs 6,00,000

Operating Expenses = Given Rs80,000

Otherwise Operating Exp. = Administrative Expenses + selling & Distribution Expenses

= Rs 22000+ Rs58000

= Rs80,000

(a) Cost of Revenue from operations -

Let Revenue from Operations be rs 100

and If Gross profit = 25

Then, Cost of revenue fom operation = Rs75

If cost of revenue from operation is Rs75 Revenue fom operations Rs100

If cost of revenue from operation is Rs6,00,000

Then revenue from Operation = Rs6,00,000 $\times \dfrac{100}{\text{Rs}75}$

= 8,00,000

Illustration -12

Revenue from operation 8,00,000

Gross profit ratio 25%

Operating ratio 90%

Non - Operating Expenses Rs4000

Non - Operating income Rs44000

calculate Net profit ratio:

Sol. Net profit ratio = $\dfrac{\text{Net Profit}}{\text{Revenue from operations}} \times 100$

$= \dfrac{\text{Rs}1,20,000}{\text{Rs } 8,00,000} \times 100 = 15\%$

Calculation of Net profit

Operating profit ratio = 100% − Operating Ratio

= 100% − 90%

= 10%

$$\text{Operating profit Ratio} = \frac{\text{Operating profit}}{\text{Revenue from Operations}} * 100$$

$$10 = \frac{\text{operating Profit}}{8,00,000} \times 100$$

$$\text{Operating profit} = \frac{\text{Rs } 8,00,0000 \times 10}{100} = 80,000$$

Net profit = Operating profit +Non operating Income - Non - Operating Expenses

= Rs80,000+ Rs44,000 - Rs4000

Rs1,20,000

Illustration 13. Cash sales ₹ 60,000; Credit sales $66\frac{2}{3}\%$ of total sales; Adjusted purchase

₹ 1,20,000; closing inventory ₹ 10,000; wages ₹ 10,000; selling and distribution exp. ₹ 10,000; office expenses ₹ 25,000; interest received ₹ 20,000; dividend received ₹ 10,000; loss on sale of machinery ₹ 5000.

Calculate net profit ratio.

Sol. Net profit ratio $= \frac{\text{Net profit after tax}}{\text{Revenue from operation}} \times 100$

Total revenue from operation = 100 percent

Cash revenue from operation = 100 - $66\frac{2}{3} = 33\frac{1}{3}\%$ or $\frac{1}{3}$ of total.

Cash revenue from operation $= \frac{1}{3}$ of total revenue from operation

Total revenue from operation $= 60,000 \times 3$ = ₹ 1,80,000

Gross profit = Total revenue from operation - Adjusted purchase - Wages

= 1,80,000 - 1,20,000 - 10,000 = ₹ 50,000

Net profit = Gross profit - office Exp. - selling and dist. exp. - loss on sale of machinery + divident recieved + interest received

= 50,000 - 25,000 - 10,000 - 5,000 + 10,000 + 20,000 = ₹ 40,000

Net profit ratio $= \frac{40,000}{1,80,000} \times 100 = 22.22\%$

Practice Questions

Q.1 Tick (3) the appropriate answer.

1. The ____ may indicate that the resources of the business are being effectively managed.

   (a) profitability ratio (b) Turn over ratio

   (c) solvency ratio (d) liquidity ratio

2. What will be the operating profit ratio, if operating ratio is 85.38%

   (a) 13.62% (b) 14.62%

   (c) 15.28% (d) 16.62%

3. The area of interest for a long term lender while analysing financial position of a business will be

   (a) Liquidity ratio (b) profitability ratio

   (c) solvency ratio (d) turn over ratio

4. If opening inventory ₹ 38,500; closing inventory ₹ 41,500; revenue from operation ₹ 2,40,000; gross profit 20% on cost inventory turn over ratio will be

   (a) 3 times (b) 4 times

   (c) 5 times (d) 6 times

5. If revenue from operation is ₹ 1,80,000 and gross profit ratio is 45%. If there is decrease in interest on investment. Then net profit ratio will

   (a) improve (b) decline

   (c) no change (d) None of these

6. Shareholders' funds ₹ 4,00,000; long term debt ₹ 8,00,000. Company issue bonus shares to its shareholders. What will be its impact on ideal debt-equity ratio

   (a) improve (b) decline

   (c) unchanged (d) None of these

7. Net profit after tax and interest ₹ 1,00,000; current assets ₹ 4,00,000 current liability. ₹ 2,00,000; Tax rate @ 50%; Total assets ₹ 10,00,000 and 10% debenmture ₹ 4,00,000. Calculate return on investment.

   (a) 25% (b) 30%

   (c) 35% (d) 40%

8. The _____ may indicate that the firm is experiencing stock out and cost sales.

   (a) Average payment period (b) inventory turn over ratio

   (c) averae collection period (d) quick ratio

9. If working capital is zero then

   (a) Current assets is greater than current liability

   (b) Current liability is greater than current assets

   (c) Both are equal

   (d) None of these

10. If share capital ₹ 5,00,000; Reserve and surplus ₹ 1,00,000 long term borrowing ₹ 8,00,000; long term provision ₹ 2,00,000 non-trade investment ₹ 1,50,000 compute capital employed

   (a) 15,00,000 (b) 14,00,000

   (c) 16,00,000 (d) 14,50,000

11. State whether the following statements are true/false

   (a) Provision for bad debt is included in calculating current ratio.

   (b) Gross profit helps in assessing efficiency of business and fixing selling prices.

   (c) Purchase of building by issue of equity shares improves debt equity ratio.

   (d) Loss of stock by fire is included in calculating operating ratio.

   (e) High interest coverage ratio shows the inability of business to pay long-term debts and interest.

12. Fill in the blanks with appropriate words

   (a) Short-term financial position is assessed through ____

   (b) Earning capacity of the business is assessed through ____

   (c) If gross profit is 20% on cost then gross profit ratio ____

   (d) __________ and operating profit ratio are complementary to each other.

13. Net profit after interest and tax ₹ 1,00,000; current assets ₹ 4,00,000 current liabilities ₹ 2,00,000; Tax rate @ 20%; fixed assets ₹ 6,00,000; 10% long term debt ₹ 4,00,000.

Calculate return on investment.

Hint - Capital employed = fixed assets + current assets - current liabilities

$$\text{Net profit before tax} = \frac{\text{Net profit after tax and interest}}{1 - \text{tax rate}}$$

14. Calculate current ratio from the foil. Inf-

Particular	Particular
Total Assets 3,00,000 FA (Tangible) 100000 Shareholder's funds 90.000	Non current Liabilities 1,90,000 Non current investment 1,60,000

Hint-CA =TA-FA-NonCI

CL = TA - Shareholder's funds

- Non current liabilities

15. Calculate current ratio -

Working capital - Rs ,150,000

Total Liabilities other than shareholder's funds - Rs 3,85,000

Long term debits - Rs 2,85,00

16. 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)

17. 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)

18. 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	Rs3,28,000
purchase returns	Rs 72,000		

Hint - Net cr. purchase = purchase - PR - cash purchase

19. Calculate inventory turnover ratio from the foll 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)

20. Calculate gross profit ratio

	₹
Cash revenue from operation	3,00,000
Purchase : Cash	2,00,000
Credit	4,00,000
Carriage inwards	6,000
Salaries	80,000
Decrease in inventory	80,000
Return outwards	20,000
Wages	50,000

Ratio of cash revenue from operation to credit revenue from operation 1 : 5.

(Hint : COGs = Purchase + Decrease in inventory + direct expenses)

21. Operating ratio is 70% state giving reason, which of the following transaction will (a) increase (b) decrease (c) no change

(a) Revenue from operation return (sales return) ₹ 10,000

(b) Goods costing ₹ 5000 withdrawn for personal use

(c) Loss on sale of building ₹ 10,000

(d) Purchase return ₹ 5,000

(e) Selling and distribution exp. by 10,000

22. Calculate proprielary ratio from the foil, inf-Long terms Debt Rs 32,00,000

Working Capital Rs 4,00,000 Current Assets Rs 20,00,000 shareholder's fund 18,00,000 Reserves & surplus rs 2,00,000

(Hint - Total Assets = shareholder's funds + Long term Debt + Current Liab.)

23. 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

24. Calculate RoI from the foil -

Net profit after tax = Rs 650,000 ; 12.5% Convertible Debentures = 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 Liabilities = Rs 7,00,000

25. A company has loan of a 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. & Tax - Interest - Tax)

26. Calculate (a) Gross profit ratio (b) Net profit ratio (c) Current ratio (d) Inventory turn over ratio (e) operating ratio

		₹	
Revenue from operation	28,25,000	Cost of revenue from operation	19,20,000
Operating expenses	2,50,000	Net worth	15,00,000
Current lia	7,00,000	Fixed assets	16,00,000
Average inventory	8,00,000	long term borrowing	9,00,000

Hint- Current assets = Networth + Long term debt + CL - Fixed assets

27. Net profit after interest and tax ₹ 1,00,000; Current assets ₹ 4,00,000

Current liabilities ₹ 2,00,000; Tax rate @ 20%; fixed assets ₹ 6,00,000; 10% long term debt ₹ 4,00,000

Calculate return on investment.

Hint- Capital employed = Fixed assets + Current assets - Current liabilities

Net profit before tax $= \dfrac{\text{Net profit after tax and interest}}{\text{1 - Tax rate}}$

POINT TO REMEMBER

Calculation of Gross profit-

Gross profit on cost = Gross profit on sales

1. 20% on cost or 1/5 on cost = 16.66% on sales or 1/6 on sales
2. 25% on cost of 1/4 on cost = 20% on sales or 1/5 on sales
3. $33\frac{1}{3}$% on cost of 1/3 on cost = 25% on sales or 1/4 on sales
4. 50% on cost of 1/2 on cost = $33\frac{1}{3}$% on sales or 1/3 on sales

Note: When we go from cost to sales, add numerator to denominator.

Ex. 1/5 on cost or 20% = $\frac{1}{1+5} = \frac{1}{6}$ on sales or 16.66%

Similarly when we go from sales to cost, substract numerator from denominator.

Ex. 1/4 on sales or 25% $= \frac{1}{4-1} = \frac{1}{3}$ or $33\frac{1}{3}$ on cost

Note: While calculating ROI, profit after interest and tax is given and tax rate is given then

Profit before tax $= \frac{\text{Profit after interest and tax}}{100 - \text{tax rate}\%}$

Ex. If tax rate is 40%, then $\frac{\text{PAT}}{100-40} = \frac{\text{PAT}}{60\%}$

Note-:

Ideal Ratios

- Current ratios 2:1
- Liquid Ratio 1:1
- Debt-Equity ratios 2:1
- Interest Coverage ratio → Should be higher

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 be considered in Investing activities.
4. Bank overdraft and cash credit will be considered as financial activity rather than working capital changes in operating activities.
5. If main item belongs to a particular activity, then its sub-component also belongs to same activity. Ex. Bank overdraft is finance activity, then interest on bank overdraft is also finance activity.
6. Type of adjustment to be considered
   (a) Tax paid/provided during the year
   (b) Fixed assets having book value of ₹ (accumulated dep. ₹ ___) was sold at a loss/profit of ₹ ____
   (c) Interim dividend/proposed dividend of ₹ ____ paid during the year.
   (d) Additional debenture were issued/redeemed on ____.

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).

Note 1: The above types of transaction are part of cash and cash 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.

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 (In absence of this balance, difference of Reserve and surplus is taken as initial point.)

Add: 1. Dividend (final or proposed) 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 and 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 Fixed 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 Assets 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 Advance Incomes	....	–
(F) *Less:* **Increase in Current Assets and Decrease in Current Liabilities**		

— Increase in Inventories (Stock)	(.....)	
— Increase in Trade Rceivables (Debtors/Bills Receivable)	(.....)	
— Increase in Accrued Incomes	(.....)	
— Increase in Prepaid Expenses	(.....)	
— Decrease in Trade Payables (Creditors/Bills Payable)	(.....)	
— Decrease in Outstanding Expenses	(.....)	
— Decrease in Advance Incomes	(.....)	(–)
(G) Cash Generated from Operations (D + E-F)		–
(H) *Less:* Income Tax Paid (Net of Tax Refund)		(....)
(I) Cash Flow before Extraordinary Items Less Extraordinary Itmes (+/-)		(–)
(U) CashFlowfrom(orUsedin) operating Activities		–

Cash Flow Statement

Illustration 1. Calculate cash from operating activities

	31.03.2020	31.03.2021
Balance of profit & loss	3,00,000	2,50,000
Provision for depreciation	50,000	80,000
Outstanding salary	18,000	15,000
Prepaid insurance	6,000	9,000
Goodwill	40,000	30,000
Provision for doubtful debts	11,000	15,000
Debtors	1,50,000	1,00,000
Provision for tax	30,000	35,000
General reserve	10,000	30,000

Adjustment- Taxes paid during the year ₹ 20,000

Sol.

Dr. Provision for taxation A/c Cr

Date	₹	Particular	₹
To Bank A/c (Tax paid)	20,000	By Balance b/d	30,000

To Balane c/d	35,000	By Statement of profit & loss (provision made during the year)	25,000
	55,000		55,000

W.N. 1: Calculation of net profit before tax and extraordinary items:

	₹
Difference of profit & loss (2,50,000 - 3,00,000)	(50,000)
Add: Provision for tax	25,000
Transfer for reserve	20,000
	(5,000)

Cash flow from operating activities
for the year ended 31st March, 2021

Particulars	₹	₹
Net profit before tax and extra ordinary items (W.N.I.)		(5,000)
Add: Adjustment for non-cash and non-operating item		
Depreciation (80,000 - 50,000)	30,000	
Goodwill written off (40,000 - 30,000)	10,000	
Transfer to provision for doubtful debts (15,000 - 11,000)	4,000	44,000
Operating profit before working capital changes		39000
Add: Decrease in current assets Debtors	50,000	
Less: Decrease in current liabilities Outstanding salary	(3,000)	
Less: Increase in current assets Prepaid insurance	(3,000)	44,000
Net cash flow from operating activities.		83,000

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 ianvestment (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)
1. Cash Received from sale of Fixed Assets. 2. Cash Received from sale of Investment. Excluding Marketable Securities 3. Cash Received from sale of intangible Assets like Patents. 4. Interest Received, 5. Dividend Received, 6. Rent Received	1. Cash paid for purchase of fixed assets. 2. Cash paid for purchase of investment. Excluding Marketable Securities 3. 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 BankA/c (Sale of investment)	......
	To BankA/c (Additional Purchase)	....		By Loss on sale of fixed assets	......
	To Profit on sale of fixed assets A/c	....		By Depreciation charged during the year A/c	......
				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 BankA/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 Purchase)	....		(Sale of investment)	....
	To Profit on sale of investment A/c	....		By Loss on sale of 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.

(iv) Interest received on investment ₹ 25,500.

(v) Dividend received on investment ₹ 8,500.

(vi) 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	5,000
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)	
	InvestmentA/c			By balance c/d	5,00,000
	ToBankA/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	25,000
				(Dep. on Machinery sold)	
				By Loss on sale of	5,000
				Machinery Ac	
				By balance c/d	5,50,000
		6,00,000			6,00,000

Dr. Provision for Depreciation Account 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
				(Depreciation charged on machinery during the current year) (B/F)	
	To Balance c/d	1,20,000			
		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	30,000
	To Profit on sale of			(B/F - Sale of Patents)	
	patents A/c	10,000		By Statement of Profit	60,000
				& Loss (Written off)	
				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 dividend for the years ended 31/3/2017 and 31/3/2018 ended ₹ 3,00,000 and ₹ 150000 respectively.

Solution:

Cash Flow from Financing Activities

Particularsc	₹
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. 1,50,000 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.

Illustration 4: 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 (₹)
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 To BankA/c (additional purchase) (B.F)	46,700 51,000		By Depreciation A/c (Current year dep. on remaining fixed assets) By Balance c/d	14,700 83,000
		97,700			97,700

Prepare cash flow statement from the balance sheet as at 31st March, 2021

Illustration 5.

Particularss	Note no.	2021 ₹	2020 ₹
1. Equity and liabilities			
(i) Shareholders' fund			
Share capital		4,00,000	4,00,000
Reserve and surplus	1	2,20,000	1,20,000
2. Non-current liabilities			
Long-term borrowing	2	4,80,000	3,80,000
3. Current liabilities			
(a) Short-term borrowing	3	60,000	40,000
(b) Trade payable		1,40,000	80,000
(c) Short-term provisions	4	1,00,000	80,000
II Assets		14,00,000	11,00,000
1. Non-current assets			
Fixed Assets			
(i) Tangible assets	5	8,60,000	7,40,000
(ii) Intangible assets	6	20,000	30,000
2. Current Assets			
(i) Inventories		2,00,000	1,10,000
(ii) Trade Receivables		1,80,000	1,00,000
(iii) Cash and cash equivalent		1,10,000	80,000
(iv) Other current assets		30,000	40,000
		14,00,000	11,00,000

Notes to Accounts

Particulars	2021	2020
1. Reserve and surplus		
General reserve	70,000	40,000
Balance in statement of profit & loss	1,50,000	80,000
	2,20,000	1,20,000
2. Long term borrowing		
10% debenture	3,00,000	2,00,000
Mortage loan	1,80,000	1,80,000
	4,80,000	3,80,000
3. Short-term borrowing		
Bank overdraft	44,000	20,000
Cash credit	16,000	20,000
4. Short-term provision	60,000	40,000
Provision for tax	1,00,00	80,000
5. Fixed assets- Tangible		
Land and building	2,80,000	5,20,000
Machinery	5,80,000	2,20,000
6. Fixed assets- Intangible	8,60,000	7,40,000
Branding	20,000	30,000
7. Other current assets Accrued income	30,000	40,000

Additional Information:

(i) Gain on sale of land and building ₹40,000

(ii) Depreciation on machinery @10% p.a. on last year balance

(iii) Interest paid ₹50,000.

Solution: Net profit before tax and extraordinary items:

	₹
Net profit (1,50,000 – 80,000)	70,000
Add: General Reserve (70,000 – 40000)	30,000
Provision for tax	1,00,000
Net Profit before tax & extraordinary items	2,00,000

Land & Building A/C

Dr. **CR.**

Particulars	₹	Particular	₹
To Balance b/d	5,20,000	By bank A/c (Bal. figure)	2,80,000
To statement of profit	40,000	By balance dd	2,80,000
& loss (Gain)			
	5,60,000		5,60,000

Machinery A/C

Particulars	₹	Particular	₹
To Balance b/d	2,20,000	By Dep.	22,000
To bank (bal. figure)	3,82,000	By balance dd	5,80,000
	6,02,000		6,02,000

Cash flow statement for the year ended 31st match, 2021

Particular	**Details**	**Amount**
	₹	₹
(A) Cash flow from operating activities		2,00,000
Net profit before tax and extra ordinary items		
Adjustment for non-cash and non-operating items		
Add: Depreciation	22,000	
Branding written off	10,000	
Interest paid	50,000	

Less: Gain on sale of land and building	(40,000)	42,000
Operating profit before working capital charges		2,42,000
Add: Increase in current liabilities		
Trade payable	60,000	
Accrued income	10,000	
Less: Increase in current assets		
Inventory	(90,000)	
Trade Receivables	(80,000)	(1,00,000)
		1,42,000
Less: tax paid		(80,000)
Net cash flow from operating activities		62,000
(B) Cash flow from investing activities		
sale of land and building	2,80,000	
Purchase of machinery	(3,82,000)	
Net cash used in investing activities	(1,02,000)	(1,02,000)
(C) Cash flow financing activities		
Proceeds from bank overdraft	24,000	
Proceeds from debenture	1,00,000	
Payment of cash credit	(4,000)	
Interest paid	(50,000)	
Net cash flow from financing activities	70,000	70,000
(D) Net increase in cash and cash equivalent (A+B+C)		30,000
(E) Cash and cash equivalent (opening balance)		80,000
(F) Cash and cash equivalent (closing balance)		1,10,000

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:		
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		
Net cash flow from Financing Activities	1,12,500	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

. 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	**₹**	**Particular**	**₹**
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 value are given in the question.

2. Proceeds from issue of shares have been calculated by moving backwards from the figure of net increase in cash and cash equivalent i.e.,

i.e. 15,000 = ₹32,000 + (1,29,500) + cash flow from financing activity.

Illustration 7: Cash flow statement from the following Balance sheet as at 31st March.

Particular	**Note No.**	**2020 ₹**	**2019 ₹**
I. Equity and Liabilities			
(1) Share holder's fund			
(a) Share capital		2,80,000	2,00,000
(b) Reserve and surplus	1	1,12,000	60,000
(2) Non-current liabilities			
(a) Long-term borrowing	2	50,000	50,000
(b) Long-term provisions	3	50,000	40,000
(3) Current liabilities			
(a) Short term borrowing	4	25,000	30,000
(b) Trade payable		83,000	50,000
(c) Short term provision	5	20,000	15,000
Total		6,20,000	4,45,000
II. Assets			
(1) Non-current assets			
(a) Fixed assets			

(i) Tangible assets	6	1,80,000	2,00,000
(ii) Intangible assets	7	10,000	20,000
(b) Non-current investment		2,50,000	1,25,000
(2) Current assets			
(a) Current investments	8	30,000	20,000
(b) Inventories		60,000	30,000
(c) Trade receivables		65,000	30,000
(d) Other current assets	9	13,000	5,000
(e) cash and cash equivalent		12,000	15,000
		6,20,000	4,45,000

Notes of Accounts

	Particular	**2020 ₹**	**2019 ₹**
1.	Reserved and surplus statement of profit& loss	82,000	40,000
	General reserve	30,000	20,000
		1,12,000	60,000
2.	Long-term borrowing-12% loan	50,000	50,000
3.	Long-term provision	50,000	40,000
	provision for depreciation		
4.	Short-term borrowings-bank overdraft	25,000	30,000
5.	Short term provision	20,000	15,000
	Provision for tax		
6.	Fixed assets Tangible	1,80,000	2,00,000
	plant and machinery		
7.	Fixed assets - Intangible trade mark	10,000	20,000
8.	Current investment	30,000	20,000
	short term investment		
9.	Other current assets	13,000	5000
	Prepaid expenses		
10.	Contingent liability	30,000	20,000
	Prosposed dividend		
Additional information:			
	(i) Interest recieved on investment ₹15,000		
	(ii) Intearest paid on bank overdraft ₹2000		

Solution:

Cash flow statement for the year ended 31st march 2020

	Particular	**Details** ₹	**Amount** ₹
(A)	Cash flow from operating activities		
	Net profite before tax and extra ordinary items		
	Profit (₹82,000 – 40,000)	42,000	
	Add: Transfer to reserve	10,000	
	Provision for tax	20,000	
	Prosposed dividend	20,000	92,000
	Adjustment for non-cash and non-operating items		
	Add: Trade mark written off	10,000	
	Depreciation	10,000	
	Interest on loan	6,000	
	Interest on bank overdraft	2,000	28,000
			1,20,000
	Less: Interest on investment		15,000
	Operating profit before working capital charges		1,05,000
	Add: Increase in current liabilities		
	Creditors		33000
			1,38,000
	Less: Increase in current assets		
	Inventory	30,000	
	Trade Receivables	35000	
	Prepaid expences	8,000	(73,000)
			65,000
	Less: payment of tax		15,000
	Net cash flow from operating activities		50,000
(B)	Cash flow from investing activities		
	Interest on investment received	15,000	

	Sale of plant & machinery	20,000	
	Purchase of investment	(1,25,000)	
	Net cash used in investing activities	(90,000)	(90,000)
(C)	Cash flow financing activities		
	Issue of share capital	80,000	
	Repayment of bank overdraft	(5,000)	
	Interest on loan	(6,000)	
	Interest on bank overdraft	(2,000)	
	Dividend paid	(20,000)	
	Net cash from financing activities	47,000	47,000
(D)	Net increase in cash and cash equivalent (A+B+C)		7,000
(E)	Cash and cash equivalent in the beginning (20,000 + 15000)		35,000
	Cash and cash equivalent at the end		42,000

Note: Cash and cash equivalent 12000
Current investement 30,000
42000

Illustration 8: Following was the Balance of vasudha Ltd. an 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 Vasudha 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

Dr.l **Accumlated Dep. A/c** **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. 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) Reserve end Surplus: Surplus, i.e., Balance in statement of Profit & Loss	1	3,50,000	2,00,000
2. Non-Current Liabilities			
Bank Loan		50,000	1,00,000
3. Currant Liabilities			

(a) Trade 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 and 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 Provisions 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 was charged on Equipment.

CASH FLOW STATEMENT for the year ended 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:		
Depreciation on Equipment	18,000	

Patents amortised	5,000	
Loss on sale of Equipment	12,000	
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 Equivalents		2,30,000

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary 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 BankA/c	1,00,000	By BankA/c (Sale)—Balancing Figure	**70,000**
		By Loss on Sale of Equipment A/c (Statement of Profit and Loss)	2,000
		By Balance c/d	5,00,000
	6,00,000		6,00,000

PRACTICE QUESTIONS

Q.1 From the following Balance sheets of zeal Ltd. Prepare cash flow statement.

Particular	**Note No.**	**31.3.2021 ₹**	**31.3.2020 ₹**
I. Equity and Liabilities			
(1) Share holder's fund			
(a) Share capital		6,60,000	6,00,000
(b) Reserve and surplus		50,000	60,000
(2) Non-current liabilities			
Long-term borrowing		50,000	80,000
(3) Current liabilities			
(a) Short term borrowing	1	10,000	-
(b) Trade payable		1,94,000	2,48,000
(c) Short term provision	2	60,000	48,000
		10,24,000	10,36,000
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets		5,20,000	4,00,000
(ii) Intangible assets	3	15,000	1,20,000
(b) Non-current investment		1,28,000	1,00,000
(2) Current assets			
(a) Inventories		1,25,000	1,40,000
(b) Trade receivables		1,96,000	2,60,000

(c) Cash and cash equivalent		40,000 10,24,000	16,000 10,36,000

Notes to Accounts

	Particular	31.3.2021 ₹	31.3.20 ₹
1.	Short-term borrowing	10,000	–
	Bank overdraft		
2.	Short term provision:	60,000	48,000
	Provision for tax		
3.	Intangible assets:	15,000	1,00,000
	Good will	15,000	20,000
	Patents		1,20,000

Additional information:

(i) Machinery whose original cost was ₹1,00,000 (accummulated deprecation thereon ₹64,000) was sold for ₹20,000.

(ii) Depreciation on machinery charged during the year ₹50,000

(iii) Non-current investments costing ₹40,000 were sold for ₹64,000 during the year.

(iv) Interest paid on long-term borrowing ₹6,000.

Sol. Cash from operating activities ₹1,80,000

cash used in investing activities ₹1,90,000

Cash from financing activities ₹34,000

Q.2 For each of the following transaction, calculate the resulting cash flow and state the nature of cash flow i.e. operating, investing and financing

(a) Paid ₹4,50,000 to acquire shares in Infosys Ltd. and receive a dividend of ₹30,000 after acquisition.

(b) Acquired machinery for ₹3,00,000 paying 30% down payment and executing a bond for the balance payable.

(c) A machine with a book value of ₹50,000 provision for dep. on it ₹10,000 sold at a loss 20% on book value.

(d) The patents of Roxy Ltd. increased from ₹4,00,000 to ₹6,50,000 in 2020-21.

(e) 10% Debenture- ₹2,00,000 in 2019-20.

10% Debenture- ₹2,50,000 in 2020-21

(f) Y LTD. purchased a machinery of ₹50,00,000 in instalments under hire purchase system, paid ₹5,00,000 towards Principal payment and ₹50,000 towards interest.

Solution:

(a) Cash used in investing activity ₹4,20,000

(b) ₹90,000 cash used in investing

(c) Cash from investing activity ₹40,000

(d) Cash used in investing activity ₹2,50,000

(e) Cash flow from financing activity ₹27,500

(f) Cash used investing activity ₹5,00,000

Cash used in financing activity ₹50,000

Q. 3 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.4 Classify the following for a non-finance company into (i) Operating activity (ii) Investing activities (iii) Financing activities

(a) Issues of preference shares

(b) Purchase of fixed asset

(c) Loan raised

(d) Repayment of loan

(e) Interest received

(f) Dividend received

(g) Dividend paid

(h) Payment of Interest

(i) Issue of debenture

(j) Repayment of debenture

(k) Payment of salary, wages

(l) Bank overdraft raised

(m) Purchase of goodwill

(n) Royalty and commission

Solution:

Operating- k, n

Investing activity- b,e,f,m

Financing activity- a,c, d, g, h, i, j, l

Q.5. Interest recived on debenture would result in inflow, outflow or no flow of cash?

Ans. Inflow of cash

Q.6. Vinod Ltd. Is carrying on a paper manufacturing business. In the current year, it purchased machinery for ₹30,00,000, paid salaries of ₹30,000 to its employes, issued shares of 20,00,000 for expansion. It earned a profit of ₹4,00,000 for the current year. Find out cash flow from operating activities.

Ans. ₹40,000

Q.7. Cash flow statement is also known as

Ans. The other name of cash flow statement is "statement of changes in financial position on cash basis" and statement accounting for variation in cash.

Q.8. Loans and advances granted by a company will be considered as which type of activity?

Ans. Investing Activity

Q,9. Ram, a customer deposited ₹500 into bank Which type of activity will it be considered while preparing cash flow statement?

Ans. Operating Activity

Q.10. Purchase of fixed assets on long term deferred payment would result in inflow, outflow or no flow of cash?

Ans. No flow of cash

Q.11. Which of the following is not included in cash & cash equivalent?

(a) Cash in hand

(b) Bank balance

(c) Bank deposit with 100 days of maturity

(d) Cheque and drafts in hand

Ans. (c) Bank deposit with 100 days of maturity

Q.12. Payment of bonus to an employee by an insurance company is what type activity?

(a) Financing (b) Investing

(c) Operating (d) Operating and financing

Ans. (c) Operating

Q.13. Which of the following transaction will not result into flow of cash?

(a) Purchase of fixed assets for ₹7,00,000

(b) Repayment of mortgage loan ₹10,00,000

(c) Issue of equity shares ₹5,00,000

(d) Cash deposited into bank ₹1,00,000

Ans. (d) Cash deposited into bank ₹1,00,000

Q.14. Fill in the blank with oppropriate answer:

(a) Net profit for the year is ₹3,00,000 and bills payable on 31.3.2020 were 80,000 and om 31.3.2021 were ₹1,00,000 cash flow from operating activities ....

(b) Marketable securities is shown under .... in a cash flow statement.

(c) Receipt of insurance claim for loss of stock by earthquake is shown under .... activities in a cash flow statement.

(d) Payment of preliminary expenses is shown under .... activities in a cash flow statement.

(e) Cash reciept from sale of debenture of other companies is shown under .... in a cash flow statement.

SAMPLE PAPER ACCOUNTANCY (2020-21)

General Instructions:

1. This question paper comprises **two** Parts **- A** and **B.** There are **32** questions in the question paper. **All** questions are compulsory.
2. **Part A** is **compulsory** for all candidates.
3. **Part B** has two options i.e. (1) Analysis of Financial Statements and (2) Computerized Accounting. You have to attempt only **one** of the given options.
4. Question nos. **1** to **13** and **23** to **29** are very short answer type questions carrying **1** mark each.
5. Question nos. **14** and **30** are short answer type-I questions carrying 3 marks each.
6. Question nos. **15** to **18** and **31** are short answer type-II questions carrying 4 marks each.
7. Question nos. **19, 20** and **32** are long answer type-I questions carrying **6** marks each.
8. Question nos. **21** and **22** are long answer type-II questions carrying **8** marks each.
9. There is no overall choice. However, an internal choice has been provided in **2** questions of three marks, **2** questions of four marks and **2** questions of eight marks.

Part-A

Accounting for Not for Profit organizations. Partnership firms and Companies)

1. Which of the following items is not dealt through Profit and Loss Appropriation Account? 1

   a. interest on Partner's Loan

   b. Partner's Salary

   c. Interest on Partner's Capital

   d. Partner's Commission

2. For which of the following situations, the old profit sharing ratio of partners is used at the time of admission of a new partner? 1

   a. When new partner brings only a part of his share of goodwill.

   b. When new partner is not able to bring his share of goodwill.

   c. When, at the time of admission, goodwill already appears in the balance sheet.

   d. When new partner brings his share of goodwill in cash.

3. Reserve Capital is not a part of: 1

   (a) Authorized Capital (b) Subscribed capital

   (c) Unsubscribed capital (d) Issued Share Capital

4. Sports Star Charitable club has income of ₹16,000 and 'deficit' debited to capital fund of ₹4,300 for the year 2019-20, then expenditure for the year 2019-20 is: 1

   (A) ₹11,700 (B) ₹4,300 (C) ₹20,300 (D) None of these

5. At the time of dissolution of partnership firm, journal entry for the settlement of loan advanced by the firm to a partner would be: 1

a	Bank A/c To Loan to Partner A/c	Dr.
b	Loan to partner A/c To Bank A/c	Dr.
c	Realization A/c To Loan to Partner A/c	Dr.
d	None of these	

6. A company forfeited 4,000 shares of ₹10 each on which application money of ₹3 has been paid. Out of these 2,000 shares were reissued as fully paid up and ₹4,000 has been transferred to capital reserve. Calculate the rate at which these shares were reissued. 1

a. ₹10 Per share

b. ₹9 Per share

c. ₹11 Per share

d. ₹8 Per share

7. On the basis of the following data, how much final payment will be made to a partner on firm's dissolution? Credit balance of capital account of the partner was ₹50,000. Share of loss on realization amounted to ₹10,000. Firm's liability taken over by him was for ₹8,000. 1

a. ₹32,000

b. ₹48,000

c. ₹40,000

d. ₹52,000

8. Arun and Vijay are partners in a firm sharing profits and losses in the ratio of 5:1. 1

Balance Sheet (Extract)

Liabilities		*Assets*	
		Machinery	40,000

If value of machinery in the balance sheet is undervalued by 20%, then at what value will machinery be shown in new balance sheet:

(a) ₹44,000 (b) ₹48,000 (c) ₹32,000 (d) ₹50,000

9. Rex, Tex and Flex are partners in a firm in the ratio of 5:3:2. As per their partnership agreement, the share of deceased partner is to be calculated on the basis of profits and turnover of previous accounting year. Tex expired on 31st December 2019. Turnover till the date of death was ₹18,00,000. Their profits and turnover for the year 2018-19 amounted to ₹4,00,000 and ₹20,00,000 respectively. 1

An amount of ₹___________ will be given to his executors as his share of profits till the date of death.

10. Retirement or death of a partner will create a situation for the continuing partners, which is known as: 1

A. Dissolution of Partnership

B. Dissolution of partnership firm

C. Winding up of business

D. None of the above

11. A, B and C are partners. C expired on 18th December 2019 and as per agreement surviving partners A and B directed the accountant to prepare financial statements as on 18th December 2019 and accordingly the share of profits of C (deceased partner) was calculated as ₹12,00,000. Which account will be debited to transfer C's share of profits: 1

a. Profit and Loss Suspense Account.

b. Profit and loss Appropriation Account.

c. Profit and loss Account.

d. None of the above.

12. E, F and G are partners sharing profits in the ratio of 3:3:2. As per the partnership agreement, G is to get a minimum amount of ₹ 80,000 as his share of profits every year and any deficiency on this account is to be personally borne by E. The net profit for the year ended 31st March, 2020 amounted to ₹3,12 ,000. Calculate the amount of deficiency to be borne by E? 1

a. ₹1,000

b. ₹4,000

c. ₹8,000

d. ₹2,000

13. Pick the odd one out: 1

a. Rent to partner.

b. Manager's Commission.

c. Interest on Partner's Loan.

d. Interest on Partner's capital.

14. From the following information, calculate the amount to be charged to Income and Expenditure Account for 'Sports material consumed' for the year 2019-20. 3

Particulars	Amount (₹)
Stock of Sports material (01-04-2019)	60000
Amount paid to creditors (during 2019-20)	3.00,000
Creditors for Sports Materials (01-04-2019)	1,00,000
Creditors for Sports Materials (31-03-2020)	80000
Sports Material sold During the year (Book Value Rs.35,000)	15000
Cash Purchases of Sports Material (During the Year 2019-20)	1,30,000
There was zero stock at the end of financial year 2019-20.	

Or

Calculate the amount of Subscription to be credited to Income and Expenditure account for the year 2019-20.

PARTICULARS	AMOUNT (₹)
Amount received during the year (including ₹ 20,000 for 2018-19, ₹30,000 for 2020-21 and ₹ 10,000 for 2021-22)	7.80.000
Subscription received in advance as on 01-04-2019 (including ₹15,000 for 2020-21)	35000
Subscription in arrears as on 01-04-2019	40000
Subscription in arrears as on 31-03-2020	50000
Out of subscription in arrears on 01-04-2019, ₹15,000 are no longer recoverable.	

15. Rohit, Raman and Raina are partners in a firm. Their capital accounts on 1st April, 2019, stood at ₹2,00,000, ₹1,20,000 and ₹1,60,000 respectively. Each partner withdrew ₹15,000 during the financial year 2019-20. As per the provisions of their partnership deed: 4

(a) Interest on capital was to be allowed @ 5% per annum.

(b) Interest on drawings was to be charged @ 4% per annum.

(c) Profits and losses were to be shared in the ratio 5:4:1.

The net profit of ₹72,000 for the year ended 31st March 2020, was divided equally amongst the partners without providing for the terms of the deed.

You are required to pass a single adjustment entry to rectify the error (Show workings clearly).

OR

A & B are partners in the ratio of 3:2. The firm maintains fluctuating capital accounts and the balance of the same 31-03-2020 amounted to ₹1,60,000 and ₹1,40,000 for A and B respectively. Their drawings during the year were ₹30,000 each.

A per partnership deed interest on capital @10% p.a. on opening capitals had been provided to them. Calculate opening capitals of partners given that their profits were ₹90,000. Show your workings clearly.

16. From the following information complete Journal entries. 4

Date	Particulars	L F	Debit (₹)	Credit (₹)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Calls in Arrears A/c (Being____?____shares forfeited for non-payment of ₹___?___including premium of ₹2 per share)		**?** 1000	 **?** 3,500
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being____?____shares reissued at ₹9 per share as fully paid)		**?** **?**	 **?**
	Share forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture money transferred to capital reserve)		600	 600

Dr. Share forfeiture A/c Cr.

Date	Particulars	Amount	Dale	Particulars	Amount
	To Share Capital A/c To Capital reserve A/c To Balance c/d	? 600 600		By Share Capital A/c	1500
		1500			1500

(Face value of share is ₹10 each)

17. Pass necessary journal entries in the following cases on the dissolution of a partnership firm of partners X, Y, A and B: 4

(i) Realization expenses of ₹ 5,000 were to borne by X, a partner. However, it was paid by Y.

(ii) Investments costing ₹ 25,000 (comprising 1000 shares), had been written off from the books completely. These shares are valued at ₹20 each and were divided amongst the partners.

(iii) Y's loan of ₹50,000 settled at ₹48,000.

(iv) Machinery (book value ₹6,00,000) was given to creditor at a discount of 20%.

18. Ajay, Binod and Chandra entered into partnership on 1st April 2019 with a capital of ₹3,00,000, ₹2,00,000 anc ₹1,00,000 respectively. In addition to capital Chandra has advanced a loan of ₹1,00,000. Since they had no agreement to guide them, they faced following issues during and at the end of the year. 4

1. Ajay wanted interest on capital to be provided @8% pa but Binod and Chandra did not agree.

2. Chandra wanted that interest on loan be paid to him @ 10% pa but Ajay and Binod wanted to pay @ 5% pa.

3. Ajay and Binod demanded to share profits in the ratio of their capital contribution, Chandra is not in agreement with this proposal.

4. Binod, being working partner, demands a lump sum payment of ₹40,000 as remuneration for which other others partners are not in agreement.

You are required to suggest and help them resolve these issues.

19. From the following Receipts and Payments Account of Krish Fitness and wellness Club for the year ended 31st March 2020, prepare Income and Expenditure Account. 6

Receipts and Payments Account Dr.
For the year ending 31st March, 2020 Cr.

Receipts	Amount	Payments	Amount
To Balance b/d	85,000	By Doctors and Coaches Honorarium	25,000
To Subscription	68,500	By Medicines	15,500
To Entrance Fees	25,000	By Medical Equipment	30,000
To Life Membership Fees	30,000	By General Expenses	8,000
To Donations for tournament fund	20,000	By Furniture	20,000
To Sale of old Medical equipment		By Newspaper	8,000
(Book Value ₹ 15,000)	5,000	By Rent, Rates and Taxes	5,000
To Miscellaneous Receipts	15,000	By Tournament expenses	60,000
		By Balance c/d	77,000
	248500		248500

Additional Information:

Following opening balances appeared in the books on 1st April, 2019.

(a) Tournament fund ₹15,000.

(b) Medical Equipment ₹1,50,000.

(c) Outstanding Subscription was ₹8,000 and Advance Subscription ₹5,000 (for 2019-20).

During the year 2019-20 Depreciation on medical equipment was ₹25,000.

There were 600 members each paying an annual subscription of ₹100.

20. i) Neeraj Ltd. took over business of Ajay enterprises on 1-04-2020. The details of the agreement regarding the assets and liabilities to be taken over are: 6

Particulars	Book Value (₹)	Agreed Value (₹)
Building	20,00,000	35,00,000
Plant and Machinery	12,00,000	8,00,000
Stock	4,00,000	4,00,000
Trade recevables	5,00,000	4,00,000
Creditors	2,00,000	3,00,000
Outstanding Expenses	50,000	1,00,000

it was decided to pay for purchase consideration as 7, 00,000 through Cheque and balance by issue of 2,00,000, 9% Debentures of ₹20 each at a premium of 25%. Journalize.

ii) On April 1, 2019 Z Ltd. issued, 10,000, 8% Debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. Give journal entries for the issue of debentures and writing off loss on issue of debentures.

21. Sunaina and Tamanna are partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet as at 31st March, 2020 stood as follows: 8

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Plant 8i Machinery	1,20,000
Sunaina 60,000		Land and Building	1,40,000
Tamanna 80,000	1,40,000	Debtors 1,90,000	
Current Accounts:		Less: Provision for	
Sunaina 10,000		Doubtful debts (40,000)	1,50,000
Tamanna 30,**000**	40,000	Stock	40,000
General Reserve	1,20,000	Cash	30,000
Workmen's Compensation Reserve	50,000	Goodwill	20,000
Creditors	1,50,000		
	5,00,000		5,00,000

They agreed to admit Pranav into partnership for l/5th share of profits on 1st April, 2020, on the following terms:

(a) All Debtors are good.

(b) Value of land and building to be increased to ₹1,80,000.

(c) Value of plant and machinery to be reduced by ₹20,000.

(d) The liability against Workmen's Compensation Fund is determined at ₹20,000 which is to be paid later in the year.

(e) Mr. Anil, to whom ₹40,000 were payable (already included in above creditors), drew a bill of exchange for 3 months which was duly accepted.

(f) Pranav to bring in capital of ₹1,00,000 and ₹10,000 as premium for goodwill in cash. Journalize.

Or

Krish, Vrish and Peter are partners sharing profits in the ratio of 3:2:1. Vrish retired from the firm. On that date the Balance Sheet of the firm was as follows :

Balance Sheet as on March 31, 2020

Liabilities	(₹)	Assets	(₹)
Creditors	15,000	Bank	7,600
General Reserve	12,000	Furniture	41,000
Bills Payable	12,000	Stock	9,000
Outstanding Salary	2,200	Premises	80,000
Provision for Legal Damages	6,000	Debtors 6,000 Less: Provision for Doubtful Debts 400	5,600
Capitals			
Krish	46,000		
Vrish	30,000		
Peter	20,000		
	1,43,200		1,43,200

Additional Information :

- Premises to be appreciated by 20%, Stock to be depreciated by 10% and Provision for doubtful debts was to be maintained @5% on Debtors. Further, provision for legal damages is to be increased by ₹1,200 and furniture to be brought up to ₹45,000.
- Goodwill of the firm is valued at ₹42,000.
- ₹26,000 from Vrish's Capital account be transferred to his loan account and balance to be paid through bank; if required, necessary loan may be obtained from bank.
- New profit sharing ratio of Krish and Peter is decided to be 5:1.

Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet.

22. Zocon Ltd. issued a prospectus inviting applications for 5,00,000 equity shares of ₹10 each issued at a premium of 10% payable as: 8

₹3 on Application

₹5 on Allotment (including premium) and ₹3 on call.

Applications were received for 6, 60,000 shares.

Allotment was made as follows:

(a) Applicants of 4, 00,000 shares were allotted in full.

(b) Applicants of 2, 00,000 shares were allotted 50% on pro rata basis.

(c) Applicants of 60,000 shares were issued letters of regret.

A shareholder to whom 500 shares were allotted under category (a) paid full amount on shares allotted to him along with allotment money. Another shareholder to whom 1,000 shares were allotted under category (b) failed to pay the amount due on allotment. His shares were immediately forfeited. These shares were then reissued at ₹14 per share as ₹7 paid up. Call has not yet been made. Journalise.

Or

X Ltd. has offered 50000 equity shares of ₹100 each at a premium of ₹20, payable as follows: Application ₹50

Allotment ₹40 (including premium)

and balance on first and final call.

The bank account of the company has received ₹35, 00,000 on account of share application money. X Ltd. decided to allot shares to all the applicants on Pro Rata basis. The balance in calls in arrears account at the time of allotment and first and final call amounted to ₹1, 00,000 and ₹1, 50,000 respectively. These shares were forfeited and re-issued at ₹90 per share as fully paid up. Journalize.

Part-B
(Analysis of Financial statements)

23. **Balance Sheet (Extract)**

Equity and liabilities	31-3-2019	31-3-2020
12% Debentures	2,00,000	1,60,000

Additional Information: 1

Interest on debentures is paid on half yearly basis on 30th September and 31st March each year. Debentures were redeemed on 30th September 2019.

How much amount (related to above information) will be shown in Financing Activity for Cash Flow Statement prepared on 31" March 2020?

A. Outflow ₹40,000.

B. Inflow ₹42,600.

C. Outflow ₹61,600.

D. Outflow ₹64,000

24. What will be the Current ratio of a company whose Net Working Capital is Zero?

25. Which of the following is not a part of Finance Cost (in statement of profit and loss)?

(a) Bank Charges (b) Interest Paid on Debentures

(c) Interest Paid on Public Deposits (d) Loss on Issue of Debentures

26. Which of the following is not an investing cash flow? 1

A. Purchase of marketable securities for ₹25,000 cash.

B. Sale of land for ₹28,000 cash.

C. Sale of 2,500 shares (held as investment) for ₹15 each.

D. Purchase of equipment for ₹500 cash.

27. Proposed dividend is a ____________ liability. 1

28. The ________ may indicate that the firm is experiencing stock outs and lost sales. 1

a. Average payment period

b. Inventory turnover ratio

c. Average collection period

d. Quick ratio

29. Current ratio of Vidur Pvt. Ltd. is 3:2. Accountant wants to maintain it at 2:1. Following options are available, 1

(i) He can repay Bills Payable

(ii) He can purchase goods on credit

(iii) He can take short term loan

Choose the correct option

(a) Only (i) is correct

(c) Only (i) and (iii) are correct

(b) Only (ii) is correct

(d) Only (ii) and (iii) are correct

30. Calculate proprietary ratio, if Total assets to Debt ratio is 2:1. Debt is ₹5,00,000. Equity shares capital is 0.5 times of debt. Preference Shares capital is 25% of equity share capital. Net profit before tax is ₹10,00,000 and rate of tax is 40%. 1

Or

From the following information, calculate 'Interest Coverage Ratio.

Profit after interest and tax ₹7,50,000

Rate of income tax 25%

9 % Debentures ₹8,00,000

31. Prepare a comparative Statement of Profit and Loss from the following: 4

Particulars	31.03.19 (")	31.03.20 (")
Revenue From operations	20,00,000	25,00,000
Cost of materials Consumed	10,00,000	13,00,000
Other Expenses	--nil--	1,20,000
Tax rate	50%	50%

Or

From the following Balance Sheet of R Ltd., Prepare a Common Size Statement

Balance Sheet of R Ltd. (as at 31s: March, 2020).

Particulars	Note no.	31.3.2020 (₹)	31.3.2019 (₹)
1 EQUITY AND LIABILITIES			
1. Shareholder's Funds:			
a. Share Capital		2,50,000	2,00,000
b. Reserve and Surplus		80,000	60,000
2. Current Liabilities:			
a. Trade Payable		70,000	40,000
Total		**4,00,000**	**3,00,000**
II ASSETS			
1. Non-Current Assets:			
a. Fixed Assets:			
i. Tangible Assets		1,60,000	1,20,000
ii. Intangible Assets		20,000	30,000
2. Current Assets			
a. Inventories		80,000	30,000
b. Trade Receivables		1,20,000	1,00,000
C. Cash and Cash Equivalents		20,000	20,000
Total		**4,00,000**	**3,00,000**

32. Prepare Cash flow statement on the basis of information given in the Balance sheets of Relga Ltd. as at 31st March, 2019 and 31st March, 2020. 6

Particulars		Note No.	31.3.2020 (₹)	31.3.2019 (₹)
I. Equity and Liabilities				
1.	Shareholder's Funds			
	(a) Share Capital		2,00,000	2,50,000
	(b) Reserves and Surplus	1	50,000	70,000
2.	Non-current Liabilities			
	Long-term Borrowings	2	1,00,000	80,000
3.	Current Liabilities			
	(a) Trade Payables	**3**	60,000	1,60,000
	(b) Other Current Liabilities	4	25,000	20,000

Note to Accounts

Particulars	31st March 2019	31st March 2020
II. Assets	4,35,000	5,80,000
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	1,50,000	2,00,000
(ii) Intangible Assets	10,000	2,000
(b) Long term loans and Advance	1,00,000	1,30,000
2. Current Assets		
(a) Inrentories	70,000	90,000
(b) Trade Receivables	40,000	60,000
(c) Cash and cash Equivalents	65,000	98,000
Total	4,35,000	5,80,000

Particulars	31st March 2019	31st March 2020
1. Reserves and Surplus General Reserve	50.000	70.000
2. Long-term Borrowings 12% Debentures	1,00,000	80,000
3. Trade Payables Creditors Bills Payable	40,000 20,000	60,000 1,00,000
	60,000	1.60.000
4. Other Current Liabilities Outstanding Expenses	25.000	20,000
5. Tangible Fixed Assets Machinery *Less:* Provision for Depreciation	2,00,000 (50,000) 1.50,000	2,60,000 (60.000) 2.00.000
6. Intangible Fixed Assets Goodwill	10.000	2.000

Additional Information:

1. During the year a piece of machinery with a book value of ₹30,000; provision for depreciation on it ₹10,000 was sold at a loss of 50% on book value.
2. Debentures were redeemed on 31st March 2020.

Part-B
(Computerised Accounting)

23. What is meant by 'Primary Key'? 1

24. Computerised Accounting system takes (i) _________ as inputs which are processed through (ii) _________ to generate reports. 1

25. A cell reference that holds either row or column constant when the formula or function is copied to another location is known as : 1
    (A) Absolute cell reference
    (B) Ranges
    (C) Relative cell reference
    (D) Mixed cell reference

26. The data is classified for creating groups of accounts in the heads of: 1
    (A) Assets, Liabilities and Capital
    (B) Assets, Owners' equity, Revenue and Expenses
    (C) Assets, Capital, Liabilities, Revenue and Expenses
    (D) Capital, Revenue and Expenses

27. Al: E2 in Excel refers to : 1
    (A) Column on Excel sheet
    (B) Row on Excel sheet
    (C) Column between start and end points of Excel sheet
    (D) Alphabets between A to E on Excel sheet.

28. Name the data element in accounting transaction. 1

29. Which of the following is not a limitation of Computerised Accounting system? 1
    (A) Data may be lost or corrupted due to power interruptions.
    (B) Data is prone to hacking.
    (C) Data is not made available to everybody.
    (D) Unprogrammed and un-specified reports cannot be generated.

30. Explain 'Null Values' and 'Complex Attributes'. 3

    OR

    Explain any three types of vouchers used for entry in Tally software with the help of examples.

31. Explain 'Sequential' and 'Mnemonic' codes. 4

    Or

    What is meant by a graph? Explain any three of its advantages.

32. Identify the error that appears when there are invalid numeric values in a formula or function. How can this error be rectified? Explain. 6

Part-A

(Accounting for Not for Profit organizations, Partnership firms and Companies)

1. Answer: a. Interest on Partner's Loan 1
2. Answer: c. When, at the time of admission, goodwill already appears in the balance sheet. 1
3. Answer: (c) Unsubscribed capital 1
4. Answer: (C) ' 20,300 1
5. Answer: a. 1

a.	Bank A/c	Dr.
	To Loan to Partner A/c	

6. Answer: b. '9 Per share 1
7. Answer: b. '48,000 1
8. Solution: (d) '50.000 1
9. Answer: '1,08,000 1
10. Solution : A. Dissolution of Partnership 1
11. Answer: b. Profit and loss Appropriation account. 1
12. Solution: d. '2,000 1
13. Answer: d. Interest on Partner's capital. 1
14. Solution : 3

Dr. Creditors for Sports Materials A/c Cr.

Particulars	Amount	Particulars	Amount
To Bank/Cash A/c	300000	By Balance b/d	100000
		By Vendors (Credit purchase of sports	
		material)	280000
To Balance C/d	80000		
	380000		380000

Table for calculation of Sports Material Consumed:

Credit Purchase of Sports Material	280000
Add: Cash Purchase of Sports material	130000
Add: Stock of Sports material (01-04-2019)	60000
Less: Book Value Of sports material sold during the year	(35000)
Sports material consumed during the year (Amount t/f to Income and Expenditure account)	435000

(1+2=3 marks)

Calculation of Sports material consumed by alternative methods should be accepted.

OR

Solution:

Dr. Subscription A/c Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d (arrears in Beginning)	40000	By Balance b/d (advance in beginning)	35000
To Income and Expenditure A/c	785000	By Receipts and payments A/c	780000
To Balance C/d (advance at end)	55000	By Income and Expenditure A/c	15000
		By Balance C/d (arrears at end)	50000
	880000		880000

15. Solution: 4

Journal

Date	Particulars	L.F.	Debit (*)	Credit ()
31.3.20	Raina's Capital A/c Dr.		11,410	
	To Rohit's capital A/c			10,150
	To Raman's Capital A/c (Being adjustment entry passed)			1,260

Adjustment Table

Particulars	Rohit	Raman	Raina	Firm
1. Interest on Capital	10,000	6,000	8,000	(24,000)
2. Interest on Drawings	(300)	(300)	(300)	900
3. Profit Wrongly Distributed in equal ratio	(24,000)	(24,000)	(24.000)	72,000
Total	(14,300) 24450	(18,300) 19560	(16300) 4890	(48,900) 48900
Distribution of profit in the ratio of 5:4:1 Net Effect	10,150	1,260	(11410)	—

(1.5+2.5 = 4 marks

Or

Solution:

Calculation of Opening Capital

Particulars	A	B
Closing Capital	1,60,000	1,40,000
Add: Drawings	30,000	30,000
Less: Profits	(37,800)	(25,200)
	1,52,200	1,44,800
Less: Interest on Capital	13,836	13,164
Opening Capital	1,38,364	1,31,636

Total Closing Capital (of A and B) = 1,60,000 + 1,40,000 = Add : Total Drawing (of A and) = Less : Profits (including interest on Capital) =	'3,00,000 '60,000 ('90,000)
Total Capital in the beginning of the year =	**2,70,000**

Interest on Capital = 10% of 2,70,000 = Divisible profits = 90,000 - 27,000 =	'27,000 '63,000

(2+2 = 4 marks)

16. Solution:

Date	Particulars	L.F.	Debit (`)	Credit (`)
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Calls in Arrears A/c (Being 500_shares forfeited for non-payment of "_7_per share including premium of '2 per share). 1/2		4,000 1/2 1,000	1,500 1/2 3,500
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being_300 _1/2_shares reissued at '9 per share as fully paid).		2,700 1/2 300 1/2	3000 1/2
	Share forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture money transferred to capital reserve)		600	600

Dr. Share forfeiture A/c Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Share Capital A/c	300			
	To Capital reserve A/c	600		By Share Capital A/c	1500
	To Balance c/d	600			
		1500			1500

Journal

S.no	Particulars	L.F.	Debit (`)	Debit (`)
(i)	X's Capital A/c Dr. To Y's Capital A/c (Being Realization expenses of'. 5,000 were to be borne by X, whereas, paid by Y.)		5,000	5,000

(ii)	X's Capital A/c Dr Y's Capital A/c Dr A's Capital A/c Dr B's Capital A/c Dr To Realization A/c (Investments taken over by all partners)		5,000 5,000 5,000 5,000	 20,000
(iii)	Y's Loan A/c Dr. To Bank A/c To Realization A/c (Y's loan of '50,000 settled at' 48,000)		50,000	 48,000 2,000
(iv)	No Entry			

(1x4 = 4)

18. Answer: 4

1. In the absence of Partnership deed, the provisions of partnership act 1932 will apply according to which no interest on capital is payable.
2. In the absence of partnership deed, the provisions of partnership act 1932 will apply according to which interest on loan by partner will be paid @6% pa.
3. In the absence of partnership deed, the provisions of partnership act 1932 will apply according to which profits will be shared equally.
4. In the absence of partnership deed, the provisions of partnership act 1932 will be applicable according to which no salary/remuneration is payable to any partner.

19. Solution:

Dr. Income & Expenditure A/c
for the year ending 31st March, 2020 Cr.

Expenditure	Amount	Income	Amount
To Loss on Sale of Medical Equipment $^{1/2}$	10,000	By Subscription $^{1/2}$	60,000
To Doctors and Coaches Honorarium $^{1/2}$	25,000	By Entrance Fees $^{1/2}$	25,000
To Medicine Consumed $^{1/2}$	15,500	By Miscellaneous Receipts $^{1/2}$	15,000
To Depreciation on Medical Equipment $^{1/2}$	25,000	By Deficit (excess of expenditure over income)$^{1/2}$	21,500
To General Expenses $^{1/2}$	8,000		
To Newspaper $^{1/2}$	8,000		
To Rent, Rates & Taxes $^{1/2}$	5,000		
To Tournament Expenses $^{1/2}$	25,000		
	1,21,500		1,21,500

Journal of Neeraj Ltd.

Solution:
i)

Date	Particulars	L.F.	Debit (`)	Credit (`)
	Building A/c Dr.		35,00,000	
	Plant & Machinery A/c Dr.		8,00,000	
	Stock A/c Dr.		4,00,000	
	Trade Receivables A/c Dr.		4,00,000	
	Goodwill A/c Dr.		10,00,000	3,00,000
	To Creditors A/c			1,00,000
	To Outstanding Expenses A/c			57,00,000
	To Ajay Enterprises A/c			
	(Being assets and liabilities of business taken over, recorded at agreed value)			
	Ajay Enterprises A/c Dr.		57,00,000	7,00,000
	To Bank A/c			40,00,000
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			
	(Being purchase consideration paid to Ajay enterprises)			

(1.5+1.5 = 3 marks)

ii)

Journal of Z Ltd.

Date	Particulars	L.F.	Debit (`)	Credit (`)
2019 Apr-01	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 20,000 8% debentures)		21,00,000	21,00,000
Apr-01	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c To Bank A/c (Being debentures allotted and the balance refunded)		21,00,000 1,00,000	10,00,000 50,000 1,00,000 10,50,000
2020 Mar-31	Securities Premium Reserve A/c Dr. Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written off)		50,000 50,000	1,00,000

21. Solution :

Journal

Date		L.F.	Debit	Credit
1st April'20	Revaluation A/c Dr. To Plant and Machinery A/c (Being plant and machinery revalued)		20000	20000
1st April'20	Land and Building A/c Dr. Provision for Doubtful debts A/c Dr. To Revaluation A/c (Being land and building revalued and provision for doubtful debts written back)		40000 40000	80000
1st April'20	Creditors A/c Dr. To Bills Payable A/c (Being Bills accepted from Mr. Anil)		40000	40000

1st April'20	Revaluation A/c Dr. To Sunaina's current A/c To Tamanna's current A/c (Being profit on revaluation credited to partners current account)		60000	 36000 24000
1st April'20	Sunaina's current A/c Dr. Tamanna's current A/c Dr. To Goodwill A/c (Being Goodwill written off)		12000 8000	 20000
1st April'20	Cash A/c Dr. To Pranav's Capital A/c To Premium for Goodwill A/c (Being capital and premium brought in by new partner)		110000	 100000 10000
	Premium for Goodwill A/c Dr. To Sunaina's current A/c To Tamanna's current A/c (Being Premium distributed among sacrificing partners)		10000	 6000 4000
1st April'20	General Reserve A/c Dr. To Sunaina's current A/c To Tamanna's current A/c (Being reserve distributed among old partners)		120000	 72000 48000
1st April'20	Workmen Compensation Reserve A/c Dr. To Claim for workmen compensation To Sunaina's current A/c To Tamanna's current A/c (Being provision for workmen compensation provided and balance reserve distributed among old partners)		50000	 20000 18000 12000

Dr. **Revaluation A/c** Cr.

Particulars	(₹)	Particulars	(₹)
To Stock	900	By Premises	16,000
To Provision for legaal damages	1,200	By Provision for Doubtful Debts	100
To Capital A/c. (Profit)		By Furniture	4,000
Krish 9,000			
Vrish 6,000			
Peter 3,000	18,000		
	20,100		20,100

Dr. Partners' Capital Accounts Cr.

Particulars	Krish	Vrish	Peter	Particulars	Krish	Vrish	Peter
ToVrish's Capital A/c	14,000			By Balance b/d.	46,000	30,000	20,000
ToVrish's Loan A/c		26.000		By General Reserve A/c	6,000	4,000	2,000
To Bank A/c		28,000		By Revaluation A/c	9,000	6,000	3,000
				By Krish's Capital A/c		14,000	
To Balance c/d	47,000		25,000				
	61,000	54,000	25,000		61,000	54,000	25,000

Balance Sheet of Krish and Peter
(As at 1" April 2020)

Liabilities	Amount (')	Assets	Amount (')
Creditors	15,000	Furniture	45,000
Bank Loan	20,400	Stock	8,100
Bills Payable	12,000	Premises	96,000
Outstanding Salary	2,200	Debtors 6,000	
Provision For Legal Damages	7,200	*Less: Provision for Doubtful Debts* 300	5,700
Vrish's Loan A/c	26,000		

Capitals			
Krish	47,000		
Peter	25,000		
	1,54,800		1,54,800

(2.5+3+2.5)

22 Solution: **Journal** (0.5+1+1+2+1.5+1+1 = 8 mark)

S.No.	Particulars	L.F.	Debit (')	Credit (')
1.	Bank A/c Dr. To Equity Share Application A/c Being application money received)		19,80,000	 19,80,000
2.	Equity Share Application A/c Dr. To Equity Share capital A/c To Equity Share Allotment A/c To Bank A/c Dr. (Being Shares allotted and balance refunded)		19,80,000	 15,00,000 3,00,000 1,80,000
3.	Equity Share Allotment A/c Dr. To Equity Share capital A/c To Securities Premium Reserve A/c (Being Share allotment money including premium due)		25,00,000	 20,00,000 5,00,000
4.	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c To Calls in Advance A/c (Being allotment money received)		21,99,500 2,000	 22,00,000 1,500

5.	Equity Share Capital A/c Dr. Securities premium Reserve A/c Dr. To Shares Forfeited A/c To Calls In Arrears A/c (Being 1000 shares forfeited for non-payment of allotment including premium.)		7,000 1,000	 6,000 2,000
6.	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being forfeited shares reissued at' 14 per share)		14,000	 7,000 7,000
7.	Shares Forfeited A/c Dr. To Capital Reserve A/c (Being share forfeited money transferred to Capital Reserve account)		6,000	 6,000

Or

S.No.	Particulars	L.F.	Debit (')	Credit (')
1.	Bank A/c Dr. To Equity Share Application A/c (Being application money received)		35,00,000	35,00,000
2.	Equity Share Application A/c Dr. To Equity Share capital A/c To Equity Share Allotment A/c (Being Shares allotted on proportionate basis and excess amount received on application adjusted towards allotment)		35,00,000	25,00,000 10,00,000

3.	Equity Share Allotment A/c Dr. To Equity Share capital A/c To Securities Premium Reserve A/c (Being Share allotment money including premium due)		20,00,000	 10,00,000 10,00,000
4.	Bank A/c Dr. Calls in Arrears A/c To Equity Share Allotment A/c (Being allotment money received, except for 5,000 shares)		9,00,000	 1,00,000 10,00,000
5.	Equity Share First and Final call A/c Dr. To Equity Share capital A/c (Being share first and final call money due)		15,00,000	 15,00,000
6.	Bank A/c Dr. Calls in Arrears A/c To Equity Share First and Final call A/c (Being first and final call money received .except for 5,000 shares)		13,50,000 1,50,000	 15,00,000
7.	Equity Share Capital A/c Dr. Securities premium Reserve A/c To Shares Forfeited A/c To Calls In Arrears A/c (Being 5000 shares forfeited for non-payment of allotment money and first and final call money)		5,00,000 1,00,000	 3,50,000 2,50,000

8.	Bank A/c Dr. Shares Forfeited A/c To Share Capital A/c KBeing forfeited shares reissued at' 90 per share, as fully paid up)		4,50,000 50,000	 5,00,000
9.	Shares Forfeited A/c Dr. To Capital Reserve A/c (Being share forfeited money transferred to Capital Reserve)		3,00,000	 3,00,000

(0.5+1+1+1+1+1+1+1+0.5)

Part-B

(Analysis of Financial statements)

23. Answer: C. Outflow '61,600. 1

24. Answer: 1:1 1

25. Answer: (a) Bank Charges 1

26. Answer: A. Purchase of marketable securities for '25,000 cash. 1

27. Answer: Contingent 1

28. Solution: b. Inventory turnover ratio 1

29. Answer: (a) Only (i) is correct 1

30. Solution: 3

Proprietary Ratio = Proprietor's Fund /Total Assets (1/2)

Total Assets = Debts x 2 = '5,00,000 x 2

= '10,00,000 (1)

Proprietor's Funds = Equity Share Capital + Preference Share Capital + Surplus

= (5,00,000 x 0.5) + (5,00,000 x 0.5 x 25%) + (10,00,000 - 40% of 10,00,000)

= 2,50,000 + 62,500 + 6,00,000 (1)

= '9,12,500

Proprietary Ratio = 9,12,500 / 10,00,000

= 0.912 : 1 (1/2)

Or

Solution:

Interest coverage Ratio = Profit before Interest and Tax / Interest on Long term Debts Profit after Interest and Tax = ₹7,50,000

+ Tax = ₹2,50,000

Profit before Tax = ₹10,00,000 (1)

+ Interest on debenture = ₹72,000

= 10.72,000 (1)

Interest coverage Ratio = $\frac{10,72,000}{72,000}$ =14.89 times (1/2)

31. **Solution :**

Comparative Statement of Profit and Loss
for the years ended March 31, 2019 and 2020

Particulars	Note No	2018-19	2019-20	Absolute Change	Percentage Change
I. Revenue From operations		20,00,0000	25,00,000	5,00,000	25.00
II. Total revenue Less: Expenses		20,00,000	25,00,000	5,00,000	25.00
III. Cost of material Consumed IV. Other Expenses		10,00,000 –	13,00,000 1,20,000	3,00,000 1,20,000	30.00 –
Total expenses		10,00,000	14,20,000	4,20,000	42.00
V. Profit before tax (II - IV) Less: Tax @ 50%		10,00,000 5,00,000	10,80,000 5,40,000	80,000 40,000	8.00 8.00
VI. Profit after Tax		5,00,000	5,40,000	40,000	8.00

Or

Solution :

Common Size Balance sheet of R Ltd.
(as at 31-03-19 and 31-03-2020)

Particulars	Note no.	31.3.2019 (`)	31.3.2020 (`)	31.3.2019 (%)	31.3.2020 (%)
1 EQUITY AND LIABILITIES					
1. Shareholder's Funds:					
a. Share Capital		2,00,000	2,50,000	66.67	62.5
b. Reserves and Surplus		60,000	80,000	20	20
2. Current Liabilities:					
a. Trade Payable		40,000	70,000	13.33	17.5
Total		**3,00,000**	**4,00,000**	**100**	**100**
II ASSETS					
1. Non-Current Assets:					
a. Fixed Assets:		1,20,000	1,60,000	40	40
i. Tangible Assets		30,000	20,000	10	5
ii. Intangible Assets					
2. Current Assets					
a. Inventories		30,000	80,000	10	20
b. Trade Receivables		1,00,000	1,20,000	33.33	30
c. Cash and Cash Equivalents		20,000	20,000	6.67	5
Total		**3,00,000**	**4,00,000**	**100**	**100**

32. **Solution :**

Cash flow Statement of Relga Ltd.
(As per As-3 revised)

Particulars	Details (')	Amount (')
Operating Activities		
Profit before Tax and Extra-ordinary items	20,000	
Non-Operating and Non-cash items		
Loss on Sale of Machinery	15,000	
Depreciation Charged on Machinery	20,000	

Goodwill amortized	8,000	
Interest on Debentures	12,000	
Operating profit before changes in working capital Changes in working Capital	**75,000**	
Increase in creditors	20,000	
Increase in Bills Payable	80,000	
Decrease in outstanding expenses	(5,000)	
Increase in inventories	(20,000)	
Increase in trade receivables	(20,000)	
Cash inflow from operating activities Investing Activities		**1,30,000**
Sale of Machinery	15,000	
Purchase of Machinery	(1,00,000)	
Loans advanced	(30,000)	
Cash used in investing activities Financing Activities		**(1,15,000)**
Issue of shares	50,000	
Debentures Redeemed	(20,000)	
Interest on Debentures	(12,000)	
Cash from financing activities		**18,000**
Net Cash inflow during the year		**33,000**
Add: opening Cash and cash equivalents		**65,000**
Closing Cash and Cash equivalents		**98,000**

Dr. **Machinery A/c** Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	2,00,000	By Bank A/c	15,000
To Bank A/c (balancing figure)	1,00,000	By Profit 8tLoss A/c	15,000
		By Provision for Depreciation A/c	10,000
		By Balance c/d	2,60,000
	3,00,000		3,00,000

Dr. **Provision for Depreciation A/c** **Cr.**

Particulars	Amount	Particulars	Amount
To Machinery A/c	10,000	By Balance b/d	50,000
To Balance c/d	60,000	By Depreciation A/c (balancing figure)	20,000
	70,000		70,000

Part-B

(Computerised Accounting)

23. Answer: Primary key is a key in the relational database that is unique for each record. It consists of minimum possible one or more than one attributes of a table such as telephone number with area code. 1

24. Answer: Computerised Accounting system takes (i) Accounting transactions as inputs which are processed through (ii) Accounting software to generate reports. 1

25. Answer: (a) Absolute cell reference. 1

26. Answer: (C) Assets, Capital, Liabilities, Revenue and Expenses 1

27. Answer: (c) Column between start and end points of txcei sntwi. 1

28. Answer: A data element is the smallest named unit of data in the information system. In accounting, a transaction consists of four data elements, such as name of the account, accounting code, date of transaction and amount. 1

29. Answer: (c) Data is not made available to everybody. 1

30 Answer: Null Values: 3

Absence of data item is represented by a special value called null value. There are three situations which may require the use of null value.

- When particular attribute does not apply to an entity.
- Value of an attribute is unknown although it exist.
- Unknown because it does not exist.

Complex Attributes :

These are composite and multivalue attributes which may be nested (or grouped) to constitute complex ones. The parenthesis { } are used for showing grouping of components of composite attributes. The braces { } are used for showing the multivalue attributes.

OR

Answer: Types of vouchers (any three)

(i) Contra voucher: Used for fund transfer between cash and Bank A/c only. This voucher is used if cash is withdrawn from Bank for office or deposited in the Bank from office.

(ii) Receipt Voucher: All the inflow of money is recorded through receipt voucher. Such receipts may be towards any income such as receipts from Debtors, loan/advance taken or refund of loan/advance etc.

(iii) Payment Voucher: All outflow of money is recorded through payment voucher such payments may be towards any purchases, Expenses, due to creditors, loan/advance etc.

(iv) Journal Voucher: It is an adjustment voucher, normally used for non-cash transactions like adjustment between ledgers.

31. **Answer:** 4

Sequential codes

These are the codes in which code numbers and/or letters are assigned in a consecutive order. These codes are applied primarily to source documents such as cheques, invoices etc. This facilitates document searches. This process enables either identification of missing codes (numbers) relating to a particular document or to trace a relevant document on the basis of the codes.

Mnemonic codes

These codes consist of alphabets or abbreviations as symbols to codify a piece of information. SJ for sales journal, HQ for Headquarters are examples of mnemonic codes.

Or

Answer: A Graph is a pictorial presentation of data which has at least two dimensional relationships. Three advantages:

1. Graphs help to explore
2. Graphs help to present
3. Graphs help to convince

   (with suitable explanation)

32. Answer:

The error is #NUMI Error. The steps to correct it are:

1. Optionally, click the cell that displays the error, click the button that appears and then click show calculation steps.
2. Review the following causes and solutions:
   - Using an unacceptable argument in the function that requires a numeric argument.
   - Make sure that the arguments used in the function are numbers.
   - Using a worksheet function that iterates, such as IRR or RATE, and the function cannot find the result.
   - Use a different starting value for the worksheet function.
3. Then click the Microsoft button >Excel option and then click the formulas category.

Class-XII

Accountancy

General Instructions **Maximum Marks: 80**

1. This question paper comprises two parts- A and B. There are 32 questions. All questions are compulsory.
2. There is no overall choice. However, an internal choice has been provided in 2 questions of three marks, 2 questions of four marks and 2 questions of eight marks.

1. Which of the following is not an essential feature of a partnership firm?

   (a) Association of two or more persons

   (b) Compulsory registration

   (c) Mutual agency

   (d) Existence of business

2. In case a partner is assured some guaranteed profit, then in case of deficiency of actual profit as per profit sharing ratio and guaranteed profit to the partner. The deficiency will be borne by

   (a) All the partners in their profit sharing ratio

   (b) Senior partners only

   (c) Remaining partners in the ratio in which they gave guarantee

   (d) All the partners in their sacrificing ratio

3. If amount of premium is not received on the shares to be forfeited, securities premium reserve A/c is ____ at the time of forfeiture of shares.

   (a) debited (b) credited

   (c) not cancelled (d) None of these

4. There are 50 members each paying an annual subscription of ₹ 100, subscription received during the year ₹ 4500; subscription received in advance at the beginning of the year ₹ 200. What amount will be credited to income & expenditure A/c.

   (a) 4000 (b) 4500

   (c) 5000 (d) 5500

5. On A's retirement, stock appeared in the books at ₹ 108000 and building at ₹ 500000. On revaluation, it was found that stock is undervalued by 10%. Net loss on revaluation is estimated at ₹ 50,000. What will be revised value of building?

(a) ₹ 430000 (b) ₹ 450000

(c) ₹ 445000 (d) ₹ 438000

6. Y Ltd. forefeited 4000 shares of ₹ 10 each fully called up for non-payment of first call of ₹ 2 per share and find call of ₹ 2 per share. 1000 of these shares were reissued at 30% discount. What is the net amount in share forfeiture A/c?

(a) ₹ 3000 (b) ₹ 21000

(c) ₹ 17000 (d) ₹ 18000

7. On dissolution, an unrecorded asset of ₹ 100000 was given to an unrecorded creditor of ₹ 150000 in settlement of his claim of ₹ 80000 and the balance was paid to him in cash. Pass necessary journal entry.

8. C, D and K were partners sharing profits in the ratio of 5 : 3 : 2. D retired and on the date of his retirement D's capital (cr.) ₹ 200000 general reserve assisted at ₹ 100000 and profit and loss account (dr.) at ₹ 50000. Compute the net amount that will be credited to D's capital account.

(a) ₹ 218000 (b) ₹ 227000

(c) ₹ 224000 (d) ₹ 215000

9. A firm has assets worth ₹ 700000 and liabilities ₹ 200000. It has earned profit amounting to ₹ 62000 during 2019-20. If the rate of return is 10%, the goodwill of the firm based on capitalisation method will be

(a) ₹ 50000 (b) ₹ 62000

(c) ₹ 120000 (d) ₹ 70000

10. A, B and C were partners in a firm sharing profits in the ratio 2:2:1. On 1st January, 2021, a decided to retire and Q is admitted as a new partner on the same date for 1/4 share of profits. On this date, investments appeared at ₹ 50000 and investment fluctuation reserve at ₹ 12000 while the market value of investment was ₹ 48000 pass journal entry.

11. The total assets are ₹ 100000 and outside liabilities are ₹ 25000. If during dissolution, assets realized 85% and expenses of dissolution paid were ₹ 250. The profit or loss on realization will be _____.

12. Ram withdrew ₹ 10000 at the end of each month for 6 months. Interest on his drawing @ 10% p.a. will be

(a) ₹ 4750 (b) ₹ 4250

(c) ₹ 4500 (d) None of these

13. Ram, Naresh and Sonam were partners in a firm sharing profits 3:2:1. Ram died on July 10, 2020. Sales and profit of 2019 were ₹ 300000 and ₹ 45000 respectively. If sales from April 1 to July 10, 2020 was ₹ 120000. Ram's share of profit would be on the basis of lost 4 years profit to sales

(a) ₹ 18000 (b) ₹ 9000

(c) ₹ 12000 (d) ₹ 14000

14. Roxe Ltd. disclosed that it received ₹ 130000 by way of subscription during 2020.

Additional information

(i) Subscription outstanding 2019 (of which ₹ 3000	
received during 2020)	₹ 4000
(ii) Advance subscription 2019	₹ 3500
(iii) Advance subscription 2020	₹ 2400
(iv) Subscription due for the year 2020	₹ 1500

Show how the subscription will appear in income and expenditure account and in balance sheeet of that year.

Or

(i) Show the following information in the final accounts of Lion's club as on 31st March, 2020

Sports fund	₹ 50000
Sports expenses	₹ 64000
Donation for sports fund	₹ 10000
Sale of tickets of sports match	₹ 8000

(ii) What will be the impact if sports expenses increase by ₹ 9000 in case (i)?

15. Aman, Baman and Chaman were partners in a firm on 01-04-2020 their capitals stood at ₹ 400000, ₹ 200000 and ₹ 200000 respectively. As per the provisions of partnership deed.

(a) Aman was entitled for a salary of 5000 pm.

(b) Partners were entitled to interest on capital @ 5% p.a.

(c) Profits were to be shared in the ratio of capitals.

The net profits for the year ended 31-03-2021 of ₹ 300000 was divided equally without providing for the above terms.

Pass an adjustment entry to rectify the above error.

Or

Maanika, Bhavi and Komal are partners sharing profits in the ratio of 6:4:1. Komal is guaranteed a minimum profit of ₹ 200000. The firm incurred a loss of ₹ 2200000 for the year ended 31st March, 2021. Pass necessary journal entry regarding deficiency borne by Maanika and Bhavi and prepare profit & loss appropriation account.

16. C Ltd. issued 15000 equity shares of ₹ 50 each at 20% premium. The amount payable as follows. 4

Application of ₹ 10, allotment ₹ 30 (₹ 20 + ₹ 10 premium), first call ₹ 15 and final call ₹ 5.

A shareholder holding 300 shares did not pay final call. His shares were forfeited. Out of these, 200 shares were reissued at ₹ 55 per share.

Present the share capital as per schedule III of companies act, 2013.

17. The firm of Raj, Kamal and Sudhir was dissolved on 31-03-2020. Pass necessary journal entries for the following after various assets (other than cash and bank) and the third party liabilities has been transferred to realization account. 4

(a) Kamal agreed to pay off his wife loan of ₹ 6000.

(b) Total creditors of the firm were ₹ 40000. Creditors worth ₹ 10000 were given a piece of furniture costing ₹ 8000 in full settlement. Remaining creditors allowed a discount of 10%.

(c) A machine that was not recorded in the books was taken over by Kamal at ₹ 3000 whereas its expected value was ₹ 5000.

(d) The firm had a debit balance of ₹ 15000 in the profit and loss account on the date of dissolution.

18. On 31st, March 2020, the balance sheet of Punit, Rahul and Seema was as follows;

Balance sheet of Punit, Rahul and Seema

as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital		Buildings	40,000
Punit 60,000		Machinery	60,000
Rahul 50,000		Patents	12,000
Seema 30,000	1,40,000	Stock	20,000

Creditors	14,000		
Reserves	20,000	Cash	42,000
	1,74,000		1,74,000

They were sharing profits in the ratio 5:3:2.

Seema retires on 1st October, 2020 on the following terms.

(a) Goodwill be valued at 2 years purchase of the average profits of the previous five years, which were 2019-20 ₹ 30,000; 2018-19 ₹ 26,000; 2017-18 ₹ 24,000; 2016-17 ₹ 30000; 2015-16 ₹ 40,000.

(b) Patents be valued at ₹ 16,000; Machinery at ₹ 56,000; Building at ₹ 60,000

(c) Profits for the year 2020-21 be taken as having been accrued at the same rate as that in the previous year.

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

(e) A sum of ₹ 15,500 was paid to her and balance be transferred to her loan account.

Pass necessary journal entries.

19. Prepare income and expenditure account for the year ended 31st, March, 2021 from the following information.

Receipts and Payment Account

for the year ended March 31, 2021

Receipts	₹	Payments	₹
To Balance b/d	41,000	By salaries and	
		wages	
		2019-20 4,800	
		2020-21 83,200	88,000
To subscription		By sundry expenses	37,000
2019-20 7200		By freehold land	2,64,000
2020-21 3,37,600		By stationary	16,000
2021-22 12,000	3,56,800	By rates	24,000
To entrance fee	16,000	By refreshment expenses	37,500
To locker rent	58,000	By balance c/d	53,300
To revenue from refreshment	48,000		
	5,19,800		5,19,800

The following information is provided

(a) There are 1800 members each paying an annual subscription of ₹ 200, ₹ 8000 were in arrears for 2019-20 as on April 1, 2020.

(b) On 31st March, 2021 the rates were prepaid to June 2021; the charges paid every year being ₹ 24000.

(c) Stock of stationary as on March 31, 2020 was ₹ 2000; on March 31, 2021, it was ₹ 3600.

(d) On 31st March, 2020 building stood at ₹ 4,00,000 and it was subject to depreciation @ 2.5% p.a.

20. (i) Sharma Ltd. bought the business of Verma Ltd. on 1st April, 2021 having Sundry assets of ₹ 2,80,000 and creditor ₹ 20,000; bills payable ₹ 20,000 and outstanding expenses ₹ 10,000. ₹ 50,000 was paid in cash; ₹ 60,000 by way of draft and the balance by the issue of 6% debenture of ₹ 100 each issued at a premium of 20% on 3rd April, 2021. Pass necessary journal entries in the books of Sharma Ltd.

(ii) On April 1, 2019 Z Ltd. issued 10,000, 8% debenture of ₹ 100 each at a premium of 5%, to be reedeamable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was over subscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium reserve has not been utilized for any other purpose during the year. Give journal entries for the issue of debentures and writting off loss on issue of debentures.

3+3=6

21. Naresh and Mahesh are partners sharing profits in 3/5:2/5. They admit Vikas on April, 2020 when their balance sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	45,000	Cash at Bank	15,000
General reserve	36,000	Debtors 60,000	
		Less: Provision 2,400	
			57,600
Capital A/c		Patents	60,400
Naresh 1,80,000		Investments	24,000
Mahesh 90,000	2,70,000	Fixed Assets	2,00,000
Current A/c:		Goodwill	30,000

Naresh 30,000			
Mahesh 6,000	36,000		
	3,87,000		3,87,000

Vikas is admitted on the following terms:

(a) Provision for doubtful debts maintained at 5% on debtors; outstanding rent amount to ₹ 15,000.

(b) An accured income of ₹ 4500 doesn't appear in the books of the firm it is now to be recorded.

(c) Naresh takes over investments at an agreed value of ₹ 18,000.

(d) New profit sharing ratio is 4:3:2.

(e) Vikas will bring ₹ 60,000 as capital in cash.

(f) Vikas is to pay an amount equal to his share in firm's goodwill valued at twice the average profits of the last three years ended 31st March, 2018, 2019 and 2020 which were ₹ 90,000, ₹ 78,000 and ₹ 75,000 respectively.

(g) Half of the goodwill withdrawn by Naresh and Mahesh.

Pass journal entries for the above transactions.

Or

Abhay, Binay and Charu are partners sharing profit 3:2:1. Balance sheet of the firm as at 31st March, 2020 stood as follows;

Liabilities	₹	Assets	₹
Creditors	21,000	Cash at Bank	5750
Workmen	12,000	Debtors 40,000	
compensation reserve		Less: Provision 2,000	
Investment fluctuation reserve	6,000		38,000
		Stock	30,000
Capital A/c s		Investment (Market	
Abhay 68,000		value ₹ 17,600	15,000
Binay 32,000		Patents Machinery	10,000 50,000
Charu 21,000	1,21,000	Advertisement	
		expenditure	6,000
		Goodwill	5,250
	1,60,000		1,60,000

Charu retired on April 1, 2020 on the following terms:

(a) Goodwill be valued at ₹ 34,800

(b) Value of patents be reduced by 20% and that of machinery to 90%.

(c) Provision for debtors be maintained at 6%.

(d) Charu took over investments at market value.

(e) Liability for ₹ 6,000 included in creditors is not likely to be paid.

(f) Revaluation expenses paid by firm ₹ 2,000.

(g) ₹ 5,000 to be paid immediately 50% of the balance within one year and the balance by a bill of exchange.

22. Z Ltd. issued 1,00,000 shares of ₹ 10 each, at a premium of ₹ 3 per share payable as under:

On application : ₹ 1

On allotment : ₹ 5 (including premium)

On first call : ₹ 3

On final call : ₹ 4

All the money payable on application, allotment and calls have been received with the following exceptions:

Ali who holds 1,000 shares has not paid money due on allotment and calls.

Bina who holds 500 shares has not paid both the calls.

Charu who holds 300 shares has not paid the final call.

All these 1800 shares were forfeited and subsequently, reissued for cash at a discount of 10 percent.

Pass necessary journal entries.

Or

X Ltd. has offered 50,000 equity shares of ₹ 100 each at a premium of ₹ 20 payable as follows:

Application ₹ 50

Allotment ₹ 40 (including premium)

and balance on first and final call.

The bank account of the company has received (₹ 35,00,000 on account of share application money. X Ltd. decided to allot shares to all the applicants on pro-rata basis. The balance in calls-in-arrears account at the time of allotment and first and final call amount to

₹ 1,00,000 and ₹ 1,50,000 respectively. These shares were forfeited and re issued at ₹ 90 per share fully paid-up. Journalise,

23. A mutual find company pays a dividend of ₹ 20 lakh to its unit holders. while preparing cash flow statement, this payment will be shown as what type of activity.

24. Match the following.

1. Liquidity ratio	(a) Gross profit ratio and operating ratio
2. Solvency ratio	(b) Current ratio and acid test ratio
	(c) Working capital ratio and working capital turn over ratio
	(d) Debt equity ratio and proprietory ratio

25. Which analysis is considered as dynamic?

(a) Internal analysis (b) External analysis

(c) Horizontal analysis (d) Vertical analysis

26. A manufacturing company values its self-generated goodwill as ₹ 1,00,000 lakh and purchases patents ₹ 50,000. While preparing cash flow statement under what head (activities) will these transactions be recorded?

27. Unclaimed dividend is a ______ liability.

28. If the operating ratio is 82%, then operating profit ratio will be ____

29. Financial statements measures the effect of change in prices (True/ False)

30. From the following information, calculate inventory Turn over ratio:

	₹
Purchase	10,80,000
Wages	60,000
Rent paid	1,20,000
Revenue from operation	10,00,000
Opening inventory	1,40,000
Gross loss	5% on revenue from operation

Or

Give the major head and sub-head under which the following items will be shown in a company's balance sheet as per schedule III part I of companies act, 2013.

(i) Trade payable

(ii) Calls-in-Advance

(iii) Loose tools

(iv) share forfeited Account

(v) Interest accrued on Investment

(vi) Mortgage loan

31. From the following statement of profit & loss of Raichand Ltd. for the year ended 31st March, 2020 and 2021, prepare a common size statement.

Particular	2020-21 ₹	2019-20 ₹
Revenue from operation	25,00,000	20,00,000
Employee benefit	10,00,000	7,50,000
Other expenses	20% of employee benefit expenses	33.33% of employee benefit expenses
Tax rate @ 40%		

Or

Fill in the missing figure in the following.

Comparative statement of profit and loss

for the year ended 31st March, 2020 and 2021

Particulars	Note No.	2017-18 ₹	2018-19 ₹	Absolute change (Increase or decrease) ₹	Percentage change (Increase or decrease %)
I. Revenue from operation		20,00,000	-	-	25
II. Add : Other income		4,00,000	-	-	(25)
III. Total revenue I-II		-	-	-	-
IV. Less: Expenses		-	19,20,000	3,20,000	-
V. Profit before tax (III-IV)		-	-	-	-

32. Following is the balance sheet of X Ltd. as at March, 2021

X Ltd.
Balance Sheet
as at 31st March, 2021

Particulars	Note No.	31.03.2021 ₹	31.03.2020 ₹
I. Equity and Liabilities			
1. Shareholder's funds:			
(a) Share capital		19,00,000	17,00,000
(b) Reserve and Surplus	1	6,00,000	3,00,000
2. Non-current liabilities:			
Long-term Borrowing	2	5,00,000	4,00,000
3. Current liabilities			
(a) Short term borrowing	3	1,70,000	1,75,000
(b) Short term provisions	4	2,00,000	1,65,000
Total		33,70,000	27,40,000
II. Assets			
1. Non-current Assets			
(a) fixed assets:			
(i) Tangible Assets	5	24,00,000	19,00,000
(ii) Intangible Assets	6	2,00,000	3,00,000
2. Current Assets			
(a) Current assets		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and Cash equivalent		70,000	40,000
Total		33,70,000	27,40,000

Notes to accounts

Particulars	31.03.2021 ₹	31.03.2020 ₹
1. Reserve and surplus		
Surplus i.e. balance in statement	6,00,000	3,00,000

of profit and loss A/c	6,00,000	3,00,000
2. Long-term borrowings 12%	5,00,000	4,00,000
long-term loan	5,00,000	4,00,000
3. Short-term borrowing:	1,70,000	1,75,000
Bank overdraft	1,70,000	1,75,000
4. Short-term provision	2,00,000	1,65,000
Provison for tax	2,00,000	1,65,000
5. Tangible assets:		
Machinery	26,00,000	20,00,000
Less: Accumulated depreciation	2,00,000	1,00,000
	24,00,000	19,00,000
6. Intangible assets:		
Goodwill:	2,00,000	3,00,000
	2,00,000	3,00,000

Additional information:

(i) ₹ 1,00,000, 12% debenture were issued on 1 April, 2020

(ii) During the year, a piece of machinery costing ₹ 80,000 on which accumulated depreciation was ₹ 40,000 was sold at a gain of ₹ 10,000. Prepare cash flow statement.

Answer

1. (b)
2. (c)
3. (a)
4. (5000)
5. (d)
6. (d)
7. Realisation A/c 70,000
   To Cash A/c 70,000
8. (d)
9. (c)
10. Refer to journal entry
11. ₹ 9750 (profit)

12. (b)
13. (a)
14. Refer to NPO
15. Baman Capital A/c Dr. 40,000
    Chaman Capital A/c Dr. 40,000
    To Aman Capital A/c 80,000

    or

    Maanika Capital A/c 2,40,000
    Bhavi Capital A/c 1,60,000
    To Komal Capital A/c 4,00,000
16. Share capital ₹ 7,49,500
17. Refer to journal entries
18. Refer to journal entries
19. Surplus ₹ 2,75,900
    Rates 24000 + 6000 - 6000 = ₹ 24000
20. Refer to journal entries
21. Refer to journal entries

    or

    Balance Sheet total ₹ 1,20,600, Revaluation loss ₹ 800.
22. Capital revenue ₹ 2500

    or

    Capital reserve ₹ 3,00,000
23. Financing activity
24. 1- c
    2- d
25. c
26. Goodwill- Not recorded
    Patent- Investment
27. Current
28. 18%
29. False
30. 5.67 times

or

(i) Current liabilities (ii) Other current liabilities (iii) Current assets

(iv) Shareholder's funds (v) Other current Assets (vi) Non-current liabilities.

31. Refer book

32. Cashflow from operating activities ₹ 4,95,000

    Cashflow used in investing activities ₹ (7,30,000)

    Cashflow from financing Activities ₹ 2,35,000

Practice Paper
SESSION-2020-21
CLASS XII
SUBJECT -ACCOUNTANCY

Time Allowed: 3 Hours **Max. Marks: 80**

General Instructions:

1. This question paper comprises two Parts - A and B. There are 32 questions in the question paper. All questions are compulsory.
2. Question nos. 1 to 13 and 23 to 29 are very short answer type questions carrying 1 mark each.
3. Question nos. 14 and 30 are short answer type-I questions carrying 3 marks each.
4. Question nos. 15 to 18 and 31 are short answer type-II questions carrying 4 marks each.
5. Question nos. 19, 20 and 32 are long answer type-I questions carrying 6 marks each.
6. Question nos. 21 and 22 are long answer type-II questions carrying 8 marks each.
7. There is no overall choice. However, an internal choice has been provided in 2 questions of three marks, 2 questions of four marks and 2 questions of eight marks.

PART A: (Accounting for Not for profit organization, Partnership firm and companies)

1. What entry shall be passed if a debtor shyam for Rs.60000 agreed to pay the dissolution expenses which were Rs.50000 in full settlement of his debt 1
2. Interest on debentures is a__________. 1
3. Mr. Varun, a partner withdraws a equal amount at the end of every month and interest is charged on drawings @ 9% p.a.. If interest on drawings for the year amounts to Rs.4950 then the amount of the drawings at the end of each month must be Rs __________ 1
4. Z Ltd. forfeited 500 shares of Rs. 10 each fully called up for non payment of final call of Rs.3 per share. 400 of these shares were issued as fully paid up and after reissue the amount transferred to capital reserve was Rs.2400. what is the reissue price

(a) Rs.6 per share (b) Rs.8 per share

(c) Rs.7 per share (d) Rs.9 per share 1

5. Drawings out of________are not considered to calculate interest on capital. 1

6. Why a new partner is required to bring premium for goodwill?. 1

7. Amount due to deceased partner is transferred to ________. 1

8. In the Balance sheet Total Debtors appear at Rs.60000 and Provision for Doubtful debt appear at Rs.2500. How much amount will be realized from Debtors, if bad debt amount to Rs.20000 and remaining debtors are realized at a discount of 10%. 1

9. Give one point of difference between a cash book and Receipt & Payment Account.

10. Ratnesh, a partner, is paid remuneration of Rs.25000 for dissolution work. Realisation expenses amounted to Rs 5000 were paid by him. Pass necessary journal entry

11. On Kirti's retirement, Land appeared in the books of the firm at Rs. 160000 and Machinery at Rs.500000. On revaluation, it was found that Land is undervalued by 20% and machinery is overvalued by 25%. There were bad debt amounting to Rs.10000. Loss on revaluation will be

(a) Rs.78000 (b) Rs.103000

(c) Rs.95000 (d) Rs.70000

12. P. Q.R and S are partners. P and Q share 3/4* of the profits in the ratio of 2:1. R and S share remaining profits equally. Profit sharing ratios will be (a) 2:1:1:1 (b) 2:1:2:2 (c) 4:2:1:1 (d) 2:1:2:1

13. Kirti and Preeti are partners with profit sharing ratio of 2:1 and capital of Rs.500000 and Rs.400000 respectively. They are allowed 8% p.a. interest on capital and are charged 10% p.a. interest on their drawings. Their drawings during the year were Rs.80000 and Rs.60000 respectively. Kirti's share of net profit as per profit and loss appropriation account amounted to Rs. 100000. Net profit of the firm before any appropriation was (a) Rs.208000 (b) Rs.215000 (c)Rs.179000 (d) Rs.222000

14 . Calculate the amount of Stationery to be debited to Income & Expenditure Account for the year ended 31st March 2020.

	April 1st 2019	March 31st 2020
Stock of Stationery	25000	18000
Creditors for stationery	10000	15000

Amount paid for stationery during the year 2019-20 Rs. 160000

OR

Subscription credited to Income & Expenditure Account was Rs.200000. Subscription received in advance for next year was Rs. 10000 and received in advance during the previous year was Rs.8000. Subscription in arrears at the end of previous year was Rs.18000 and subscription in arrears at the end of current year was Rs.12000. What was the amount shown in Receipt & Payment Account.

15. L, M and N are partners sharing profits and losses in the ratio of 1:2:3. From April 1st 2020 they decided to share profits in the ratio of 2:3:4. On that date, Profit and Loss account disclosed a debit balance of Rs.60000. Record the necessary Journal entry for above adjustment also calculate sacrificing ratio.

16. X. Y and Z sharing profits and losses in the ratio of 2:2:1. They decide to share profits and losses equally with effect from 1st April. 2020. Following is the extract of their Balance Sheet as on 31st March.2020

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Investment Fluctuation Reserve	50000	Investment (at cost)	200000

Show the accounting treatment (Journal entry) under the following cases

Case (i) if the market value of the investment is Rs.200000

Case (ii) if the market value of the investment is Rs. 180000

Case (iii) if the market value of the investment is Rs. 130000

Case (iv) if the market value of the investment is Rs.275000

OR

A, B and C are partners . their capitals being Rs.300000,Rs.250000 and Rs.200000 respectively. In arriving at these figures, the profits for the year ended 31st March,2020 Rs.240000 has already been credited to the partners in the proportion in which they share profits. Their drawings were X Rs.50000,Y Rs40000 and Z Rs.30000 for the year ending 31st march,2020.Subsequently the following omissions were noticed and it was decided to bring them into account.

(i) Interest on capital @10% p.a.

(ii) Interest on drawings X Rs.2500.Y Rs2000 and Z Rs.1500 Make the necessary journal entry

17. GOENKA Ltd. Issued 6,000 ,8% debentures of Rs.100 each payable as follows On application Rs.30 On allotment Rs.70

    The debentures were fully subscribed and all the money was duly received. As per terms of issue, the debentures are redeemable at Rs.110 per debenture. Record necessary journal entries regarding issue of debentures.

18. Ajay, Vijay and Tanay entered into partnership on 1st April 2019 with a capital of Rs.3,00,000, Rs2,00,000 and Rs 1,00,000 respectively. In addition to capital Chandra has advanced a loan of Rs1,00,000. Since they had no agreement to guide them, they faced following issues during and at the end of the year.

    1. Ajay wanted interest on capital to be provided @8% p.a. but Binod and Chandra did not agree.
    2. Tanay wanted that interest on loan be paid to him @ 10% p.a. but Ajay and Vijay wanted to pay @ 5% pa.
    3. Ajay and Vijay demanded to share profits in the ratio of their capital contribution, Tanay is not in agreement with this proposal.
    4. Vijay, being working partner, demands a lump sum payment of Rs 40,000 as remuneration for which others partners are not in agreement.

    You are required to suggest and help them resolve these issues.

19. From the following Receipt and Payment Account of Club prepare Income and Expenditure account for the year ending March 31, 2020 and a Balance Sheet as at that date

    Receipt and Payment Account

    For the year ending March 31, 2020

Receipt	Amount	Payment	Amount
Cash in hand	6800	Salaries	22000
Subscription	60200	Travelling expenses	8000
Donation	3000	Stationery	2300

Sale of furniture (book value Rs 6000	4000	Rent	16000
Entrance fee	800	Repairs	700
Life membership fee	7000	Books Purchased	6000
Interest on investment @5% for full year	5000	Building Purchased	30000
		Cash in hand	1800
	86800		86800

Additional information :

(i) Subscription received included Rs.2000 for 2018-19 and Rs.3200 for 2020-21

(i) Subscription amounting to Rs.800 is still in arrears for 2018-19 and subscription of Rs.4000 is in arrears for 2019-20

(iii) Three months rent Rs.4000 was due both in the beginning and end of the year

(iv) One month salary is outstanding at the end of the year

(v) On 1-4-2019 club owned books valued at Rs.13500 and Furniture Rs.16000. On 31.03.2020 books were valued at Rs. 16500 and furniture Rs.8000

20. Journalise the following transactions

a) M Ltd. issued ₹ 5,00,000, 12% Debentures of ₹100 each at a premium of 5% redeemable at par.

b) 10 % Debentures were issued at a discount of 10% to a vendor of machinery for payment of ₹5,40,000

c) Issue of 15,000 12% debentures of ₹100 each as collateral in favour of State Bank of India. Company opted to pass necessary entry for issue of debentures.

21. Hungama Ltd invited applications for issuing 80,000 equity shares of ₹100 each at a premium of ₹10. The amount was payable as follows 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. D, who was allotted 1,600 shares, failed to pay allotment money and S 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 D) were issued to for ₹95 per share as

80 paid up. Pass necessary journal entries in books of Hungama Ltd. by opening call in arrear A/c.

Or

a. P 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 A/c.

b. Q 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.

c. R 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 A/c

22. D and P are in partnership sharing profits and losses in the ratio of 3:2 Their Balance Sheet as at 31s' March,2019 was as under

Liabilities	Amount	Assets	Amount
Sundry Creditors	15000	Bank	5000
General Reserve	12000	Debtors 20000	
Capital Account		Less provision 800	19200
D	60000	Trade mark	14800
P	30000	Investment	8000
Current Account		Fixed Tangible	72000
D	10000	Asset	
P	2000	Good will	10000
	129000		**129000**

They admit S on 1st April, 2019 on the following terms

1. A provision of 5% is to be maintained on Debtors
2. Accrued income of Rs.1500 does not appear in the books and Rs.5000 are outstanding for salaries
3. Present market value of investments is Rs.6000. D takes investment at this value

4. New profit sharing ratio is 4:3:2. S will bring Rs.20000 as his capital
5. S is to pay in cash an amount equal to his share in firm's goodwill valued at twice the average profits of the last 3 years which were Rs.30000,Rs.26000 and Rs.25000 respectively.
6 Half the amount of goodwill is withdrawn by old partners.

You are required to prepare Revaluation account. Capital Account, Current account and Balance Sheet of the new firm.

Or

7. X , Y and Z were partners sharing profits and losses in the ratio of 5:3:2. Their Balance sheet as at 1st April.2020 was as follows

Liabilities	Amount	Assets	Amount
Sundry creditors	10000	Cash	2000
Employees	5000	Sundry Debtors	8000
provident fund			
Reserve Fund	6000	Stock	40000
Workman		Furniture	13000
compensation fund	2000		
Capital		Patents	4000
X	50000	Building	60000
Y	35000	Goodwill	6000
Z	25000		
	133000		**133000**

Z retires on above date and the partners agreed that

(i) Goodwill is valued at two year purchase of the average profit of last four years Rs.14400, Rs.20000, Rs.10000(loss), Rs.15600
(ii) 5% provision for doubtful debt to be made on debtors
(iii) Stock is appreciated by 10%
(iv) Patents are value less
(v) Buildings be appreciated by 20%
(vi) Sundry creditors to be paid Rs.2000 more than book value

Prepare Revaluation account, Capital account and Balance Sheet of the new firm.

PART- B

(ANALYSIS OF FINANCIAL STATEMENTS)

23. Current ratio of K ltd. is 2.3:1 and S ltd. is 4:1. Choose the most appropriate options from the followings
    - (a) S ltd is better than K ltd.
    - (b) Both companies are having ideal current ratio
    - (c) K ltd, is better than S ltd.
    - (d) Both the companies are having poor liquidity
24. The debt equity ratio of T ltd is 0.8:1. What is the effect of conversion of Debentures into Preference shares on this ratio(increase / decrease / no change).
25. What is vertical analysis
26. If the current liabilities are Rs.120000, Working capital Rs.360000 and Inventory is Rs 60000. Its liquid ratio will be

(A) 3:1	(B) 3.5:1
(C) 4;1	(D) 4.5:1

27. How does percentage is calculated in common size statement of profit and loss?
28. In cash flow statement issue of debentures for machinery purchased is shown under which activity
29. Give two examples of operating activities.
30. Calculate Debt equity ratio from the following information

Long term borrowing	Rs.1500000	Share capital Rs.1000000
Long term provisions	Rs.300000	Securities premium Rs. 100000
Trade payables	Rs.400000	General Reserve Rs.300000

    Surplus, i.e. Balance in statement of profit and loss Rs.(200000)

    OR

    Under what heading will you show the following items in the financial statement of a company
    - (i) Interest accrued and due on unsecured loan
    - (ii) Interest accrued and due on secured loan
    - (iii) Interest accrued but not due on loan
    - (iv) Bank Charges
    - (v) Loss on issue of debenture written off
    - (vi) Sale of services

31. Following is the information from the Statement of Profit & Loss of LX Limited for the years ended March 31, 2018 & March 31, 2019:

	2018-19	2017-18
Revenue from Operations	1800000	1500000
Other income	60000	30000
Expenses	1040000	870000
Income tax	300000	250000

Prepare Comparative Statement of Profit & Loss of XL Limited.

Or

Prepare a Common-Size Balance Sheet from the following information:

Particular	31s1	31st
	March,2019	March.2018
Revenue from operation	2500000	2000000
Employees benefit expense	1000000	700000
Other expenses	200000	300000
Tax rate 40%		

32. The following is the Balance Sheet of Pavitra Ltd. as at 31st March, 2019, prepare a Cash Flow Statement:

Particulars	Note No.	2018-19 (Rs.)	2017-18 (Rs.)
I. EQUITY AND LIABILITIES			
(1) Shareholders Funds			
(a) Share Capital		12,00,000	11,00,000
(b) Reserves and Surplus	1	3,00,000	2,00,000
(2) Non-Current Liabilities Long-term Borrowings		2,40,000	1,70.000
(3) Current Liabilities			
(a) Trade Payables		1,79,000	2,04,000
(b) Short Term-Provisions		50,000	77,000
Total		**19,69,000**	**17,51,000**
II. ASSETS			
(1) Non-Current Assets			

(a) Fixed Assets			
(i) Tangible Assets	2	10.70,000	850000
(ii) Intangible Assets	3	40,000	112000
(2) Current Assets			
(a)Current Investments		2,40,000	1,50,000
(Marketable Securities)			
(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**

Note to Accounts	2018-19 (Rs.)	2017-18 (Rs.)
(1) Reserves and Surplus:		
Surplus, i.e., Balance in Statement of Profit and loss	3,00,000	2,00,000
(2) Tangible Assets:	1270000	10,00,000
Machinery		
Less: Accumulated Depreciation	(2,00000)	(1.50.000)
	1070000	8,50,000
(2) Intangible Assets:	40,000	1,12,000
Goodwill		

Additional information:

During the year a piece of machinery, costing Rs. 24,000 on which accumulated depreciation was Rs. 16,000, was sold for Rs. 6,000.

Prepare Cash Flow Statement.

MARKING SCHEME
CLASSXII
ACCOUNTANCY

Time: 3 Hrs **MM : 80**

Q 1 No entry 1

Q 2 Charge on profit 1

Q 3 Rs.10000 1

Q 4 (d)Rs.9 per share 1

Q 5 profit 1

Q 6 To compensate old partner for their sacrifice of their profit/ reward for their efforts 1

Q 7 His/her executors A/c 1

Q 8 Rs.36000 1

Q 9 Cash book records chronologically but receipt payment account shows summary 1

10 Realisation A/c 30,000

To Gnesh capital A/c 30,000 1

Q11 Loss on revaluation Rs.70000 1

Q 12 (C) 4:2:1:1 1

Q13 (B) Rs.215000 1

Q14 Stationery consumed Rs. 172000

Or

Subscription Rs.208000 3

Q15 L Capital a/c dr 10,000 M capital a/c dr 20,000 N capital a/c dr 30,000 To profit and loss 60,000 3

Q16 One mark for each correct entry 4

(i) Investment fluctuation reserve Dr50000

To X 20000

To Y 20000

To Z 10000

(ii) Investment fluctuation reserve Dr50000

To X 12000

To Y 12000

To Z 6000

To investment 6000

(iii) Investment fluctuation reserve Dr50000

Revaluation Dr 20000

To investment 70000

(iv) Investment fluctuation reserve Dr50000

To X 20000

To Y 20000

To Z 10000

Or

Opening capital 270000,210000,150000

C capital a/c Dr 5500

To A capital a/c 5500

Q 17 4

Bank A/c Dr.	1,80,000	
To Deb Application		1,80,000
Deb Application Dr To Debentures	1,80,000	1,80,000
Debenture allotment a/c Dr Loss on issue a/c Dr To Debentures To Premium on redemption	4,20,000 60,000	4,20,000 60,000
Bank Dr To Deb. Allotment	4.20.0 00	4,20,000

Q 18 One mark for each correct answer 4

(i) no interest on capital in absence of partnership deed

(ii) interest @ 6% p.a. on advance given by partner to firm

(iii) Equal profit sharing ratio in absence of any agreement

(iv) No salary to any partner in absence of partnership deed

Q19 a) Opening capital fund Rs.135100 4

b) Surplus 9800

c) Closing balance sheet total 161000

Q 20 One mark for each correct entry 6

Q 21 Calls in arrear 24000,168000 8

Share forfeiture 272000

Capital reserve 92000

Share allotted to s 4000

Share applied of D 2400 shares

Proportionate marks for each journal entry as per the weightage /working note

Or

(a) Capital reserve Rs.40,calls in arrear 20

(b) Share forfeiture Rs.1200 , calls in arrear 1200

(c) Capital reserve Rs.100,calls in arrear 150

(Proportionate marks for each journal entry as per the weightaqe)

Q.22 Revaluation loss 5700

Capital balance 60000,30000 and 20000

Balance sheet total 138300

OR

Revaluation profit 9600

Capital balance 53300,36980

C loan 31320

Balance sheet total 138600

Q 23 C 8

Q 24 It will decrease 1

Q 25 When financial statement of single year is analysed it is called vertical analysis

Q 26 3.5:1 1

Q 27 Item value/revenue from operations*100 1

Q 28 Not shown in any activity as no flow of cash is involved 1

Q 29 Any two 1

Q 30 1.5:1 **OR**

(i) Current liabilities/other current liabilities

(ii) Current liabilities/other current liabilities

(iii) Current liabilities/other current liabilities

(iv) other expenses

(v) finance cost

(vi) revenue from operation

Q 31 PAT -410000 (17-18),520000 (18-19)

RFO-20%

Other income 100%

Total revenue 21.57

Expenses 19.54 %

Profit before tax 24.24

Profit after tax 26.83

OR

2017-18	**2018-19**
100	100
35	40
15	8
50	48
50	52
20	20.8
30	31.2

Q 32 Cash Flow from Operating Activities:

Net Profit before tax & extraordinary items 1,00,000

Add: Non-cash and Non-Operating charges

Less:

	Goodwill written off		72,000	
	Depreciation on Machinery (WN- 2)		66,000	
	Loss on sale of machinery(WN-1)		2,000	
	Operating Profit before working changes		2,40,000	
Less:	Increase in Current Assets:			
	Increase m trace receivable 27000			
	Increase in Inventories 8000			
Less:	Decrease in Current Liabilities:			
	Decrease m Trade Payable 25000			
	Decrease in Short Term-Provisions 27000		(87,000)	1,53,00
	Cash generated from Operating Activities	(A)	1,53,000	0
	Cash Flow from Investing Activities:			
	Purchase of Machinery		(2,94,000)	
	Sale of Machinery		6,000	
	Cash used in Investing Activities	(B)	(2,88,000)	(288000)
	Cash Flow from Financing Activities:			
	Issue of Share Capital		1,00,000	
	Money raised from borrowing		70,000	
	Cash Flow from financing activities	(C)	1,70,000	1,70,000
	Net increase in cash and cash equivalents (A+B+C)			35,000
	Acid: Opening balance of cash and cash equivalents:			
	Current Investments		1,50,000	
	Cash and Cash equivalents		3,75,000	
	Closing balance of cash and cash equivalents:			5,25,000
	Current Investments		2,40,000	
	Cash and Cash equivalents		3,20,000	
				5,60,00 0

Machinery A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bal b/d	10,00,000	By Bank A/c	6,000
To Bank A/c (Bal. figure)	2,94,000	By Accumulated Depreciation	16,000
		By Loss on sale of machinery	2,000
		By Bal c/d	12,70,000
	12,94,000		12,94,000

Accumulated Depreciation Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Machinery A/c	16,000	By Balance b/d	1,50,000
To Balance c/d	2,00,000	By Statement of Profit and Loss (Bal. Fig.)	66,000
	2,16,000		2,16,000

SAMPLE QUESTION PAPER (TERM-1) 2021-22

ACCOUNTANCY

SUBJECT CODE: 055

Time Allowed: 90 Minutes **Maximum Marks: 40**

General Instructions:

Read the following instructions very carefully and strictly follow them:

1. This question paper comprises three PARTS – I, II and III. There are 69 questions in the question paper.
2. Part - I -is compulsory for all candidates.
3. Part - II Analysis of Financial Statement and Part -III Computerized Accounting. You have to attempt only one of the given OPTIONS.
4. There is an internal choice provided in each Sections.

I. Part-I, contains three Sections -A, B and C. Section A has questions from 1 to 18 and Section B has questions from 19 to 36, you have to attempt any 15 questions each in both the sections.

II. Part I, Section C has questions from 37 to 41. You have to attempt any four questions.

III. Part II, contains two Sections – A and B. Section A has questions from 42 to 48, you have to attempt any five questions and Section B has questions from 49 to 55, you have to attempt any six questions.

IV. Part III, contains two Sections – A and B. Section A has questions from 49 to 62, you have to attempt any five questions and Section B has questions from 63 to 69, you have to attempt any six questions.

5. All questions carry equal marks. There is no negative marking.

6. Specific Instructions related to each Part and subdivisions (Section) is mentioned clearly before the questions. Candidates should read them thoroughly and attempt accordingly.

Part – I

Section – A

Instructions:

➢ **From question number 1 to 18, attempt any 15 questions.**

1. Gain / loss on revaluation at the time of change in profit sharing ratio of existing partners is shared by_______(i)________whereas in case of admission of a partner it is shared by______(ii)______.
   (A) (i) Remaining Partners, (ii) All Partners.
   (B) (i) All Partners, (ii) Old partners.
   (C) (i) New Partner, (ii) All partner.
   (D) (i) Sacrificing Partner, (ii) Incoming partner.

2. Calculate the amount of second & final call when Abhijit Ltd, issues Equity shares of ₹10 each at a premium of 40% payable on Application ₹3, On Allotment ₹5, On First Call ₹2.
   (A) Second & final call ₹3.
   (B) Second & final call ₹4.
   (C) Second & final call ₹1.
   (D) Second & final call ₹14.

3. Anish Ltd, issued a prospectus inviting applications for 2,000 shares. Applications were received for 3,000 shares and pro- rata allotment was made to the applicants of 2,400 shares. If Dhruv has been allotted 40 shares, how many shares he must have applied for?
   (A) 40
   (B) 44
   (C) 48
   (D) 52

4. Ambrish Ltd offered 2,00,000 Equity Shares of ₹10 each, of these 1,98,000 shares were subscribed. The amount was payable as ₹3 on application, ₹4 an allotment and balance on first call. If a shareholder holding 3,000 shares has defaulted on first call, what is the amount of money received on first call?

   (A) ₹9,000.

   (B) ₹5,85,000.

   (C) ₹5,91,000.

   (D) ₹6,09,000.

5. What will be the correct sequence of events?

   (i) Forfeiture of shares.

   (ii) Default on Calls.

   (iii) Re-issue of shares.

   (iv) Amount transferred to capital reserve.

Options:

   (A) (i), (iv), (ii), (iii)

   (B) (ii), (iv), (i), (iii)

   (C) (ii), (i), (iii), (iv)

   (D) (iii), (iv), (i), (ii)

6. Arun and Vijay are partners in a firm sharing profits and losses in the ratio of 5:1.

Balance Sheet (Extract)

Liabilities	₹	Assets	₹
		Machinery	40,000

If the value of machinery reflected in the balance sheet is overvalued by $33\frac{1}{3}$ %, find out the value of Machinery to be shown in the new Balance Sheet:

(A) ₹ 44,000

(B) ₹48,000

(C) ₹ 32,000

(D) ₹30,000

7. Which of the following is true regarding Salary to a partner when the firm maintains fluctuating capital accounts?

(A) Debit Partner's Loan A/c and Credit P & L Appropriation A/c.

(B) Debit P & L A/c and Credit Partner's Capital A/c.

(C) Debit P & L Appropriation A/c and Credit Partner's Current A/c.

(D) Debit P & L Appropriation A/c and Credit Partner's Capital A/c.

8. At the time of reconstitution of a partnership firm, recording of an unrecorded liability will lead to:

(A) Gain to the existing partners

(B) Loss to the existing partners

(C) Neither gain nor loss to the existing partners

(D) None of the above

9. E, F and G are partners sharing profits in the ratio of 3:3:2. According to the partnership agreement, G is to get a minimum amount of ₹80,000 as his share of profits every year and any deficiency on this account is to be personally borne by E. The net profit for the year ended 31st March 2021 amounted to ₹3,12 ,000. Calculate the amount of deficiency to be borne by E?

(A) ₹1,000

(B) ₹4,000

(C) ₹8,000

(D) ₹2,000

10. At the time of admission of a partner, what will be the effect of the following information?

    Balance in Workmen compensation reserve ₹40,000. Claim for workmen compensation ₹45,000.

    (A) ₹45,000 Debited to the Partner's capital Accounts.
    (B) ₹40,000 Debited to Revaluation Account.
    (C) ₹5,000 Debited to Revaluation Account.
    (D) ₹5,000 Credited to Revaluation Account.

11. In the absence of partnership deed, a partner is entitled to an interest on the amount of additional capital advanced by him to the firm at a rate of:

    (A) entitled for 6% p.a. on their additional capital, only when there are profits.
    (B) entitled for 10% p.a. on their additional capital
    (C) entitled for 12% p.a. on their additional capital
    (D) not entitled for any interest on their additional capitals.

12. Revaluation of assets at the time of reconstitution is necessary because their present value may be different from their:

    (A) Market Value.
    (B) Net Value.
    (C) Cost of Asset
    (D) Book Value.

13. If average capital employed in a firm is ₹8,00,000, average of actual profits is ₹1,80,000 and normal rate of return is10%, then value of goodwill as per capitalization of average profits is:

(A) ₹10,00,000

(B) ₹18,00,000

(C) ₹80,00,000

(D) ₹78,20,000

14. In which of the following situation Companies Act 2013 allows for issue of shares at discount?

(A) Issued to vendors.

(B) Issued to public.

(C) Issued as sweat equity.

(D) None of the above.

15. As per Section 52 of Companies Act 2013, Securities Premium Reserve cannot be utilised for:

(A) Writing off capital losses.

(B) Issue of fully paid bonus shares.

(C) Writing off discount on issue of securities.

(D) Writing off preliminary expenses.

16. Net Assets minus Capital Reserve is:

(A) Purchase consideration

(B) Goodwill

(C) Total assets

(D) Liquid assets

17. Kalki and Kumud were partners sharing profits and losses in the ratio of 5:3. On 1st April,2021 they admitted Kaushtubh as a new partner and new ratio was decided as 3:2:1.

Goodwill of the firm was valued as ₹3,60,000. Kaushtubh couldn't bring any amount for goodwill. Amount of goodwill share to be credited to Kalki and Kumud Account's will be: -

(A) ₹ 37,500 and ₹22,500 respectively

(B) ₹ 30,000 and ₹30,000 respectively

(C) ₹ 36,000 and ₹24,000 respectively

(D) ₹ 45,000 and ₹15,000 respectively

18. Sarvesh, Sriniketan and Srinivas are partners in the ratio of 5:3: 2. If Sriniketan's share of profit at the end of the year amounted to ₹1,50,000, what will be Sarvesh's share of profits?

(A) ₹5,00,000.

(B) ₹1,50,000.

(C) ₹3,00,000.

(D) ₹2,50,000.

Part – I

Section – B

➢ **From question number 19 to 36, attempt any 15 questions.**

19. Angle and Circle ware partners in a firm. Their Balance Sheet showed Furniture at ₹2,00,000; Stock at ₹1,40,000; Debtors at ₹1,62,000 and Creditors at ₹60,000. Square was admitted and new profit-sharing ratio was agreed at 2:3:5. Stock was revalued at ₹1,00,000, Creditors of ₹15,000 are not likely to be claimed, Debtors for ₹2,000 have become irrecoverable and Provision for doubtful debts to be provided @ 10%.

    Angle's share in loss on revaluation amounted to ₹30,000. Revalued value of Furniture will be:

    (A) ₹2,17,000

    (B) ₹1,03,000

    (C) ₹3,03,000

    (D) ₹1,83,000

20. Asha and Nisha are partner's sharing profits in the ratio of 2:1. Kashish was admitted for 1/4 share of which 1/8 was gifted by Asha. The remaining was contributed by Nisha.

    Goodwill of the firm is valued at ₹ 40,000. How much amount for goodwill will be credited to Nisha's Capital account?

    (A) ₹2,500.

    (B) ₹5,000.

    (C) ₹20,000.

    (D) ₹ 40,000.

21. At the time of admission of new partner Vasu, Old partners Paresh and Prabhav had debtors of ₹6,20,000 and a provision for doubtful debts of ₹20,000 in their books. As per terms of admission, assets were revalued, and it was found that debtors worth ₹15,000 had turned bad and hence should be written off. Which journal entry reflects the correct accounting treatment of the above situation.

(A)	Bad Debts A/c	Dr.	15,000	
	To Sundry Debtors			15,000
	Provision for Doubtful Debts A/c	Dr.	15,000	
	To Bad Debts A/c			15,000
(B)	Bad Debts A/c	Dr.	15,000	
	To Sundry Debtors			15,000
	Revaluation A/c	Dr.	15,000	
	To Provision for Doubtful Debts A/c			15,000
(C)	Revaluation A/c	Dr.	15,000	
	To Sundry Debtors A/c			15,000
	Bad Debts A/c	Dr.	15,000	
	To Revaluation A/c			15,000

22. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R)

Assertion (A): Transfer to reserves is shown in P & L Appropriation A/c.

Reason (R): Reserves are charge against the profits.

In the context of the above statements, which one of the following is correct?

Codes:

(A) (A) is correct, but (R) is wrong.

(B) Both (A) and (R) are correct.

(C) (A) is wrong, but (R) is correct.

(D) Both (A) and (R) are wrong.

23. Anubhav, Shagun and Pulkit are partners in a firm sharing profits and losses in the ratio of 2:2:1. On 1st April 2021, they decided to change their profit-sharing ratio to 5:3:2. On that date, debit balance of Profit & Loss A/c ₹30,000 appeared in the balance sheet and partners decided to pass an adjusting entry for it.

Which of the undermentioned options reflect correct treatment for the above treatment?

(A) Shagun's capital account will be debited by ₹3,000 and Anubhav's capital account credited by ₹3,000

(B) Pulkit's capital account will be credited by ₹3,000 and Shagun's capital account will be credited by ₹3,000

(C) Shagun's capital account will be debited by ₹30,000 and Anubhav's capital account credited by ₹30,000

(D) Shagun's capital account will be debited by ₹3,000 and Anubhav's and Pulkit's capital account credited by ₹2,000 and ₹1,000 respectively.

24. A, B and C are partners, their partnership deed provides for interest on drawings at 8% per annum. B withdrew a fixed amount in the middle of every month and his interest on drawings amounted to ₹4,800 at the end of the year. What was the amount of his monthly drawings?

(A) ₹10,000.

(B) ₹5,000.

(C) ₹1,20,000.

(D) ₹48,000.

25. Abhay and Baldwin are partners sharing profit in the ratio 3:1. On 31st March 2021, firm's net profit is ₹1,25,000. The partnership deed provided interest on capital to Abhay and Baldwin ₹15,000 & ₹10,000 respectively and Interest on drawings for the year amounted to ₹6000 from Abhay and ₹4000 from Baldwin. Abhay is also entitled to commission @10% on net divisible profits. Calculate profit to be transferred to Partners Capital A/c's.

(A) ₹1,00,000

(B) ₹1,10,000

(C) ₹1,07,000

(D) ₹90,000

26. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

Assertion (A): Revaluation A/c is prepared at the time of Admission of a partner.

Reason (R): It is required to adjust the values of assets and liabilities at the time of admission of a partner, so that the true financial position of the firm is reflected.

In the context of the above two statements, which of the following is correct?

Codes:

(A) Both (A) and (R) are correct and (R) is the correct reason of (A).

(B) Both (A) and (R) are correct but (R) is not the correct reason of (A).

(C) Only (R) is correct.

(D) Both (A) and (R) are wrong.

27. Apaar Ltd forfeited 4,000 shares of ₹20 each, fully called up, on which only application money of ₹6 has been paid. Out of these 2,000 shares were reissued and ₹8,000 has been transferred to capital reserve. Calculate the rate at which these shares were reissued.

(A) ₹20 Per share

(B) ₹18 Per share

(C) ₹22 Per share

(D) ₹8 Per share

28. Which of the following statement is/are true?

(i) Authorized Capital < Issued Capital

(ii) Authorized Capital ≥ Issued Capital

(iii) Subscribed Capital ≤ Issued Capital

(iv) Subscribed Capital > Issued Capital

(A) (i) only

(B) (i) and (iv) Both

(C) (ii) and (iii) Both

(D) (ii) only

29. Mickey, Tom and Jerry were partners in the ratio of 5:3:2. On 31st March 2021, their books reflected a net profit of ₹2,10,000. As per the terms of the partnership deed they were entitled for interest on capital which amounted to ₹80,000, ₹60,000 and ₹40,000 respectively. Besides this a salary of ₹60,000 each was payable to Mickey and Tom.

Calculate the ratio in which the profits would be appropriated.

(A) 1:1:1

(B) 5:3:2

(C) 7:6:2

(D) 4:3:2

30. Mohit had been allotted for 600 shares by a Govinda Ltd on pro rata basis which had issued two shares for every three applied. He had paid application money of ₹3 per share and could not pay allotment money of ₹5 per share. First and final call of ₹2 per share was not yet made by the company. His shares were forfeited. the following entry will be passed:

Equity Share Capital A/c	Dr	₹X
To share Forfeited A/c		₹Y
To Equity Share Allotment A/c		₹Z

Here X, Y and Z are:

(A) ₹ 6,000; ₹2,700; ₹3,000 respectively.

(B) ₹ 9,000; ₹2,700; ₹4,500 respectively.

(C) ₹ 4,800; ₹2,700; ₹2,100 respectively.

(D) ₹ 7,200; ₹2,700; ₹4,500 respectively.

31. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

Assertion (A): In case of shares issued on Pro–rata basis, excess money received at the time of application can be utilised till allotment only.

Reason (R): Company has to pay interest on calls in advance @12% p.a. for amount adjusted towards calls (if any). In the context of the above two statements, which of the following is correct?

Codes:

(A) Both (A) and (R) are true, but (R) is not the explanation of working capital management.

(B) Both(A) and (R) are true and (R) is a correct explanation of (A).

(C) Both (A) and (R) are false.

(D) (A) is false, but (R) is true.

32. Ajay and Vinod are partners in the ratio of 3:2. Their fixed Capital were ₹3,00,000 and ₹4,00,000 respectively. After the close of accounts for the year it was observed that the Interest on Capital which was agreed to be provided at 5% pa was erroneously provided at 10%p.a. By what amount will Ajay's account be affected if partners decide to pass an adjustment entry for the same?

(A) Ajay's Current A/c will be Debited by ₹15,000.

(B) Ajay's Current A/c will be Credited by ₹6,000.

(C) Ajay's Current A/c will be Credited by ₹35,000.

(D) Ajay's Current A/c will be Debited by ₹20,000.

33. Vishnu Ltd. forfeited 20 shares of ₹10 each, ₹8 called up, on which John had paid application and allotment money of ₹5 per share, of these, 15 shares were reissued to Parker as fully paid up for ₹6 per share. What is the balance in the share Forfeiture Account after the relevant amount has been transferred to Capital Reserve Account?

(A) ₹0

(B) ₹5

(C) ₹25

(D) ₹100

34. Newfound Ltd took over business of Old land ltd and paid for it by issue of 30,000, Equity Shares of ₹100 each at a par along with 6% Preference Shares of ₹1,00,00,000 at a premium of 5% and a cheque of ₹8,00,000. What was the total agreed purchase consideration payable to Old Land ltd.

(A) ₹1,05,00,000.

(B) ₹1,43,00,000.

(C) ₹1,40,00,000.

(D) ₹1,35,00,000.

35. A and B are partners in the ratio of 3:2. C is admitted as a partner and he takes ¼th of his share from A. B gives 3/16 from his share to C. What is the share of C?

(A) 1/4

(B) 1/16

(C) 1/6

(D) 1/16

36. Krishan Ltd has Issued Capital of 20, 00,000 Equity shares of ₹10 each. Till Date ₹8 per share have been called up and the entire amount received except calls of ₹4 per share on 800 shares and ₹3 per share from another holder who held 500 shares. What will be amount appearing as 'Subscribed but not fully paid capital' in the balance sheet of the company?

(A) ₹ 2,00,00,000

(B) ₹ 1,95,99,000

(C) ₹ 1,59,95,300

(D) ₹ 1,99,95,300

Part – I

Section – C

- **From question number 37 to 41, attempt any 4 questions.**

<u>Question no.'s 37 and 38 are based on the hypothetical situation given below.</u>

Bright Star Limited is engaged in manufacture of high-end medical equipment. Considering the prospects of high growth in this segment the company has decided to expand and for this purpose additional investment of ₹50,00,00,000 is required. Directors have decided that 20% of this requirement would be financed by raising long term debts and balance by issue of Equity shares.

As per memorandum of association of the company the face value of Equity shares is ₹100 each. Also, considering the market standing of the company these shares would be issued at a premium of 25%. Directors decided to issue sufficient shares to collect the desired amount (including premium).

The prospectus was issued to public, and the issue was oversubscribed by 2,00,000 shares which were issued letters of regret. Answer the below mentioned questions considering that the entire amount was payable on application.

37. What is the total amount collected on application?

    (A) ₹42,50,00,000

    (B) ₹40,00,00,000

    (C) ₹32,00,00,000

    (D) None of the above

38. How many Equity shares were offered for issue by Bright Star Ltd?

(A) 40,00,000 shares.

(B) 50,00,000 shares.

(C) 35,00,000 shares.

(D) 32,00,000 shares.

<u>Question no.'s 39, 40 and 41 are based on the hypothetical situation given below.</u>

On 1st September 2020, twenty students of Modern College started their Partnership Firm in the name of "Be Safe" for selling sanitisers on digital mode. Since they were good friends of each other, they were not having any explicit agreement in place. All of them have agreed to invest ₹15,000/- each as capital. The books were closed on 31st March 2021, on which date the following information was provided by the firm:

PARTICULARS	**AMOUNT** (₹)
Sale of Sanitisers	1,20,000
Cost of goods sold	50,000
Total Remuneration to partners	2,000 per month
Rent to a partner	1,000 per month
Manager's Commission	5,000
Closing Stock as on March 31,2021	9,000
6% Fixed Deposit (made on 31.3.2021)	20,000

39. Calculate the amount of profits to be transferred to Profit and Loss Appropriation Account. -

(A) Profit ₹58,000

(B) Profit ₹44,000

(C) Profit ₹59,200

(D) Profit ₹58,700

40. On 31st March 2021, Remuneration to Partners will be provided to the partners of "Be Safe" but only out of:

(A) Profits for the accounting year

(B) Reserves

(C) Accumulated Profits

(D) Goodwill

41. On 01st December 2020 one of the partners of the firm introduced additional capital of ₹30,000 and also advanced a loan of ₹40,000 to the firm. Calculate the amount of interest that Partner will receive for the current accounting period-

(A) ₹4,200

(B) ₹1,400

(C) ₹ 1575

(D) ₹ 800

Part – II

Section – A

➢ **From question number 42 to 48, attempt any 5 questions.**

42. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

    Assertion (A): The focus of calculation of working capital revolves around managing the operating cycle of the business.

    Reason (R): It is because the concept of operating cycle is required to ascertain the liquidity of assets and urgency of payments to liabilities.

    In the context of the above two statements, which of the following is correct?

<u>Codes:</u>

(A) Both (A) and (R) are true, but (R) is not the explanation of working capital management.

(B) Both(A) and (R) are true and (R) is a correct explanation of (A).

(C) Both (A) and (R) are false.

(D) (A) is false, but (R) is true.

43. Which of the following are included in traditional classification of ratios?

    (i) Liquidity Ratios.

    (ii) Statement of Profit and loss Ratios.

    (iii) Balance Sheet Ratios.

    (iv) Profitability Ratios.

    (v) Composite Ratios.

    (vi) Solvency Ratios.

(A) (ii), (iii) and (v)

(B) (i), (iv) and (vi)

(C) (i), (ii) and (vi)

(D) All (i), (ii), (iii), (iv), (v), (vi)

44. The following groups of ratios primarily measure risk:

(A) solvency, activity, and profitability

(B) liquidity, efficiency, and solvency

(C) liquidity, activity, and profitability

(D) liquidity, solvency, and profitability

45. Which one of the following is correct?

(i) A ratio is an arithmetical relationship of one number to another number.

(ii) Liquid ratio is also known as acid test ratio.

(iii) Ideally accepted current ratio is 1: 1.

(iv) Debt equity ratio is the relationship between outsider's funds and shareholders' funds.

In the context of the above two statements, which of the following options is correct?

(A) All (i), (ii), (iii) and (iv) are correct.

(B) Only (i), (ii) and (iv) are correct.

(C) Only (ii), (iii) and (iv) are correct.

(D) Only (ii) and (iv) are correct.

46. Which of the following are the tools of Vertical Analysis?

(i) Ratio Analysis.

(ii) Comparative Statements.

(iii) Common Size Statements.

(A) Only (iii)

(B) Both (i) and (iii)

(C) Both (i) and (ii)

(D) Only (i)

47. Match the items given in Column I with the headings/subheadings (Balance sheet) as defined in Schedule III of Companies Act 2013.

Column I	**Column II**
(I) Loose Tools	(a) Intangible fixed assets
(II) Patents	(b) Other current assets
(III) Prepaid insurance	(c) Long term Borrowings
(IV) Debentures	(d) Inventories
(V) Machinery	(e) Tangible Fixed assets

Choose the correct option:

A. (I)-(a), (II)-(b), (III)- (d), (IV)- (c), (V)-(e)

B. (I)-(d), (II)- (a), (III)-(b), (IV)- (c), (V)-(e)

C. (I)-(d), (II)- (a), (III)-(b), (IV)-(e), (V)-(c)

D. (I)- (e), (II)- (d), (III)- (a), (IV)-(b), (V)-(b)

48. Which ratio indicates the proportion of assets financed out of shareholders' funds?

(A) Debt equity ratio.

(B) Fixed assets turnover ratio.

(C) Proprietary ratio.

(D) Total assets to debt ratio.

Part – II

Section – B

Instructions:

➢ **From question number 49 to 55, attempt any 6 questions.**

49. If Total sales is ₹2,50,000 and credit sales is 25% of Cash sales. The amount of credit sales is:
    (A) ₹50,000
    (B) ₹2,50,000
    (C) ₹16,000
    (D) ₹3,00,000

50. What will be the amount of gross profit of a firm if its average inventory is ₹80,000, Inventory turnover ratio is 6 times, and the Selling price is 25% above cost?
    (A) ₹1,20,000.
    (B) ₹1,60,000.
    (C) ₹2,00,000.
    (D) None of the above.

51. Which of the following statements are false?
    (a) When all the comparative figures in a balance sheet are stated as percentage of the total, it is termed as horizontal analysis.
    (b) When financial statements of several years are analysed, it is termed as vertical analysis.
    (c) Vertical Analysis is also termed as time series analysis. Choose from the following options:
    (A) Both (a) and (b)
    (B) Both (a) and (c)
    (C) Both (b) and (c)
    (D) All three (a), (b), (c)

52. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

Assertion (A): Increasing the value of closing inventory increases profit.

Reason (R): Increasing the value of closing inventory reduces cost of goods sold.

In the context of the above two statements, which of the following is correct?

<u>**Codes:**</u>

(A) Both (A) and (R) are correct and (R) is the correct reason of (A).

(B) Both (A) and (R) are correct but (R) is not the correct reason of (A).

(C) Only (R) is correct.

(D) Both (A) and (R) are wrong.

53. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

Assertion (A): A high operating ratio indicates a favourable position.

Reasoning (R): A high operating ratio leaves a high margin to meet non-operating expenses.

In the context of the above two statements, which of the following is correct?

<u>**Code:**</u>

(A) (A) and (R) both are correct and (R) correctly explains (A).

(B) Both (A) and (R) are correct but (R) does not explain (A).

(C) Both (A) and (R) are incorrect.

(D) (A) is correct but (R) is incorrect.

54. Current ratio of Adaar Ltd. is 2.5:1. Accountant wants to maintain it at 2:1. Following options are available.

(i) He can repay Bills Payable

(ii) He can purchase goods on credit

(iii) He can take short term loan Choose the correct option.

(A) Only (i) is correct

(B) Only (ii) is correct

(C) Only (i) and (iii) are correct

(D) Only (ii) and (iii) are correct

55. A company has an operating cycle of eight months. It has accounts receivables amounting to ₹1,00,000 out of which ₹60,000 have a maturity period of 11 months. How would this information be presented in the balance sheet?

(A) ₹40000 as current assets and ₹60,000 as non-current assets.

(B) ₹60,000 as current assets and ₹40,000 as non-current assets.

(C) ₹1,00,000 as non-current assets.

(D) ₹1,00,000 as Current assets.

Part – III

Section – A

Instructions:

➢ **From question number 56 to 62, attempt any 5 questions.**

56. Which key combination collapses the ribbon?

    (A) [Ctrl]+[F1]

    (B) [Ctrl]+[F3]

    (C) [Ctrl]+[F5]

    (D) [Ctrl]+[F7]

57. The CAS should be-

    (A) Simple and integrated, transparent, accurate, scalability, reliability.

    (B) Complex, Accurate, Transparent, faster to work.

    (C) Able to transform the manual accounting system to computerised accounting system.

    (D) None of the above.

58. The components of Computerised Accounting System are:

    (A) Data, Report, Ledger, Hardware, Software.

    (B) Data, People, Procedure, Hardware, Software.

    (C) People, Procedure, Ledger, Data, Chart of Accounts.

    (D) Data, Coding, Procedure, Rules, Output.

59. Where are amounts owed by customers for credit purchases found?

    (A) accounts receivable journal

    (B) general ledger

    (C) sales journal

    (D) accounts receivable subsidiary ledger

60. What is the activity sequence of the basic information processing model?

(A) Organise data, process data, and collect data

(B) Collect data,organise and process data, and communicate information

(C) Process data, organise data, and collect data

(D) Organise data, collect data, and communicate information

61. Codification of Accounts required for the purpose of:

(A) Hierarchical relationship between groups and components

(B) Data processing faster and preparing of final accounts

(C) Keeping data and information secured

(D) None of the above.

62. Which mathematical operator is represented by an asterisk (*)?

(A) Exponentiation

(B) Addition

(C) Subtraction

(D) Multiplication

Part – III

Section – B

Instructions:

➢ **From question number 63 to 69, attempt any 6 questions.**

63 What category of functions is used in this formula: =PMT (C10/12, C8, C9,1)

(A) Logical

(B) Financial

(C) Payment

(D) Statistical

64 When Extend Selection is active, what is the keyboard shortcut for selecting all data up to and including the last row?

(A) [Ctrl]+[Down-arrow]

(B) [Ctrl]+[Home]

(C) [Ctrl]+[Shift]

(D) [Ctrl]+ [Up Arrow]

65 Which formulae would result in TRUE if C4 is less than 10 and D4 is less than 100?

(A) =AND(C4>10, D4>10)

(B) =AND(C4>10, C4<100).

(C) =AND(C4>10, D4<10).

(D) =AND (C4<10, D4,100)

66 Where is the address of the active cell displayed?

(A) Row heading

(B) Status bar

(C) Name Box

(D) Formula bar

67 Which of the following arguments in a financial function represents the total number of payments?

(A) FV

(B) PV

(C) Nper

(D) Rate

68 Which function results can be displayed in Auto Calculate?

(A) SUM and AVERAGE

(B) MAX and LOOK

(C) LABEL and AVERAGE

(D) MIN and BLANK

69 When navigating in a workbook, which command is used to move to the beginning of the current row?

(A) [Ctrl]+[Home]

(B) [Page Up]

(C) [Home]

(D) [Ctrl]+[Backspace]

Marking Scheme (TERM -1)

ACCOUNTANCY

SUBJECT CODE: (055)

Part -1

Section - A	
Question No.	**Answer**
1	(B)
2	(B)
3	(C)
4	(B)
5	(C)
6	(D)
7	(D)
8	(B)
9	(D)
10	(C)
11	(D)
12	(A)
13	(A)
14	(C)
15	(A)
16	(A)
17	(D)
18	(D)

Section - B	
Question No.	**Answer**
19	(D)
20	(B)
21	(A)
22	(A)
23	(A)
24	(A)
25	(A)
26	(A)
27	(B)
28	(C)
29	(C)
30	(C)
31	(D)
32	(B)
33	(C)
34	(B)
35	(A)
36	(C)

Section - C	
Question No.	**Answer**
37	(A)
38	(D)
39	(A)
40	(A)
41	(D)

Marking Scheme (TERM -1)

ACCOUNTANCY

SUBJECT CODE: (055)

Part -II

Section - A	
Question No.	**Answer**
42	(B)
43	(A)
44	(D)
45	(B)
46	(B)
47	(B)
48	(C)

Section - B	
Question No.	**Answer**
49	(A)
50	(A)
51	(D)
52	(A)
53	(C)
54	(D)
55	(D)

Marking Scheme (TERM -1)

ACCOUNTANCY

SUBJECT CODE: (055)

Part -III

Section - A	
Question No.	**Answer**
56	(A)
57	(A)
58	(B)
59	(D)
60	(B)
61	(A)
62	(D)

Section - B	
Question No.	**Answer**
63	(B)
64	(C)
65	(D)
66	(C)
67	(C)
68	(A)
69	(C)