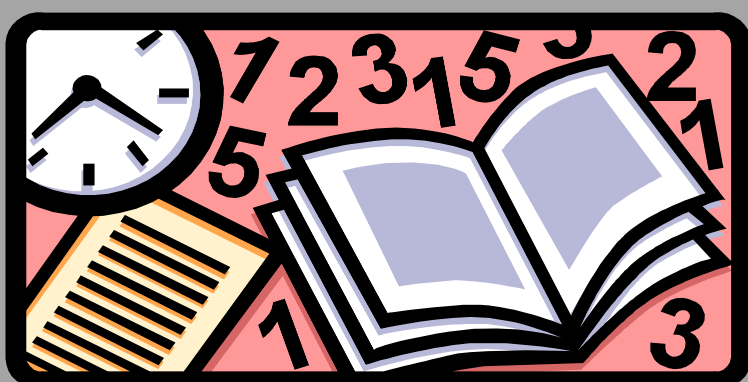
KENDRIYA VIDYALAYA SANGATHAN, RAIPUR REGION

REVISION TIPS/PLAN

CLASS: XII

SUBJECT: ACCOUNTANCY

(SESSION: 2020-21)



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Kendriya Vidyalaya Sangathan, Raipur Region
Revision - Plan for Average & Low Achievers
Class: XII (Subject: Accountancy)
(w.e.f. 28.01.2021)

S.N.	Day-wise topics for Revision Plan	Total Marks
1	NPO: Meaning, Example, Features etc. Calculation of Subscription, Consumable item and Fund based accounting.	10
2	Contd. Calculation of Subscription, Consumable item and Fund based accounting. Preparation of Income & Expenditure Account.	
3	Preparation of Income & Expenditure Account	
4	Partnership: In the absence of Deed - Provision of Indian Partnership Act 1932. Past Adjustment, Valuation of Goodwill.	30
5	Preparation of P/L Appro. A/c, Preparation of Capital and Current Account, need to find New Ratio, Sacrificing Ratio and Gaining Ratio - various situations.	
6	Treatment of goodwill (a) due to change in ratio (b) Admission of a partner (c) On Retirement/Death of a partner. Various cases of the treatment for Workmen's Compensation Fund and Investment Fluctuation Fund.	
7	Change in Ratio: Journal entries, Preparation of Revaluation A/c, Current and / or Capital A/c and Balance Sheet.	
8	Admission of a partner: Journal entries, Preparation of Revaluation A/c, Current and / or Capital A/c.	
9	Retirement of a partner: Journal entries, Preparation of Revaluation A/c, Current and / or Capital A/c and Balance Sheet.	
10	Death of a partner: Journal entries, Preparation of Revaluation A/c and Deceased partner's Capital A/c, Calculation of deceased partner's share of profit.	
11	Dissolution of Firm: dissolution of partnership and firm. Types of dissolution of firm. Treatment for Realization expenses-various cases. Realization A/c - how to open and when it became close.	
12	Journal entries on dissolution of firm. Preparation of Realization A/c.	
13	Preparation of Realization A/c, Capital A/c and Cash/Bank A/c.	
14	Share Capital - Nature & Types, Issue of shares for purchase consideration other than cash (Journal entries), Private Placement and ESOP. Under & Over Subscription.	20
15	Forfeiture & Re-Issue of Shares (Journal entries), Disclosure of share capital in the Balance Sheet.	

16	Issue-Forfeiture & Re-issue of shares while issue at par (Pro-rata basis) - Journal entries	
17	Issue-Forfeiture & Re-issue of shares while issue at par (Pro-rata basis) - Journal entries and Cash Book.	
18	Issue-Forfeiture & Re-issue of shares while issue at premium (Under Subscription) - Journal entries and Cash Book	
19	Journal entries: Issue of Debentures with terms of redemption and W/off of discount/loss of issue.	
20	Journal entries: Issue of Debentures with terms of redemption and interest on debentures.	
21	Issue of Debentures as Collateral Security, Issue of debenture for purchase consideration other than cash.	
22	Objectives-Importance & limitations of Financial Statement Analysis. Major and Sub-Headings of Balance Sheet.	12
23	Comparative and Common Size Statements	
24	Current ratio, Quick ratio, Interest coverage ratio, Debt - Equity ratio.	
25	STR, WCTR, GPR, OR, OPR, NPR ROI	
26	Question of interrelation of ratios	
27	Cash Flow Statement: Meaning, Objectives and Preparation of Provision for Tax A/c and adjustment of dividend.	8
28	Preparation of Machinery A/c and / or Provision for Depreciation A/c.	
29	Preparation of Cash Flow Statement	

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Accounting for Not-for-Profit Organisation

Learning Objectives: to develop knowledge, understandability & application ability on the following points –

1. Meaning and examples of NPO
2. Meaning of the terms used in Accounting for Not-for-Profit Organisation
3. Calculation and preparation of Subscription Account
4. Fund based Accounting
5. Calculation of Consumed items to be shown in Accounting
6. Preparation of Income and Expenditure Account

1. Meaning: Formed with the basic motive to serve to the people of society interest and welfare.
2. Example: School, Collage, Hospitals, Clubs, Social Institutions etc.
3. Main source of funds: Subscriptions, Donations, Govt. Grant, Entrance fees, Legacy, Life membership fees, Income from different activities etc.
4. Final Accounts are – Receipts & Payments A/c, Income & Expenditure A/c and Balance Sheet
5. 5. Receipts & Payments A/c is a summary of Cash Book and its shows revenue as well as capital receipts and payments.
6. Income & Expenditure A/c is nominal account and prepare on Accrual base of accounting. It shows only revenue nature of payments and incomes.

Receipts and Payments Account

Receipts	Amt. in ₹	Payments	Amt. in ₹
1. Balance b/d (Cash & Bank balances) 2. All Revenue Receipts 3. All Capital Receipts		1. All Revenue Payments 2. All Capital Expenditure 3. Balance c/d (Cash & Bank balances)	

Income and Expenditure Account

Expenditure	Amt. in ₹	Income	Amt. in ₹
1. Only Revenue Expenses (with adjustments) 2. Surplus (excess of Income over Expenditure)		1. Only Revenue Incomes (with adjustments) 2. Deficit (excess of Expenditure over Incomes)	

Subscription Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Balance b/d **(Opening Arrears)** Income & Expenditure A/c **(Balancing figure)** Balance c/d **(Closing Advance Rec.)**		Balance b/d **(Opening Advance Rec.)** Cash A/c **(Received in current year)** Balance c/d **(Closing Arrears)**	

Specific Fund to be shown in Balance Sheet

Specific Fund (op. bal.)	xxxx
Add: Donation	xxxx
Add: Income	xxxx
	XXXX
Less: Expenses incurred	xxxx
To be shown on Liabilities side	**XXXX**

Note: **If expenses incurred excess to available fund then excess of expenses over to specific will be debited to "Income & Expenditure Account".**

Creditors (for Consumable item) **Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Balance b/d **(Opening Advance)** Bank A/c **(Cash Paid in the year)** Balance c/d		Balance b/d Purchase A/c **(Credit purchased in current year)** Balance c/d **(Closing Advance)**	

Stock (for Consumable item) **Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Balance b/d **(Opening balance)** Purchase A/c **(Tr. From Creditors A/c)**		Income & Expenditure A/c **(Actual consumed: Balancing fig.)** Balance c/d **(Closing balance)**	

Not for Profit Organisation	Profit making Entities
1. Ultimate goal is to serve the community interest 2. Receives fund in the form of donations, subscriptions etc. known as capital fund 3. Final accounts include – Receipts & Payments Account, Income & Expenditure Account and Balance Sheet. 4. Net result of the activities is known as the 'Surplus' or 'Deficit'.	1. Ultimate goal is to earn profit 2. Receives fund from its owners or partners, known as capital. 3. Final accounts include – Trading & Profit and Loss Account, Balance Sheet. 4. Net results of the activities is known as the Profits or Loss.
Receipts and Payments Account	**Income and Expenditure Account**
1. It is prepared on the basis of Cash Book & Cash Basis of Accounting 2. It is a Real Account 3. It records all types of receipts and expenditure whether the nature of capital or revenue. 4. It starts with opening balance of cash & bank and closing balance is also balance of cash & bank.	1. It is prepared on the basis of Receipt and Payment Account and other information 2. It is a Nominal Account 3. It records only revenue nature of receipts and expenditure. It follows Accrual Basis of Accounting. 4. It does not open with any balance, closing balance is called 'Surplus' or "Deficit'.
Income and Expenditure Account	**Profit and Loss Account**
1. Prepared by Not-for-Profit Organisation 2. Prepared on the basis of Receipt and Payment Account and other information. 3. The main objective is to find the Surplus or Deficit.	1. Prepared by Profit making Organisations 2. Prepared on the basis of Trail Balance and other information 3. Main objective is to find Net profit or Net Loss

Items	Income & Expenditure A/c	Balance Sheet
Subscriptions: Received from its members periodically or at regular interval.	An Income	Outstanding: Assets Advance Rec.: Liabilities
Donation: Received from any person in any kind of money	General Donation: Income	Specific Donation: Liabilities
Entrance/Admission Fees: Received from new members	Income* (some time as the instruction, certain amount to be capitalized)	
Life Membership Fees: Received from some members for their whole life membership	* (some time as the instruction, certain amount to be treated an Income)	Capital Receipts: Liabilities

Legacy: Received any kind of money from a deceased person as per the will.	Income * (some time as the instruction, certain amount to be capitalized)	
Endowment Fund: Received any kind of money from a person for specific purpose		Capital Receipt: Liabilities

Items	Income & Expenditure A/c	Balance Sheet
Honorarium: Amount paid to the person (professional/Artist etc.) for delivering specialized services in the benefits of community.	An Expenditure	
Consumable items: like Stationery, Medicines, Books, Sports materials etc.	Consumed amount treated as Expenditure	Opening balance: Asset (Last year Balance Sheet) Closing balance: Asset (Current year Balance Sheet)
Sale of old Newspapers/periodicals /old sports materials, Govt. Grant, Interest received, Locker Rent, Sale of Grass, proceeds from show etc.	Revenue Receipts: Income	
Upkeep of lawn, Maintenance of ground, Municipal charges/tax, Newspapers, Magazines, Rent, Insurance, Salary etc.	Revenue Expenses: Expenditure	Paid Advance: Asset Outstanding: Liabilities
Sale of Fixed asset: Furniture sold (book value ₹ 5,000) at ₹ 3,000.	Loss on sale: Expenditure side (if gain: Income side)	₹ 5,000 deducted from Furniture on the assets side

Statement showing Calculation of Subscription

Total Subscription received during the year (whether related to any year)	XXXX
Less: Outstanding at the beginning of current year	(XXX)
Less: Advance received during the current year (related to any future period)	(XXX)
	XXXX
Add: Outstanding at the end of current year	XXX
Add: Advance received in the previous year for current year	XXX
Subscription to be shown in **Income and Expenditure Account**	XXXX

Example: From the following information of a Sport Club, calculate Consumed amount of Sports Material, to be shown in the Income & Expenditure Account:

Stock of sports materials as on April 1, 2019:	7,500
Creditors for sports material as on April 1, 2019:	2,000
Stock of sports material as on March 31, 2020:	6,200
Amount paid for sports material during the year 2019-20:	17,000
Advance paid for sports material as on March 31, 2020:	3,500
Creditors for sports material as on March 31, 2020:	1,200

Solution: **Creditors** (for Consumable item) **Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Balance b/d **(Opening Advance)**	---------	Balance b/d	2,000
Bank A/c **(Cash Paid in the year)**	17,000	Purchase A/c ** **(Credit purchased in current year as a balancing figure)**	12,700
Balance c/d	1,200	Balance c/d **(Closing Advance)**	3,500
	18,200		18,200

Consumed Sports Materials =Opening Stock + Purchased in the current year – Closing Stock

= 7,500 + 12,700 ** - 6,200 = ₹ **14,000**.

OR Alternative method to calculate Consumed Sports Materials

Amount paid for Sports Materials in the current year 17,000

Add:

(a) Opening Stock 7,500

(b) Advance paid (balance at the beginning) -------

(c) Creditors (balance at the end) 1,200 8,700

Less: 25,700

(a) Closing Stock 6,200

(b) Advance paid (balance at the end) 3,500

(c) Creditors (balance at the beginning) 2,000 11,700

14,000

Do yourself

Payment for purchase of medicines ₹ 3,70,000 in the current year

Creditors for medicines purchased:

On 1.4.2018 25,000

On 31.3.2019 17,000

Stock of Medicines:

On 1.4.2018 62,000

On 31.3.2019 54,000

Advance to suppliers of medicines:

On 1.4.2018 11,500

On 31.3.2019 18,200

Calculate the consumed amount of Medicines to be shown on the Expenditure side of Income & Expenditure Account.

Example: Calculate the amount of Subscriptions an income for the year ending 31st March, 2018: CBSE 2019

Particulars	For the year 2016-17 (₹)	For the year 2017-18 (₹)
Advance Subscriptions	8,000	9,500
Outstanding Subscriptions	7,000	12,500

During the year, the club has received ₹ 1,20,000 as subscription which included ₹ 5,000 for the year ended 31st March, 2017.

Solution: **Subscription Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Balance b/d **(Opening Arrears)**	7,000	**Balance b/d** **(Opening Advance Rec.)**	8,000
Income & Expenditure A/c **(Balancing figure)**	**1,24,000**	**Cash A/c** **(Received in current year)**	1,20,000
Balance c/d **(Closing Advance Rec.)**	9,500	**Balance c/d** **(Closing Arrears)**	12,500
	1,40,500		1,40,500

Subscriptions to be shown on the Income side of Income & Expenditure A/c ₹ 1,24,000.

Do yourself

Subscriptions received in the year 2017-18 ₹ 26,000

Outstanding Subscriptions:

On 1.4.2017	5,200
On 31.3.2018	8,400

Received in Advance Subscriptions:

On 1.4.2017	4,800
On 31.3.2018	4,000

Calculate the consumed amount of Medicines to be shown on the Expenditure side of Income & Expenditure Account.

Example: How would the following items be treated while preparing the financial statements of a Sports Club? CBSE 2020

Prize Fund	: ₹ 44,000
Interest on Prize Fund Investments	: ₹ 6,000
Prizes Awarded	: ₹ 46,000
Match Expenses	: ₹ 64,000
Prize Fund Investments	: ₹ 44,000

Solution: **Amount to be shown for Prize Fund**

Prize Fund		: ₹ 44,000
Add: Interest on Prize Fund Investments		: ₹ 6,000
		50,000
Less: Prizes Awarded	: ₹ 46,000	
Less: Match Expenses	: ₹ 64,000	
	₹ 1,10,000	50,000
	Prize Fund	NIL

The excess amount of Prizes Awarded and Match expenses (i.e. 1,10,000 – 50,000) ₹ 60,000 to be shown on the Expenditure side of Income and Expenditure Account.

Do Yourself

How will the following information of Royal Sport Club be presented in the Income and Expenditure Account for the year ending 31st March, 2019 and its Balance Sheet as on that date?

Tournament Fund as on 1st April, 2018	: ₹ 5,00,000
Tournament Expenses incurred during the year	: ₹ 8,00,000
Donations for Tournament Fund received during the year	: ₹ 1,20,000
Sale of Tournament Tickets during the year	: ₹ 1,50,000

Preparation of Income and Expenditure Account

Income and Expenditure Account to be prepared with reference to Receipts and Payments Account and Additional information. Receipts and Payments Account consisted Revenue as well as Capital nature of receipts and payments BUT Income and Expenditure is a nominal account and prepared on accrual base of accounting therefore, ONLY Revenue nature of Receipts and Revenue nature of Payments will be taken from Receipts and Payments Account and adjustments be made to follow accrual base of accounting, for the preparation of Income and Expenditure Account.

Receipts and Payments Account (As on ______)

Receipts	Amt. in ₹	Payments	Amt. in ₹
Balance b/d **(to be shown on Assets side of opening Balance Sheet)** Cash Bank **Revenues Receipts** **(to be shown in Income side of Income & Expenditure A/c)** * Subscriptions * **Legacy** * Sale of Newspaper etc. * Entrance/**Admission Fees** * Locker Rent/Rent of Hall * Interest etc. * **Donation** * **Govt Grant** **Capital Receipts** **(to be shown on the Liability side of Balance Sheet** * Life Membership Fees		**Revenue Expenses**: **(to be shown in Expenditure side of Income & Expenditure A/c)** * Honorarium / Salary * Electricity Bill * Insurance * Interest on loan * News Papers etc. * Rent & Taxes etc. **Capital Expenditure**: **(to be shown on the Assets side of Balance Sheet)** * Purchase of any Asset * Investments Balance c/d: **(to be shown on Assets side of closing Balance Sheet)** Cash 50,000 Bank 40,500 Fixed Deposit 1,15,000	

* Donation for Specific use * Govt Grant for Specific use * Sale of Asset		(@ 7% p.a. on 31-03-2019)	

Example: From the following Receipts and Payments Account of Shyam Club for the year ended 31st March, 2019 and additional information, prepare Income and Expenditure Account for the year ended 31-03-2019. **CBSE 2020 (4 marks)**

Receipts		Amt. in ₹	Payments		Amt. in ₹
Balance b/d:		25,000	Honorarium		71,000
Cash	10,000		Musical Instruments		40,000
Bank	15,000		Electricity Bill		31,000
Subscriptions:		2,30,000	Balance c/d:		2,05,500
2017-18	13,000		Cash	50,000	
2018-19	2,00,000		Bank	40,500	
2019-20	17,000		Fixed Deposit	1,15,000	
Locker Rent		8,000	(@ 7% p.a. on 31-03-2019)		
Sale of old Furniture (book value ₹ 10,000)		15,000			
Building Fund Donations		45,000			
Life Membership Fee		19,500			
Admission Fee		5,000			
		3,47,500			3,47,500

Additional Information:

(a) The club had 225 members each paying an annual subscription of ₹ 1,000.

(b) Musical Instruments were purchased on 01-10-2018. Depreciation @ 15% p.a. was to be charged on musical instruments.

Solution: **Income and Expenditure Account** (for the year ended 31.03.2019)

Expenditure	Amt. in ₹	Income	Amt. in ₹
Honorarium	71,000	Locker Rent	8,000
Electricity Bill	31,000	Admission Fee	5,000
Depreciation on Musical Instruments (@ 15% on 40,000 for 6 months)	3,000	Subscriptions:(225 x 1,000) Received 2,00,000 Add: Outstanding 25,000	2,25,000
Surplus (excess of Income over to Expenditure)	1,38,000	Gain on sale of Furniture (15,000 – 10,000)	5,000
	2,43,000		2,43,000

CBSE 2020 (6 marks)

From the following Receipts and Payments Account of Shesha Sport and Entertainment Club, Chandigarh, prepare Income and Expenditure Account for the year ending 31st March, 2019:

Receipts	Amt. in ₹	Payments	Amt. in ₹
Balance b/d (Bank)	5,000	Salaries	60,000

Subscriptions:	1,00,000	Upkeep of Ground	6,000
2017-18 10,000		Investments @ 10% p.a.	90,000
2018-19 70,000		(01-07-2018) **	
2019-20 20,000		Electricity Charges	7,000
Entrance Fee	20,000	Balance c/d (Bank)	6,000
Donations	10,000		
Sale of Waste Paper	4,000		
Endowment Fund	30,000		
	1,69,000		1,69,000

Additional Information:

(a) On 31st March, 2019, Salaries outstanding amounted to ₹ 10,000. Salaries paid in the year 2018-19 included ₹ 8,000 for the year 2017-18.

(b) Subscriptions outstanding were ₹ 6,000.

(c) On 1st April, 2018, the club owned Land & Building valued at ₹ 5,00,000.

Solution: **Income and Expenditure Account** (for the year ended 31.03.2019)

Expenditure		Amt. in ₹	Income		Amt. in ₹
Salaries:	60,000	62,000	Subscriptions:		76,000
Less: O/s 2017-18 paid	(8,000)		Received	70,000	
Add: O/s on 31.03.2019	10,000		Add: Outstanding	6,000	
Upkeep of Ground		6,000	Entrance Fee		20,000
Electricity Charges		7,000	Donations		10,000
Surplus (excess of Income)		41,750	Sale of Waste Paper		4,000
			Accrued Int. on Investments (for 9 months)		6,750
		1,16,750			1,16,750

Example: The following is the account of cash transactions of the Nari Kalayan Samittee for the year ended December 31st, 2016:

Receipts	Amt. in ₹	Payments	Amt. in ₹
Balance from last year	2,270	Rent	6,600
Subscriptions	32,500	Electric charges	3,200
Life membership fee	3,250	Lecturer's fee	730
Donation	2,500	Office expenses	1,480
Profit from entertainment	7,250	Printing & Stationery	1,050
Sale of old Books *	750	Legal fee	1,870
(book value ₹ 1,000)		Books	6,500
Interest	350	Furniture	8,600
		Expenses on Nukar Drama	1,300
		Cash in hand	8,040
		Cash at bank	9,500
	48,870		48,870

You are required to prepare an Income and Expenditure Account after the following adjustments:

(a) Subscription still to be received are ₹ 750 but subscription include ₹ 500 for the year 2017.

(b) In the beginning of the year the Samittee owned building ₹ 20,000 and furniture ₹ 3,000 and books ₹ 2,000.

(c) Provide depreciation on furniture @ 5% (including purchase), books @ 10% and building @ 5%.

Solution: **Income and Expenditure Account** (for the year ended 31.12.2016)

Expenditure		Amt. in ₹	Income		Amt. in ₹
Rent		6,600	Subscriptions:	32,500	32,750
Electric charges		3,200	Add: O/s	750	
Lecturer's fee		730	Less: Advance for 2017	(500)	
Office expenses		1,480	Donation		2,500
Printing & Stationery		1,050	Profit from entertainment		7,250
Legal Fee		1,870	Interest		350
Expenses on Nukar Drama		1,300			
Loss on sale of Books		250			
Depreciation:		2,330			
On Furniture	580				
On Books	750				
On Building	1,000				
Surplus (excess of Income)		24,040			
		42,850			42,850

Example: From the following Receipt and Payment Account of Jan Kalyan Club, prepare Income and Expenditure Account and Balance Sheet for the year ending December 31, 2020.

Receipts	Amt. in ₹	Payments	Amt. in ₹
Cash in hand	6,800	Salaries	24,000
Subscription	60,200	Travelling expenses	6,000
Donation	3,000	Stationery	2,300
Sale of Furniture	4,000	Rent	16,000
(book value ₹ 6,000)		Repair	700
Entrance fee	800	Books	6,000
Life membership fee	7,000	Building	30,000
Interest on Investment	5,000	Cash in hand	1,800
(@ 5% for full year)			
	86,800		86,800

Additional Information:

Particulars	As on 01.01.2020	As on 31.12.2020
Subscription received in advance	1,000	3,200
Outstanding Subscription	2,000	3,700
Stock of Stationery	1,200	800
Books	13,500	16,500

Furniture	16,000	8,000
Outstanding Rent	1,000	2,000

Solution: **Income and Expenditure Account** (for the year ended 31.12.2016)

Expenditure		Amt. in ₹	Income		Amt. in ₹
Salaries		24,000	Subscription	60,200	59,700
Travelling expenses		6,000	Add: Advance in 2019	1,000	
Stationery	2,300	2,700	Add: O/s on 31.12.2020	3,700	
Add: Op. Bal.	1,200		Less: Advance in 2020	(3,200)	
Less: Cl. Bal.	(800)		Less: O/s for 2019	(2,000)	
Rent	16,000	17,000	Donation		3,000
Add: O/s on 31.12.20	2,000		Entrance fee		800
Less: O/s on 01.01.20	(1,000)		Interest on Investment		5,000
Repair		700			
Depreciation:		5,000			
Books	3,000				
Furniture	2,000				
Loss on sale of furniture		2,000			
Surplus (excess of Income)		11,100			
		68,500			68,500

Balance Sheet (as on 31.12.2020)

Liabilities		Amt. in ₹	Assets	Amt. in ₹
Advance Subscription		3,200	Cash in hand	1,800
O/s Rent		2,000	O/s Subscription	3,700
Capital Fund	1,37,500	1,48,600	Stationery	800
Add: Surplus	11,100		Books	16,500
Life membership fee		7,000	Furniture	8,000
			Investments	1,00,000
			Building	30,000
		1,60,800		1,60,800

Calculation of Capital Fund as on 01.01.2020

Assets at the beginning – Liabilities at the beginning = Capital Fund

Assets = Cash in hand 6,800 + O/s Subscription 2,000 + Stationery 1,200 + Books 13,500 + Furniture 16,000 + Investments 1,00,000 = **1,39,500**

Liabilities = Advance Subscription 1,000 + O/s Rent 1,000 = **2,000**

Capital Fund = 1,39,500 – 2,000 = 1,37,500.

01. There is Building Fund of 3,00,000; and an expenditure incurred for construction of building 1,80,000. In case of NPO, building an asset will be shown at _______ and the balance of Building fund will be shown at ______.

02. Receipts and Payments Account generally shows ________ balance.

03. Income and Expenditure Account records transactions of __________ nature only.

04. Income and Expenditure Account reveals _______ or _______.

05. Donation received for a special purpose to be shown _________.

06. Subscription received by a school for organizing annual function is treated as a _____ receipts.
07. Credit side balance in Income and Expenditure Account reveals excess of ___________.
08. Which of the following is not represent revenue receipt?
(a) Life membership fees (b) Donations (c) Subscription (d) Interest on Investments
09. Excess of expenditures over to Governor's Party Fund will be shown in the _________ side of _________ ___.
10. A Receipt, received by a NPO from a deceased person on will is called ______________.
11. Not-for-Profit Organisations are required to registered under ______________Act.
12. A NPO showed Sports Fund at the beginning of year 1,20,000. Interest received from Sports Fund Investment in the year 12,000 will be shown in the ________side of _______ .
13. A NPO received interest on General Fund Investment 4,500 in a accounting year. It should be presented to _________side of ___________.
14. Jeevan-Jyoti Hospital received subscription for the year 2018-19 2,30,000. Accrued subscription 45,000 for the year 2017-18 and received-in-advance of 30,000 for the year 2019-20. Subscription for the year will be _________.
15. Jeevan-Jyoti Hospital received subscription in the year 2018-19 2,30,000 which includes accrued subscription 45,000 for the year 2017-18 and received-in-advance of 30,000 for the year 2019-20. Subscription for the year will be _________.
16. Jeevan-Jyoti Hospital received subscription in the year 2018-19 2,30,000. Accrued subscription 45,000 for the year 2017-18 in which 40,000 received in the year 2018-19. Subscription to be received on 31st March, 2019 25,000. Accrued subscription for the year 2018-19 will be _________.
17. Jeevan-Jyoti Hospital received subscription in the year 2018-19 2,30,000. Subscription received in advance in the year 2017-18 for the year 2018-19 15,000. Amount of subscription received will be shown an Income in the Income & Expenditure Account at ________.
18. City Football club has stock of sports materials as on 1st April, 2018 21,000 and as on 31st March, 2019 18,000. Sports materials purchased in the year 2018-19 78,000. The total amount of sports materials consumed in the year 2018-19 is ________.
19. A Social Club paid salaries in the year 2018-19 amounts to 8,500. Salaries paid in advance in 2017-18 for the year 2018-19 1,500. Prepaid salaries for the year 2019-20 3,000. Total salaries paid for the year 2018-19 is ___________.
20. Life membership fee is: (a) Liability (b) Income (c) Expense (d) Asset
21. Old furniture of 2,000 was sold by a NPO at 1,800. The loss on sale 200 will be shown in the debit side of __________ A/c and sale price 1,800 will be shown on the debit side of _________ A/c.
22. On which basis of accounting, Receipts and Payments Account is prepared?
23. Write the name of statement which is required to prepare for finding of capital fund, in case of Not-for-Profit-Organisation.
24. Which of the following is/are treated as capital receipts, while preparing financial statements of an NPO:

i. Life membership fees, Entrance fees, Legacy and Endowment Fund
ii. Endowment Fund, Legacy, Life membership fees and Specific Donation
iii. Legacy, Life membership fees, Admission fees and Subscriptions
iv. Specific Donation, Life membership fees and Legacy

Choose the correct option from the following:

(a) i and ii (b) ii and iii (c) i and iv (d) ii and iv

Fundamental of Partnership Accounting

Learning Objectives:

- Partnership: features, Partnership Deed.
- Provisions of the Indian Partnership Act 1932 in the absence of partnership deed.
- Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits.
- Past adjustments (relating to interest on capital, interest on drawing, salary and profit-sharing ratio).
- Goodwill: nature, factors affecting and methods of valuation - average profit, super profit and capitalization.

Partnership is 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".

1. Two or More Persons 2. Agreement 3. Business 4. Mutual Agency 5. Sharing of Profit and
6. Liability of Partnership.

Partnership Deed: Deed is a document which contains terms of the agreement between partners, about objective of business, contribution of capital, share of profit & loss, rights and duties of partners, entitlement of interest on capital – salary etc.

The Partnership Act does not require that the agreement must be in writing to avoid conflicts may arise in the future.

The deed should be properly drafted and prepared as per the provision of the 'Stamp Act' and preferably registered with the Registrar of Firms.

In the absence of Partnership Deed, following provision of Indian Partnership Act, 1932 will be applicable:

(a) Interest on Capital: No partner is entitled for interest on capital.
(b) Interest on Drawings: No interest is to be charged on the drawings made by partners.
(c) Remuneration for Firm's Work: No partner is entitled to get salary or other remuneration to taking part in the business activities of the firm.
(d) Profit-Sharing Ratio: Profits and losses of the firm are to be shared equally.
(e) Interest on Advance (Loan to the firm): If any partner has advanced some money to the firm other than the capital, he/she is entitled for interest on the such advance amount @ 6% p.a.

Fixed v/s Fluctuating Capital

As per the consent of all partners, they may decide to have their capital fixed or fluctuate.

Fixed Capital: Capital of the partners remains unchanged year after year except on the following situations:

(1) Additional capital introduced by partners' as per agreement
(2) Excess capital withdrawn permanently, as per agreement

In the case of Fixed Capital, there is need to prepare two accounts of partners – (a) Capital Accounts (b) Current Accounts

Capital Accounts consisted only the amount of capital and
Current Accounts prepared to keep the record of –

- Share of profits and losses
- Drawings
- Interest on Drawings
- Interest on Capital
- Salary and other remuneration and other entries as per the requirement & concerned to partners

Capital Accounts (Fixed)

Particulars	A	B	Particulars	A	B
Cash A/c (excess capital withdrawn)	xxx	xxx	Balance b/d	xxx	xxx
Balance c/d	xxx	xxx	Cash A/c (additional capital introduced)	xxx	xxx
	xxx	xxx		xxx	xxx

Current Account

Particulars	A	B	Particulars	A	B
Balance b/d (if Dr. balance)	xxx	xxx	Balance b/d (if Cr. balance)	xxx	xxx
Drawings	xxx	xxx	P/L Appropriation A/c	xxx	xxx
Interest on Drawings	xxx	xxx	Interest on Capital	xxx	xxx
Balance c/d (if Cr. balance derived)	xxx	xxx	Salary	xxx	xxx
			Balance c/d (if Dr. balance derived)	xxx	xxx
	xxx	xxx		xxx	xxx

<u>Fluctuating Capital</u>: Capitals of the partners will change year after year due to adjustments (claims and charges of partners) relating to current year. There is need to prepare only one account of partners i.e. Capital Account.

Capital Account

Particulars	A	B	Particulars	A	B
Cash A/c (excess capital withdrawn)	xxx	xxx	Balance b/d	xxx	xxx
			P/L Appropriation A/c	xxx	xxx
Drawings	xxx	xxx	Interest on Capital	xxx	xxx
Interest on Drawings	xxx	xxx	Salary	xxx	xxx
Balance c/d	xxx	xxx	Cash A/c (additional capital introduced)	xxx	xxx
	xxx	xxx		xxx	xxx

Profit and Loss Account is prepared to find the Net Profit or Net Loss of an accounting year. The balance of profit and loss account will be used to divide between partners as share of profit or loss in their profit-sharing ratio BUT if any adjustments' is/are still to be adjusted relating to profit and loss account then before distributing the balance of profit and loss account, "Profit and Loss Adjustment Account" is required to prepare. The balance of profit or loss derived from profit and loss adjustment account will be distributed between partners.

Profit & Loss A/c –> Profit & Loss Adjustment A/c –> Profit & Loss Appropriation A/c

(All these accounts are Nominal Account)

Profit and Loss Appropriation Account

It is prepared for the allocation /division of profit or loss between partners after adjustments relating to – interest on capital, interest on drawings, salary etc.

Profit and Loss Appropriation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Interest on Capital Salary Capital / Current A/c (balancing figure as share of profit) A: xxx B: xxx	xxx xxx xxx	Profit & Loss A/c Interest on Drawings Capital / Current A/c (balancing figure as share of loss) A: xxx B: xxx	xxx xxx xxx
	XXX		XXX

Guarantee of Profit to a partner

A partner may have guarantee from all other or from any partners' that his/her profit will not be less than the certain amount in any year. If the actual share of profit is less than the guaranteed amount of profit then deficit profit will be compensated by guarantors' partners in their profit-sharing ratio. This adjustment may be taken into the profit and loss appropriation account while distributing profits OR it may be adjusted by passing an adjusted Journal entry.

Example: A, B and C are partners in a firm sharing profit in the ratio of 3:2:1. C has guarantee from A and B that his profit will not be less than ₹ 30,000 in any year. The profit for the year ending 31st March, 2020 is ₹ 1,20,000. Pass necessary Journal entries for the above information.

Solution: The actual share of profit of C is = 1/6th of 1,20,000 = 20,000. Therefore, his profit is less than the guaranteed amount of profit ₹ 30,000.

Hence, ₹ 10,000 deficit profit will be sacrifice by A and B in their profit-sharing ratio between them i.e. in 3:2 ratio.

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Profit & Loss Appropriation A/c Dr.		1,20,000	
	To A's Capital A/c			60,000
	To B's Capital A/c			40,000
	To C's Capital A/c			20,000
	(being profit distributed in 3:2:1 ratio)			
	A's Capital A/c (3/5th of 10,000) Dr.		6,000	
2	B's Capital A/c (2/5th of 10,000) Dr.		4,000	
	To C's Capital A/c			10,000

	(being guarantee of profit adjusted)			

Example: Aman, Babul and Chaman are partners in a firm sharing profit in the ratio of 5:3:2. Their balance of capital as on 31st March, 2019 are – Aman: ₹ 10,00,000; Babul: ₹ 5,00,000 and Chaman: ₹ 3,00,000. They are entitled for interest on capital @ 10% p.a. and interest on drawings to be charged @ 5% p.a. In the year 2019-20, they have made drawings - ₹ 15,000; ₹ 10,000 and ₹ 5,000 respectively. Chaman is also entitled for Salary @ ₹ 5,000 per month. For the year ending 31st March, 2020, the profits of the firm (after charging salary but before charging interest on capital and adjustment of interest on drawings) ₹ 3,00,000.

Prepare Profit and Loss Appropriation Account.

Solution: Profit and Loss Appropriation Account

Particulars		Amt. in ₹	Particulars		Amt. in ₹
Interest on Capital		1,80,000	Profit & Loss A/c		3,60,000
Aman:	1,00,000		Interest on Drawings		1,500
Babul:	50,000		Aman:	750	
Chaman:	30,000		Babul:	500	
Salary (to Chaman)		60,000	Chaman:	250	
Capital A/cs:		1,21,500			
Aman:	60,750				
Babul:	36,450				
Chaman:	24,300				
		3,61,500			3,61,500

Net Profit before adjustment of Salary to Chaman = 3,00,000 + 60,000 = ₹ 3,60,000

Alternative solution

Profit and Loss Appropriation Account

Particulars		Amt. in ₹	Particulars		Amt. in ₹
Interest on Capital		1,80,000	Profit & Loss Adjustment A/c		3,00,000
Aman:	1,00,000		Interest on Drawings		1,500
Babul:	50,000		Aman:	750	
Chaman:	30,000		Babul:	500	
Capital A/cs:		1,21,500	Chaman:	250	
Aman:	60,750				
Babul:	36,450				
Chaman:	24,300				
		3,01,500			3,01,500

Example: Aman, Babul and Chaman are partners in a firm sharing profit in the ratio of 5:3:2. Their balance of capital as on 31st March, 2019 are – Aman: ₹ 10,00,000; Babul: ₹ 5,00,000 and Chaman: ₹ 3,00,000. They are entitled for interest on capital @ 10% p.a. and interest on drawings to be charged @ 5% p.a. In the year 2019-20, they have made drawings - ₹ 15,000;

₹ 10,000 and ₹ 5,000 respectively. Chaman is also entitled for Salary @ ₹ 5,000 per month. For the year ending 31st March, 2020, the profits of the firm (after charging salary but before charging interest on capital and adjustment of interest on drawings) ₹ 3,00,000.

Prepare Profit and Loss Appropriation Account and Capital Accounts of partners.

Solution: Profit & Loss Appropriation Account (As prepared above)

Capital Account

Particulars	Aman	Babul	Chaman	Particulars	Aman	Babul	Chaman
Drawings	15,000	10,000	5,000	Balance b/d	10,00,000	5,00,000	3,00,000
Int. on Drawings	750	500	250	Int. on Capital	1,00,000	50,000	30,000
Balance c/d	11,45,000	5,75,950	4,09,050	Salary			60,000
				P & L App. A/c	60,750	36,450	24,300
	11,60,750	5,86,450	4,14,300		11,60,750	5,86,450	4,14,300

Past Adjustment

After the allocation of profits/losses between partners, if it is coming to know that some of the adjustments are omitted to adjust while preparing Profit and Loss Appropriation Account relating to – Salary to a partner, Interest on Capital, Interest on Drawings and not following the actual profit-sharing ratio. It is required to make an adjustment entry on the first day of next accounting year for the same. The adjustment Journal entry will be passed to adjust the partners Capital / Current Account (if capitals are fixed).

Journal Entry

Date	Particulars		L.F.	Dr.	Cr.
	A's Capital / Current A/c	Dr.		XXX	
	B's Capital / Current A/c	Dr.		XXX	
	To C's Capital / Current A/c				XXX
	(Being passed adjustment made)				

Table showing adjustment of Capital / Current Account

Particulars	A	B	C	Total
(A) To be given:				
(a) Interest on capital	XXX	XXX	XXX	XXX
(b) Salary	XXX	XXX	XXX	XXX
(c) Share of profit	XXX	XXX	XXX	XXX
(d) Interest on Drawings	(XXX)	(XXX)	(XXX)	(XXX)
	XXX	XXX	XXX	XXX
(B) Already Given:				
As share of profit	XXX	XXX	XXX	XXX
Adjustment to be made	XX (Dr.)	XX (Dr.)	XX (Cr.)	

Example: A, B and C are partners in a firm having fixed capital of ₹ 3,00,000; ₹ 2,00,000 and ₹ 1,00,000 respectively. Profits of the firm for the year ended 31st March, 2020

₹ 1,20,000 was distributed between partners in their capital proportion. After the allocation of profits, it finds that the following terms of the deed was ignored:

(a) Interest on capital allowed to partners @ 10% p.a.

(b) Salary allowed to partner C @ ₹ 2,500 per month.

(c) Interest on drawings to be charged on partners as ₹ 5,000; ₹ 3,000 and ₹ 2,000 respectively.

(d) Profits or losses to be shared in the ratio of 2:2:1.

Pass an adjustment Journal entry for the above.

Solution: **Journal Entry**

Date	Particulars	L.F.	Dr.	Cr.
	A's Current A/c Dr.		19,000	
	B's Current A/c Dr.		7,000	
	To C's Current A/c			26,000
	(Being past adjustment made)			

Table showing adjustment of Current Account

Particulars	A	B	C	Total
(A) **<u>To be given:</u>**				
(a) Interest on capital	30,000	20,000	10,000	60,000
(b) Salary	-----	-----	30,000	30,000
(c) Share of profit	16,000	16,000	8,000	40,000
(d) Interest on Drawings	(5,000)	(3,000)	(2,000)	(10,000)
	41,000	33,000	46,000	1,20,000
(B) **<u>Already Given</u>**:				
As share of profit	60,000	40,000	20,000	1,20,000
Adjustment to be made	**19,000 (Dr.)**	**7,000 (Dr.)**	**26,000 (Cr.)**	

Actual divisible profits = Net Profit + Interest on Drawings – (Interest on capital + Salary)

= 1,20,000 + 10,000 – (60,000 + 30,000)

= 1,30,000 – 90,000 = ₹ 40,000

A's share of profit = $2/5^{th}$ of 40,000 = ₹ 16,000;

B's share of profit = $2/5^{th}$ of 40,000 = ₹ 16,000 and

C's share of profit = $1/5^{th}$ of 40,000 = ₹ 8,000.

*** If there is fluctuating capital then adjustment entry will be passed with "Capital Account" instead of "Current Account" ***

Example: X, Y and Z are partners in a firm. On 31^{st} March, 2020, after division of profits, their balance of capitals is ₹ 3,20,000; ₹ 2,40,000 and ₹ 1,80,000 respectively. The drawings made by partners during the year ₹ 30,000; ₹ 20,000 and ₹ 10,000 respectively. The profit of the firm for the year ended 31^{st} March, 2020 ₹ 1,80,000 and it was distributed between partners in equal ratio but they are agreed to share profits/losses in the ratio of 3:2:1. They are also allowed interest on capital @ 10% p.a. which was completely ignored. You are required to make an adjustment entry for the above.

Solution: **Journal Entry**

Date	Particulars		L.F.	Dr.	Cr.
	Y's Capital A/c	Dr.		667	
	Z's Capital A/c	Dr.		27,333	
	To X's Capital A/c				28,000
	(Being past adjustment made)				

Calculation of Capital as on 01st April, 2019 & Interest thereon

	X	Y	Z
Capital as on 31st March, 2020 (after division of profit)	3,20,000	2,40,000	1,80,000
Add: Drawings made by partner	30,000	20,000	10,000
Less: Share of profit (in equal ratio)	(60,000)	(60,000)	(60,000)
Balance of Capital as on 1st April, 2019	2,90,000	2,00,000	1,30,000
Interest on capital @ 10% p.a.	**29,000**	**20,000**	**13,000**

Table showing adjustment of Current Account

Particulars	X	Y	Z	Total
(A) **To be given:**				
(a) Interest on capital	29,000	20,000	13,000	62,000
(b) Share of profit	59,000	39,333	19,667	1,18,000
	88,000	59,333	32,667	1,80,000
(B) **Already Given**:				
As share of profit	60,000	60,000	60,000	1,80,000
Adjustment to be made	**28,000 (Cr.)**	**667 (Dr.)**	**27,333 (Dr.)**	

Actual divisible profits = Net Profit – Interest on capital

= 1,80,000 – 62,000 = ₹ 1,18,000

X's share of profit = 3/6th of 1,18,000 = ₹ 59,000

Y's share of profit = 2/6th of 1,18,000 = ₹ 39,333

Z's share of profit = 1/6th of 1,18,000 = ₹ 19,667

Calculation of periods for Interest on Drawings

1. Drawings made month-wise

(a) at the beginning of each month throughout the year = (12 + 01) / 2 = 6 ½ months

(b) at the beginning of each month for certain months (9) = (9 + 01) / 2 = 5 months

(c) at the middle of each month throughout the year = (11.5 + 0.5) / 2 = 6 months

(d) at the middle of each month for certain months (7) = (6.5 + 0.5) / 2 = 3 ½ months

(e) at the end of each month throughout the year = (11 + 0) / 2 = 5 ½ months

(f) at the end of each month for certain months (6) = (5 + 0) / 2 = 2 ½ months

2. Drawings made quarterly

(a) at the beginning of each quarter throughout the year = (12 + 3) / 2 = 7 ½ months

(b) at the middle of each quarter throughout the year= (10.5 + 1.5) / 2 = 6 months

(c) at the end of each quarter throughout the year = (9 + 0) / 2 = 4 ½ months

In the above two cases, the periods to charge interest on drawings as under:

$$\text{Periods} = \frac{\text{No. of months remaining after first draw} + \text{No. of months remaining after last draw}}{2}$$

3. Drawings made throughout the year in lump-sum amount

********* Interest on drawings to be calculated for 6 months *********

4. Drawings made throughout the year in different interval period with uncertain amount

** Interest on drawings to be calculated with Product Method **

Goodwill

"Goodwill is the value of the reputation of a firm in respect of the profits expected in future over and above the normal profits".

The main factors affecting the value of goodwill are as follows:

1. Nature of business: A firm that produces high value-added products or having a stable demand is able to earn more profits and therefore has more goodwill.

2. Location: If the business is centrally located or is at a place having heavy customer traffic, the goodwill tends to be high.

3. Efficiency of management: A well-managed concern usually enjoys the advantage of high productivity and cost efficiency. This leads to higher profits and so the value of goodwill will also be high.

4. Market situation: The monopoly condition or limited competition enables the concern to earn high profits which leads to higher value of goodwill.

5. Special advantages: The firm that enjoys special advantages like import licences, low rate and assured supply of electricity, long-term contracts for supply of materials, well-known collaborators, patents, trademarks, etc. enjoy higher value of goodwill.

Valuation of Goodwill

(A) Average Profit Method
(B) Super Profit Method
(C) Capitalization Method
  (a) Capitalization of Average profit method
  (b) Capitalization of Super profit method

(a) Average Profits method

Goodwill = Average Profits X No. of purchase year

Example: A firm has profits of last three years – 2018: ₹ 30,000; 2019: ₹ 45,000 and in 2020: ₹ 45,000. The goodwill valued at 2 ½ purchased of average profits. (1)
What will be the value of goodwill?

Sol.: Goodwill = {(30,000 + 45,000 + 45,000)/3} X 2 ½
= 40,000 x 2.5 = **₹ 1,00,000.**

(b) Super Profit method

Goodwill = Super Profits x No. of purchase years

"Super profit is the amount of actual/average profits excess to the normal profits of the firm"

Super profit = Actual/average profit – Normal Profits

Normal Profit = (Capital employed x NRR*)/100 * NRR = Normal Rate of Return

Example: A firm actual profits of the year ₹ 1,20,000 with capital employed ₹ 10,00,000. The normal rate of return in the same line of business is 10% p.a.
Find the value goodwill of the firm under super profit method by 3 purchase year. (1)

Sol.:

Goodwill = Super profits x No of purchase year

Super Profit = Actual profits – Normal Profits
Normal Profits = Capital employed x NRR /100
Normal Profits = (10,00,000 x 10) / 100 = 1,00,000
Super profit = 1,20,000 – 1,00,000 = 20,000

Goodwill = 20,000 x 3 = **₹ 60,000.**

(c) <u>Capitalization method</u>

(1) By Capitalization of Average Profits
(2) By Capitalization of Super Profits

(1) Goodwill = Capitalized value of average profits – Capital Employed

Capitalized value of Av. Profit = (Average profits x 100) / NRR

Example: A firm has average profit of ₹ 90,000. The capital employed in the firm is ₹ 10,00,000. The normal rate of return is 6% p.a. Find the value of goodwill by capitalization of average profits method.

Sol.: Goodwill = Capitalized Value of Average Profits – Capital Employed

Capitalized Value of Average Profits = (90,000 x 100) / 6 = 15,00,000
Goodwill = 15,00,000 – 10,00,000 = **₹ 5,00,000**.

Example: A firm has average profit of ₹ 90,000. The capital employed in the firm is ₹ 10,00,000. The normal rate of return is 6% p.a. Find the value of goodwill by capitalization of Super Profit method.

Sol.: Goodwill = (Super profits x 100) / NRR

Super Profits = Average profits – normal profits
Normal Profits = (Capital Employed X 6) / 100 = 60,000
Super profits = 90,000 -60,000 = 30,000

Goodwill = (30,000 x 100) / 6 = **₹ 5,00,000**.

Do Your self

Question: (1) Ram, Mohan and Shyam are partners in a firm sharing profits in the ratio of 3:2:1. Their balance of capitals as on 1st April, 2019: ₹ 2,40,000; ₹ 1,80,000 and ₹ 1,20,000 respectively. Partnership Deed provides the following terms:

(a) Interest on capital allowed @ 10% p.a.

(b) Interest on drawings will be charged @ 5% p.a. and calculated interest on drawings are – Ram: ₹ 5,000; Mohan: ₹ 3,000 and Shyam: ₹ 2,000.

(c) Shaym allowed salary of ₹ 5,000 per month. (d) Shaym also has guarantee of profits that in any year his profits should not be less than to ₹ 60,000.

Profit of the firm for the year ending 31st March, 2019 ₹ 2,40,000 (after charging salary to Shyam but before adjustments of interest on capital and interest on drawings).

Prepare Profit and Loss Appropriation Account and pass necessary Journal entry for guarantee of profit to Shaym.

Question: (2) X, Y Z are partners in a firm, they have fixed capitals as on 1st April, 2018 were ₹ 5 lakhs; ₹ 3 lakhs and ₹ 2 lakhs respectively. The profits of the firm for the year 2018-19 ₹ 3,00,000 was distributed in their capital proportion, thereafter, it comes to know that the following terms of Partnership Deed are being ignored:

(a) They allowed interest on capital @ 10% p.a.

(b) Z allowed Salary @ ₹ 5,000 p.m.

(c) They made drawings in the year 2018-19 as ₹ 50,000; ₹ 30,000 and ₹ 20,000 respectively. Interest on drawings will be charged @ 20% p.a.

(d) Their profit and loss sharing ratio is 3:2:1.

You are required to make necessary Journal Entry to adjustment the above discrepancy.

Objective based questions

1. In the absence of Partnership Deed, interest on capital will be allowed to partners @ ___%.
2. In the absence of partnership deed, deficiency arising on guaranteed share is met by another partner in which ratio?

   (a) Equally (b) Profit sharing ratio (c) Capital ratio (d) None of these
3. Interest on partner's loan is to be treated as ____ party liability.
4. If all the partners agree, a minor may be admitted for the benefit of partnership. (True / False)
5. _____________ is an extension of Profit and Loss Account.
6. Under ____________ System, the balance of capital changes with every transaction of the partner with the firm.
7. Interest on capital accounts of partners under the fixed capital method, is debited to __ (a) Current A/c (b) Capital A/c (c) Profit & Loss A/c (d) Profit & Loss Appropriation A/c

8. A partner withdrew ₹ 30,000 during an accounting year. The rate of interest on drawings made by partner's will be charged @ 10% p.a. The interest on drawings is _______.
9. A partner withdrew ₹ 2,000 at the beginning of every month for the periods of 9 months. The interest on drawings will be charged for the periods of ________months.
10. A partner withdrew ₹ 3,000 at the end of every month in an accounting year. The interest on drawings will be charged for the periods of __________ months.
11. A partner withdrew ₹ 5,000 at the end of each quarter during the year. The interest on drawings will be charged for the periods of ________ months.
12. A partner withdrew ₹ 10,000 at the middle of each quarter during the year. The interest on drawings will be charged for the periods of _______ months.
13. A partner withdrew ₹ 4,000 at the beginning of each quarter during the year. The interest on drawings @ 10% p.a. will be ___________.
14. As per the Companies Act-2013, the maximum number of partners in a firm is 20. (True/False)
15. Profit & Loss Appropriation Account is an extension of Profit & Loss Account. (True/False)
16. Under Fixed Capital method, the capital accounts of partners will change with every change in the claim / charge with respect to partners. (True / False)
17. Under fluctuate capital method; interest on capital will be credited to __________ A/c
18. Under which of the following circumstances', the balance of 'Fixed Capital Accounts' will change? (i) Additional capital is introduced (ii) Interest on capital is provided (iii) Interest on Drawings is charged (iv) Excess capital is withdrew Choose the correct option from the following:

    (a) Option: i, ii, iii and iv (b) Option: ii and iii (c) Option: i and iv (d) None of above
19. In the absence of Partnership Deed, interest on capital of a partner is _________allowed.
20. Akash and Bhumija are partners in a firm. Bhumija is entitled to get a commission of 25% on net profit after charging such commission. Net profit before charging such commission is ₹ 60,000. Bhumija's commission will be _________.
21. If all are partners agree, a minor may be admitted in to the partnership. (True/False)
22. Name the method of calculating interest on drawings of the partners if they made drawings in different amounts on different dates.
23. Goodwill of the firm valued at ₹ 30,000, on the basis of 2 years' purchase of average profit of the last 3 years. The average profit of the firm is _________.
24. Capital employed in a firm is ₹ 3,00,000. Average profit is ₹ 35,000. The normal rate of return is 10% and the goodwill to be valued at 2 $\frac{1}{2}$ years' purchase. Valued goodwill is _____. 116. Goodwill is a fictitious asset. (True / False)
25. How does the factor 'efficiency of management' affect the goodwill of a firm?

26. When new partner does not bring his share of goodwill in cash, the amount is debited to: (a) Premium A/c (b) Goodwill A/c (c) Current A/c of new partner (d) None of the above

27. A and B are partners in a firm sharing profit in the ratio of 3:2. They admitted C as a partner for $\frac{1}{4}$ share with a minimum guarantee of profits 10,000. At the close of the financial year, the firm earned a profit of ₹ 60,000. C's share of profit will be ________.

Reconstitution of Partnership

"Changes in the terms of Partnership Deed (Agreement) between partners is called – Reconstitution of Partnership".

Accounting point of view, under the following circumstances, partnership may reconstitute:

1. Change in the profit-sharing ratio between partners
2. Admission of a new partner into the firm
3. Retirement of a partner from the firm
4. Death of a partner

Accounting treatment to be made in the reconstitution of partnership for the following:

(1) Distribution of accumulated profits/losses and written-off of appearing goodwill, into profit-sharing ratio between partners (Old Ratio)

(2) Revaluation of assets and reassessment of liabilities (to find gain or loss) and shared between partners in their profit-sharing ratio. (Old Ratio)

Preparation of "Revaluation Account"

(3) Adjustment of Capital Accounts' of partners' (this year deleted from syllabus)

(4) Accounting treatment of valued goodwill

(a) Change in profit-sharing ratio

(b) Admission of a new partner

(c) Retirement / Death of a partner

(5) Preparation of "Current and / or Capital Account"

(6) Preparation of Balance Sheet (this year- on admission: no need to prepare)

New Profit-Sharing Ratio (NPSR) - It is the Ratio in which the partners are to share profits /losses in future.
Sacrificing Ratio (SR) – It is the ratio in which the partnes(s) has/have agreed to sacrifice their share of profit in favour of other partner or partners. This ratio is calculated by taking out the difference between old profit share and new profit share.

Sacrificing Ratio = Old Share- New Share OR (SR= O-N)

<u>Gaining Ratio</u>- It is the ratio in which the partner(s) has/have agreed to gain their share of profit from other partner(s). This ratio is calculated by taking out the difference between new profit share and old profit share.

Gaining Ratio= New Share- Old Share OR (GR= N-O)

Calculation of Sacrifice or Gain of Partners- The Sacrifice made or gain received by a partner is calculated by deducting the new share from the old share of partner.

Sacrifice/(Gain) Share = Old Profit Share – New Profit Share

Revaluation Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Decrease in Value of Assets (loss)	XXX	By Increase in Value of Assets (gain)	XXX
To Increase in Value of Liabilities (loss)	XXX	By Decrease in Value of Liabilities	XXX
		By Unrecorded Assets (agreed value)	XXX
To Unrecorded Liabilities (agreed value)	XXX	*By Loss Transferred to Old Partners Capital/Current A/c (In old ratio, if the balance comes)	XXX
*To Gain Transferred to Old Partners Capital/Current A/c (In old ratio)	XXX		

Distribution of accumulated profits/losses and written-off of appearing goodwill, into profit-sharing ratio between partners (Old Ratio)

In all the cases of reconstitution of partnership, treatment will be same as under:

(a) On Change in Profit-sharing Ratio: these will be distributed between existing partners in their old profit-sharing ratio

(b) On Admission of a partner: these will be distributed between old partners in their old profit-sharing ratio

(c) Retirement/Death of a partner: these will be distributed between all partners (including leaving partner) in their old profit-sharing ratio

Example (1): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
General Reserve	30,000	Profit & Loss A/c	6,000
Workmen's Compensation Fund	15,000	Profit & Loss Suspense A/c	3,000
Investment Fluctuation Fund	9,000	Goodwill	12,000
		Investments	1,00,000

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Solution: Journal entries

Date	Particulars	L.F.	Dr.	Cr.
	General Reserve A/c Dr.		30,000	

1	Workmen's Compensation Fund A/c Dr. Investment Fluctuation Fund A/c Dr. To A/s Capital A/c To B's Capital A/c To C's Capital A/c (Being accumulated profits transferred in 3:2:1 ratio)		15,000 9,000	 27,000 18,000 9,000
2	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Profit & Loss A/c (Dr. bal.) To Profit & Loss Suspense A/c To Goodwill A/c (Being accumulated loss transferred & g/w W/Off)		10,500 7,000 3,500	 6,000 3,000 12,000

Example (2): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
General Reserve	30,000	Profit & Loss A/c	6,000
Workmen's Compensation Fund	15,000	Profit & Loss Suspense A/c	3,000
Investment Fluctuation Fund	9,000	Goodwill	12,000
		Investments	1,00,000

- There was a claim for workmen's compensation for ₹ 9,000 and market value of Investments at ₹ 94,000

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Solution: **Journal entries**

Date	Particulars	L.F.	Dr.	Cr.
1	General Reserve A/c Dr. Workmen's Compensation Fund A/c (15,000 – 9,000) Dr. Investment Fluctuation Fund A/c (9,000 – 6,000) Dr. To A/s Capital A/c To B's Capital A/c To C's Capital A/c (Being accumulated profits transferred in 3:2:1 ratio)		30,000 6,000 3,000	 19,500 13,000 6,500
2	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Profit & Loss A/c (Dr. bal.) To Profit & Loss Suspense A/c To Goodwill A/c (Being accumulated loss transferred & g/w W/Off)		10,500 7,000 3,500	 6,000 3,000 12,000

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
General Reserve	NIL	Profit & Loss A/c	NIL
Workmen's Compensation Fund (up to amount of claim)	9,000	Profit & Loss Suspense A/c	NIL
		Goodwill	NIL
Investment Fluctuation Fund (up to amount of loss)	6,000	Investments	1,00,000

Example (3): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
General Reserve	30,000	Profit & Loss A/c	6,000
Workmen's Compensation Fund	15,000	Profit & Loss Suspense A/c	3,000
Investment Fluctuation Fund	9,000	Goodwill	12,000
		Investments	1,00,000

- There was a claim for workmen's compensation for ₹ 18,000 and market value of Investments at ₹ 88,000

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Solution:

Journal entries

Date	Particulars	L.F.	Dr.	Cr.
1	General Reserve A/c Dr.		30,000	
	To A/s Capital A/c			15,000
	To B's Capital A/c			10,000
	To C's Capital A/c			5,000
	(Being accumulated profits transferred in 3:2:1 ratio)			
2	A's Capital A/c Dr.		10,500	
	B's Capital A/c Dr.		7,000	
	C's Capital A/c Dr.		3,500	
	To Profit & Loss A/c (Dr. bal.)			6,000
	To Profit & Loss Suspense A/c			3,000
	To Goodwill A/c			12,000
	(Being accumulated loss transferred & g/w W/Off)			
3	Revaluation A/c Dr.		6,000	
	To Provision for Workmen Comp. A/c			3,000
	To Provision for Investment Fluct. A/c			3,000
	(Being claim & loss adjusted by charging)			
4	A/s Capital A/c Dr.		3,000	
	B's Capital A/c Dr.		1,000	
	C's Capital A/c Dr.		500	
	To Revaluation A/c			6,000
	(Being loss on revaluation transferred in 3:2:1 ratio)			

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹

Provision for Workmen Comp. A/c Provision for Investment Fluct. A/c	3,000 3,000	Capital A/c A 3,000 B 1,500 C 500	6,000

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
General Reserve	NIL	Profit & Loss A/c	NIL
Workmen's Compensation Fund	15,000	Profit & Loss Suspense A/c	NIL
Investment Fluctuation Fund	9,000	Goodwill	NIL
Provision for Workmen Comp.	3,000	Investments *	1,00,000
Provision for Investment Fluct.	3,000		

*** Note**: If provision for Investment Fluct. not to be shown on the liabilities side then it will be shown by subtracting from Investment, on the Asset side.

Revaluation of assets and reassessment of liabilities (to find gain or loss) and shared between partners in their profit-sharing ratio. (Old Ratio)

Example (1): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Creditors	75,000	Plant & Machinery	60,000
		Building	1,00,000
		Furniture	30,000
		Stock	40,000
		Debtors	50,000

- A creditor of ₹ 35,000 accepted furniture in its full settlement.
- Stock was overvalued at by ₹ 4,000.
- There is a bad debt of ₹ 5,000 and provide 10% for doubtful debts on debtors.
- Building appreciated to ₹ 1,40,000 and Plant & Machinery valued at ₹ 50,000.
- There is an outstanding bill of ₹ 3,500 which to be settled.

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Solution: **Journal entries**

Date	Particulars		L.F.	Dr.	Cr.
	Creditor A/c	Dr.		35,000	
	To Furniture A/c				30,000
1	To Revaluation A/c				5,000
	(Being creditor settled by taken of furniture and gain)				
	Revaluation A/c	Dr.		27,000	
	To Stock A/c				4,000
	To Bad Debt A/c				5,000
	To Provision for doubtful debts A/c				4,500
2	To Plant & Machinery A/c				10,000

	To Provision for Outstanding Bill A/c (Being assets & liabilities revalued)			3,500
3	Building A/c Dr. To Revaluation A/c (Being asset revalued)		40,000	40,000
4	Revaluation A/c {(40,000 + 5,000) – 27,000} Dr. To A/s Capital A/c To B's Capital A/c To C's Capital A/c (Being gain on revaluation transferred in 3:2:1 ratio)		18,000	9,000 6,000 3,000

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Stock Bad Debts Provision for doubtful debts Plant & Machinery Provision for O/s Bill Capital A/c A 9,000 B 6,000 C 3,000	4,000 5,000 4,500 10,000 3,500 18,000	Creditor Building	5,000 40,000
	45,000		45,000

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets		Amt. in ₹
Provision for doubtful debts	4,500	Plant & Machinery	60,000	50,000
Provision for Outstanding Bill	3,500	Less: Depreciate	(10,000)	
		Building	1,00,000	1,40,000
		Add: Appreciate	40,000	
		Furniture	30,000	NIL
		Less: Taken by creditor	30,000	
		Stock	40,000	36,000
		Less: was overvalued	4,000	
		Debtors	50,000	45,000
		Less: Bad Debts	5,000	

Example (2): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets		Amt. in ₹
		Debtors	50,000	46,000
		Less: Provision for doubtful debts	4,000	

- There is need to maintain provision for doubtful debts at 10% of debtors.

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Revaluation A/c	**Dr.**	**1,000**
To Provision for Doubtful Debts A/c		**1,000**

Example (3): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
		Debtors 50,000 Less: Provision for doubtful debts 4,000	46,000
		Stock	30,000
		Furniture	15,000

- There is need to maintain provision for doubtful debts at ₹ 3,000.
- 1/3rd of Stock was taken over by A at 20% less for Cash and remaining valued at 10% less. 2/3rd of Furniture was taken by C at ₹ 12,000 and remaining valued at book value.
- ₹ 1,000 is received from a debtor, which was written off in earlier as bad debts.

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Solution: **Journal entries**

Date	Particulars		L.F.	Dr.	Cr.
	Cash A/c (10,000 – 2,000)	Dr.		8,000	
	Revaluation A/c (2,000 + 2,000)	Dr.		4,000	
1	To Stock A/c (10,000 + 2,000)				12,000
	(Being 1/3rd of stock taken by A for cash at 20% less and remaining valued at 10% less)				
2	C's Capital A/c	Dr.		12,000	
	To Furniture A/c (2/3rd of 15,000)				10,000
	To Revaluation A/c				2,000
	(Being furniture taken by C at more than the book value)				
3	Provision for doubtful debts A/c	Dr.		1,000	
	Cash A/c (bad debt recovery)	Dr.		1,000	
	To Revaluation A/c				2,000
	(Being asset revalued)				

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Stock	4,000	C's Capital A/c	2,000
		Cash A/c (bad debt recovery)	2,000
	4,000		4,000

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets		Amt. in ₹
		Debtors	50,000	47,000
		Less: Prov. for Doubtful Debts	(3,000)	
		Stock	30,000	16,000
		Less: 1/3rd Taken by A for cash	(10,000)	

		Less: Depreciated (10% of 20,000) (4,000) Furniture 15,000 Less: $2/3^{rd}$ Taken by C (10,000)	5,000

Example (4): Following is the abstract information of a partnership firm where A, B and C are partners and sharing profits/losses in the ratio of 3:2:1, as on 31st March, 2020:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
		Debtors 50,000 Less: Provision for doubtful debts (3,000)	46,000

- All debtors are good

On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio

(b) D admitted as a new partner for 1/4th share in firm's profit/loss

(c) C retires from the firm OR B dies

Solution:

Journal entries

Date	Particulars		L.F.	Dr.	Cr.
1	Provision for doubtful debts A/c	Dr.		3,000	
	To Revaluation A/c				3,000
	(Being asset revalued)				
2	Revaluation A/c	Dr.		3,000	
	To A/s Capital A/c				1,500
	To B's Capital A/c				1,000
	To C's Capital A/c				500
	(Being gain on revaluation transferred in 3:2:1 ratio)				

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Capital A/c A 1,500 B 1,000 C 500	3,000	Provision for Doubtful Debts	3,000
	3,000		3,000

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
		Debtors 50,000	50,000

Accounting treatment of valued goodwill

(a) Change in profit-sharing ratio

(b) Admission of a new partner

(c) Retirement / Death of a partner

Accounting treatment of valued goodwill due to change in profit-sharing ratio

Example: Ashok, Bimal and Champak are partners in a firm sharing profit/loss in the ratio of 3:2:1. On 31st March, 2020, they have agreed to share future profit/loss in the ratio of 5:3:2. Goodwill valued at ₹ 1,20,000. Pass an adjustment entry for the above.

Solution: Journal entry

Date	Particulars	L.F.	Dr.	Cr.
1	Champak's Capital A/c Dr. To Bimal's Capital A/c (Being valued goodwill adjusted due to change in ratio)		4,000	 4,000

Gaining Share = New Share – Old Share	Sacrificing Share = Old Share – New Share

Ashok's Gaining share = 5/10 – 3/6 = (30 – 30) / 60 = 0/60 (Not a gainer)
Ashok's Sacrificing share = 3/6 – 5/10 = (30 – 30) / 60 = 0/60 (Not sacrifice)
Bimal's Gaining share = 3/10 – 2/6 = (18 – 20) / 60 = – 2/60 (Sacrifice)

OR

Bimal's Sacrificing share = 2/6 – 3/10 = (20 – 18) / 60 = 2/60 (Sacrifice)
Champak's Gaining share = 2/10 – 1/6 = (12 – 10) / 60 = + 2/60 (Gainer)

Therefore, adjustment entry will be passed between Bimal and Champak's capital account for 2/60th of 1,20,000 i.e. for ₹ 4,000.

Accounting treatment of valued goodwill due to Admission of a new partner

There may be two circumstances for the accounting treatment of goodwill:

(a) When new partner brought in cash for his/her share of goodwill

(b) When new partner unable to brought in cash for his/her share of goodwill

When new partner brought in cash for his/her share of goodwill

Example: (1) X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital and necessary amount of cash for share of goodwill. Goodwill valued at ₹ 1,20,000.

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

Solution: **Journal entries**

Date	Particulars	L.F.	Dr.	Cr.
1	Cash A/c Dr. To Z's Capital A/c To Premium for goodwill A/c (Being cash brings for share of capital & premium for g/w)		3,30,000	 3,00,000 30,000
2	Premium for goodwill A/c Dr. To X's Capital A/c To Y's Capital A/c (Being premium for goodwill transferred in sacrificing ratio)		30,000	 20,000 10,000

Example: (2) X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital and necessary amount of cash for share of goodwill. Goodwill valued at ₹ 1,20,000.

X and Y withdraw 40% of premium for goodwill from the firm.

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

Solution: **Journal entries**

Date	Particulars		L.F.	Dr.	Cr.
	Cash A/c	Dr.		3,30,000	
1	To Z's Capital A/c				3,00,000
	To Premium for goodwill A/c				30,000
	(Being cash brings for share of capital & premium for g/w)				
	Premium for goodwill A/c	Dr.		30,000	
2	To X's Capital A/c				20,000
	To Y's Capital A/c				10,000
	(Being premium for goodwill transferred in sacrificing ratio)				
	X's Capital A/c	Dr.		8,000	
3	Y's Capital A/c	Dr.		4,000	
	To Cash A/c				12,000
	(Being 40% of premium for goodwill withdrawn by X and Y)				

Example: (3) X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital and necessary amount of cash for share of goodwill. **Goodwill valued at ₹ 1,20,000**.
The new profit-sharing ratio between X, Y and Z will be 3:3:2.
Pass necessary Journal entries for the above in the books of the firm.

Solution: **Journal entries**

Date	Particulars		L.F.	Dr.	Cr.
	Cash A/c	Dr.		3,30,000	
1	To Z's Capital A/c				3,00,000
	To Premium for goodwill A/c				30,000
	(Being cash brings for share of capital & premium for g/w)				
	Premium for goodwill A/c	Dr.		30,000	
2	Y's Capital A/c	Dr.		5,000	
	To X's Capital A/c				35,000
	(Being premium for goodwill transferred in sacrificing ratio)				

Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
X's Capital A/c		5,000		Cash A/c			3,00,000
				Y's Capital A/c	5,000		
				Premium for goodwill	30,000		

Working: When, there is share has been changed between old partner due to change in profit-sharing ratio then there is need to find their sacrificing or gaining ratio of old partners.
In the Old profit-sharing ratio – X's share was 2/3rd (i.e. 66.67%) whereas, in the new profit-sharing ratio – X's share is 3/8th (i.e. 37.5%). Therefore, X is sacrifice due to change in ratio.
Similarly, in the old profit-sharing ratio – Y's share was 1/3rd (i.e. 33.33%) whereas, in the new profit-sharing ratio – Y's share is 3/8th (i.e. 37.5%). Therefore, Y is gainer due to change in ratio.
X's Sacrificing share = 2/3 – 3/8 = (16 – 9) / 24 = 7/24th share
Y's Gaining share = 3/8 – 1/3 = (9 – 8) / 24 = 1/24th share
Hence, X's capital account will be credited with 7/24th of valued goodwill i.e. for ₹ 35,000 and Y's capital account will be debited with 1/24th of valued goodwill i.e. for ₹ 5,000.

Treatment of Hidden Goodwill

Example: (4) X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital and necessary amount of cash for share of goodwill. On the date of admission of Z, the balance of capital of X and Y: ₹ 3,20,000 and ₹ 2,80,000 respectively.
Pass necessary Journal entries for the above in books of the firm.

Solution: **Journal entries**

Date	Particulars	L.F.	Dr.	Cr.
1	Cash A/c Dr.		3,75,000	
	To Z's Capital A/c			3,00,000
	To Premium for goodwill A/c			75,000
	(Being cash brings for share of capital & premium for g/w)			
2	Premium for goodwill A/c Dr.		75,000	
	To X's Capital A/c			50,000
	To Y's Capital A/c			25,000
	(Being premium for goodwill transferred in sacrificing ratio)			

Working: Hidden Goodwill = Total Capital of New Firm – Total Capital of Existing Firm
Total Capital of New Firm to be calculated on the basis of new partner's share of capital and share.
Z brought in capital ₹ 3,00,000 for 1/4th share therefore, total capital of a new firm – 4 times of 3,00,000 i.e. = 3,00,000 x 4 = ₹ 12,00,000.
Total Capital of Existing Firm = Total capital of X and Y + Share of capital of Z
= (3,20,000 + 2,80,000) + 3,00,000 = ₹ 9,00,000.
Goodwill of the firm (Hidden Goodwill) = 12,00,000 – 9,00,000 = ₹ 3,00,000.
Hence, Z will be brought in cash for Premium for goodwill = 1/4th of 3,00,000 = ₹ 75,000.

When new partner unable to brought in cash for his/her share of goodwill

Example: (1) X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital.
On admission of Z, goodwill valued at ₹ 1,20,000.
Pass necessary Journal entries for the above in the books of the firm.

Solution: **Journal entries**

Date	Particulars	L.F.	Dr.	Cr.
1	Cash A/c Dr.		3,00,000	
	To Z's Capital A/c			3,00,000
	(Being share of capital brought in by Z)			
2	Z's Current A/c Dr.		30,000	
	To X's Capital A/c			20,000
	To Y's Capital A/c			10,000
	(Being share for goodwill of Z adjusted in sacrificing ratio)			

Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
				Cash A/c			3,00,000
				Z's Current A/c	20,000	10,000	

Current Account

Particulars	X	Y	Z	Particulars	X	Y	Z
X's Capital A/c Y's Capital A/c			20,000 10,000				

Accounting Treatment of Goodwill on Retirement / Death of a partner

Example: (1) Aman, Bimal and Chetan are partners in a firm sharing profit/loss in the ratio of 3:2:1. On 31st March, 2020, Chetan dies / leave the partnership due to old age. Goodwill of the firm valued at ₹ 1,20,000. Pass necessary Journal entry for the above.

Solution: **Journal entries**

Date	Particulars	L.F.	Dr.	Cr.
2020 March 31	Aman's Capital A/c Dr. Bimal's Capital A/c Dr. To Chetan's Capital A/c (Being share of Z adjusted on his death/retirement in GR)		12,000 8,000	 20,000

Capital Account

Particulars	Aman	Bimal	Chetan	Particulars	Aman	Bimal	Chetan
Chetan's Capital A/c	12,000	8,000		Aman's Capital A/c Bimal's Capital A/c			12,000 8,000

Chetan's share of goodwill (1/6th of 1,20,000) 20,000 be debited to Aman & Bimal in gaining ratio i.e. 3:2.

Calculation of share of profits of Deceased Partner and Accounting treatment

(from the last balance sheet date to date of death)

Profits of deceased partner to be calculated in the following circumstances:

(a) On the basis of previous year or average of last few years profits

(b) On the basis of the proportion between sales turnover in death year with the sales turnover and profits of the previous year.

Example: (1) Ajay, Bijay and Chetna were partners in a firm for sharing profits/losses in 3:2:1 ratio. Bijay died on January 1st, 2021. His share of profits for the intervening periods to be calculated on the basis of average profits of last three years. Profits of the previous three years are 2017-18: ₹ 90,000; 2018-19: ₹ 1,00,000 and 2019-20: ₹ 1,10,000.

Calculate the share of profits of Bijay on his death and make necessary Journal entry for it.

Solution: **Journal Entry**

Date	Particulars	L.F.	Dr.	Cr.
2021 Jan. 01	Profit and Loss Suspense A/c Dr. To Bijay's Capital A/c (Being share of profit allowed on the death of Bijay)		37,500	 37,500

Working: Share of profits of Bijay = Average Profits x Intervening periods x shares of Bijay

Average Profits = (90,000 + 1,00,000 + 1,10,000) / 2 = 3,00,000 / 2 = 1,50,000.

Intervening periods = 9 months (i.e. April 2019 to December 2019); Bijay's share = 2/6.

Share of profits of Bijay = 1,50,000 x 9/12 x 2/6

= 37,500.

Example: (2) Dinakar, Navita and Vani were partners sharing profits and losses in the ratio of 3:2:1. Navita died on 30th June, 2017. Her share of profit for the intervening period was based

on the sales during that period, which were ₹ 6,00,000. The rate of profit during the past years had been 10% on sales. The firm closed its books on 31st March every year.
Calculate Navita's share of profit. (CBSE 2019)

Solution: Share of profits of Navita = Average Profits x Intervening periods x shares of Navita
Estimated profits of the firm for the year 2017-18 = 10% of 6,00,000 = ₹ 60,000.
Intervening periods = 3 months (from 1st April to 30th June 2017); Navita's share = 2/6.
Navita's share of profits = 60,000 x 3/12 x 2/6; = ₹ 5,000.

Example: X, Y and Z were partners in a firm sharing profits and losses in the ratio of 2:2:1. The firm closes its books on 31st March every year. Y died on 24th June, 2018. On Y's death goodwill of the firm was valued at ₹ 1,20,000.
Y's share in the profits of the firm till the date of death from the last Balance Sheet was to be calculated on the basis of sales. Sales during the year 2017-18 was ₹ 15,00,000 and profit earned during the year was ₹ 3,00,000. Sales from 1st April, 2018 to 24th June, 2018 were ₹ 2,00,000. The total amount payable to Y's executors on his death was ₹ 1,75,000. This amount was paid to them on 15-7-2018. CBSE 2020
Pass the necessary journal entries for the above transactions in the books of the firm.

Solution: **Journal Entry**

Date	Particulars		L.F.	Dr.	Cr.
2018	Profit and Loss Suspense A/c	Dr.		3,726	
June	To Bijay's Capital A/c				3,726
24	(Being share of profit allowed on the death of Y)				
June	X's Capital A/c	Dr.		24,000	
24	Z's Capital A/c	Dr.		24,000	
	To Y's Capital A/c				48,000
	(Being share of goodwill of Y adjusted in gaining ratio)				
	Y's Capital A/c	Dr.		1,75,000	
June	To Y's Executors A/c				1,75,000
24	(Being payable amount transferred to his executor account)				
	Y's Executors A/c	Dr.		1,75,000	
July	To Bank A/c				1,75,000
15	(Being due amount of partner Y was paid to his Executor)				

Working: Share of profits of Y = Estimated Profits x Intervening periods x shares of Y
Estimated profits =
= Sales in 2017-18 : Profits in 2017-18 :: Sales from 01st April to 24th June : Profits
= 15,00,000 / 3,00,000 :: 2,00,000 / Estimated Profits
= 2,00,000 / 5 = ₹ 40,000
Intervening periods = (30 + 31 + 24) i.e. 85 days and shares of Y = 2/5th
Share of profits of Y = 40,000 x 85/365 x 2/5 = ₹ 3,726.

Calculation of New Profit-Sharing Ratio, Sacrificing Ratio and Gaining Ratio

Circumstances under which need to find the 'New Profit-sharing Ratio OR Gaining/Sacrificing Ratio: *(Only in the following situations', need to calculate the ratio/share of partners)*

A. When there is asked to find new ratio/ Gaining or Sacrificing ratio.

B. If there is need to adjust their capital/current account – with valued goodwill (on change in ratio, admission of a partner and death/retirement of a partner) OR Premium of goodwill (in case of admission) then we have to calculate the Gaining/Sacrificing Ratio.
C. All partners agreed that the book value of assets and liabilities not to be affected due to gain or loss on its revaluation, due to change in profit-sharing ratio.

Example: (1) A, B and C are partners in a firm sharing profit and losses in the ratio of 3:2:1. They agree to share future profit/loss in the ratio of 6:5:4. Who will sacrifice and for which share?

Example: (2) A, B and C are partners sharing profits/losses in equal ratio. A sacrifice 1/5th of his share in favour to B and C sacrifice 1/6th of his share in favour to A. Find the new profit-sharing ratio between A, B and C.

Example: (3) X and Y are partners in a firm sharing profits/losses in the ratio of 3:2. They agree to admit Z as a new partner. New profit-sharing ratio between X, Y and Z is 5:3:2.
Who will sacrifice between X and Y and for which share, on admission of Z?

Example: (4) X, Y Z are partners sharing profits/losses in 3:2:1 ratio. Z retires from the firm. X and Y agree to share future profits/losses in the ratio of 2:1. Who will gain and for which share, on retirement of Z.

Example: (5) A, B and C are partners sharing profits/losses in the ratio of 3:2:1. They agree to share future profits/losses in the ratio of 4:3:2. There was a gain on revaluation of assets and reassessment of liabilities for ₹ 15,000. Pass necessary adjustment Journal entry for the above, if, they are agreed that the book value of assets and liabilities should not be affected for gain on revaluation.

<u>Question for 6 and 8 marks asked by CBSE in the previous years</u>

Example: (1) A, B and C are partners in a firm sharing profit or loss in the ratio of 5:3:2. On 31st March, 2019, their balance sheet shown as under:

Balance Sheet (Before Reconstitution)

Liabilities	Amt in ₹	Assets	Amt in ₹
Creditors	20,000	Goodwill	12,000
Salary Outstanding	6,000	Plant & Machinery	1,00,000
Bank Loan	50,000	Furniture	40,000
General Reserve	15,000	Investment	50,000
Workmen Compensation Res.	9,000	Stock	30,000
Investment Fluctuation Fund	5,000	Debtors	40,000
Capital Accounts:	2,42,000	Bank balance	75,000
A: 1,22,000			
B: 70,000			
C: 50,000			
	3,47,000		3,47,000

On the above date, they agreed to share future profit or loss in the ratio of 3:2:1 on the basis of following terms:

1. Plant & Machinery valued at ₹ 90,000; Furniture depreciated by 10%.
2. Stock was overvalued by ₹ 2,000.

3. Provision for doubtful debts to be created by 10%.
4. Investment valued at ₹ 42,000.
5. There was a claim for workmen Compensation for ₹ 6,000.
6. Goodwill valued at ₹ 60,000.

You are required to make necessary Journal entries due to change in the profit-sharing ratio between partners. OR

Prepare the Revaluation Account, Partners Capital Accounts and Balance Sheet of the reconstituted firm.

Solution: **Journal Entry**

Date	Particulars		L.F.	Dr.	Cr.
2019	General Reserve A/c	Dr.		15,000	
March	Workmen's Compensation Reserve A/c (9,000 – 6,000)	Dr.		3,000	
31	To A's Capital A/c				9,000
	To B's Capital A/c				5,400
	To C's Capital A/c				3,600
	(Being balance of accumulated profits transferred in 5:3:2)				
2019	A's Capital A/c	Dr.		6,000	
March	B's Capital A/c	Dr.		3,600	
31	C's Capital A/c	Dr.		2,400	
	To Goodwill A/c				12,000
	(Being existing goodwill written off in 5:3:2 ratio)				
	Revaluation A/c	Dr.		23,000	
	To Plant & Machinery A/c				10,000
	To Furniture A/c				4,000
	To Stock A/c				2,000
	To Provision for Doubtful Debts A/c				4,000
	To Provision for Investment Fluctuation A/c				3,000
	(Being assets revalued on reconstitution of partnership)				
	A's Capital A/c	Dr.		11,500	
	B's Capital A/c	Dr.		6,900	
	C's Capital A/c	Dr.		4,600	
	To Revaluation A/c				23,000
	(Being loss on revaluation transferred in 5:3:2 ratio)				
	B's Capital A/c ($2/60^{th}$ of 60,000)	Dr.		2,000	
	To C's Capital A/c ($2/60^{th}$ of 60,000)				2,000
	(Being valued goodwill adjusted in gain/sacrifice share)				

Working: B's gaining share = 2/6 – 3/10 = (20 – 18) / 60 = 2/60 and C sacrifice for 2/60

Valued goodwill be adjusted for $2/60^{th}$ of 60,000 i.e for ₹ 2,000.

OR

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Plant & Machinery	10,000	A's Capital A/c	11,500
Furniture	4,000	B's Capital A/c	6,900
Stock	2,000	C's Capital A/c	4,600

Provision for Doubtful Debts Provision for Investment Fluctuation	4,000 3,000		
	23,000		23,000

Capital Account

Particulars	A	B	C	Particulars	A	B	C
Goodwill	6,000	3,600	2,400	Balance b/d	1,22,000	70,000	50,000
Revaluation A/c	11,500	6,900	4,600	General Reserve	7,500	4,500	3,000
C's Capital A/c		2,000		WCR	1,500	900	600
Balance c/d	1,13,500	62,900	48,600	B's Capital A/c			2,000
	1,31,000	75,400	55,600		1,31,000	75,400	55,600

Balance Sheet (After Reconstitution)

Liabilities	Amt in ₹	Assets	Amt in ₹
Creditors	20,000	Plant & Machinery 1,00,000	90,000
Salary Outstanding	6,000	Less: Depreciated (10,000)	
Bank Loan	50,000	Furniture 40,000	36,000
Workmen Compensation Reserve	6,000	Less: (4,000)	
Investment Fluctuation Fund	5,000	Investment	50,000
Provision for Investment Fluct.	3,000	Stock 30,000	28,000
Capital Accounts:	2,25,000	Less: was overvalued (2,000)	
A: 1,13,500		Debtors 40,000	36,000
B: 62,900		Less: Prov. for D/D (4,000)	
C: 48,600		Bank balance	75,000
	3,15,000		3,15,000

Example: (2) X, and Y are partners sharing profits in the ratio of 2:1. On 31st March, 2019, their Balance Sheet stood as follows: Balance Sheet (As on 31st March, 2019)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Capital A/cs:	6,00,000	Plant & Machinery	1,40,000
X : 3,20,000		Goodwill	60,000
Y : 2,80,000		Furniture	50,000
Creditors	45,000	Building	2,00,000
Workmen's Compensation Fund	15,000	Stock	60,000
Investment Fluctuation Fund	6,000	Debtors	40,000
Outstanding Expenses	9,000	Investment	50,000
General Reserve	12,000	Bank	50,000
		Cash	37,000
	6,87,000		6,87,000

On the above date, Z admitted for $\frac{1}{4}$ shares in the following terms:

1. Z brought in cash ₹ 2,50,000 share of capital and necessary amount in cash for share of goodwill.
2. Goodwill valued at ₹ 90,000.
3. Plant & Machinery valued at ₹ 1,30,000 and furniture depreciated by 10%.
4. Stock was undervalued by ₹ 5,000.
5. There is claim for workmen compensation of ₹ 9,000.

6. Building appreciated by ₹ 26,000.
7. A creditor of ₹ 2,000 not likely to claim.

You are required to pass necessary Journal entries OR prepare Revaluation Account and Partners Capital Accounts.

Solution: **Journal Entry**

Date	Particulars		L.F.	Dr.	Cr.
2019	General Reserve A/c	Dr.		12,000	
March	Workmen's Compensation Reserve A/c (15,000 – 9,000)	Dr.		6,000	
31	Investment Fluctuation Fund	Dr.		6,000	
	To X's Capital A/c				16,000
	To Y's Capital A/c				8,000
	(Being balance of accumulated profits transferred in 2:1)				
	X's Capital A/c	Dr.		40,000	
	Y's Capital A/c	Dr.		20,000	
	To Goodwill A/c				60,000
	(Being existing goodwill written off in 2:1 ratio)				
	Cash A/c	Dr.		2,72,500	
	To Z's Capital A/c				2,50,000
	To Premium for Goodwill A/c				22,500
	(Being cash brought in by Z for share of capital & premium)				
	Premium for Goodwill A/c	Dr.		22,500	
	To X's Capital A/c				15,000
	To Y's Capital A/c				7,500
	Being premium of goodwill transferred in sacrificing ratio)				
	Revaluation A/c	Dr.		15,000	
	To Furniture A/c				5,000
	To Plant & Machinery A/c				10,000
	(Being loss on revaluation)				
	Stock A/c	Dr.		5,000	
	Building A/c	Dr.		26,000	
	Creditor A/c	Dr.		2,000	
	To Revaluation A/c				33,000
	(Being gain on revaluation)				
	Revaluation A/c	Dr.		18,000	
	To X's Capital A/c				12,000
	To Y's Capital A/c				6,000
	(Being gain on revaluation transferred in 2:1 ratio)				

OR

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Furniture A/c	5,000	Stock A/c	5,000
Plant & Machinery A/c	10,000	Building A/c	26,000
Capital A/cs:	18,000	Creditor A/c	2,000

X : 12,000 Y : 6,000			
	33,000		33,000

Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
Goodwill	40,000	20,000		Balance b/d	3,20,000	2,80,000	
Balance c/d	3,23,000	2,81,500	2,50,000	Cash A/c			2,50,000
				General Res.	8,000	4,000	
				WCF	4,000	2,000	
				IFF	4,000	2,000	
				Premium for g/w	15,000	7,500	
				Revaluation A/c	12,000	6,000	
	3,63,000	3,01,500	2,50,000		3,63,000	3,01,500	2,50,000

Balance Sheet (After Reconstitution)

Liabilities		Amt. in ₹	Assets	Amt. in ₹
Capital A/cs:		8,54,500	Plant & Machinery	1,30,000
X	: 3,23,000		Furniture	45,000
Y	: 2,81,500		Building	2,26,000
Z	: 2,50,000		Stock	65,000
Creditors		43,000	Debtors	40,000
Workmen's Compensation Fund		9,000	Investment	50,000
Outstanding Expenses		9,000	Bank	50,000
			Cash (37,000 + 2,50,000 + 22,500)	3,09,500
		9,15,500		9,15,500

Note: Preparation of Balance Sheet will not be asked by CBSE in 2021 on Admission of a partner.

Example: (3) X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2019, was as follows:

Liabilities		Amt. in ₹	Assets		Amt. in ₹
Capitals:		5,00,000	Machinery		4,70,000
X:	2,00,000		Investments		1,10,000
Y:	1,80,000		Debtors:	1,20,000	1,10,000
Z:	1,20,000		Less: Prov. for D/D	10,000	
Workmen's Compensation Fund		60,000	Stock		1,40,000
Employees' Provident Fund		1,10,000	Cash		30,000
Creditors		1,90,000			
		8,60,000			8,60,000

On 1st April, 2019, Z retires from the firm on the following terms:

1. Provision for doubtful debts was to be maintained at 10% on debtors.
2. Stock was undervalued by ₹ 10,000.
3. An old customer, whose account was written off as bad, paid ₹ 15,000.
4. 20% of the Investments were taken by X at book value.
5. Claim on account of workmen's' compensation amounted to ₹ 70,000.
6. Creditors included a sum of ₹ 27,000 which was not likely to be claimed.
7. Goodwill valued at ₹ 60,000.

Pass necessary Journal entries on retirement of Z. **OR** Prepare Revaluation Account, Partners Capital Accounts, and the Balance Sheet of the reconstituted firm.

Solution: **Journal entries**

Date	Particulars		L.F.	Dr. (`)	Cr. (`)
1.	X's Capital A/c	Dr.		22,000	
	Investments A/c				22,000
	(Being investments taken by partner)				
2.	Revaluation A/c	Dr.		12,000	
	To Provision for d/d/ A/c				2,000
	To Provision for WC A/c				10,000
	(Being loss on revaluation)				
3.	Stock A/c	Dr.		10,000	
	Cash A/c	Dr.		15,000	
	Creditor A/c	Dr.		27,000	
	To Revaluation A/c				52,000
	(Being gain on revaluation)				
4.	Revaluation A/c	Dr.		40,000	
	To X's Capital A/c				20,000
	To Y's Capital A/c				13,333
	To Z's Capital A/c				6,667
	(Being gain on revaluation transferred in 3:2:1)				
5.	X's Capital A/c	Dr.		6,000	
	Y's capital A/c	Dr.		4,000	
	To Z's Capital A/c				10,000
	(Being share of goodwill adjusted in gaining ratio i.e. 3:2)				
6.	Z's Capital A/c	Dr.		1,36,667	
	To Z's Loan A/c				1,36,667
	(Being balance of capital transferred to loan a/c)				

OR

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Prov. for WC	10,000	Stock	10,000
Prov. for d/d	2,000	Creditor	27,000
Capital A/cs	40,000	Cash A/c	15,000
X 20,000		(Bad debts Recovery)	
Y 13,333			
Z 6,667			
	52,000		52,000

Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
Z's Capital	6,000	4,000		Balance b/d	2,00,000	1,80,000	1,20,000
Investments	22,000			X's Capital			6,000
Z's Loan A/c			1,36,667	Y's Capital			4,000
Balance c/d	1,92,000	1,89,333		Revaluation A/c	20,000	13,333	6,667
	2,20,000	1,93,333	1,36,667		2,20,000	1,93,333	1,36,667

Balance Sheet (After reconstitution)

Liabilities		Amt. in ₹	Assets		Amt. in ₹
Workmen Compensation Fund		60,000	Investments	1,10,000	88,000
Prov. for Workmen Comp.		10,000	Less: Taken by X	(22,000)	
Employees Provident Fund		1,10,000	Debtors		1,08,000
Creditors	1,90,000	1,63,000	1,20,000		
Less: Not likely to claim	(27,000)		Less; Prov. for d/d	(12,000)	
Capital A/cs:			Machinery		4,70,000
X	1,92,000	3,81,333	Stock	1,40,000	1,50,000
Y	1,89,333		Add: Undervalued	10,000	
Z's Loan A/c		1,36,667	Cash	30,000	45,000
			Add: Bad debts Rec.	15,000	
		8,61,000			8,61,000

Do your-self

(1) Furkan, Tanmay and Barkat were partners in a firm sharing profits in the ratio of 3:2:1. The firm closes its books on 31st March every year. Tanmay died on 31st July, 2019. His executor was entitled to: (i) His capital ₹ 8,00,000 and his share of goodwill which was valued for the firm at ₹96,000. (ii) His share of profit as per partnership agreement, which was to be calculated on the basis of average profit of last 3 years. Average profits of the last 3 years were ₹ 78,000. (iii) Tanmay's executors were paid ₹ 95,000 by cheque at the time of his death and the balance was transferred to his executor's loan account. Pass the necessary journal entries in the books of the firm, on Tanmay's death, for the above transactions

(2) Manu, Sonu and Tony were partners in a firm sharing profits in the ratio of 5:3:2. The firm closes its books on 31st March every year. Manu died on 31st July, 2019. His executor is entitled to: (i) His capital ₹ 4,00,000 and his share of goodwill. Goodwill of the firm was valued at ₹ 96,000. (ii) His share of profit till the date of his death which will be calculated on the basis of average profits of last 3 years. (iii) Average profits of last 3 years were ₹ 78,000. (iv) Interest on capital @ 6% p.a. (v) His drawings till the date of death were ₹ 21,000. Prepare Manu's Capital Account to be rendered to his executors.

(3) Yadu, Vidu and Radhu were partners in a firm sharing profits in the ratio of 4:3:3. Their fixed capitals on 1 st April, 2018 were ₹ 9,00,000, ₹ 5,00,000 and ₹ 4,00,000 respectively. On 1 st November, 2018, Yadu gave a loan of ₹ 80,000 to the firm. As per the partnership agreement: (i) The partners were entitled to an interest on capital @ 6% p.a. (ii) Interest on partners' drawings was to be charged @ 8% p.a. The firm earned profits of ₹ 2,53,000 (after interest on Yadu's loan) during the year 2018 – 19. Partners' drawings for the year amounted to

Yadu: ₹ 80,000, Vidu: ₹ 70,000 and Radhu: ₹ 50,000. Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2019.

(4) Aif, Tee and Bee were partners in a firm sharing profits in the ratio of 3:2:1. The firm closes its books on 31st March every year. Tee died on 31st May, 2019. It was agreed that the deceased partner's executors will be entitled to: (i) His capital, which was ₹ 8,00,000. (ii) His share of profit till the date of death to be calculated on the basis of average profits of last 3 years. The average profits for last three years were ₹ 72,000. (iii) His share of goodwill.

Goodwill of the firm was valued at ₹ 1,08,000. (iv) ₹ 40,000 was paid to his executor immediately and the balance was paid in two equal half-yearly instalments along with interest @ 6% p.a. from the date of death. Prepare Tee's Capital Account to be presented to his executors on the date of death

(5) Yash and Karan were partners in an interior designer firm. Their fixed capitals were ₹ 6,00,000 and ₹ 4,00,000 respectively. There were credit balances in their current accounts of ₹4,00,000 and ₹ 5,00,000 respectively. The firm had a balance of ₹ 1,00,000 in General Reserve. The firm did not have any liability. They admitted Radhika into partnership for $1/4^{th}$ share in the profits of the firm. The average profits of the firm for the last five years were ₹ 5,00,000. Calculate the value of goodwill of the firm by capitalization of average profits method. The normal rate of return in the business is 10%.

(6) Samiksha, Ash and Divya were partners in a firm sharing profits and losses in the ratio of 5:3: 2. With effect from 1st April, 2019, they agreed to share future profits and losses in the ratio of 2:5:3. Their Balance Sheet showed a debit balance of ₹ 50,000 in the Profit and Loss Account and a balance of ₹ 40,000 in the Investment Fluctuation Fund. For this purpose, it was agreed that: (i) Goodwill of the firm be valued at ₹ 3,00,000. (ii) Investments of book value of ₹ 5,00,000 be valued at ₹ 4,80,000. Pass the necessary journal entries to record the above transactions in the books of the firm.

(7) The capital accounts of Alka and Archana showed credit balances of ₹ 4,00,000 and ₹ 3,00,000 respectively, after taking into account drawings and net profit of ₹ 2,00,000. The drawings of the partners during the year 2018 – 19 were: (i) Alka withdrew ₹ 10,000 at the end of each quarter. (ii) Archana's drawings were: 31st May, 2018 ₹ 8,000; 1st November, 2018 ₹ 7,000;
1st February, 2019 ₹ 5,000. Calculate interest on partners' capitals @ 10% p.a. and interest on partners' drawings @ 6% p.a. for the year ended 31st March, 2019.

(8) X, Y Z were partners in a firm sharing profits & losses in the ratio of 3:2:1. Their books are closed on March 31st, every year. Z retired from the firm on September 30th, 2019. The claims of Z to be settled on the following terms:
a. Goodwill valued at ₹ 1,20,000.
b. There is gain on revaluation of assets & liabilities 12,000.
c. Z's share of capital i.e. 6,00,000.
d. His share of profit up to his date of retirement on the basis of previous year profits. The profit of the previous year was 90,000.
e. Amount payable to Z was transferred to his loan account.
Pass necessary Journal entries and show the workings clearly.

Partnership – Dissolution of Firm

Dissolution of Partnership: A Partnership (Agreement) gets terminated in case of Change in existing profit-sharing ratio among partners; Admission of a new partner; Retirement of a partner; Death of a partner; Insolvency of a partner; Completion of the venture; Expiry of the period of partnership.

Dissolution of Partnership Firm: The dissolution of a firm implies the discontinuance of partnership business and separation of economic relations between the partners.

On dissolution of the firm, the firm closes its business altogether and realizes all its assets and pays all its liabilities.

Dissolution of the Firm takes place in any of the following ways:

1. **Dissolution by Agreement**: with the Consent of all partners OR accordance with a Contract between the partners.
2. **Compulsory Dissolution**: when all or all, except one partner, become insolvent OR business becomes illegal OR some event has taken place which makes it unlawful for the partners to carry on the business.
3. **On the happening of certain Contingencies**: expiry of the term OR completion of venture OR term of death of a partner OR adjudication of a partner as an insolvent.
4. **Dissolution by Notice**: partnership at will – when any one of the partner gives a notice.
5. **Dissolution by Court**: At the suit of a partner, the court may order for dissolution of the firm – when a partner becomes insane OR a partner becomes permanently incapable of performing his duties as a partner OR a partner is guilty of misconduct which is likely to adversely affect the firm OR any ground, the court regards for dissolution of the firm.

Settlement of Accounts (as per Partnership Act 1932 Section – 48)

1. Treatment of Losses: Losses, including deficiencies of capital, shall be paid –
   - **a)** First, out of profits,
   - **b)** Next, out of capital of partners, and
   - **c)** Lastly, if necessary, by the partners individually in their profits sharing ratio.

2. **Application of Assets**: The assets of the firm, including any sum contributed by the partners to make up deficiencies of capital, shall be applied in the following manner order:
   - **a)** Payment of third party's debts of the firm,
   - **b)** Payment to partner's dues, other than their capital (i.e. partner's loans),
   - **c)** Payment to partners proportionately on account of their capitals,
   - **d)** The residue, if any, shall be divided among the partners in their profit sharing ratio.

Private property of any partner shall be applied first in payment of his private debts and the surplus, if any, may be utilized for the payment of the firm's debts, in case the firm's liabilities exceed to the firm's assets.

REALIZATION ACCOUNT

The Realization Account is prepared to record the transactions relating to sale & realization of assets and settlement of creditors.

Any profit or loss arising act of this process is shared by partners in their profit-sharing ratio.

Accounting Treatment on Dissolution

	Transaction	Journal Entry
1	To Transfer of Assets (Except Cash & Bank balance)	Realization A/c Dr. To Land& Building A/c To Machinery A/c To Debtors A/c etc.
2	To Transfer of Liabilities	Creditors A/c Dr. Bank Loan A/c Dr.

	(Except Capitals, Partner's Loan)	Provision for Doubtful Debts Dr. Partner's Mrs./Mr. Loan A/c Dr. To Realization A/c

When there is ask to show journal entries from the given information than your need to pass journal entries **(Except the above entries)** as under:

3	To Transfer Accumulated Profits	General Reserve A/c Dr. W C F A/c Dr. (Unclaimed part of WCF) Profit & Loss A/c Dr. (If Cr. Balance is there) To Partner's Capitals A/c
4	To Transfer Accumulated Losses	Partner's Capitals A/c Dr. To Profit & Loss A/c (If Dr. balance is there) To Profit & Loss Suspense A/c
5	To Realize from sale of Recorded & Unrecorded Assets	Bank A/c Dr. To Realization A/c
6	To Take over asset by a Partner	Partner's Capital A/c Dr. To Realization A/c
7	To Take over asset by a Creditors	NO ANY ENTRY WILL BE PASSED
8	To Take over liability by a Partner	Realization A/c Dr. To Partner's Capital A/c
9	To Settle Recorded/Unrecorded Liabilities by payment	Realization A/c Dr. To Bank A/c
10	To close Partners' Current A/c (If Credit balance)	Partner's Current A/c Dr. To partner's Capital A/c
	To close Partners' Current A/c (If Debit balance)	Partner's Capital A/c Dr. To Partner's Current A/c
11	Realization Expense (Paid by firm)	Realization A/c Dr. To Bank A/c
12	Realization Expense (Paid by a Partner)	Realization A/c Dr. To Partner's Capital A/c
13	**When a partner agreed to undertake dissolution work on remuneration.**	
(a)	For agreed remuneration to such partner	Realization A/c Dr. To Partner's Capital A/c
(b)	If payment made by Firm	Partner's Capital A/c Dr. To Bank A/c
(c)	If the partner himself pays realization expenses (privately)	No any entry will be passed
14	Gain or Loss on Realization transfer to Capital A/c	Realization A/c Dr. To Partners' Capital A/c
		Partners' Capital A/c Dr.

		To Realization A/c
15	To pay Partner's Loan	Partner's Loan A/c Dr. To Bank A/c
16	For Settlement of Partners' Capital Account	
(a)	If there is Debit Balance	Bank A/c Dr. To Partner's Capital A/c
(b)	If there is Credit Balance	Partner's Capital A/c Dr. To Bank A/c

☺1. Sita (a partner) agreed to bear all realization expenses. For the service Sita is paid ₹60. Actual expenses on realization amounted to ₹450.

Sol: a) Realization A/c Dr. 60
To Sita's Capital A/c 60

b) Sita's Capital A/c Dr. 450
To Bank A/c 450

☺2. Rohit (a partner) paid realization expenses of ₹10000 and he was to get a remuneration of ₹12000 for completing the dissolution process.

Sol: a) Realization A/c Dr. 12000
To Rohit's Capital A/c 12000

☺ Sonia, Rohit and Udit are partners sharing profits in the ratio of 5:3:2. Their Balance Sheet as on March 31st, 2009 was as follows:

Liabilities		(₹)	Assets		(₹)
Creditors		30,000	Buildings		1,40,000
Bills Payable		30,000	Machinery		40,000
Bank Loan		1,20,000	Stock		1,60,000
Sonia's Husband's Loan		1,30,000	Bills Receivable		1,20,000
Rohit's Loan		20,000	Furniture		80,000
General Reserve		80,000	Debtors		36,000
Investment Fluctuation Fund		2,000	40,000		
Sonia's Current A/c		10,000	Less: Provision	4,000	15,000
Profit and Loss A/c		5,000	Goodwill		20,000
Workmen Compensation Fund		15,000	Investments		10,000
Bank Overdraft		5,000	Udit's Current A/c		60,000
Capitals:			Cash at Bank		
Sonia	60,000	2,34,000			
Rohit	80,000				
Udit	94,000				
		6,81,000			6,81,000

The firm was dissolved on that date. Close the books of the firm with following information:

1. Buildings realized for ₹1,30,000; Machinery sold at ₹48,000 and Furniture for ₹75,000.
2. Bank Loan was settled for ₹1,30,000 and Bills Payable were settled at 10% discount.

3. Rohit paid realization expenses of ₹ 10,000 and he was to get a remuneration of ₹ 12,000 for completing the dissolution process.
4. There was an unrecorded asset of ₹ 2000, which was taken over by Rohit at ₹ 1,500.
5. There was an unrecorded typewriter which was sold for ₹ 3,000.
6. Udit took over 25% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 10%.
7. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.
8. Debtors realized for ₹ 32,000 and ₹ 1,000 were recovered for bad debts written-off last year.
9. Sonia promised to pay Sonia's Husband's Loan and took away Bills Receivable for ₹ 1,10,000.
10. Rohit took away half of the Investment at 10% less and remaining Investments were sold at ₹ 9,000. Goodwill realized at ₹ 12,000.
11. It is found that an asset not recorded in the books amounted to ₹ 1,000. The same were accepted by one creditor for this amount and other creditors were paid at a discount of 10%.

Prepare necessary ledger accounts.

Solution: **Capital Account**

Particulars	Sonia	Rohit	Udit	Particulars	Sonia	Rohit	Udit
To Udit's C.	-------	--------	**10,000**	By Bal. b/d	60,000	80,000	94,000
To Real.	-------	10,500	--------	By Gen Res.	40,000	24,000	16,000
To Real.	-------	--------	36,000	By P/L A/c	2,500	1,500	1,000
To Real.	1,10,000	--------	-------	By WCF	7,500	4,500	3,000
To Real.	13,800	8,280	5,520	**By Sonia's C.**	**10,000**	--------	--------
(Loss on Real)				By Real.	--------	12,000	--------
To Bank A/c	1,26,200	1,03,220	62,480	By Real.	1,30,000	--------	--------
	2,50,000	1,22,000	1,14,000		2,50,000	1,22,000	1,14,000

Bank Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	60,000	By Realization	1,90,100
To Realization	4,42,000	**By Rohit's Loan**	**20,000**
		By Capital A/c's:	2,91,900
		Sonia 1,26,200	
		Rohit 1,03,220	
		Udit 62,480	
	5,02,000		5,02,000

Realization Account

Particulars	(₹)	Particulars	(₹)
To Buildings	1,40,000	By Creditors	30,000
To Machinery	40,000	By Bills Payable	30,000
To Stock	1,60,000	By Bank Loan	1,20,000
To Bills Receivable	1,20,000	By Sonia's Husband's Loan	1,30,000
To Furniture	80,000	By Investment Fluctuation Fund	2,000
To Debtors	40,000	By Bank Overdraft	5,000
To Goodwill	15,000	By Provision	4,000

To Investments	20,000	By Bank A/c (Realized)	4,42,000
To Bank A/c (Paid)	1,90,100	Buildings 1,30,000	
Bank Loan 1,30,000		Machinery 48,000	
Bills Payable 27,000		Furniture 75,000	
Outstanding bill 2,000		**Unrecorded Typewriter 3,000**	
Creditors 26,100		**$\frac{3}{4}$ Stock 1,32,000**	
Bank Overdraft 5,000		Debtors 32,000	
To Rohit's Capital	**12,000**	**Bad debts Recoverable 1,000**	
(realization exp.)		**$\frac{1}{2}$ Investment 9,000**	
To Sonia's Capital	**1,30,000**	Goodwill 12,000	
(Husband's Loan)		**By Rohit's Capital**	**10,500**
		unrecorded asset 1,500	
		$\frac{1}{2}$ Investments 9,000	
		By Udit's Capital ($\frac{1}{4}$ stock)	**36,000**
		By Sonia's Capital (B/R)	**1,10,000**
		To Capital Accounts:	**27,600**
		Sonia 13,800	
		Rohit 8,280	
		Udit 5,520	
	9,19,500		9,19,500

1. A partner Udit took over 25% of the stock (total book value ₹ 1,60,000) at 10% less on its book value, and the remaining stock was sold at a gain of 10%.
   ☆25% of 1,60,000 (i.e. 40,000) taken by Udit at 10% less (i.e. at ₹ 36,000)
   Remaining, i.e. 75% of 1,60,000 = ₹ 1,20,000 sold at 10% gain (i.e. at ₹ 1,20,000+12,000).
2. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.
   ☆ This is also an unrecorded liability.
3. ₹ 1,000 was recovered for bad debts written-off last year.
   ☆ This is also treated as amount realized from unrecorded asset.
4. A partner Sonia promised to pay Sonia's Husband's Loan (₹ 1,30,000) and took away Bills Receivable (₹ 1,20,000) for ₹ 1,10,000.
   ☆ There are two entries required – first: for partner taken liability, thus partner treated as giver. Second: for partner taken asset, thus partner treated as receiver but at agreed value, i.e. at ₹ 1,10,000 instead of 1,20,000.
5. Rohit took half of Investment at 10% less and remaining Investments were sold at ₹ 9,000.
   ☆Here also partner treated as receiver by $\frac{1}{2}$ of 20,000 (i.e. 10,000) at 10% less (i.e. ₹ 9,000).
   Remaining of 10,000 will be sold at ₹ 9,000 thus sold treatment be made at ₹ 9,000.
6. It is found that an unrecorded asset not recorded amounted to ₹ 1,000. The same were accepted by one creditor (total creditors ₹ 30,000) for this amount and other were paid at a discount of 10%.
7. ☆ ₹ 1,000 of creditors will be treated as receiver, thus remaining creditors (i.e. 30,000-1,000) ₹ 29,000 should settle by making payment at 10% less (i.e. at 26,100).

Balance Sheet (As on March 31st 2016) 5:3:2

Liabilities	(₹)	Assets	(₹)
Creditors	30,000	Buildings	1,40,000
Bills Payable	30,000	Machinery	40,000
Bank Loan	1,20,000	Stock	1,60,000
Sonia's Husband's Loan	1,30,000	Bills Receivable	1,20,000
Investment Fluctuation Fund	2,000	Furniture	80,000
Workmen Compensation Fund	15,000	Debtors	40,000
Bank Overdraft	5,000	Goodwill	15,000
Provision for doubtful debts	4,000	Investments	20,000
Rohit's Loan	20,000	Udit's Current A/c	10,000
General Reserve	80,000	Cash at Bank	60,000
Profit & Loss A/c	5,000		
Sonia's Current A/c	10,000		
Capitals:	2,34,000		
Sonia 60,000			
Rohit 80,000			
Udit 94,000			
	6,81,000		6,81,000

Realization Account

Particulars	(₹)	Particulars	(₹)
Buildings	1,40,000	Creditors	30,000
Machinery	40,000	Bills Payable	30,000
Stock	1,60,000	Bank Loan	1,20,000
Bills Receivable	1,20,000	Sonia's Husband's Loan	1,30,000
Furniture	80,000	Investment Fluctuation Fund	2,000
Debtors	40,000	Workmen Compensation Fund	15,000
Goodwill	15,000	Bank Overdraft	5,000
Investments	20,000	Provision for doubtful debts	4,000

Capital Account

Particulars	Sonia	Rohit	Udit	Particulars	Sonia	Rohit	Udit
Current A/c	----	----	10,000	Balance b/d	60,000	80,000	94,000
				General Reserve	40,000	24,000	16,000
				Profit & Loss A/c	2,500	1,500	1,000
				Current A/c	10,000	-----	-----

**** Bank Account will be opened with ₹ 60,000.**

**** Rohit's Loan Account will be opened with ₹ 20,000.**

Assets Realized (1)			**Asset Taken Over by a Partner**	
Buildings, Machinery & Furniture	2,53,000		Rohit U/R	1,500
U/R Typewriter	3,000		Rohit (1/2 Investment less 10%)	9,000
Stock (1,20,000 + 10%)	1,32,000		Udit (stock)	36,000
Debtors (including B/d)	33,000		(25% of 1,60,000 at 10% less)	
Investment	9,000		Sonia (B/R)	1,10,000
Goodwill	12,000			
Bank A/C Dr. **To Realization A/c**	**4,42,000**		**Capitals A/c Dr.** **To Realization A/c**	**1,56,500**
External Liabilities Paid (2)			**A Partner agree to pay Liability**	
Bank Loan & Bills Payable	1,57,000		Rohit (Realization Expense)	12,000
O/S Bill for Repairs	2,000		Sonia (Husband Loan)	1,30,000
Creditors (30,000-1,000) less10%	26,100			
Bank Overdraft	5,000			
Realization A/C Dr. **To Bank A/c**	**1,90,100**		**Realization A/c Dr.** **To Capitals A/c**	**1,42,000**

Example: P and Q were partners in a firm sharing profits in the ratio of 3:2. On 31.03.2011 their Balance Sheet was as follows:

Liabilities	**₹ Amount**	**Assets**	**₹ Amount**
Capitals:	1,50,000	Goodwill	80,000
P: ₹ 80,000		Land & Building	80,000
Q: ₹ 70,000		Stock	60,000
Creditors	50,000	Debtors	40,000
Workmen Compensation Fund	80,000	Bank	20,000
	2,80,000		2,80,000

The firm was dissolved on 01.04.2011 and the assets & liabilities were settled as follows:

(a) Creditors agreed to take over Land & Building at a valuation of their full claim.

(b) Stock was taken over by Q at ₹ 50,000 for cash.

(c) Bad debts proved ₹ 5,000.

(d) Goodwill was found valueless.

(e) Workmen compensation claim was ₹ 80,000.

Pass necessary Journal Entries for dissolution of the firm. (CBSE 2012)

Solution: **Journals**

Date	Particulars		LF	Dr.(₹)	Cr.(₹)
1.4.2011	Creditors A/c	Dr.		50,000	--------
	Workmen Compensation Fund	Dr.		80,000	--------
	To Realization A/c			-------	1,30,000
	(Being liabilities transferred)				
	Realization A/c	Dr.		2,60,000	--------
	To Goodwill			-------	80,000
	To Land & Building			-------	80,000
	To Stock			-------	60,000
	To Debtors			-------	40,000

	(Being assets transferred)			
	Bank A/c Dr. To Realization A/c (Being realized from assets)		85,000 ---------	-------- 85,000
	Realization A/c Dr. To Bank A/c (being Workmen compensation claims paid off)		80,000 --------	-------- 80,000
	P's Capital A/c Dr. Q's Capital A/c Dr. To Realization A/c (Being loss on dissolution transferred)		75,000 50,000 -------	--------- --------- 1,25,000
	P's Capital A/c Dr. Q's Capital A/c Dr. To Bank A/c (Being balance of partner's capital paid off)		5,000 20,000 ---------	-------- -------- 25,000

One Mark Questions

(1) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Profit and Loss Suspense Account' 60,000. Pass necessary Journal entry.

(2) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Goodwill' 20,000. Pass necessary Journal entry.

(3) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Workmen's Compensation Reserve' 60,000. Pass necessary Journal entry.

(4) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Workmen's Compensation Reserve' 60,000. There is a claim for workmen's compensation of 40,000. Pass necessary Journal entry.

(5) P, Q and R are partners in a firm sharing profits & losses in the ratio of 5:3:2. On 1st April, 2019, they agree to share future profits & losses in the ratio of 3:2:1 and on the same date, the Balance Sheet is showing Investment at 3,00,000 and Investment Fluctuation Reserve at 30,000. Investment valued at 2,60,000. Pass necessary Journal entry.

(6) X and Y are partners in a firm sharing profits in the ratio of 7:3. Z is admitted as partner for 3/10th share which he takes from X and Y in ratio 2:1. The new profit sharing ratio between X, Y and Z will be _______.

(7) A and B are partners in a firm sharing profits in the ratio of 3:2. C admitted as partner for 1/3 share. A, B and C are agree to share future profit and loss in equal proportion. The sacrificing ratio between A and B is: (a) 1:1 (b) 3:2 (c) 4:1 (d) 2:3

(8) X, Y and Z were partners in a firm sharing profit in the ratio of 3:2:1. Z decides to retire from the firm due to medical problem. X and Y agree to share future profit in 2:1. The gaining ratio between X and Y is: (a) 3:2 (b) 2:1 (c) 1:1 (d) None of the above

(9) What is the purpose to prepare 'Revaluation Account' on reconstitution of a partnership?

(10) At the time of admission of a partner, where will you transfer the balance of Investment Fluctuation Fund after meeting the loss on revaluation of investment?

(11) When the incoming partner brings in his share of the premium for goodwill in cash, it is adjusted by crediting to – (a) Premium for Goodwill A/c (b) Incoming Partner's Capital A/c (c) Sacrificing Partners' Capital A/c (d) None of these

(12) Revaluation A/c OR Profit and Loss Adjustment A/c OR Profit & Loss Appropriation A/c is a: (a) Real A/c (b) Nominal A/c (c) Personal A/c (d) All of above

(13) In the case of reconstitution of partnership, ₹ 6,000 of goodwill appearing in the balance sheet. Which one of the following is correct treatment: (a) Continue an asset in the balance sheet (b) Written off with old partners' capital A/cs in old ratio (c) Written off with all partners capital A/cs in old ratio – on retirement/death/change in ratio (d) Both the (b) and (c) correct.

(14) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 2:1. Gopal, a incoming partner brought in his share of premium for goodwill in cash 30,000. Make necessary Journal entry for the same.

(15) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 2:1. Gopal, a incoming partner brought in his share of premium for goodwill in cash 30,000. Make necessary Journal entry for the same to adjust with the capital accounts of Pankaj and Rohit..

(16) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 2:1. Gopal admitted as a partner for 1/3 share in firm and brought in share of capital in cash 3,00,000. The balance of capitals of Pankaj and Rohit (after adjustments of accumulated profit/loss, gain/loss on revaluation) 3,20,000 and 1,90,000 respectively. As per the terms of Deed, Gopal will be brought in his share of premium for goodwill of __________.

(17) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 3:2. They agree to share future profit in the ratio of 2:1. Goodwill valued at 60,000. Pass necessary Journal entry.

(18) Pankaj, Rohit and Gopal were partners in a firm sharing profit in the ratio of 3:2:1. Pankaj retires from firm. Goodwill valued at 1,20,000. Pass necessary Journal entry.

(19) Pankaj, Rohit and Gopal were partners in a firm sharing profit in the ratio of 3:2:1. Pankaj retires from firm. Goodwill valued at 1,20,000. Rohit and Gopal agree to share future profit in the ratio of 3:2. Pass necessary Journal entry.

(20) If the deceased partner's executor is not paid full amount/partial amount due to him/her immediately on death, his/her balance is transferred to his/her _______________ A/c.

(21) If the retiring partner is not paid full/partial amount due to him immediately on retirement, his balance is transferred to his ____________________ A/c.

(22) Can a retired or deceased partner's legal representative claim a share in the subsequent profit of the firm? Give reason.

(23) At the time of retirement of a partner, Provision for Bad and Doubtful Debts appears in the balance sheet and all Debtors become good, then provision for doubtful debts will be _______ in revaluation account.

(24) A, B and C are partners in a firm sharing profits in ratio 3:2:1. Firm closes its accounts on 31st March every year. B died on June 12. His share of profits in the firm till his death was to be computed on the basis of last year's profit which was 1,50,000. B's share in profits will be: (a) 30,000 (b) 10,000 (c) 20,000 (d) 15,000

(25) In the absence of partnership deed, deficiency arising on guaranteed share is met by other partners in which ratio?

(26) P, Q and R were sharing profit and losses equally. R retires and the goodwill is appearing in the book at ₹ 30,000. Goodwill of the firm is valued at ₹ 1,50,000. Calculate the net amount to be credited to R's Capital A/c?

(27) Interest on Partners' Loan is to be treated as 'a charge against profit'. (True / False)

(28) Terms of Partnership Deed allowed interest on capital to the partners, but the net profit was not sufficient for this interest. The net profit will be distributed between partners in the 'ratio of interest on capital'. (True / False)

(29) As per the Companies Act-2013, the maximum number of partners in a firm is 20. (True/False)

(30) Profit & Loss Appropriation Account is an extension of Profit & Loss Account. (True/False)

(31) Under Fixed Capital method, the capital accounts of partners will changes with every change in the claim / charge with respect to partners. (True / False)

(32) Under fluctuate capital method; interest on capital will be credited to __________ A/c.

(33) At the time of reconstitution, provision for doubtful debts appears in the balance sheet and all Debtors become good, then provision for doubtful debts will be _______in revaluation A/c.

(34) Provision for doubtful debts appearing in the books at the time of dissolution of firm is transferred to credit side of ____________A/c.

(35) Goodwill Account appearing in the books on the dissolution date is closed by transferring it to ________ side of the _______________ account.

(36) Raghav and Vijay are partners in a firm sharing profits and losses equally. On the dissolution of the partnership firm, Raghav's wife's loan was ₹ 45,000 whereas Vijay's Loan was ₹ 15,000. Which loan be paid first and why?

(37) Name any two specific liabilities which are transferable to realization account but payment of these is not made on dissolution of firm.

(38) Realization expenses of 10,000 were paid by firm on behalf of Vijay (a partner) will be debited to __________A/c.

(39) On dissolution of firm, all partners are agreed to accomplish dissolution process by Deepak (a partner) for which they have consent for expenses at 15,000. Pass necessary Journal entry.

(40) On dissolution of firm, 5,000 paid by firm on behalf of Sanjay, for which 50,000 were credited to his capital account so that he proceeds for dissolution work. Actual realization expenses incurred at 70,000. Realization Account will be debited by ______________.

(41) Stock of 20,000 was not shown in the books. At the time of dissolution, one of the creditors of 18,000 took this investment in full settlement of his debt. How much amount will be payable to creditor? (a) 18,000 (b) 20,000 (c) 2,000 (d) None of the above

(42) Stock of 20,000 was not shown in the books. At the time of dissolution, one of the creditors of 22,000 took this investment in full settlement of his debt. How much amount will be payable to creditor? (a) 18,000 (b) 20,000 (c) 2,000 (d) None of the above

(43) Stock of 20,000 was not shown in the books. At the time of dissolution, one of the creditors of 18,000 took this investment at 16,000. How much amount will be payable to creditor?. (a) 18,000 (b) 20,000 (c) 2,000 (d) None of the above

(44) Stock of 30,000 was not shown in the books. At the time of dissolution, one of the creditors of 18,000 took this investment at 24,000. Pass necessary Journal entry.

(45) On dissolution of firm, Goodwill appearing in the balance sheet will be transferred to ______ side of the _____________ Account.

(46) On dissolution of firm, which one be settled first: (a) Partner's Wife Loan (b) Partner's Loan (c) Bank Loan (d) a and c

(47) On dissolution of firm, unrecorded furniture of 4,000 took over by Anand (a partner) will be credited to ___________A/c.

(48) On dissolution of a firm, Investments of book value 60,000 appearing in the balance sheet. One third of investment took over by Anil for cash (a partner) at 20% less and remaining was realized at a loss of 9,000. Pass necessary Journal entry.

(49) On Dissolution of firm, received 3,000 from a debtor which was written off as bad debts earlier, pass necessary Journal entry.

(50) Change in the existing agreement between the partners is termed as ____________.

(51) On dissolution of firm, a creditor of 12,000 paid at a discount of 20%. Realization Account will be debited by __________.

(52) On reconstitution of partnership, received 3,000 from a debtor which was written off as bad debts earlier, pass necessary Journal entry.

(53) State the main aim of Not-for-Profit Organisation.

(54) How are specific donations treated while preparing final accounts of a Not-for-Profit Organisation?

(55) Under which of the following circumstances', the balance of 'Fixed Capital Accounts' will changes? (i) Additional capital is introduced (ii) Interest on capital is provided (iii) Interest on Drawings is charged (iv) Excess capital is withdrew Choose the correct option

from the following: (a) Option: i, ii, iii and iv (b) Option: ii and iii (c) Option: i and iv (d) None of above

(56) In the absence of Partnership Deed, interest on capital of a partner is _________allowed.

(57) Akash and Bhumija are partners in a firm. Bhumija is entitled to get a commission of 25% on net profit after charging such commission. Net profit before charging such commission is 60,000. Bhumija's commission will be _________.

(58) If all are partners agree, a minor may be admitted in to the partnership. (True/False)

(59) Name the method of calculating interest on drawings of the partners if they made drawings in different amounts on different dates.

(60) Goodwill of the firm valued at 30,000, on the basis of 2 years' purchase of average profit of the last 3 years. The average profit of the firm is _________.

(61)Capital employed in a firm is 3,00,000. Average profit is 35,000. The normal rate of return is 10% and the goodwill to be valued at 2 $\frac{1}{2}$ years' purchase. Valued goodwill is _____.

(62) Goodwill is a fictitious asset. (True / False)

(63) How does the factor 'efficiency of management' affect the goodwill of a firm?

(64) When new partner does not bring his share of goodwill in cash, the amount is debited to: (a) Premium A/c (b) Goodwill A/c (c) Current A/c of new partner (d) None of the above

(65) At the time of reconstitution of a partnership, there is some unrecorded liabilities are found. It will be shown: (i) Debited to Revaluation A/c (ii) Credited to Revaluation A/c (iii) Reconstituted Balance Sheet Choose the correct option from the following: (a) Option: (i) (b) Option: (ii) (c) Option: (iii) (d) Option: (i) and (iii)

(66) New partner's share of goodwill taken by old partners in _________ Ratio.

(67) State the purpose for treatment of goodwill on admission of a partner.

(68) A and B are partners in a firm sharing profit in the ratio of 3:2. They admitted C as a partner for $\frac{1}{4}$ share with a minimum guarantee of profits 10,000. At the close of the financial year, the firm earned a profit of 60,000. C's share of profit will be ________.

(69) Under which circumstance will the premium for goodwill paid by the incoming partner not be recorded in the books of accounts?

(70) At the time of admission of a partner, need to calculate sacrificing share/ratio between old partners under the condition of _______________.

(71)Differentiate between dissolution of partnership and dissolution of partnership firm.

ACCOUNTING FOR SHARE CAPITAL

Share: Capital of a company is divided in certain units of a fixed amount. These units are known as shares. It's a basis of ownership in a company.

Type of shares: (1) Preference Shares (2) Equity Shares

Preference Shares: Share, which carries preferential rights over to Equity share in respect to:

(a) Dividends (b) Repayment of capital

Categories of Share Capital:

(a) Authorized/Registered/Nominal Capital: maximum capital for which company authorized.

(b) Issued Capital (c) Subscribed Capital (d) Called-up Capital (e) Paid-up Capital

(a) Reserve Capital: The portion of un-called capital which shall not be called except in the event of wound up of company.

<u>A Ltd company issued 10,000 shares of ₹ 10 each</u>.

Application received for 10,000 shares: Equal subscription – Allotment could be made by company

Application received for 11,000 shares: Over-subscription – Pro-rata allotment will be made

Application received for 9,000 shares: Under-subscription – Allotment could be made to all applicants

Application received for 8,999 shares: Under-subscription – But, company could not make allotment

Minimum Subscription: The minimum subscription refers to the amount which in the opinion of directors, must be raised by issue of shares to provide for the following:

(a) Preliminary expenses, floatation costs of the company

(b) Working capital of the company

Minimum Subscription of capital cannot be less than 90% of the issued capital (according to SEBI Guidelines – 2000). If it is not satisfied, than company cannot be made allotment of shares and entire amount received on application refunded within 08 days to subscribers. (Delays to refund, company shall be liable to pay the amount with interest @ 15%).

(a) **<u>Private Placement of Shares</u>**: This refers to an issue, which is not a public issue but are offered to a selected group of persons. Example: X Ltd issued its 40,000 shares of ₹ 10 each to Life Insurance Coorporation of India.

(b) **<u>Public Issue of Shares</u>**: This means an invitation to public to subscribe to the securities offered through a prospectus.

(c) **<u>Employee Stock Option</u>**: A choice given to the whole-time directors, officers and employees whereby they get the right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price is known as Employee Stock Option. Example: XYZ Ltd company offer an option to its employees that they can invest to the company's new issue of 75,000 shares of company at the price ₹ 80 per share whereas it market price is at ₹ 105 per share during the period of three months of its issue.

(d) **According to Section 78** of the Companies Act, **Securities Premium Account** may be used by the company for the following purposes only:

(1) To fully paid bonus shares;

(2) To writing-off preliminary expenses;

(3) To writing-off expenses such as expenses, commission or discount on issue of shares or debentures;

(4) To provide premium payable on redemption of debentures or preference shares;

(5) In buying-back its own shares.

(e) <u>Reserve Capital (RC) V/s Capital Reserve (CR):</u>

(1) RC – created out of uncalled capital & CR – created out of capital profits.
(2) RC – not mandatory to create & CR – mandatory to create, if, there is capital profits.
(3) RC – special resolution required & CR – Special resolution not required.
(4) RC – can be used only in the time of winding-up & CR – can be used during the life.

Calls-in-advance: A company receives the amount from the shareholders even when the amount has not been called. The amount so received is known as Calls-in-advance. Company has to allowed interest on calls-in-arrears @ 12 % p.a.

Calls-in-arrears: Calls-in-arrears is that part of the called-up capital which remains unpaid by the subscribers. Company could charge interest on calls-in-arrears @ 10 % p.a.

Pro-rata Allotment: In case of over-subscription, allotment of shares be made by the company as per the proportion between issued shares and applied shares is called Pro-rata Allotment.
A company issued 10,000 shares but application received for 15,000 shares. Company can make pro-rata allotment as under;

(a) Shares allotted to all applicants in the proportion to applied & issued shares (i.e. in 15:10 ratio) OR
(b) Some of applications (3,000) rejected and shares allotted to remains applicants in their proportion (i.e. in 12:10 ratio) OR
(c) All excess applications (5,000) rejected & allotment made to remains applicants (i.e. in 10:10)

<u>Categories of Share Capital</u>

<u>Authorised Share Capital</u>

(10,00,000 shares of ₹ 10 per share)

(A) Issued Capital **(B) Un-Issued Capital**

<u>Issued Capital</u>

(6,00,000 shares of ₹ 10 per share)

(1) Subscribed Capital **(2) Un-Subscribed Capital (50,000 shares)**

<u>Subscribed Capital</u>

(5,50,000 shares of ₹ 10 per share)

(a) Called-up Capital (₹ 5 per share) **(b) Un-called Capital (₹ 5 per share)**

(i) Paid-up Capital (Due & duly received) **(ii) Calls-in Arrears (due but did not received)** **(i) Unreserved Capital (₹ 4 per share)** **(ii) Reserved Capital (₹ 1 per share)**

Disclosure of Share Capital into the Balance Sheet of a Company

Balance Sheet of a Company (As on --------)

Equity & Liabilities	Note No.	Amt. in ₹
(A)Share Holders Fund:		
(a) Share Capital	1	XXXX
(b) Reserve & Surplus	2	XXX
(B)Non-Current Liabilities		
(C)Current Liabilities	3	XXX

Notes to Account:

Particulars	Note No.		Amt. in ₹
1. Authorised Capital			XXXXX
XXXX shares of ₹ XX each share			
2. Issued Capital			XXXX
XXX shares of ₹ XX each share			
3. Subscribed Capital			XXXX
XXX shares of ₹ XX each share			
4. Paid-Up Capital			
XXX shares of ₹ XX each share		XXXX	
Less: Calls-in Arrears		(XXX)	
Less: Share Forfeited		(XXX)	XXXX
Add: Share Forfeiture A/c			XXX
Share Capital	1		**XXXX**
Securities Premium Reserve			**XXX**
Share Forfeiture A/c (Balance after adjustment of loss on re-issue)			**XXX**
	2		**XXX**
Calls in Advance	3		**XXX**
On XXX shares @ ₹ XX per share			

Example:

X Ltd Authorised for 10,00,000 shares of ₹ 10 each. Compnay issued 6,00,000 shares by inviting to public in general. Amount payable to shares of compnay as: On Application ₹ 3 per share, On Allotment ₹ 4 per share and balance on first & final call. Applications received for 5,50,000 shares. Allotment made to all applicants. Ravi, to whom 12,000 shares allotted failed to pay allotment money. Present the Share Capital into the Balance Sheet of the company as per the shedule III of Companies Act 2013.

Solution:

Balance Sheet of a Company (As on --------)

Equity & Liabilities	Note No.	Amt. in ₹
(A)Share Holders Fund:		
(a) Share Capital	1	**38,02,000**

Notes to Account:

Particulars	Note No.		Amt. in ₹
Authorised Capital			1,00,00,000
10,00,000 shares of ₹ 10 each share			
Issued Capital			60,00,000
6,00,000 shares of ₹ 10 each share			
Subscribed Capital			55,00,000
5,50,000 shares of ₹ 10 each share			
Paid-Up Capital			
5,50,000 shares of ₹ **7** each share		38,50,000	38,02,000
Less: Calls-in Arrears (12,000 x 4)		(48,000)	
Less: Share Forfeited		(XXX)	
Add: Share Forfeiture A/c	1		XXX
Share Capital			**38,02,000**

Example: X Ltd Authorised for 10,00,000 shares of ₹ 10 each. Compnay issued 6,00,000 shares by inviting to public in general. Amount payable to shares of compnay as: On Application ₹ 3 per share, On Allotment ₹ 4 per share and balance on first & final call. Applications received for 5,50,000 shares. Allotment made to all applicants. Ravi, to whom 12,000 shares allotted failed to pay allotment money. These shares were forfeited immediately and after that calls were made.

Present the Share Capital into the Balance Sheet of the company as per the shedule III of Companies Act 2013.

Solution: **Balance Sheet of a Company (As on --------)**

Equity & Liabilities	Note No.	Amt. in ₹
(A)Share Holders Fund:		
(a) Share Capital	1	**54,52,000**

Notes to Account:

Particulars	Note No.		Amt. in ₹
Authorised Capital			1,00,00,000
10,00,000 shares of ₹ 10 each share			
Issued Capital			60,00,000
6,00,000 shares of ₹ 10 each share			
Subscribed Capital			55,00,000
5,50,000 shares of ₹ 10 each share			
Paid-Up Capital			
5,50,000 shares of ₹ **10** each share		55,00,000	54,16,000
Less: Share Forfeited (12,000 x 7)		(84,000)	
Add: Share Forfeiture A/c (12,000 x 3)	1		36,000
Share Capital			**54,52,000**

Example: X Ltd Authorised for 10,00,000 shares of ₹ 10 each. Compnay issued 6,00,000 shares by inviting to public in general. Amount payable to shares of compnay as: On Application ₹ 3 per share, On Allotment ₹ 4 per share and balance on first & final call. Applications received for 5,50,000 shares. Allotment made to all applicants. Ravi, to whom 12,000 shares allotted failed to pay allotment money. These shares were forfeited immediately and after that calls were made.

Forfeited shares re-issued at ₹ 8 per share fully paid.

Present the Share Capital into the Balance Sheet of the company as per the shedule III of Companies Act 2013.

Solution: **Balance Sheet of a Company (As on --------)**

Equity & Liabilities	Note No.	Amt. in ₹
(A)Share Holders Fund:		
(a) Share Capital	1	**54,52,000**
(b) Reserve & Surplus	2	**12,000**

Notes to Account:

Particulars		Note No.		Amt. in ₹
Authorised Capital				1,00,00,000
10,00,000 shares of ₹ 10 each share				
Issued Capital				60,00,000
6,00,000 shares of ₹ 10 each share				
Subscribed Capital				55,00,000
5,50,000 shares of ₹ 10 each share				
Paid-Up Capital				
5,50,000 shares of ₹ **10** each share			55,00,000	55,00,000
Share Capital		1		**55,00,000**
Share Forfeiture A/c				
Share Forfeiture amount	36,000			**12,000**
Less: Adjusted on re-issue (12,000 x 2)	24,000	2		

Example: X Ltd Authorised for 10,00,000 shares of ₹ 10 each. Compnay issued 6,00,000 shares by inviting to public in general. Amount payable to shares of compnay as: On Application ₹ 3 per share, On Allotment ₹ 4 per share and balance on first & final call. Applications received for 5,50,000 shares. Allotment made to all applicants. Ravi, to whom 12,000 shares allotted failed to pay allotment money and call money.

These shares were forfeited and re-issued at ₹ 8 per share fully paid.

Present the Share Capital into the Balance Sheet of the company as per the shedule III of Companies Act 2013.

Solution: **Balance Sheet of a Company (As on --------)**

Equity & Liabilities	Note No.	Amt. in ₹
(A) Share Holders Fund:		
(a) Share Capital	1	**54,52,000**
(b) Reserve & Surplus	2	**12,000**

Notes to Account:

Particulars	Note No.		Amt. in ₹
Authorised Capital 10,00,000 shares of ₹ 10 each share **Issued Capital** 6,00,000 shares of ₹ 10 each share **Subscribed Capital** 5,50,000 shares of ₹ 10 each share **Paid-Up Capital** 5,50,000 shares of ₹ **10** each share **Share Capital**	1	55,00,000	1,00,00,000 60,00,000 55,00,000 55,00,000 **55,00,000**
Share Forfeiture A/c Share Forfeiture amount (12,000 x 3) 36,000 Less: Adjusted on re-issue (12,000 x 2) 24,000	2		**12,000**

Example: X Ltd Authorised for 10,00,000 shares of ₹ 10 each. Compnay issued 6,00,000 shares by inviting to public in general. Amount payable to shares of compnay as: On Application ₹ 3 per share, On Allotment ₹ 4 per share and balance on first & final call. Applications received for 5,50,000 shares. Allotment made to all applicants. Ravi, to whom 12,000 shares allotted failed to pay allotment money and call money.

Out of the 12,000 forfeited shares; 9,000 shares were re-issued at ₹ 8 per share fully paid.

Present the Share Capital into the Balance Sheet of the company as per the shedule III of Companies Act 2013.

Solution: **Balance Sheet of a Company (As on --------)**

Equity & Liabilities	Note No.	Amt. in ₹
(A)Share Holders Fund:		
(a) Share Capital	1	**54,79,000**
(b) Reserve & Surplus	2	**9,000**

Notes to Account:

Particulars	Note No.		Amt. in ₹
Authorised Capital 10,00,000 shares of ₹ 10 each share **Issued Capital** 6,00,000 shares of ₹ 10 each share **Subscribed Capital** 5,50,000 shares of ₹ 10 each share **Paid-Up Capital** 5,50,000 shares of ₹ **10** each share Less: Forfeited Shares (3,000 x 10) Add: Share Forfeiture A/c (3,000 x 3) **Share Capital**	1	55,00,000 (30,000)	1,00,00,000 60,00,000 55,00,000 54,70,000 9,000 **54,79,000**
Share Forfeiture A/c			

Share Forfeiture amount (9,000 x 3)	27,000			
Less: Adjusted on re-issue (9,000 x 2)	18,000	2		9,000

Journal entries for the Issue of Shares

1. Issue of shares at Par/at Face value/at Nominal value

(a) **All due money towards face value called and received along with application**

(i) Bank A/c Dr. XXX

To Share Application & Allotment A/c XXX

(ii) Share Application & Allotment A/c Dr. XXX

To Share Capital XXX

(b) **Partial amount of face value called on application, on allotment and on calls**

(i) On Money received along with application

Bank A/c Dr. XXX

To Share Application A/c XXX

(ii) On Application money transfer to Share Capital A/c

Share Application A/c Dr. XXX

To Share Capital A/c XXX

(iii) On Allotment money become due

Share Allotment A/c Dr. XXX

To Share Capital A/c XXX

(iv) On Allotment money received

Bank A/c Dr. XXX

To Share Allotment A/c XXX

(v) On Calls money become due

Share 1st & Final Call A/c Dr. XXX

To Share Capital A/c XXX

(vi) On Calls money received

Bank A/c Dr. XXX

To Share 1st & Final Call A/c XXX

2. Issue of shares at Premium (more than face value/nominal value)

(i) On Application money received along with Premium

Bank A/c Dr. XXX

To Share Application A/c XXX

(ii) On Application money and Premium transferred

Share Application A/c Dr. XXX

To Share Capital A/c XXX

To Securities Premium Reserve A/c XXX

(iii) On Allotment money become due along with Premium

Share Allotment A/c Dr. XXX

To Share Capital A/c XXX
To Securities Premium Reserve A/c XXX

(iv) On Allotment money received

Bank A/c Dr. XXX
To Share Allotment A/c XXX

(v) On Calls money become due along with Premium

Share 1st & Final A/c Dr. XXX
To Share Capital A/c XXX
To Securities Premium Reserve A/c XXX

(vi) On Calls money received

Bank A/c Dr. XXX
To Share 1st & Final Call A/c XXX

Forfeiture of Shares

On the failure to pay amount towards share capital by a shareholder, company may forfeit the allotted shares as well as amount duly received from them is called forfeiture of share.

Shares were issued at PAR	**Shares were issued at PREMIUM**	
	Premium duly received	Premium did not receive
(A) 2,000 shares of ₹ 10 each forfeited due to non-payment of allotment of ₹ 3 and first and final call ₹ 3 per share.	**(B)** 2,000 share of ₹10 each were issued at 10% premium called on application, forfeited due to nonpayment of allotment of ₹ 3 per share and final call of ₹ 3 per share.	**(C)** 2,000 shares of ₹ 10 each were issued at 10% premium called on allotment, forfeited due to non-payment of allotment of ₹ 4 (including premium) and first and final call ₹ 3 per share.

(A) 2,000 shares of ₹ 10 each forfeited due to non-payment of allotment of ₹ 3 and first and final call ₹ 3 per share.

Share Capital 2,000 x 10) Dr. 20,000
To Calls-in Arrears A/c (2,000 x 6) 12,000
To Share Forfeiture A/c (2,000 x 4) 8,000

(B) 2,000 shares of ₹ 10 each were issued at 10% premium called on application, forfeited due to non-payment of allotment of ₹ 3 per share and final call of ₹ 3 per share.

Share Capital 2,000 x 10) Dr. 20,000
To Calls-in Arrears A/c (2,000 x 6) 12,000
To Share Forfeiture A/c (2,000 x 4) 8,000

(C) 2,000 shares of ₹ 10 each were issued at 10% premium called on allotment, forfeited due to non-payment of allotment of ₹ 4 (including premium) and first and final call ₹ 3 per share.

Share Capital A/c (2,000 x 10) Dr. 20,000
Securities Premium A/c (2,000 x 1) Dr. 2,000

To Calls-in Arrears A/c (2,000 x **7**) 14,000
To Share Forfeiture A/c (2,000 x 4) 8,000

If shares were forfeited before the calls

Example: 2,000 shares of ₹ 10 each forfeited due to non-payment of allotment ₹ 3 per share. First & final call ₹ 3 per share not yet made. Pass Journal entry for forfeiture of share.

Share Capital A/c (2,000 x 7) Dr. 14,000
To Call-in Arrears A/c (2,000 x 3) 6,000
To Share Forfeiture A/c (2,000 x 4) 8,000

Re-Issue of Forfeited Shares

Re-issue of forfeited shares below than face value	Re-issue of forfeited shares more than face value
Forfeited shares can be re-issued at below then the face value of share **BUT** not less than the forfeited money on that share, if there are few balances in share forfeiture A/c then it will be transferred to Capital Reserve A/c. **Que.** 2,000 forfeited shares of ₹ 10 per share (forfeited money therein ₹ **6,000**) re-issued at ₹ 8 per share fully paid. Solution: Bank A/c (2,000 x 8) Dr. 16,000 Share Forfeiture A/c Dr. **4,000** To Share Capital A/c (2,000 x 10) 20,000 (Being forfeited shares re-issued) Share Forfeiture A/c (6,000 – 4,000) Dr. 2,000 To Capital Reserve A/c 2,000 (Being balance transferred)	Re-issue of forfeited shares more than face value is the case of securities premium and after re-issue of forfeited shares, all the forfeited amount will be transferred to Capital Reserve A/c. **Que.** 2,000 forfeited shares of ₹ 10 per share (forfeited money therein ₹ 6,000) re-issued at ₹ 15 per share fully paid. Solution: Bank A/c (2,000 x 15)Dr. 30,000 To Share Capital A/c (2,000 x 10) 20,000 To Securities Premium A/c 10,000 (Being forfeited shares re-issued) Share Forfeiture A/c (6,000 – NIL)Dr. 6,000 To Capital Reserve A/c 6,000 (Being balance transferred)
Que. 2,000 forfeited shares of ₹ 10 per share (forfeited money therein ₹ 6,000) re-issued 1,500 shares at ₹ 8 per share fully paid. Solution: Bank A/c (1,500 x 8) Dr. 12,000 Share Forfeiture A/c*Dr. 3,000 To Share Capital A/c (1,500 x 10) 15,000 (Being forfeited shares re-issued) Share Forfeiture A/c Dr. 1,500 To Capital Reserve A/c 1,500 (Being balance transferred) **Workings:*** On 2,000 shares forfeited money ₹ 6,000 therefore,	**Que.** 2,000 forfeited shares of ₹ 10 per share (forfeited money therein ₹ 6,000) re-issued 1,500 shares at ₹ 15 per share fully paid. Solution: Bank A/c (1,500 x 15)Dr. 22,500 To Share Capital A/c (1,500 x 10) 15,000 To Securities Premium A/c 7,500 (Being forfeited shares re-issued) Share Forfeiture A/c Dr. 4,500 To Capital Reserve A/c 4,500 (Being balance transferred) **Workings:*** On 2,000 shares forfeited money ₹ 6,000 therefore,

On 1,500 shares = (6,000 x 1,500) / 2,000 = 4,500 Less: Adjusted on re-issue of 1,500 shares (3,000)* Hence, balance transferred to Capital Reserve **1,500***	On 1,500 shares = (6,000 x 1,500) / 2,000 = 4,500 Less: Adjusted on re-issue of 1,500 shares (NIL)* Hence, balance transferred to Capital Reserve **4,500***
Que. 2,000 forfeited shares of ₹ 10 per share (forfeited money therein ₹ **4,000**), First and Final call of ₹ 2 per share not yet made, re-issued at ₹ 7 per share for ₹ 8 per share. Solution: Bank A/c (2,000 x 7) Dr. 14,000 Share Forfeiture A/c*Dr. 2,000 To Share Capital A/c (2,000 x 8) 16,000 (Being forfeited shares re-issued) Share Forfeiture A/c Dr. 2,000 To Capital Reserve A/c 2,000 (Being balance transferred)	**Que.** 2,000 forfeited shares of ₹ 10 per share (forfeited money therein ₹ **4,000**), First and Final call of ₹ 2 per share not yet made, re-issued at ₹ 20,000 for ₹ 8 per share. Solution: Bank A/c Dr. 20,000 To Share Capital A/c (2,000 x 8) 16,000 To Securities Premium A/c 4,000 (Being forfeited shares re-issued) Share Forfeiture A/c Dr. 4,000 To Capital Reserve A/c 4,000 (Being balance transferred)
Golden Guidelines to adjust excess application money on allotment/call with due money on securities premium (A) Excess application money be adjusted first towards face value due; (B) Once, due towards face value adjusted then remaining be adjusted with premium due money.	

Example: (1) X Ltd issued 40,000 shares of ₹ 100 per share to public in general, payable as under:

On Application : ₹ 30 per share
On Allotment : ₹ 40 per share
On First & Final Call : ₹ Balance

Application received for all the offered shares and due amount was duly received except from Govind (on 9,000 shares) who failed to pay allotment and call money.

These shares were forfeited and re-issued at ₹ 80 per share fully paid.

Pass necessary Journal entries for the above transactions in the book of X Ltd.

Solution: **Journal entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c (40,000 x 30) Dr. To Share Application A/c (Being money received for share application)		12,00,000	 12,00,000
2	Share Application A/c Dr. To Share Capital A/c (40,000 x 30) (Being share application money transferred)		12,00,000	 12,00,000
3	Share Allotment A/c (40,000 x 40) Dr. To Share Capital A/c (Being allotment money become due)		16,00,000	 16,00,000

4	Bank A/c (16,00,000 – 3,60,000) Dr. Calls-in Arrears A/c (9,000 x 40) Dr. To Share Allotment A/c (Being allotment money received except on 9,000 shares)		12,40,000 3,60,000	 16,00,000
5	Share 1st & Final Call A/c (40,000 x 30) Dr. To Share Capital A/c (Being calls money become due)		12,00,000	 12,00,000
6	Bank A/c (12,00,000 – 2,70,000) Dr. Calls-in Arrears A/c (9,000 x 30) Dr. To Share 1st & Final Call A/c (Being calls money received except on 9,000 shares)		9,30,000 2,70,000	 12,00,000
7	Share Capital A/c (9,000 x 100) Dr. To Calls-in Arrears A/c (9,000 x 70) To Share Forfeiture A/c (9,000 x 30) (Being shares forfeited due to non-payment of allot & call)		9,00,000	 6,30,000 2,70,000
8	Bank A/c (9,000 x 80) Dr. Share Forfeiture A/c (9,000 x 20) Dr. To Share Capital A/c (9,000 x 100) (Being forfeited shares re-issued)		7,20,000 1,80,000	 9,00,000
9	Share Forfeiture A/c (2,70,000 – 1,80,000) Dr. To Capital Reserve A/c (Being balance of share forfeiture amount transferred)		90,000	 90,000

Example: (2) X Ltd issued 40,000 shares of ₹ 100 per share to public in general, payable as under:

On Application : ₹ 30 per share

On Allotment : ₹ 40 per share

On First & Final Call : ₹ Balance

Application received for 50,000 shares and pro-rata allotment made to all applicants. Overpaid application money to be adjusted sum due on allotment. All the due money was duly received except from Govind (on 9,000 shares) who failed to pay allotment and call money.

These shares were forfeited and re-issued at ₹ 80 per share fully paid.

Pass necessary Journal entries for the above transactions in the book of X Ltd.

Solution: **Journal entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c (50,000 x 30) Dr. To Share Application A/c (Being share application money received)		15,00,000	 15,00,000
2	Share Application A/c Dr. To Share Capital A/c (40,000 x 30) To Share Allotment A/c (Being share application money transferred & adjusted)		15,00,000	 12,00,000 3,00,000
3	Share Allotment A/c (40,000 x 40) Dr. To Share Capital A/c (Being allotment money become due)		16,00,000	 16,00,000
	Bank A/c (13,00,000 – 2,92,500) Dr.		10,07,500	

4	Calls-in Arrears A/c To Share Allotment A/c (16,00,000 – 3,00,000) (Being allotment money received except on 9,000 shares)		2,92,500	13,00,000
5	Share 1st & Final Call A/c (40,000 x 30) Dr. To Share Capital A/c (Being calls money become due)		12,00,000	12,00,000
6	Bank A/c (12,00,000 – 2,70,000) Dr. Calls-in Arrears A/c (9,000 x 30) Dr. To Share 1st & Final Call A/c (Being calls money received except on 9,000 shares)		9,30,000 2,70,000	12,00,000
7	Share Capital A/c (9,000 x 100) Dr. To Calls-in Arrears A/c (2,92,500 + 2,70,000) To Share Forfeiture A/c (11,250 x 30) (Being shares forfeited due to non-payment of allot & call)		9,00,000	5,62,500 3,37,500
8	Bank A/c (9,000 x 80) Dr. Share Forfeiture A/c (9,000 x 20) Dr. To Share Capital A/c (9,000 x 100) (Being forfeited shares re-issued as fully paid)		7,20,000 1,80,000	9,00,000
9	Share Forfeiture A/c (3,37,500 – 1,80,000) Dr. To Capital Reserve A/c (Being balance of share forfeited money transferred)		1,57,500	1,57,500

Workings: **Calls-in Arrears on 9,000 shares on Allotment**

Allotment Due (9,000 x 40)	3,60,000
Less: Excess Application money	(67,500)
(11,250 – 9,000) x 30 = 67,500	
Allotment due but not received (calls-in arrears)	**2,92,500**

Applied shares = Allotted shares x Applied Proportion / Allotted Proportion
= (9,000 x 5 / 4 = 11,250 shares applied.

Example: (3) X Ltd issued 40,000 shares of ₹ 100 per share to public in general at premium of ₹ 30 per share, payable as under:

On Application : ₹ 40 per share (including ₹ 10 premium per share)
On Allotment : ₹ 60 per share (including ₹ 20 premium per share)
On First & Final Call : ₹ Balance

Application received for 50,000 shares and pro-rata allotment made to all applicants. Overpaid application money to be adjusted sum due on allotment. All the due money was duly received except from Govind (on 9,000 shares) who failed to pay allotment and call money.

These shares were forfeited and re-issued at ₹ 80 per share fully paid.

Pass necessary Journal entries for the above transactions in the book of X Ltd.

Solution: **Journal entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c (50,000 x 40) Dr. To Share Application A/c (Being share application money received)		20,00,000	20,00,000

	Share Application A/c Dr.		20,00,000	
	To Share Capital A/c (40,000 x 30)			12,00,000
2	To Securities Premium Reserve A/c (40,000 x 10)			4,00,000
	To Share Allotment A/c			4,00,000
	(Being share application money transferred & adjusted)			
	Share Allotment A/c (40,000 x 60) Dr.		24,00,000	
	To Share Capital A/c (40,000 x 40)			16,00,000
3	To Securities Premium Reserve A/c (40,000 x 20)			8,00,000
	(Being allotment money become due)			
	Bank A/c (20,00,000 – 4,50,000) Dr.		15,50,000	
4	Calls-in Arrears A/c *		4,50,000	
	To Share Allotment A/c (24,00,000 – 4,00,000)			20,00,000
	(Being allotment money received except on 9,000 shares)			
	Share 1st & Final Call A/c (40,000 x 30) Dr.		12,00,000	
5	To Share Capital A/c			12,00,000
	(Being calls money become due)			
	Bank A/c (12,00,000 – 2,70,000) Dr.		9,30,000	
6	Calls-in Arrears A/c (9,000 x 30) Dr.		2,70,000	
	To Share 1st & Final Call A/c			12,00,000
	(Being calls money received except on 9,000 shares)			
	Share Capital A/c (9,000 x 100) Dr.		9,00,000	
7	Securities Premium Reserve A/c (9,000 x 20) Dr.		1,80,000	
	To Calls-in Arrears A/c (4,50,000 + 2,70,000)			7,20,000
	To Share Forfeiture A/c **			3,60,000
	(Being shares forfeited due to non-payment of allot & call)			
	Bank A/c (9,000 x 80) Dr.		7,20,000	
8	Share Forfeiture A/c (9,000 x 20) Dr.		1,80,000	
	To Share Capital A/c (9,000 x 100)			9,00,000
	(Being forfeited shares re-issued as fully paid)			
	Share Forfeiture A/c (3,60,000 – 1,80,000) Dr.		1,80,000	
9	To Capital Reserve A/c			1,80,000
	(Being balance of share forfeited money transferred)			

Workings: **Calls-in Arrears on 9,000 shares on Allotment**

Allotment Due (9,000 x 60)	5,40,000
Less: Excess Application money	(90,000)
(11,250 – 9,000) x 40 = 90,000	
Allotment due but not received (calls-in arrears)	**4,50,000** *

Applied shares = Allotted shares x Applied Proportion / Allotted Proportion
= (9,000 x 5 / 4 = 11,250 shares applied.

Total amount received on 11,250 applied shares at ₹ 40 per share =	4,50,000
Less: Transferred to Securities Premium Reserve (9,000 x 10)	(90,000)
Share Forfeiture Account	**3,60,000** **

Questions which are asked by CBSE in the previous year's exams

(1) Karur Ltd. invited applications for issuing 2,40,000 equity shares of ₹ 10 each at a premium of ₹ 4 per share. The amount was payable as under:

On application – ₹ 4 per share (including premium ₹ 2)
On allotment – ₹ 4 per share
On first and final call – ₹ 6 per share (including premium ₹ 2)
Applications for 3,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money received on application was adjusted towards sums due on allotment. All calls were made and were duly received except from Rohini, who failed to pay allotment and first and final call on 7,500 shares applied by her. These shares were forfeited. Afterwards, 40% of the forfeited shares were re-issued at ₹ 11 per share as fully paid-up.
Pass the necessary journal entries in the books of Karur Ltd. Open call-in-arrears and call-in-advance accounts wherever necessary.

Solution: **Journal entries**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (3,00,000 x 4)	Dr.		12,00,000	
1	To Share Application A/c				12,00,000
	(Being share application money received)				
	Share Application A/c	Dr.		12,00,000	
	To Share Capital A/c (2,40,000 x 2)				4,80,000
2	To Securities Premium Reserve A/c (2,40,000 x 2)				4,80,000
	To Share Allotment A/c				2,40,000
	(Being share application money transferred & adjusted)				
	Share Allotment A/c (2,40,000 x 4)	Dr.		9,60,000	
	To Share Capital A/c (2,40,000 x 4)				9,60,000
3	(Being allotment money become due)				
	Bank A/c (7,20,000 – 18,000)	Dr.		7,02,000	
	Calls-in Arrears A/c *			18,000	
4	To Share Allotment A/c (9,60,000 – 2,40,000)				7,20,000
	(Being allotment money received except on 9,000 shares)				
	Share 1st & Final Call A/c (2,40,000 x 6)	Dr.		14,40,000	
	To Share Capital A/c (2,40,000 x 4)				9,60,000
5	To Securities Premium Reserve A/c (2,40,000 x 2)				4,80,000
	(Being calls money become due)				
	Bank A/c (14,40,000 – 36,000)	Dr.		14,04,000	
6	Calls-in Arrears A/c (6,000 x 6)	Dr.		36,000	
	To Share 1st & Final Call A/c				14,40,000
	(Being calls money received except on 9,000 shares)				
	Share Capital A/c (6,000 x 10)	Dr.		60,000	
7	Securities Premium Reserve A/c (6,000 x 2)	Dr.		12,000	
	To Calls-in Arrears A/c (18,000 + 36,000)				54,000
	To Share Forfeiture A/c **				18,000

	(Being shares forfeited due to non-payment of allot & call)			
8	Bank A/c (2,400 x 11) Dr. To Share Capital A/c (2,400 x 10) To Securities Premium Reserve A/c (Being forfeited shares re-issued as fully paid)		26,400	24,000 2,400
9	Share Forfeiture A/c Dr. To Capital Reserve A/c *** (Being balance of share forfeited money transferred)		7,200	7,200

Workings: **Calls-in Arrears on 6,000 shares on Allotment**

Allotment Due (6,000 x 4)	24,000
Less: Excess Application money	(6,000)
(7,500 – 6,000) x 4 = 6,000	
Allotment due but not received (calls-in arrears)	**18,000** *

Allotted shares = Applied shares x Allotted Proportion / Applied Proportion
= (7,500 x 24 / 30 = 6,000 shares applied.

Total amount received on 7,500 applied shares at ₹ 4 per share =	30,000
Less: Transferred to Securities Premium Reserve (6,000 x 2)	(12,000)
Share Forfeiture Account	**18,000** **

Share Forfeited amount on 6,000 shares = 18,000

On 2,400 shares forfeited amount will be = (18,000 x 2,400) / 6,000 = 7,200

Less: Adjusted loss on re-issue of shares NIL

Therefore, transferred to Capital Reserve = **₹ 7,200** ***

(2) V.D. Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 6 per share. The amount per share was payable as follows:

On application – ₹ 3 (including premium ₹ 1)

On allotment – ₹ 7 (including premium ₹ 5)

On first and final call – Balance amount

Applications were received for 2,50,000 shares. Applicants for 10,000 shares were sent letters of regret and application money returned to them. Shares were allotted to the remaining applicants on a pro-rata basis. Money overpaid on application was adjusted towards the sums due on allotment.

The company received all the money due on allotment except from Agam, who was allotted 1,000 shares. Her shares were forfeited immediately after allotment. Afterwards, the first and final call was made.

Seema, the holder of 2,000 shares, did not pay the first and final call on her shares. Her shares were also forfeited.

50% of the forfeited shares, each of Agam and Seema, were reissued as fully paid-up @ ₹ 16 per share.

Pass the necessary journal entries to record the above transactions in the books of V.D. Ltd.

Solution: **Journal Entries**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (2,50,000 x 3)	Dr.		7,50,000	
1	To Share Application A/c				7,50,000
	(Being share application money received)				
	Share Application A/c	Dr.		7,50,000	
2	To Share Capital A/c (2,00,000 x 2)				4,00,000
	To Securities Premium Reserve A/c (2,00,000 x 1)				2,00,000
	To Bank A/c (10,000 x 3)				30,000
	To Share Allotment A/c				1,20,000
	(Being share application money received)				
	Share Allotment A/c (2,00,000 x 7)	Dr.		14,00,000	
3	To Share Capital A/c (2,00,000 x 2)				4,00,000
	To Securities Premium Reserve A/c (2,00,000 x 5)				10,00,000
	(Being allotment money become due along-with premium)				
	Bank A/c (12,80,000 – 6,400)	Dr.		12,73,600	
4	Calls-in Arrears A/c *	Dr.		6,400	
	To Share Allotment A/c (14,00,000 – 1,20,000)				12,80,000
	(Being allotment money received except on 1,000 shares)				
	Share Capital A/c (1,000 x 4)	Dr.		4,000	
5	Securities Premium Reserve A/c (1,000 x 5)	Dr.		5,000	
	To Calls-in Arrears A/c				6,400
	To Share Forfeiture A/c **				2,600
	(Being shares forfeited due to non-payment of allotment)				
	Share 1st & Final Call A/c (1,99,000 x 6)	Dr.		11,94,000	
6	To Share Capital A/c				11,94,000
	(Being calls become due)				
	Bank A/c (11,94,000 – 12,000)	Dr.		11,82,000	
7	Calls-in Arrears A/c (2,000 x 6)	Dr.		12,000	
	To Share 1st & Final Call A/c				11,94,000
	(Being calls money received except on 2,000 shares)				
	Share Capital A/c (2,000 x 10)	Dr.		20,000	
8	To Calls-in Arrears A/c				12,000
	To Share Forfeiture A/c				8,000
	(Being shares forfeited due to non-payment of calls)				
	Bank A/c (1,500 x 16)	Dr.		24,000	
9	To Share Capital A/c (1,500 x 10)				15,000
	To Securities Premium Reserve A/c (1,500 x 6)				9,000
	(Being forfeited shares re-issued at premium)				
	Share Forfeiture A/c (XXX + XXX)	Dr.		5,300	
10	To Capital Reserve A/c ***				5,300
	(Being balance of forfeited money transferred)				

Workings: **Calls-in Arrears on 1,000 shares on Allotment**

Allotment Due (1,000 x 7)	7,000
Less: Excess Application money	(600)

(1,200 – 1,000) x 3 = 600

Allotment due but not received (calls-in arrears) **6,400** *

Applied shares = Allotted shares x Applied Proportion / Allotted Proportion = (1,000 x 24 / 20 = 1,200 shares applied.

Total amount received on 1,200 applied shares at ₹ 3 per share =	3,600
Less: Transferred to Securities Premium Reserve (1,000 x 1)	(1,000)
Share Forfeiture Account	**2,600** **

Share Forfeited amount on 1,000 shares = 2,600	
On 500 shares forfeited amount will be	= 1,300
Share Forfeited amount on 2,000 shares = 8,000	
On 1,000 shares forfeited amount will be	= 4,000
Less: Adjusted loss on re-issue of shares	NIL
Therefore, transferred to Capital Reserve =	**₹ 5,300** ***

(3) Konark Ltd. invited applications for issuing 3,00,000 shares of ₹ 10 each. The amount per share was payable as follows:

₹ 3 on application,

₹ 3 on allotment, and

₹ 4 on first and final call.

The company received applications for 4,00,000 shares. Allotment was done as follows:

(i) Applicants of 2,40,000 shares were allotted 2,00,000 shares.

(ii) Applicants of 1,20,000 shares were allotted 80,000 shares.

(iii) Remaining applicants were allotted 20,000 shares.

Money overpaid on applications was adjusted towards sums due on allotment.

Divij, a shareholder, belonging to group (ii), who had applied for 6,000 shares, failed to pay allotment and call money.

Faisal, another shareholder, who was allotted 10,000 shares, paid the call money along with allotment. Faisal belonged to group (i).

Divij's shares were forfeited after the first and final call. Half of the forfeited shares were reissued @ ₹ 10 per share fully paid.

Pass the necessary journal entries to record the above transactions in the books of the company.

Solution: Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c (4,00,00 x 3) Dr. To Share Application A/c (Being share application money received)		12,00,000	12,00,000
2	Share Application A/c Dr. To Share Capital A/c (3,00,000 x 3) To Share Allotment A/c (Being share application money transferred & adjusted)		12,00,000	9,00,000 3,00,000

	Share Allotment A/c (3,00,000 x 3) Dr.		9,00,000	
3	To Share Capital A/c			9,00,000
	(Being allotment money become due)			
	Bank A/c {(6,00,000 – 6,000) + 40,000} Dr.		6,34,000	
4	Calls-in Arrears A/c * Dr.		6,000	
	To Share Allotment A/c (9,00,000 – 3,00,000)			6,00,000
	To Calls-in Advance A/c (10,000 x 4)			40,000
	(Being allotment money received except on 4,000 shares including in advance for call on 10,000 shares)			
	Share 1^{st} & Final Call A/c (3,00,000 x 4) Dr.		12,00,000	
5	To Share Capital A/c			12,00,000
	(Being call money become due)			
	Bank A/c {12,00,000 – (40,000 + 16,000)} Dr.		11,44,000	
6	Calls-in Arrears A/c (4,000 x 4) Dr.		16,000	
	Calls-in Advance A/c Dr.		40,000	
	To Share 1^{st} & Final Call A/c			12,00,000
	(Being call money received except on 4,000 shares)			
	Share Capital A/c (4,000 x 10) Dr.		40,000	
7	To Calls-in Arrears A/c (6,000 + 16,000)			22,000
	To Share Forfeiture A/c (6,000 x 3)			18,000
	(Being shares forfeited due to non-payment of allot & call)		20,000	
8	Bank A/c (2,000 x 10) Dr.			20,000
	To Share Capital A/c (2,000 x 10)			
	(Being forfeited shares re-issued)		9,000	
9	Share Forfeiture A/c (1/2 of 18,000) Dr.			9,000
	To Capital Reserve A/c			
	(Being balance of forfeited money transferred)			

Workings: **Calls-in Arrears on 4,000 shares on Allotment**

Allotment Due (4,000 x 3)	12,000
Less: Excess Application money	(6,000)
(6,000 – 4,000) x 3 = 6,000	
Allotment due but not received (calls-in arrears)	**6,000** *

Allotted shares = Applied shares x Allotted Proportion / Applied Proportion
= (6,000 x 8 / 12 = 4,000 shares applied.

(4) 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 and prepare Cash Book. Based on **CBSE Sample 2021**

Solution:

Cash Book

Receipts	Amt. in ₹	Payments	Amt. in ₹
Share Application A/c Share Allotment A/c Share 1st & Final Call A/c Share Capital A/c	35,00,000 9,00,000 13,50,000 4,50,000	Balance c/d	62,00,000
	62,00,000		62,00,000

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Share Application A/c (70,000 x 50)	Dr.		35,00,000	
1	To Share Capital A/c (50,000 x 50)				25,00,000
	To Share Allotment A/c				10,00,000
	(Being share application money transferred & adjusted)				
	Share Allotment A/c (50,000 x 40)	Dr.		20,00,000	
	To Share Capital A/c (50,000 x 20)				10,00,000
	To Securities Premium Reserve A/c (50,000 x 20)				10,00,000
	(Being allotment become due with premium)				
	Calls-in Arrears A/c	Dr.		1,00,000	
1	To Share Allotment A/c				1,00,000
	(Being non-payment of allotment money on 5,000 shares)				
	Share 1st & Final Call A/c (50,000 x 30)	Dr.		15,00,000	
	To Share Capital A/c (50,000 x 30)				15,00,000
	(Being allotment become due with premium)				
	Calls-in Arrears A/c	Dr.		1,50,000	
	Share 1st & Final Call A/c				1,50,000
	(Being non-payment of call money on 5,000 * shares)				
	Share Capital A/c (5,000 x 100)	Dr.		5,00,000	
	Securities Premium Reserve A/c (5,000 x 20)	Dr.		1,00,000	
	To Calls-in Arrears A/c (1,00,000 + 1,50,000)				2,50,000
	To Share Forfeiture A/c (7,000 x 50)				3,50,000
	(Being shares forfeited due to non-payment of allot & call)				
	Share Forfeiture A/c (5,000 x 10)	Dr.		50,000	
	To Share Capital A/c				50,000
	(Being loss on re-issue of forfeited shares adjusted)				
	Share Forfeiture A/c (3,50,000 – 50,000)	Dr.		3,00,000	
	To Capital Reserve A/c				3,00,000
	(Being balance of forfeited money transferred)				

* Calls-in Arrears on share 1st & Final Call ₹ @ ₹ 30 per share ₹ 1,50,000. Therefore ----
No. of shares in which call money did not received = 1,50,000 / 30 = 5,000 shares.

Accounting for Debentures

"Debenture is an acknowledgement of debt, issued by a company containing fixed rate of interest with maturity and other terms and condition".

Issue of Debentures as Collateral (Secondary) Security

"Issue of debentures by a company against the bank loan as mortgage other than the primary security is called – issue of debenture as collateral security".

A. If the company going to make entry for issue of debenture as collateral security

Debenture Suspense A/c	Dr.	XXXX	
To --% Debenture A/c			XXXX

B. If the company decide that not to make any entry for the issue of debenture as collateral security then -------)

"Company must show for the issue of such debentures just below to Bank Loan (in the particular column) in the balance sheet of company, with description of debentures."

Issue of Debenture other than cash for purchase consideration

A company can issue its debentures other than cash for purchase consideration of ----

1. Purchase of an Asset
2. Purchase of a Business

(A) Issue at Par to be Redeemed at Par

Example: 12% 5,000 Debentures of ₹ 100 each issued.

Bank A/c (5,000 x 100)	Dr.	5,00,000	
To Debenture Appl. & Allot. A/c			5,00,000
Debenture Appl. & Allot. A/c	Dr.	5,00,000	
To 12% Debenture A/c			5,00,000

(B) Issue at Par to be Redeemed at Premium

Example: 12% 5,000 Debentures of ₹ 100 each issued to be redeemed at 5% premium

Bank A/c (5,000 x 100)	Dr.	5,00,000	
To Debenture Appl. & Allot. A/c			5,00,000
Debenture Appl. & Allot. A/c	Dr.	5,00,000	
Loss on Issue of Deb. A/c	Dr.	25,000	
To 12% Debenture A/c			5,00,000
To Prem. on Red. A/c			25,000

(C) Issue at Discount to be Redeemed at Par

Example: 12% 5,000 Debentures of ₹ 100 each issued at 10% discount.

Bank A/c (5,000 x **90**)	Dr.	4,50,000	
To Debenture Appl. & Allot. A/c			4,50,000
Debenture Appl. & Allot. A/c	Dr.	4,50,000	
Discount on Issue A/c	Dr.	50,000	
To 12% Debenture A/c			5,00,000

(D)Issue at Discount to be Redeemed at Premium

Example:12% 5,000 Debentures of ₹ 100 each issued at 10% discount to be redeemed at 5% Prem.

Bank A/c (5,000 x **90**)	Dr.	4,50,000	
To Debenture Appl. & Allot. A/c			4,50,000
Debenture Appl. & Allot. A/c	Dr.	4,50,000	
Loss on Issue A/c (50,000 + 25,000)	Dr.	75,000	
To 12% Debenture A/c			5,00,000
To Prem. on Red. A/c			25,000

(E) Issue at Premium to be Redeemed at Par

Example: 12% 5,000 Debentures of ₹ 100 each issued at 15% premium.

Bank A/c (5,000 x 115)	Dr.	5,75,000	
To Debenture Appl. & Allot. A/c			5,75,000
Debenture Appl. & Allot. A/c	Dr.	5,75,000	
To 12% Debenture A/c			5,00,000
To Securities Prem. Res. A/c			75,000

(F) Issue at Premium to be Redeemed at Premium

Example: 12% 5,000 Debentures of ₹ 100 each issued at 15% premium <u>to be redeemed at 5% Prem</u>

Bank A/c (5,000 x 115)	Dr.	5,75,000	
To Debenture Appl. & Allot. A/c			5,75,000
Debenture Appl. & Allot. A/c	Dr.	5,75,000	
Loss on issue A/c	Dr.	25,000	
To 12% Debenture A/c			5,00,000
To Securities Prem. Res. A/c			75,000
To Prem. on Red. A/c			25,000

Pass Journal entries for the issue of debentures from the following transaction:

(i) A Ltd. issued 15000; 8% Debentures of ₹ 100 each at discount of 5% to be repaid at par at the end of 5 years.

(ii) A Ltd. Issues 10% Debentures of ₹ 100 each for the total nominal value of ₹ 80,00,000 at a premium of 5% to be redeemed at par.

(iii) A Ltd. Issues ₹ 50,00,000; 9% Debentures of ₹ 100 each at par but redeemable at the end of 10 years at 105%.

(iv) A Ltd. Issued ₹ 40,00,000, 12% debentures of ₹ 100 each at a discount of 5% repayable at a premium of 10% at the end of 5 years.

(v) A Ltd issues ₹ 70,000; 12% debentures of ₹ 100 each at a premium of 5% repayable at 110% at the end of 10 years.

<u>Issue of Debenture other than cash for purchase consideration of an asset</u>

Example: X Ltd purchase a Machinery of ₹ 4,00,000 from Y Ltd; immediately paid by Bank draft of ₹ 70,000 and balance by issue of shares of ₹ 100 each at 10% premium.

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

Sol.: **Journal Entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		4,00,000	
1	To Bank A/c			70,000
	To Y Ltd.			3,30,000
	(Being asset purchased)			
	Y Ltd. Dr.		3,30,000	
2	To Share Capital A/c (3,000 x 100)			3,00,000
	To Securities Premium A/c (3,000 x 10)			30,000
	(Being shares issued at premium for purchase consideration)			

No. of shares to be issued = Amount to be paid / (Face value + Premium)

= 3,30,000 / (100 + 10); = 3,000 shares

Example: X Ltd purchase a Machinery of ₹ 4,00,000 from Y Ltd; immediately paid by Bank draft of ₹ 70,000 and balance by issue of 9% Debentures of ₹ 100 each at 10% premium.

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

Sol.: **Journal Entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		4,00,000	
1	To Bank A/c			70,000
	To Y Ltd.			3,30,000
	(Being asset purchased)			
	Y Ltd. Dr.		3,30,000	
2	To 9% Debenture A/c (3,000 x 100)			3,00,000
	To Securities Premium A/c (3,000 x 10)			30,000
	(Being 9% debentures issued at premium for purchase consideration)			

No. of debentures to be issued = Amount to be paid / (Face value + Premium)

= 3,30,000 / (100 + 10); = 3,000 Debentures

Example: X Ltd purchase a Machinery of ₹ 3,00,000 from Y Ltd; immediately paid by Promissory Note of₹ 30,000 and balance by issue of 9% Debenture of ₹ 100 each at 10% discount.

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

Sol.: **Journal Entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		3,00,000	
1	To Promissory Note A/c			30,000
	To Y Ltd.			2,70,000
	(Being asset purchased)			
	Y Ltd. Dr.		2,70,000	
2	Discount on Issue A/c (3,000 x 10) Dr.		30,000	
	To 9% Debenture A/c (3,000 x 100)			3,00,000
	(Being 9% debenture issued at discount for purchase consideration)			

No. of debentures issued = Amount to be paid / Face Value – Discount = 2,70,000 / 90 = 3,000.

Issue of shares other than cash for purchase consideration of a "Running Business"

Example: X Ltd purchase the business of Y Ltd by taking over of the Sundry Assets of ₹ 15,00,000 and Liabilities of ₹ 3,00,000 for the purchase consideration of ₹ 13,00,000. ₹ 1,00,000 paid on acceptance of bill of exchange and balance by issue of shares of ₹ 100 each at 20% premium. From each share payment made at ₹ 120

Pass necessary Journal entries from the above transactions.

Sol.: **Journal Entries**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	Dr.		15,00,000	
1	Goodwill A/c	Dr.		1,00,000	
	To Liabilities A/c				3,00,000
	To Y Ltd.				13,00,000
	(Being business purchased)				
	Y Ltd.	Dr.		13,00,000	
	To Bills Payable A/c				1,00,000
2	To Share Capital A/c (10,000 x 100)				10,00,000
	To Securities Premium A/c (10,000 x 20)				2,00,000
	(Being shares issued at premium for purchase consideration)				

Goodwill = Purchase value – Business Value; = 13,00,000 – (15,00,000 – 3,00,000) = 1,00,000

Example: X Ltd purchase the business of Y Ltd by taking over of the Sundry Assets of ₹ 15,00,000 and Liabilities of ₹ 3,00,000 for the purchase consideration of ₹ 10,00,000. ₹ 1,00,000 paid by cheque and balance by issue of 9% debentures of ₹ 100 each at 10% discount. Pass necessary Journal entries from the above transactions.

Sol.: **Journal Entries**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	Dr.		15,00,000	
	To Liabilities A/c				3,00,000
	To Bank A/c				1,00,000
	To Capital Reserve A/c				2,00,000
	To Y Ltd.				9,00,000
	(Being business purchased)				
	Y Ltd.	Dr.			
	Discount on Issue A/c (10,000 x 10)	Dr.		9,00,000	
	To 9% Debenture A/c (10,000 x 100)			1,00,000	
	(Being 9% debenture issued at discount for purchase consideration)				10,00,000

Capital Reserve=Business Value-Purchase value ;=(15,00,000–3,00,000)-10,00,000 = 2,00,000

Example: Neeraj Ltd took over business of Ajay enterprises on 01/04/2020. The details of the agreement regarding the assets and liabilities to be taken over are: (3)

Particulars	Book Value (in ₹)	Agreed value (in ₹)
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 Rs 7,00,000 through cheque and the balance by issue of 2,00,000 9% Debentures of Rs 20 each at a premium of 25%. Journalize.

JOURNAL ENTRIES

(for interest on debentures)

1. When interest become due:

Debenture's Interest A/c (Gross Interest)	Dr.	10,000	
To Debenture holder A/c (Net interest)			9,000
To Income Tax Payable A/c (Income Tax deducted)			1,000

2. When interest is paid

Debenture holder A/c	Dr.	9,000	
To Bank A/c			9,000

3. On payment of Income Tax to Government

Income Tax Payable A/c	Dr.	1,000	
To Bank A/c			1,000

4. On transfer of Interest on debentures to Statement of Profit and Loss A/c

Statement of Profit & Loss A/c	Dr.	10,000	
To Debenture's Interest A/c			10,000

Example: ABC Company Ltd., had 6% debentures of ₹ 1,00,000 on 1st April 2019 on which interest is payable on 30th September and 31st March. Pass necessary journal entries for the payment of interest for the year 2019-20, 10% tax is deducted at source from interest and remitted immediately. If books are closed on 31st March, given necessary journal entries of interest on debentures only.

Solution: **Journal Entries**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2019 Sept 30	Interest on Debenture A/c	Dr.		3,000	
	To Debenture holder A/c				2,700
	To Income Tax Payable A/c				300
	(Being half-yearly interest due & tax deducted at source)				
Sept 30	Debenture holder A/c	Dr.		2,700	
	Income Tax Payable A/c	Dr.		300	
	To Bank A/c				3,000
	(Being interest and tax paid)				
2020 March 31	Interest on Debenture A/c	Dr.		3,000	
	To Debenture holder A/c				2,700
	To Income Tax Payable A/c				30
	(Being half-yearly interest due & tax deducted at source)				
March 31	Debenture holder A/c	Dr.		2,700	
	Income Tax Payable A/c	Dr.		300	

	To Bank A/c (Being interest and tax paid)			3,000
March 31	Statement of Profit & Loss A/c Dr. To Interest on Debenture A/c (being interest on debentures transferred)		6,000	 6,000

Writing off Discount or Loss on issue of Debentures

Discount or Loss on issue of Debentures, being Loss for a company, it to be written off by the company as early as possible but within the tenure of the debentures.

Discount or Loss on issue of Debentures should be written off by a company by using write of the entire discount or loss in the same year itself as finance cost (As per AS-16)

Que.: X Ltd. issued ₹ 10,00,00, 8% debentures at a 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 Ac/ Shows a balance of ₹ 1, 50,000

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2018 April 1st	Bank A/c (10,00,000 – 1,00,000) Dr. To 8% Debenture Application & Allotment A/c (Being debentures issued at 10% discount)		9,00,000	 9,00,000
	8% Debenture Application & Allotment A/c Dr. Discount on Issue A/c Dr. To 8% Debenture A/c (Being debentures allotted)		9,00,000 1,00,000	 10,00,000
Case (a)	Statement of Profit & Loss A/c Dr. To Discount on Issue A/c (Being discount on issue of debentures w/off)		1,00,000	 1,00,000
Case (b)	Securities Premium Reserve A/c Dr. Statement of Profit & Loss A/c Dr. To Discount on Issue A/c (Being discount on issue of debentures w/off)		 30,000 70,000	 1,00,000
Case (c)	Securities Premium Reserve A/c Dr. To Discount on Issue A/c (Being discount on issue of debentures w/off)		1,00,000	 1,00,000

First, we have to use the available Securities Premium Reserve then from Statement of Profit & Loss A/c.

QUESTIONS FOR PRACTICE
CH – 9: MCQs ISSUE OF SHARES (1 MARK)

Ques.1 True/False:
According to the below given information the final call per share is **Rs.22**.
The subscribed capital of a company is Rs. 80,00,000 and the nominal value of the share is Rs.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 Rs.55,000.

Ques.2 True/ False :
Securities premium received on issue of shares cannot be used for the purpose of buy back of shares.

Ques.3 True/False-Share application amount is in the nature of Real account.

Ques.4. Arrange the following in proper sequence as types of "Share Capital"
i) Paid up capital
(ii.) Issued capital
(iii) Subscribed capital
(iv.) Called up capital

Ques.5 Maximum limit of premium on shares is :
(A.) 32%
(B.) 20%
(C.) No limit
(D.) 100%

Ques.6 Amount of money not received out of called up capital is :
(A.) Added to share capital
(B.) Subtracted from share capital
(C.) Shown as current liabilities
(D.) Shown as current asset
Ques.7 Following amounts were payable on issue of shares by a company : Rs.3 on application , Rs.3 on allotment , Rs.2 on first call and Rs.2 on final call . X holding 500 shares paid only application and allotment money whereas Y holding 400 shares did not pay final call . Amount of calls in arrear will be:
(A.) 3,800
(B.) 2,800
(C.) 1,800
(D.) 6,200

Ques.8 Rajan Limited issued 50,000 shares at a price lower than the nominal value of the share. The shares issued are called:
A) Sweat equity shares
B) Redeemable Preference shares
C) Equity shares
D) Bonus shares

Ques.9 E Ltd. had allotted 10,000 shares to the applicants of 14,000 shares on pro-rata basis, application money on another 6000 shares was refunded .The amount payable on the application was Rs.2. Sitaraman applied for 420 shares . The number of shares allotted to him will be:

(A.) 60 shares
(B.) 340 shares
(C.) 320 shares
(D.) 300 shares

Ques.10 A company issued 4,000 equity shares of rupees 10 each at par payable as under:
On application rupees 3 , on allotment rupees 2; on first call rupees 4 and on final call rupees 1 per share. Applicants were received for 16,000 share . Application for 6,000 shares were rejected and pro-rata allotment was made to the applicants for 10,000 shares . How much amount will be received in cash on first call,when excess application money is adjusted towards amount due on allotments and calls :
(A.) Rupees 6.000
(B.) nil
(C.) Rupees 16,000
(D.) Rupees 10,000

Ques.11 A company issued 4000 equity shares of rupees 50 each at par payable as under:

On application rupees 20%, on allotment 40% ; on first call 10% ; on final call -balance

Applications were received for 10,000 shares . Allotment was made pro-rata . How much amount will be received in cash on allotment?

A) Rupees 6.000
(B.) nil
(C.) Rupees 16,000
(D.) Rupees 20,000

Ques.12. Which one of the following is not a part of subscribed capital:
A) Equity shares issued to vendor
B) Preference shares of convertible type
C) Forfeited shares
D) Bonus shares

Ques.13. When nominal (face) value of a share is called up by the company but as some shareholders did not pay the money, the shares are forfeited . The share capital is shown in the balance sheet (notes) of a company under the following heading:
A) Subscribed and fully paid up
B) Subscribed but not fully paid up
C) Subscribed and called up
D) Subscribed but not called up

Ques.14.Zee Ltd issued 15,000 equity shares of Rs.20 each at a premium of Rs.5 payable Rs.5 on application,Rs.10 on allotment (including premium) and the balance on first and final call. The company received applications for 22,500 shares and allotment was made pro rata. Bittoo to whom 1,200 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to Dheeraj at par. Assuming that no other bank transactions took place, the bank balance of the company after the above transactions is :
A) Rs.6,85,000
B) Rs.3,60,500

C)Rs.3,78,000
D)Rs.6,34,000

Ques.15.Zen Ltd purchased the sundry assets of M/s Surat Industries for Rs.28,60,000 payable in fully paid shares of Rs.100 each. State the number of shares issued to vendor when issued at premium of 10%.
A)28,000
B)31,778
C)28,600
D)26,000

Ques.16.The subscribed share capital of Mukand Ltd is Rs.1,00,00,000 of Rs.100 each. There were no calls in arrear till the final call was made. The final call made was paid on 97,500 shares. The calls in arrear amounted to Rs.87,500.The final call on share :
A)Rs.20
B)Rs.35
C)Rs.25
D)Rs.45

Ques.17. These shares which in addition to the fixed preference dividend, carry a right to participate in the surplus profits, if any, after dividend at a stipulated rate has been paid to the equity share holders are called:
A) Participating preference shares
B) Convertible preference shares
C) Redeemable preference shares
D) Cumulative preference shares

Ques.18.T Ltd had allotted 20,000 shares to the applicants of 24,000 shares on pro rata basis. The amount payable on application is Rs.2. Manoranjan applied for 450 shares. The number of shares allotted and the amount carried forward for adjustment against allotment money due from him is:
A) 150 shares,Rs.375
B) 375 shares,Rs.150
C) 400 shares,Rs.100
D) 300 shares,Rs.300

Ques.19.A company forfeited 3,000 shares of Rs.10 each(which were issued at par) held by Kishore for nonpayment of allotment money ofRs.5 per share.The called up value per share was Rs.8.On forfeiture, the amount debited to share capital:
A)Rs.30,000
B)Rs.24,000
C)Rs.15,000
D)Rs.6,000

Ques.20. Z limited issued shares of Rs.100 each at a premium of 10%. Mr. Q purchased 500 shares and paid Rs.20 on application but did not pay the allotment money of Rs.30. If the company forfeited his 30% shares, the forfeiture account will be credited by :
A) Rs. 4500
B)Rs. 3500
C) Rs. 1650
D) Rs. 3000

Ques.21. Daisy Limited forfeited 200 shares Rs.10 each who had applied for 500 shares, issued at a premium of 10% for nonpayment of final call of Rs.3 per share. Out of these 100 shares were issued as fully paid up for Rs.15. The profit on reissue is :

A) Rs. 700

B) Rs. 6400

C) Rs. 300

D) Rs. 400

Ques.22. Mithas Limited was formed with share capital of Rs. 50,00,000 divided into 50,000 shares of Rs.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 Rs.70 per share was called and paid . State the amount of subscribed capital :

A) Rs. 50,00,000

B) Rs. 30,50,000

C) Rs. 30,00,000

D) Rs. 20,00,000

Ques.23. Faltu Limited invited application for 2,00,000 shares of Rs.10 each. These shares were issued at premium of Rs.11 each which was allowed at the time of allotment. All money was called and duly received except on 10,000 shares on which only application money of Rs.3 per share was received.

The company forfeited all the shares. 7000 of forfeited share where re-issued at Rs.13per share. State the amount of securities premium to be shown under the head -Reserve and surplus.

A) Rs.20,00,000

B) Rs.11,11,000

C) Rs.8,11,000

D) Rs.21,11,000

Ques.24. Mahima limited has an authorised capital of Rs. 1,00,00,000 divided into 1,00,000 equity shares of Rs .100 each . If offered 90,000 equity shares Rs.10 each at a premium of Rs.8 .The public applied for 81,000 equity shares. Till 31st March 2018, Rs.17 (including premium) was called . An applicant holding 5000 shares did not pay first call of Rs.2per share.

As per the above given information:

………. is the amount of Share capital to be shown in the balance sheet of the company.

Ques.25. Out of total face value, liability of a shareholder is limited to …………… value of the share allotted to him.

Ques.26. Match the following :

a) Cumulative Pref. Share i)Repaid after some time

b) Participating Pref. Share ii) converts into equity shares

c) Redeemable Pref. shares iii) Dividend accumulates if not paid

d) Convertible Pref. shares iv) Gets share in surplus profit

The correct match is:

A) a-ii ,b-i, c-iii, d-iv
B) a-iii, b-iv, c-i, d-ii
C) a-iii, b-iv, c-ii ,d-i
D) a-ii, b-iv, c-iii, d-i

Answers:

1. True
2. False
3. False
4. Issued, Subscribed, Called –up, Paid-up.

5. C
6. B
7. B
8. A
9. D
10. A
11. D
12. C
13. A
14. C
15. D
16. B
17. A
18. B
19. B
20. D
21. A
22.C
23. D
24. Rs.7,19,000
25. Called up
26. B

Presentation of Share Capital in Balance Sheet (4 MARKS QUESTION)

(1) XYZ Ltd was incorporated with the authorized capital of Rs. 50, 00, 00,000 divided into eq. shares of Rs. 100 each. It issued 2, 00,000 eq. shares of Rs. 100 each on which Rs. 20 (Application), Rs. 30 (Allotment), Rs. 35 (First call), Rs. 15 (second and final call) was to be received. Applications for

2, 00,000 shares was received. Shares were allotted to all the applicants and amount was duly received.

How you will present shares capital account in the balance sheet?

(2) XYZ Ltd was incorporated with the authorized capital of Rs. 50, 00, 00,000 divided into eq. shares of Rs. 100 each. It issued 2, 00,000 eq. shares of Rs. 100 each on which Rs. 20 (Application), Rs. 30 (Allotment), Rs. 35 (First call), Rs. 15 (second and final call) was to be received. Applications for 2, 00,000 shares was received. Shares were allotted to all the applicants and amount were duly received except 10,000 shares on which first call money was not paid by Mr. Mohan.

How you will present shares capital account in the balance sheet?

(3) XYZ Ltd was incorporated with the authorized capital of Rs. 30, 00, 00,000 divided into eq. shares of Rs. 100 each. It issued 2,00,000 eq. shares of Rs. 100 each on which Rs. 20 (Application), Rs. 30 (Allotment), Rs. 35 (First call), Rs. 15 (second and final call) was to be received. Applications for 2,00,000 shares was received. Shares were allotted to all the applicants and amount were duly received except 10,000 shares on which Final call money was not paid by Mr. Mohan.

How you will present shares capital account in the balance sheet?

MCQ PRACTICE QUESTIONS

1. Interest payable on debentures is:
   a) An appropriation of profits of the company
   b) A charge against profits of the company
   c) Transferred to sinking fund investment account
   d) Transferred to general reserve
2. Debentures issued as collateral security will be debited to:
   a) Bank account
   b) Debentures Suspense Account
   c) Debentures Account
   d) Bank Loan Account
3. Discount on issue of debentures is in the nature of:
   a) Revenue Loss
   b) Capital Loss
   c) Deferred Revenue Expenditure
   d) None of the above
4. A Ltd. issued 1,000, 10% debentures of 100 each at a premium of 5%. What will be the total amount of interest for one year:
   a) 10,500
   b) 10,000
   c) 5,250
   d) 5,000
5. Zero coupon bonds are issued:
   a) At zero interest rate
   b) With specified rate of interest
   c) Without specified rate of interest
   d) None of these

One Mark Questions

1. MRF Ltd. issued 600, 11% debentures of Rs 1000 each on 1-1-2016. Pass necessary journal entries for the issue of debentures in the following situations: [3] (a) When debentures were issued at a discount of 5% and were redeemable at a premium of 8%. (b) When debentures were issued at a premium of 10% and were redeemable at a premium of 6%.
2. Why are irredeemable debentures also known as perpetual debentures?
3. 6. Distinguish between shares and debentures on the basis of convertibility.
4. 7. K K Limited obtained a loan of Rs. 10,0,000 from State Bank of India @ 9 % interst. The company issued Rs. 15,000 9 % debentures in favour 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 9 % Debentures as collateral security.
   (ii) When company decided to record the issue of 9 % Debentures as collateral security.
5. Why are irredeemable debentures also known as perpetual debentures?

Three Mark question

6. On1stJanuary 2010 Dream Ltd. issued 15, 000, 11% Debentures of₹100 each at par which repayable at a premium of 15% on 31stDecember 2014.On the date of maturity, the company decided to redeem the above mentioned Debenture as per the terms of issue,

out of profits. The Profit &Loss Account shows a credit balance of₹20, 00,000on this date. The offer was accepted by all the Debenture-holders and all the debentures were redeemed. Pass the necessary journal entries in the books of the Company only for the redemption of Debentures

7. ABC Ltd. issued 10,000; 10% Debentures of `100 each at a premium of 8% on 30th June, 2014 redeemable at par on 30th June, 2015. The issue was fully subscribed. Journalize.
8. Calculate the maximum permissible discount which a company can allow at the time of reissue of forfeited shares in the following case:

A share of `10 originally issued at a premium of `1 on which application and allotment money (including premium) of `5 has been received.

9. Pass necessary journal entries at the time of issue of debentures in the following cases : (i) 10,000, 10% Debentures of ` 120 each issued at 5% premium, repayable at par. (ii) 20,000, 9% Debentures of ` 100 each, issued at 5% discount, repayable at 7% premium.
10. X Ltd. invited applications for issuing 500, 12% debentures of Rs 100 each at a discount of 5%. These debentures were redeemable after three years at par. Applications for 600 debentures were received. Pro-rata allotment was made to all the applicants.
    Pass necessary journal entries for the issue of debentures assuming that the whole amount Was payable with application.
11. Give journal entries for the issue of debentures in the following conditions.
    I. Issued 2,000, 12% debentures of Rs. 100 each at par, redeemable also at par.
    II. . Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at par
    III. Issued 2,000, 12% debentures of Rs 100 each at a premium of 5%, redeemable at par.
    IV. Issued 2,000, 12% debentures of Rs. 100 each at par but redeemable at 5% premium.
    V. Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at a premium of 5%.
    VI. Issued 2,000, 12% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%.
12. Green Forest Ltd. Issued 12,00,000, 7% Debentures divided into debentures of 100 each ston April 1, 2010, redeemable in four equal annual installments starting from 31 March, 2015. The Board of Directors have decided to create Debenture Redemption Reserve of 80,000 on March 31,2012; 80,000 on March 31,2013 and the balance on March 31,2014. Record necessary journal entries at the time of issue and at the time of redemption of debentures and creation of Debenture Redemption Reserve.
13. IFCI Ltd.(an All India Financial Company) issued 10,00,000; 9% Debentures of Rs.50 each on 1 April, 2008 redeemable on 1 April, 2015. How much amount of Debentures Redemption Reserve is required before the redemption of debentures? Also, pass Journal entries for issue and redemption of debentures.

6. As per SEBI Guidelines an amount equal to .... of the debentures issue must be transferred to Debenture Redemption Reserve before redemption begins: a) 25%

   b) 80%

   c) 50%

   d) 100%

7. A company issuing debentures with a maturity periof of not more than.................. need

not create Debenture Redemption Reserve.

a) 2 months
b) 6 months
c) 12 months
d) 18 months

8. Debentures of a company can be issued:
   a) For cash
   b) For consideration other than cash
   c) As a collateral security
   d) Any of the above
9. Debentures represent the:
   a) Long term Borrowings of a Company
   b) The Investment of Equity-Shareholders
   c) Director's shares in a company
   d) Short-term Borrowings of a company

One Mark Questions

14. MRF Ltd. issued 600, 11% debentures of Rs 1000 each on 1-1-2016. Pass necessary journal entries for the issue of debentures in the following situations: [3] (a) When debentures were issued at a discount of 5% and were redeemable at a premium of 8%. (b) When debentures were issued at a premium of 10% and were redeemable at a premium of 6%.
15. Why are irredeemable debentures also known as perpetual debentures?
16. 6. Distinguish between shares and debentures on the basis of convertibility.
17. 7. K K Limited obtained a loan of Rs. 10,0,000 from State Bank of India @ 9 % interst. The company issued Rs. 15,000 9 % debentures in favour 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 9 % Debentures as collateral security.
    (ii) When company decided to record the issue of 9 % Debentures as collateral security.
18. Why are irredeemable debentures also known as perpetual debentures?

Three Mark questions

On1stJanuary 2010 Dream Ltd. issued 15, 000, 11% Debentures of₹100 each at par which repayable at a premium of 15% on 31stDecember 2014.On the date of maturity, the company decided to redeem the above mentioned Debenture as per the terms of issue, out of profits. The Profit &Loss Account shows a credit balance of₹20, 00,000on this date. The offer was accepted by all the Debenture-holders and all the debentures were redeemed. Pass the necessary journal entries in the books of the Company only for the redemption of Debentures

19. ABC Ltd. issued 10,000; 10% Debentures of `100 each at a premium of 8% on 30th June, 2014 redeemable at par on 30th June, 2015. The issue was fully subscribed. Journalize.
20. Calculate the maximum permissible discount which a company can allow at the time of reissue of forfeited shares in the following case:

A share of `10 originally issued at a premium of `1 on which application and allotment money (including premium) of `5 has been received.

21. Pass necessary journal entries at the time of issue of debentures in the following cases : (i) 10,000, 10% Debentures of ` 120 each issued at 5% premium, repayable at par. (ii) 20,000, 9% Debentures of ` 100 each, issued at 5% discount, repayable at 7% premium.

22. X Ltd. invited applications for issuing 500, 12% debentures of Rs 100 each at a discount of 5%. These debentures were redeemable after three years at par. Applications for 600 debentures were received. Pro-rata allotment was made to all the applicants.
    Pass necessary journal entries for the issue of debentures assuming that the whole amount Was payable with application.
23. Give journal entries for the issue of debentures in the following conditions.
    VII. Issued 2,000, 12% debentures of Rs. 100 each at par, redeemable also at par.
    VIII. . Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at par
    IX. Issued 2,000, 12% debentures of Rs 100 each at a premium of 5%, redeemable at par.
    X. Issued 2,000, 12% debentures of Rs. 100 each at par but redeemable at 5% premium.
    XI. Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at a premium of 5%.
    XII. Issued 2,000, 12% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%.
24. Green Forest Ltd. Issued 12,00,000, 7% Debentures divided into debentures of 100 each ston April 1, 2010, redeemable in four equal annual installments starting from 31 March, 2015. The Board of Directors have decided to create Debenture Redemption Reserve of 80,000 on March 31,2012; 80,000 on March 31,2013 and the balance on March 31,2014. Record necessary journal entries at the time of issue and at the time of redemption of debentures and creation of Debenture Redemption Reserve.
25. IFCI Ltd.(an All India Financial Company) issued 10,00,000; 9% Debentures of Rs.50 each on 1 April, 2008 redeemable on 1 April, 2015. How much amount of Debentures Redemption Reserve is required before the redemption of debentures? Also, pass Journal entries for issue and redemption of debentures.
26. On 1 April, 2013, following were the balances of Blue Bird Ltd.: st10% Debentures (redeemable on 31 March, 2015) Rs. 15,00,000 Debenture Redemption Reserve Rs. 2,00,000 The company met the requirements of the Companies Act, 2013 regarding - Debenture Redemption Reserve and Investment and redeemed the debentures. Pass necessary Journal entries for the above transactions in the books of the company.

ANALYSIS OF FINANCIAL STATEMENTS OF COMPANIES

FORMAT OF INCOME STATEMENT PRESCRIBED IN PART II OF SCHEDULE III OF THE COMPANIES ACT 2013

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…………………….

Profit and loss statement for the year ended ………………………

(Rupees 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	Revenue from operations		xxx	xxx
II	Other income		xxx	xxx
III	Total Revenue (I + II)		xxx	xxx
IV	**Expenses**:			
	Cost of materials consumed		Xxx	Xxx
	Purchases of Stock-in-Trade		Xxx	Xxx
	(Changes in inventories of finished goods work-in-progress and Stock-in-Trade)			
	Employee benefits expense		Xxx	Xxx
	Finance costs		Xxx	Xxx
	Depreciation and amortization expense		xxx	Xxx
	Other expenses		Xxx	Xxx
	Total expenses		Xxx	Xxx
V	Profit before tax (III-IV)		xxx	xxx
VI	Tax		Xxx	Xxx
VII	Profit (Loss) for the period (V-VI)		xxx	xxx

s

1) Tools for Financial Statement Analysis

1) Comparative Statements
2) Common Size Statements
3) Accounting Ratios
4) Cash Flow Statement
5) Fund Flow Statement
6) Trend Analysis

QUESTIONS:

1. Which of the following names is NOT associated with the income statement?
P & L
   a) Statement Of Financial Position
   b) Statement Of Operations
2. The income statement heading will specify which of the following?
   a) A POINT In Time
   b) A PERIOD Of Time
3. Amounts earned by a company in its main operating activities are
   a) Revenues
   b) Gains
4. A company disposes of equipment that it no longer uses in its business. The amount received by the company is more than the amount the asset is carried at in the accounting records. The company will report
   a) Expense
   b) Gain
   c) Loss
   d) Revenue
5. Is a retailer's Interest Expense an operating expense or a non-operating expense?
   a) Operating Expense
   b) Non-operating Expense
6. Interest earned on investments would appear in which section of a retailer's multiple-step income statement?
   a) Non-operating
   b) Operating
   c) Would Not Appear
7. Under the accrual basis of accounting, revenues are recognized in the accounting period in which
   a) Cash Is Received
   b) Revenues Are Earned
8. . Net Sales minus the Cost of Goods Sold equals
   a) Gross Profit
   b) Income From Operations
   c) Net Income
9. Gross Profit minus Operating Expenses is best defined as
   a) Net Income
   b) Net Sales
   c) Operating Income
10. When an entire division of a company is eliminated, it is referred to as a(n)
   a) Discontinued Operation
   b) Extraordinary Item
   c) Change In Accounting Principle

Ans: 1a) 2b) 3a) 4c) 5a) 6 a) 7b) 8a) 9c) 10.a

IMPORTANT QUESTIONS

1. Name any three users of Financial statement analysis.
2. What is meant by financial statement analysis.
3. Give two limitations of Financial Statement analysis
4. In the year 2013-14 and 2014-15 ‘other income’ were ₹ 2,50,000 and ₹3,25,000. Calculate the percentage change in ‘other income’
5. How window dressing is a limitation of financial statement analysis.
6. State any one objective of financial statement analysis.
7. List the items which are shown under the heading, “Non -Current Assets” in the Balance sheet of a company as per provisions of Schedule III, of the Companies Act 2013.
8. List the items which are shown under the heading, “Current Liabilities” in the Balance sheet of a company as per provisions of Schedule III, of the Companies Act 2013.
9. Give major heads and sub heads under which following items will be disclosed in the Balance Sheet as per Revised Schedule III of the Companies Act, 2013:

(i) Licenses and Franchise

(ii) Live Stock

(iii) Stock in trade

(iv) Vehicles

(v) Plant and Machinery

(vi) Investment in Mutual Funds

OBJECTIVE QUESTIONS

	FINANCIAL STATEMENTS	
1	Balance sheet of a company is required to be prepared in the format given in (A) Schedule III Part II (B) Schedule III Part I (C) Schedule III Part III (D) Table A	1
2	As per Companies Act, the Balance Sheet of a company is required to be presented in (A) Horizontal Form (B) Vertical Form (C) Either Horizontal or Vertical Form (D) Neither of the above	1
3	. Which of the following is not required to be prepared under the Companies Act (A) Statement of Profit and Loss (B) Balance Sheet (C) Report of Director’s and Auditor’s (D) Funds Flow Statement	1

4	According to prescribed order of assets in a Company's Balance Sheet …………………… assets should be shown first of all. (A) Non-Current Assets (B) Current Assets (C) Current Investments (D) Loans and Advances	1
5	Calls in Arrears appear in a Company's Balance Sheet under ………………. (A) Reserve & Surplus (B) Shareholder's Funds (C) Contingent Liabilities (D) Short-term Borrowings	1
6	Calls in advance appear in a Company's Balance Sheet under ………………. (A) Share Capital (B) Current Liability (C) Long-term Borrowings (D) Reserve & Surplus	1
7	Share Forfeiture Account appears in a Company's Balance Sheet under the Sub-head ………………. (A) Share Capital (B) Reserve & Surplus (C) Contingent Liability (D) Commitments	1
8	Expenses allowed on issue of shares appears in a Company's Balance Sheet under : (A) Share Capital (B) Current Liability (C) Unamortized Expenditure (D) Contingent Liability	1
9	Securities Premium Reserve appears in a Company's Balance Sheet under : (A) Share Capital (B) Long-term Provision (C) Short-term Provision (D) Reserve & Surplus	1
10	Prepaid Expenses appear in a Company's Balance Sheet under the Sub-head ……………… (A) Other Current Assets (B) Short-term Loans & Advances (C) Intangible Assets (D) Other Non-Current Assets	
11	……………… appear in a Company's Balance Sheet under the Sub-head Short-term Provision (A) Interest Accrued but not due on Borrowings (B) Provision for Tax (C) Unpaid Dividend (D) Calls in Advance	
12	. Provision for Tax appears in a Company's Balance Sheet under the Sub-head (A) Short-term Provisions (B) Reserves and Surplus (C) Long-term Provisions (D) Other Current Liabilities	1
13	'Claims against the Company not acknowledged as debts' is shown under the head (A) Current Liabilities (B) Non-Current Liabilities (C) Commitments (D) Contingent Liabilities	1

14	Unclaimed dividend appears in a Company's balance Sheet under the Sub-head (A) Short-term Borrowings (B) Trade Payables (C) Other Current Liabilities (D) Short-term Provisions	1
15	Interest accrued and due on debentures appear in a Company's Balance Sheet under the Sub-head (A) Short-term Borrowings (B) Trade Payables (C) Other Current Liabilities (D) Short-term Provisions	1
16	. 'Accumulated Dividend Arrears' on preference shares is shown in the Company's Balance Sheet as : (A) Current Liability (B) Contingent Liability (C) Commitments (D) Short-term Provision	1
17	50,000, 9% Debentures redeemable within 12 months of the date of Balance Sheet will be shown under : (A) Short-term Borrowings (B) Short-term Provision (C) Other Current Liability (D) Trade Payables	1
18	While preparing the Balance Sheet of a company 'Securities Premium' is shown under : (A) Current Liability (B) Share Capital (C) Long-term Borrowings (D) None of the above	1
19	Under which heading the item 'Bills Discounted but not yet matured' will be shown in the Balance Sheet of a company? (A) Current Liability (B) Current Assets (C) Contingent Liabilities (D) Unamortized Expenditure	1
20	State any one limitation of Financial Statement Analysis.(CBSE2020)	1
	Limitations of Financial Statements are: (Any one) (i) It is a Historical Analysis as it analyses what has happened till date. It doesn't reflect the future. (ii) It ignores price level changes as a change in price level makes analysis of financial statements of different accounting years invalid. (iii) It ignores qualitative aspect as the quality of management, quality of staff etc. are ignored while carrying out the analysis of financial statements. (iv) It suffers from the limitations of financial statements as the analysis is based on the information given in the financial statements. (v) It is not free from bias of accountants such as method of inventory valuation, method of depreciation etc. (vi) It may lead to window dressing i.e. showing a better financial position than what actually is by manipulating the books of accounts. (vii) It may be misleading without the knowledge of the changes in accounting	

	procedure by a firm	
21	Which item is assumed to be 100 while preparing common size statement of profit and loss? (Compartment 2014)	1
Ans.	Revenue from operations are assumed to be 100 while preparing common size statement of profit and loss.	
22	What is meant by a common size statements? (Delhi 2011)	1
Ans.	The statement wherein figures reported are converted into percentage to some common base are known are common size statements. Each percentage shows the relation of the individual item to its respective total. In common size income statement, net sales figure is assumed to be 100 and all other figures of expenses are expressed as a percentage of sales. In common size balance sheet, the total of assets or liabilities is assumed to be 100 and figures are expressed as a percentage of the total.	
23	An investment normally qualifies as cash-equivalent only when from the date of acquisition it has a short maturity period of : **(CBSE2020)** (A) One month or less (B) Three months or less (C) Three months or more (D) One year or less	
Ans.	(B) / Three months or less	
	SA QUESTIONS	
24	What are common size statements? State any two uses of common size statements.(All India 2008)	3
Ans.	Common size statement The statement wherein figures reported are converted into percentage to some common base are known are common size statements. Each percentage shows the relation of the individual item to its respective total. In common size income statement, net sales figure is assumed to be 100 and all other figures of expenses are expressed as a percentage of sales. In common size balance sheet, the total of assets or liabilities is assumed to be 100 and figures are expressed as a percentage of the total. Uses of common size statements are as follows: (i) It helps in comparing the relative values of various items of income statement and position statement over two or more accounting periods. Thus, financial managers prepare common size statements for business reporting and decision-making purposes. (ii) Common size statements prepared by the firm over the years would	

	highlight the relative change in each group of income, expenses, assets and liabilities.	
25	Under which major head/sub-head will the following items be presented in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013 ? *(CBSE2020)* (i) Computer software (ii) Calls-in-advance (iii) Outstanding salary (iv) Securities Premium Reserve (v) Patents (vi) Interest accrued on Investment	3
	Item Major Head Sub Head Computer software: Non-Current Assets-Fixed Assets-Intangible Assets Calls in advance: Current liabilities- Other Current Liabilities Outstanding salary: Current Liabilities- Other Current Liabilities Securities premium reserve :Shareholders funds -Reserves and Surplus Patents: Non-Current Assets- Fixed Assets –Intangible Assets Interest accrued on investment: Current assets -Other current Assets	

NUMERICAL PROBLEMS(4MARKS)

1. From the following statement of profit and loss of VK Limited for the years ended 31st March 2019 and 2020

Particulars	31 March 2019	31 March 2020
Revenue from operations	25,00,000	30,00,000
Other income	5,00,000	7,00,000
Expense	20,00,000	22,00,000
Tax Rate	40%	40%

Prepare Comparative Statement of P & L

2. From the following statement of profit and loss of VK Limited for the years ended 31st March 2019 and 2020.

Particulars	31 March 2019	31 March 2020
Revenue from operations	15,00,000	18,00,000
Other income	3,00,000	4,50,000
Expense	12,00,000	15,00,000
Tax Rate	50%	50%

Prepare a comparative statement of profit and loss.

3. From the following statement of profit and loss

Particulars	31 March 2020	31 March 2019

Revenue from operations	25,00,000	20,00,000
Other income	5,00,000	5,00,000
Expense	20,00,000	19,00,000
Tax Rate	40%	40%

Prepare Common Size Statement of P & L

4. From the following statement of profit and loss of VK Limited for the years ended 31st March 2019 and 2020.

Particulars	31 March 2019	31 March 2020
Revenue from operations	15,00,000	20,00,000
Other income	3,00,000	4,00,000
Expense	12,00,000	16,00,000
Tax Rate	50%	50%

Prepare a Common Size statement of profit and loss.

5. **From** the following Balance Sheets of Royal Industries as on 31st March, 2019 and 2020, prepare a comparative Balance sheet:

4

Particulars	Note No.	31.03.2019 Rs.	31.03.2020 Rs.
I EQUITY AND LIABILITIES :			
Shareholders' Funds :			
Share Capital		5,00,000	8,00,000
Reserve and Surplus		1,00,000	1,00,000
Non-Current Liabilities			
Long Term Borrowings		3,00,000	4,00,000
Current Liabilities			
Trade Payables		1,00,000	2,00,000
Total		10,00,000	15,00,000
II Assets		Rs.	Rs.
Non-current Assets :		4,00,000	6,00,000
Current Assets :			
Inventories		2,00,000	3,00,000
Trade Receivables		3,00,000	4,00,000
Cash & Cash Equivalents		1,00,000	2,00,000
Total		10,00,000	15,00,000

Q-Prepare Comparative Income Statements from the following:

Particulars	**31-3-2019(Rs.)**	**31-3-2020(Rs.)**
Revenue from operations	**10,00,000**	**15,00,000**
Expenses	**6,00,000**	**10,50,000**
Other income	**2,00,000**	**1,80,000**
Income Tax	**50%**	**50%**

Solution: **Comparative Statement of Profit & loss for the year ended 31st March, 2020**

If B-A is negative, write in brackets

Particulars	Absolute figures		Change	
	31.3.2019 (Rs) A	31.3.2020 (Rs) B	Absolute Figures (Rs) B-A=C	(%) Cx100/A
I Revenue from Operations	10,00,000	15,00,000	5,00,000	50
II Add: Other Incomes	2,00,000	1,80,000	(20,000)	(10)
Total Revenue (I+II)	12,00,000	16,80,000	4,80,000	40
III Less: Expenses	6,00,000	10,50,000	4,50,000	75
Profit before Tax	6,00,000	6,30,000	30,000	5
Less: Tax (50%)	3,00,000	3,15,000	15,000	5
IV Profit after Tax	3,00,000	3,15,000	15,000	5

QFrom the following Statement of Profit & Loss of Star Ltd., for the year ended 31st march, 2020, prepare a Comparative Statement of Profit & Loss:

Particulars	2018-19 (Rs)	2019-20(Rs)
Revenue from Operations	16,00,000	20,00,000
Employee benefits expenses	8,00,000	10,00,000
Other expenses	2,00,000	1,00,000

Tax rate 40%

Solution: **Comparative Statement of Profit & loss for the year ended 31st March, 2020**

Particulars	Absolute figures		Change	
	31.3.2019 (Rs)	31.3.2020 (Rs)	Absolute Figures (Rs)	(%)
I Revenue from Operations	16,00,000	20,00,000	4,00,000	25
II Less: Empl. B. Expenses	8,00,000	10,00,000	2,00,000	25
Less: Other Expenses	2,00,000	1,00,000	(1,00,000)	(50)
III Profit before Tax	6,00,000	9,00,000	3,00,000	50
Less: Tax (40%)	2,40,000	3,60,000	1,20,000	50
IV Profit after Tax	6,00,000	9,00,000	3,00,000	50

- **½ mark for each correct row up to the calculation of correct percentage.**

Q-Prepare a Comparative Statement of Profit & Loss from the following information of Hindustan Ltd. For the years ended Mar 31, 2019 and 2020. Identify the values involved.

Particulars	31.3.2019 (Rs.)	31.3.2020 (Rs.)
1. Revenue from operations	8,00,000	10,00,000
2. Cost of Revenue from Operations	60% of Sales	60% of Sales
3. Employee Benefit Expenses	10% of Cost of Revenue from Operations	15% of Cost of Revenue from Operations
4. Income Tax Rate	50%	50%

Q.. What are Common Size statements?

Ans:- Common Size statements express all items of financial statements as a percentage of some common base such as revenue from operations for profit & loss statement and totals of balance sheet for balance sheet.

Q.. Raj Ltd decided to bear the higher education cost of five brilliant students belonging to the weaker section of the society. Following is the Statements of Profit & Loss of Raj Ltd for the year ended 31-3-2019.
You are required to:

(a)Prepare a common size Statement of Profit & Loss of Raj Ltd for the year ended 31.3.2019.

Solution:-

Particulars	*Amt (Rs.)*	*% of Revenue from Operations*
Income:		
I. Revenue from Operations	**2,00,000**	**100**
II. Other Income	**15,000**	**7.5**
III. Total Revenue (I+II)	**2,15,000**	**107.5**
Expenses:		
Cost of Materials Consumed	**1,10,000**	**55**
Other Expenses	**5,000**	**2.5**
Total Expenses	**1,15,000**	**57.5**
V. Profit before Tax (III-IV)	**1,00,000**	**50**
VI. *Less* : Tax	**40,000**	**20**
VII. Profit after Tax (V-VI)	**60,000**	**30**

Value involved- Fulfillment of Social Responsibility, Empathy

Ratio Analysis Formulae

I. Short Term Solvency Ratios/Liquidity Ratios

a. Current Ratio/Working Capital = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets- Current Liabilities = Working Capital

b. *Li*quid/Quick/Acid Test Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

Liquid Assets = Current Assets-(Inventory +prepaid assets)

II. Solvency Ratios/ Long Term Solvency Ratios

a. Debt Equity Ratio = $\frac{\text{Debt}}{\text{Equity}}$

Debt = Long term liabilities

Equity= Shareholders fund,

Shareholders Fund= (Equity share capital+ preference Share capital+ Reserves and surplus) - (Preliminary expenses+ profit and loss a/c(Dr.)+discount on issue of shares)

b. Total Assets to Debt Ratio = Total assets /Long term Debts

c. Proprietary Ratio = Shareholders fund/total assets

d. Interest coverage Interest = Net profit before interest and Tax/Fixed Interest charges

III. Profitability Ratios

a. Gross profit Ratio = (Gross Profit/Net Revenue from operations) X 100

Net Revenue from operations =Total Revenue from operations-Revenue from operations returns

b. Operating Ratio = (Cost of revenue from operation+ operating expenses)/Net Revenue from operations X 100

c. Operating profit Ratio = (Operating profit/Net revenue from operation) X 100

Operating Profit Ratio = 100-operating ratio

d. Net profit Ratio = Net Profit /Net Revenue from operation

e. Return on Investment (ROI) = (Profit before interest and tax/capital employed) X 100

IV. Turnover Ratio/Efficiency/Activity Ratios

a. **I**nventory Turnover Ratio = Cost of Revenue from operation/Average Inventory

Average Inventory= $\frac{\text{opening Inventory+ closing inventory}}{2}$

b. Trade Receivables Turnover Ratio= Net credit revenue from operation/Average Accounts Receivable

Average Accounts Receivables= $\frac{\text{opening receivables +closing Receivable}}{2}$

c. Trade Payable Turnover Ratio = Net Credit Purchase/Average Payables

Average payables= $\frac{\text{Opening payables+ closing trade payables}}{2}$

d. Working Capital Turnover Ratio = Net Revenue from Operation(Cost of revenue from Operation)/Net working Capital

Important Points in Ratio Analysis

Ratio	Standard Value, if any	Significance of Ratio
Current Ratio	2:1	This ratio shows the capacity of a business to repay its short term requirements. If a company's current ratio is more than two, it shows the strong short term solvency. But if it is very high it may be due to presence of dead stock, piling up of stock in godown, company's failure to collect the dues from debtors. If the ratio is less than two, it shows that company's short term solvency is not favourable.
Quick Ratio or Liquid Ratio	1:1	This ratio shows the ability of a company to repay its short term debts with in a period of less than three months. A higher ratio is always recommended

or Acid Test Ratio.		as favourable but not good if it is very high. Such a ratio shows the company's disability in collecting the dues from debtors or having unused balance in bank account etc.
Debt to Equity Ratio	2:1	It tells a company can have its borrowed funds upto two times of its owners' equity. It also tells about the borrowing power of the company. A higher ratio shows that the company have crossed the maximum level of borrowing and need to shrink off some amount of debts to bring the ratio equal to or less than two. A low ratio shows that company have favourable financial position and also have the power to borrow more funds. It relaxes a company and helps to take investment plans for future growth.
Debt to Total Fund Ratio	0.66:1	It tells the proportion of long term borrowings in the total capitalisation of the company. A low ratio is always preferred.
Fixed Assets to Long Term Funds Ratio	Higher ratio is recommended	The objective of computing the ratio is to establish relationship between total assets and long term debts of the enterprise. A high ratio means higher safety for lenders to the business. on the other hand, a low ratio means lower safety for lenders as the business depends largely on outside loans for its existence
Proprietary Ratio	Higher ratio is recommended	The objective of computing this ratio is to measure the proportion of total assets financed by proprietor's funds. The ratio is important for creditors as they can ascertain the portion of shareholders' funds in the total assets employed in the firm and thus safety margin available
Interest Coverage Ratio	Higher ratio is recommended	This ratio establish the relationship between net profit before interest and tax and interest on long term debts. Interest is a charge on profit therefore, net profit before interest and tax is taken to calculate the ratio. The ratio is very meaningful to debenture holders and lenders of long term funds. The objective of calculating this ratio is to ascertain the amount of profit available to cover interest on long term debt. A high ratio is considered better for the lenders as it means higher margin to meet interest cost.
Inventory Turnover Ratio	Higher the ratio better performance	This ratio establishes the relationship between cost of revenue from operations, ie, cost of goods sold and average inventory carried during that period. Inventory Turnover Ratio is an activity ratio as well as efficiency ratio and it measures the number of times an enterprise sells and replaces its inventory, ie, the number of times inventory was converted into sales during the period. The objective of computing inventory turnover ratio is to ascertain whether investment in stock has been judicious or not ie, only the required amount is invested in stock. It measures the efficiency of inventory management. A high ratio shows that more sales are being produced by a rupee of investment in inventories. A very high inventory turnover ratio shows overtrading and it may result in working capital shortage. A low inventory turnover ratio means inefficient use of investment in inventory, over investment in stocks, accumulation of inventory, etc. Thus, only an optimum in inventory turnover ratio ensures adequate working capital and also enables the enterprise to earn reasonable margin of profits.
Trade Receivable Turnover Ratio	Higher the ratio best performance	This ratio establishes the relationship between credit revenue from operations, ie, net credit sales and average trade receivables, ie, average of debtors and bills receivable of the year. This ratio indicates the number of times trade receivables are turned over in a year in relation to credit sales. It shows how quickly trade receivables are converted into cash and cash equivalents and thus, shows the efficiency in

		collection of amounts due against trade receivables. A high ratio is better since it shows that debts are collected more promptly. A lower ratio shows inefficiency in collection and more investment in debtors is required.
Trade payables turnover ratio	Lower the ratio, better performance	Trade Payables Turnover Ratio shows the relationship between net credit purchases and total payables or average payables, whereas average payment period or creditors velocity show the credit period enjoyed by the enterprise in paying creditors. The objective of calculating trade payables turnover ratio is to establish the number of times the creditors are turned over in relation to credit purchases.
Working capital Turnover Ratio	Higher the ratio better performance	Working capital turnover ratio shows the relationship between working capital and revenue from operations. It shows the number of times a unit of Rupee invested in working capital produces sales. The objective of computing the ratio is to ascertain whether or not working capital has been effectively used in generating revenue. Assessment of effective utilisation can be made by comparing with the past data or with comparable enterprise or with the industry standards. Higher the ratio, better it is. But, a very high ratio indicates overtrading- the working capital being inadequate or with the industry standards.
Gross Profit Ratio	A higher ratio is always suggested	GP ratio establish the relationship of gross profit and revenue from operations, ie. Net sales of an enterprise. The ratio is calculated and shown in percentage. The main objective of computing gross profit ratio is as determined the efficiency with which production and/ or purchase operations and selling operations are carried on. Gross profit ratio is a reliable guide for fixing selling prices and efficiency of trading activities. Gross profit should be adequate to cover expenses, dividends and building up of reserves. The ratio may be compared with ratio of earlier years or with that of other firms to compare and assess the efficiency of the business of other firms. Higher gross profit ratio is better as it leaves higher margin to meet operating expenses and creation of reserves.
Operating Ratio	A lower ratio is always suggested	Operating ratio establishes the relationship between operating costs (ie, cost of revenue from operations + operating cost) to Revenue from operations The objective of computing operating ratio is to access the operational efficiency of the business. Lower operating ratio is better because it leaves higher profit margin to meet interest, dividend etc. A rise in operating ratio indicates decline in efficiency.
Operating Profit Ratio	A higher ratio recommended	Operating profit ratio measures the relationship between operating profit and revenue from operations, ie. Net Sales. The objective of computing this ratio is to determine operational efficiency of the business. An increase in the operating profit ratio over the previous year ratio indicates improvement in the operational efficiency of the business enterprise
Net profit Ratio	A higher ratio recommended	Net profit ratio establishes the relationship between Net Profit and revenue form operations, ie. Net Sales. This shows the percentage of net profit earned on Revenue from Operations. Net profit ratio is an indicator of overall efficiency of the business. Higher net profit ratio, better the business. An increase in the net profit ratio over the previous period shows improvement in the operational efficiency and decline means otherwise.

Return on Investment or Return on Capital Employed	Higher the ratio, better performance	Return On Investment (ROI) or Return on Capital Employed (RCE) shows the relationship between profit (Before interest and tax) with capital employed. ROI or RCE assesses overall performance of the enterprise. It measures how efficiently the resources of the business are used. Return on capital employed is a fair measure of the profitability of any concern with the result that the performance of different industries may be compared.

Ratio Analysis. Application based Question.(HOTS)

1. Current ratio of Aditya ltd is 1.5 at present. In future it want to improve the ratio into 2. Suggest any two accounting transactions for improving the current ratio? **Answer.** Repayment of Current liability.
2. The current ratio of a company is 2.1:1.2. State with reason, which of the following transactions will increase, decrease or not change the ratio:
   (1). Redeemed 9% debentures of Rs. 1,00,000 at a premium of 10%.
   (2). Accepted bill of exchange drawn by a creditor.

Answer.

(1). The current ratio will increase. Current Assets and Current Liabilities have decreased by the same amount.
(2). Here no change because increase in one current liability results in decrease in another current liability with the same amount.

3. a) X Ltd. has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by Inventory is 24,000, calculate current assets and current liabilities.
   b) From the following information, calculate Inventory Turnover Ratio.
   Revenue from Operations: 4,00,000, Average Inventory : 55,000, The rate of Gross Loss on Revenue from Operations was 10%.

Answers

a) Current Ratio = 3.5:1
Quick Ratio = 2:1
Let Current Liabilities = x
Current Assets = 3.5x And
Quick Assets = 2x
Inventory = Current Assets – Quick Assets
24,000 = 3.5x – 2x
24,000 = 1.5x
x = Rs.16,000
Current Assets = 3.5x = 3.5 × 16,000 = 56,000.
Verification : Current Ratio = Current Assets : Current Liabilities
= 56,000 : 16,000 = 3.5 : 1
Quick Ratio = Quick Assets : Current Liabilities
= 32,000 : 16,000 = 2:1

b) Revenue from Operations = 4,00,000

Gross Loss = 10% of 4,00,000 = 40,000
Cost of Revenue from Operations = Revenue from Operations + Gross Loss
= 4,00,000 + 40,000 = 4,40,000
Inventory Turnover Ratio = Cost of Goods Sold/ Average Inventory
= 4, 40,000 / 55,000 = 8 times.

4. The quarterly report of a company gives the following information about its sales revenue and profi
for the first quarter of the current year and the first quarter of the previous year.

Particulars	First quarter of 2014-15	First quarter of 2015-16
Sales revenue	9,00,000	10,80,000
Net profit	2,70,000	3,02,400

Which Quarter is performing better? Has the performance improved?
Comment using ratios as tools of your analysis.

Answer.

Net profit ratio=Net profit/sales revenue

1st quarter of the first year=30% First quarter of the 2nd year=28%

First quarter of the first year is performing well. No, the performance would not improved.

The following figures of Rathore Ltd. is given:

	31.3.2013	31.3.2014
Revenue from operation	35, 00,000	89, 00,000
Gross profit	8, 40, 000	18, 69, 000
Operating profit	4, 90, 000	10, 68, 000
Currentt assets	11,20,000	16, 40,000
Current liabilities	5, 50,000	9, 10, 000

5. Mr. Amit Singal, CEO of the company claims that improvement in the profit and working capital is due to his efficiency. So he should be duly compensated. Do you agree with him? If not, give reasons.

Answer.

particulars	31/3/2013	31/3/2014
Gross Profit Ratio	(8,40,000/35,00,000)100 =24%	(18,69,000/89,00,000)100 =21%
Current Ratio	(11,20,000/5,50,000) = 2.04:1	(16,40,000/9,10,000) =1.81:1

Since Gross profit of the year 2014is reduced to 21% and current ratio of 2014 is also reduced to1.81:1 from 2.04:1.Mr.Amit Singal is not efficient and his claim is not valid.

Questions bank for Low Achievers

Q.1 Quick ratio of a company is 1.5: 1 . state giving reason whether the ratio will improve , decline or not change on payment of dividend by the company. (1)

Ans. Quick ratio will increase as both the liquid assets and current liabilities will decrease by the Same amount .

Q.2 Rubies Ltd. Has a profit of Rs. 4,00,000 before interest and tax. Its ROI is 25% . calculated the capital employed in the company. (1)

Ans. Capital employed = 4,00,000/25 X 100 = 16,00,000.

Q.3 What is the slandered which is considered ideal for quick ratio ? (1)

Ans. 1: 1

Q.4 How can the cost of revenue from operations be calculated ? (1)

Ans. Cost of revenue from operation = net revenue from operation- gross profit

Q.5 What will be the operating profit ratio. If operating ratio is : (i) 83.64% (ii) 88.94% and

(iii) 89.08% ? (1)

Ans. Operating profit ratio = 100- operating ratio. (i) 100-83.64=16.36% (ii) 100-88.94=11.06

(iii) 100-89.08=10.92%.

Q.6 You are a creditor of a company, Mention any two ratios that you would like to calculate to analyse the financial position of the company. (1)

Ans. (i) Current ratio (ii) Quick Ratio

Q.7 From the following compute current ratio : (3)

S.NO.	Items	Rs.	S.NO.	Items	Rs.
1 2.	Total assets Share holder fund	1,00,000 60,000	3. 4.	Non-Current liabilities Non-Current Assets	20,000 50,000

Ans. Current ratio = Current Assets / current Liabilities

Current assets = total assets – non current assets

=1,00,000-50000= 50,000.

Current liabilities = total assets- shareholder s fund - non current liabilities

= 1,00,000-60,000-20,000=Rs.20,000

Current ratio = 50,000/20,000= 2.5:1

Q.8 A business has a current ratio of 3:1 And a Quick ration of 1.2: 1. If the working capital is

Rs. 80,000, calculate the total current assets and value of Inventory. (3)

Ans. Current ratio = 3:1

Working capital = current assets – current liabilities

Let current liabilities be x

Current assets = 3x

Working capital = CA-CL

= 3x-x=2x

2x=1,80,000

X=90,000

Current liabilities= Rs. 90,000

Current assets = 3x

=3 X 90,000

= Rs. 2,70,000

Quick ratio = liquid assets/current liabilities

1.2/1= liquid assets/90,000

Liquid assets= 90,000 X1.2

Inventory = current assets- liquid assets

= 2,70,000- 1,08,000=Rs. 1,62,000.

Q.9 From the following information, compute " Total Assets to Debt Ratio' : (3-4)

Particulars	(Rs)
Long term borrowings	3,00,000
Long term provisions	1,50,000
Current Liabilities	75,000
Non Current Assets	5,40,000
Currents Assets	1,35,000

Ans. Total assets to Debt Ratio = Total assets/long term Debts

Total assets = non current assets+ current Assets

= 5,40,000+1,35,000

=Rs. 6,75,000

Long term debt = long term borrowing + long term provisions

= 3,00,000+1,50,000

Rs. 4,50,000

Total assets to Debt ratio = 6,75,000/4,50,000= 1.5: 1

Q.10 Calculate working capital turnover ration from the following : (3-4)

Revenue from operation Rs. 12,00,000 , Current assets Rs. 5,00,000 , Total Assets Rs. 8,00,000

Total non current liabilities Rs. 4,00,000 , share holder fund Rs. 2,00,000.

Ans. Working capital turnover ratio = Revenue from operation/ working capital

Revenue from operation = Rs. 12,00,000

Working capital = current assets – current liabilities

Current assets = Rs 5,00,000

Current liabilities = total assets- total non current liab.-share holder fund

= 8,00,000-4,00,000-2,00,000

= 2,00,000

Working capital = 5,00,000- 2,00,000

= 3,00,000

Working capital turnover ratio= 12,00,000/3,00,000= 4 times.

Q.11 The motto of yash Ltd. An advertising company is ' Service With Dignity ' its management and work force is hard working, honest and motivated. The net profit of the company doubled during the year ended 31-3-2014. Encouraged by its performance, company decided to give one month extra salary to all its employees . following is the comparative statement of profit and loss of the company for the years ended 31st March 2013 and 2014. (3-4)

Yash Ltd.
Comparative statement of profit and loss
For the years ended 31st March 2013 and 2014

Particulars	Note No.	2012-13 Rs.	2013-14 Rs.	Absolute change Rs.	Percentage change Rs
Revenue from operations		10,00,000	15,00,000	5,00,000	50
Less Employees benefit expenses		6,00,000	7,00,000	1,00,000	16.67
Profit before tax		4,00,000	8,00,000	4,00,000	100
Tax rate 25%		1,00,000	2,00,000	1,00,000	100
Profit after tax		3,00,000	6,00,000	3,00,000	100

(a) Calculate Net profit Ratio for the years ending 31st march , 2013 and 2014.

(b) Identify any two values which yash Ltd. Is trying to propagate.

Ans. (a) Net profit Ratio = net profit after tax/Revenue from operation X 100

As on 31st March, 2013 = 3,00,000/10,00,000 X 100=30%

As on 31st March , 2014 = 6,00,000/15,00,000X 100= 40%

Q.12 From the following data, calculate current Ratio : (3-4)

Liquid Assets Rs. 37,500, Inventories Rs. 10,000, Prepaid Expenses Rs. 20,500 : Working capital Rs. 30,000.

Ans. Current Ratio = C.A/C.L= Rs . 50,000/20,000=2.5:1

Current assets = Liquid assets + Inventories + Prepaid Expenses

= 37,500+10,000+2,500= 50,000

Working capital= current assets-current liabilities

Current liabilities = current assets – working capital

= Rs. 50,000- Rs. 30,000= 20,000.

Q.13 Calculate Liquid Ratio from the following working capital Rs. 1,80,000 : Total Debts outside liabilities Rs. 3,90,000 : Long term Debts Rs. (3-4)

3,00,000, Inventories Rs. 90,000;

Ans. Liquid / quick ratio = liquid assets/ current liabilities = Rs. 1,80,000/Rs 90,000= 2:1

Current liabilities = total debts, ie., outside liabilities – long term debts

= Rs. 3,90,000- Rs. 3,00,000= Rs. 90,000

Current assets = working capital + current liab.

= Rs. 1,80,000+Rs. 90,000= 2,70,000

Liquid assets = current assets – Inventories

= Rs. 2,70,000- Rs. 90,000= Rs, 1,80,000.

Q.14 Mayuri Enterprise is engaged is business of making medical equipments. During the year, the Company decided to supply medical equipments to the hospital located in remote area of india.

(a) You are required to calculate ' Debt to equity ratio' from the following information: total Assets Rs. 7,00,000; Total debts Rs. 5,00,000 and current liabilities Rs. 1,60,000.

(b) Identify two values exhibited by the companies. (6-8)

Ans. (a)Debt to equity ratio Debt/ Equity

Long term debt =total debts – current liabilities

Rs. 5,00,000-Rs. 1,60,000

= Rs. 3,40,000

Share holder fund (Equity) = total assets – total debts

= Rs. 7,00,000-Rs. 5,00,000

= 2,00,000

Debt to equity ratio Rs. 3,40,000/Rs. 2,00,000 = 1.7:1

Q.15 On the basis of the following information, calculate (6)

(I)Debt Equity Ratio and

(ii) Working capital Turnover Ratio

Information

Particulars	Rs.
Net Assets	60,00,000
Cost of goods sold	45,00,000
Other current assets	11,00,000
Current liabilities	4,00,000
paid up share capital	6,00,000
6% Debentures	3,00,000
9% Loan	1,00,000
Debentures Redemption Reserve	2,00,000
Closing Stock	1,00,000

Ans.(i)Debt –Equity ratio = Debt/ Equity

Debt = 6% debentures + 9% loan

=Rs. 3,00,000+ Rs 1,00,000= Rs, 4,00,000

Equity = paid up share capital + Debentures Redemption Reserve

= Rs. 6,00,000 + Rs. 2,00,000 = Rs. 8,00,000

Debt equity ratio = Rs 4,00,000/ Rs 8,00,000= 0.5:1

(ii) Working capital turnover ratio = Net sales/ Working capital

Working capital turnover ratio Rs. 60,00,000/Rs. 8,00,000= 7.5 times.

Q.16 From the following information , calculate inventory turnover ratio: (6)

Total sales Rs. 2,20,000, sales return Rs. 20,000, gross profit Rs. 50,000; closing inventory Rs. 60,000 , Excess of closing inventories over opening inventory Rs 20,000.

Ans. Inventory turnover ratio= Cost of revenue from operations (cost of goods sold)/average inventory

= Rs, 4,40,000/Rs. 55,000= 8 times.

Q.17 from the following information calculate Trade Receivables turnover ratio cost of revenue from operation (cost of goods sold)-Rs.3,00,000, Gross profit of cost -25% Cash sales- 20% of Total sales,

Opening debtors- Rs. 50,000, Closing debtors Rs. 1,00,000. (6)

Ans. Trade receivables turnover ratio credit revenue from operations ie.., Net credit sales/Average trade Receivables

= Rs. 3,00,000/ Rs. 75,000= 4 Times

Q.18 Calculate ‘ Return on investment ‘ and Debt to Equity Ratio from the following information;

Net profit after interest tax Rs. 3,00,000 (6)

10%Debenture Rs. 5,00,000

Tax rate Rs, 40 %

Capital employed Rs. 4,00,000

Ans(I) return on investment= net profit before interest and tax/capital employed X 100

= Rs.5,50,000/Rs, 40,00,000X100= 13.75

(ii) debt to equity ratio Debt/ Equity= Rs. 5,00,000/Rs. 35,00,000= 1:7

Q.19 from the information given below , calculated (i) Current ratio and (ii) debt to equity ratio: (6)

Information; net profit of the year Rs. 80,000 Fixed Asset Rs. 2 ,00,000; closing Inventory Rs. 10,000

Other current assets Rs. 1,00,000, current liabilities Rs. 30,000 ; Equity Share Capital

Rs. 1,00,000 ; 10% Preference share capital Rs. 70,000, 12% Debentures Rs. 60,000 and Revenue from

Operation , I e .., net sales during the year Rs. 5,00,000.

Ans. (i) Current ratio = C.A/C.L= Rs. 1,10,00/Rs. 30,000= 11: 3

Current assets = closing inventories + other current assets

= Rs. 10,000 + Rs. 1,00,000= 1,10,000

(ii) Debt equity Ratio= Debt/ Equity(Shareholder fund)

Debentures/equity share capital + preference share capital +profit

= Rs. 60,000/Rs. 2,50,000= 0.24:1

Q.20 calculate current ratio of a company from the following information ; (6-8)

Stock turn over Ratio ; 4 times

Stock in the end was Rs. 20,000 more than stock in the beginning .

Gross profit ratio 25%

Current liabilities Rs. 40,000

Quick Ratio 0.75 : 1

Ans. Stock turnover ratio = 4 times

= cost of goods sold/ average stock

Cost of goods sold = sales- gross profit

= 3,00,000-75,000= Rs.2,25,000

Average stock = opening stock + closing stock/2

= X+X + (20,000) /2= 2,25,000/4= Rs 56,250

Let the opening stock be X

2x+ 20,000/2= 56250 2x=56250-20,000x 2

X= 92,500/2=RS.46250 opening stock

46,250 closing stock = 46,250+20,000=RS. 66,250.

Current liabilities=Rs.40,000

Quick assets0.75: 1 = 40000/0.75=30000

Current assets+stock= 30,000+66250= Rs 96,250

Current ratio = current assets/ current liab.

= RS. 96250/ 40,000= 2.41:1

Test- Paper-I Of 20 marks

Q.1 Quick ratio of a company is 1.5: 1 . state giving reason whether the ratio will improve , decline or not change on payment of dividend by the company. (1)

Ans. Quick ratio will increase as both the liquid assets and current liabilities will decrease by the Same amount .

Q.2 Rubies Ltd. Has a profit of Rs. 4,00,000 before interest and tax. Its ROI is 25% . calculated the capital employed in the company. (1)

Ans. Capital employed = 4,00,000/25 X 100 = 16,00,000.

Q.3 What is the slandered which is considered ideal for quick ratio ? (1)

Ans. 1: 1

Q.4 How can the cost of revenue from operations be calculated ? (1)

Ans. Cost of revenue from operation = net revenue from operation- gross profit

Q.5 From the following compute current ratio : (3)

S.NO.	Items	Rs.	S.NO.	Items	Rs.
1 2.	Total assets Share holder fund	1,00,000 60,000	3. 4.	Non-Current liabilities Non-Current Assets	20,000 50,000

Ans. Current ratio = Current Assets / current Liabilities

Current assets = total assets – non current assets

=1,00,000-50000= 50,000.

Current liabilities = total assets- shareholder s fund - non current liabilities

= 1,00,000-60,000-20,000=Rs.20,000

Current ratio = 50,000/20,000= 2.5:1

Q.6 A business has a current ratio of 3:1 And a Quick ration of 1.2: 1. If the working capital is Rs. 80,000, calculate the total current assets and value of Inventory. (3)

Ans. Current ratio = 3:1

Working capital = current assets – current liabilities

Let current liabilities be x

Current assets = 3x

Working capital = CA-CL

= 3x-x=2x

2x=1,80,000

X=90,000

Current liabilities= Rs. 90,000

Current assets = 3x

=3 X 90,000

= Rs. 2,70,000

Quick ratio = liquid assets/current liabilities

1.2/1= liquid assets/90,000

Liquid assets= 90,000 X1.2

Inventory = current assets- liquid assets

= 2,70,000- 1,08,000=Rs. 1,62,000.

Q.7 From the following information, compute " Total Assets to Debt Ratio' : (4)

Particulars	(Rs)
Long term borrowings	3,00,000
Long term provisions	1,50,000
Current Liabilities	75,000
Non Current Assets	5,40,000
Currents Assets	1,35,000

Ans. Total assets to Debt Ratio = Total assets/long term Debts

Total assets = non current assets+ current Assets

= 5,40,000+1,35,000

=Rs. 6,75,000

Long term debt = long term borrowing + long term provisions

= 3,00,000+1,50,000

Rs. 4,50,000

Total assets to Debt ratio = 6,75,000/4,50,000= 1.5: 1

Q.8 Mayuri Enterprise is engaged is business of making medical equipments. During the year, the Company decided to supply medical equipments to the hospital located in remote area of india.

(a) You are required to calculate ' Debt to equity ratio' from the following information: total Assets Rs. 7,00,000; Total debts Rs. 5,00,000 and current liabilities Rs. 1,60,000.

(b) Identify two values exhibited by the companies. (6)

Ans. (a)Debt to equity ratio Debt/ Equity

Long term debt =total debts – current liabilities

Rs. 5,00,000-Rs. 1,60,000

= Rs. 3,40,000

Share holder fund (Equity) = total assets – total debts

= Rs. 7,00,000-Rs. 5,00,000

= 2,00,000

Debt to equity ratio Rs. 3,40,000/Rs. 2,00,000 = 1.7:1

(b) Values (i) to be considerate towards the heath of the people in the remote area.

(b)to be sympathetic and compassionate towards people devoid of proper medical facilities.

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Test- Paper-II Of 20 marks Accountancy

Q.1 What will be the operating profit ratio. If operating ratio is : (i) 83.64% (ii) 88.94% and (iii) 89.08% ? (1)

Ans. Operating profit ratio = 100- operating ratio. (i) 100-83.64=16.36% (ii) 100-88.94=11.06 (iii) 100-89.08=10.92%.

Q.2 You are a creditor of a company, Mention any two ratios that you would like to calculate to analyse the financial position of the company.

Ans. (i) Current ratio (ii) Quick Ratio

Q.3 The gross profit ratio of a company is 50% . state with reasons whether the decrease in rent received by Rs. 15,000 will increase, decrease or not change the ratio. (1)

Ans . decrease in rent received by Rs. 15,000 will not change the gross profit because rent received is a Non operative .

Q.4 Calculate working capital turnover ratio ; if capital employed Rs. 6,00,000; net fixed assets Rs. 4,00,000; cost of goods sold Rs. Rs. 20,00,000 and gross profit Rs. 4,00,000. (1)

Ans. Net sales Rs. 24,00,000; working capital Rs. 2,00,000; working capital turnover ratio 12 times.

Q.5 From the following information, compute “ Total Assets to Debt Ratio’ : (3)

Particulars	(Rs)
Long term borrowings	3,00,000
Long term provisions	1,50,000
Current Liabilities	75,000
Non Current Assets	5,40,000
Currents Assets	1,35,000

Ans. Total assets to Debt Ratio = Total assets/long term Debts

Total assets = non current assets+ current Assets

= 5,40,000+1,35,000

=Rs. 6,75,000

Long term debt = long term borrowing + long term provisions

= 3,00,000+1,50,000

Rs. 4,50,000

Total assets to Debt ratio = 6,75,000/4,50,000= 1.5: 1

Q.6 Calculate working capital turnover ration from the following : (3)

Revenue from operation Rs. 12,00,000 , Current assets Rs. 5,00,000 , Total Assets Rs. 8,00,000

Total non current liabilities Rs. 4,00,000 , share holder fund Rs. 2,00,000.

Ans. Working capital turnover ratio = Revenue from operation/ working capital

Revenue from operation = Rs. 12,00,000

Working capital = current assets – current liabilities

Current assets = Rs 5,00,000

Current liabilities = total assets- total non current liab.-share holder fund

= 8,00,000-4,00,000-2,00,000

= 2,00,000

Working capital = 5,00,000- 2,00,000

= 3,00,000

Working capital turnover ratio= 12,00,000/3,00,000= 4 times.

Q.7 The motto of yash Ltd. An advertising company is ' Service With Dignity ' its management and work force is hard working, honest and motivated. The net profit of the company doubled during the year ended 31-3-2014. Encouraged by its performance, company decided to give one month extra salary to all its employees . following is the comparative statement of profit and loss of the company for the years ended 31^{st} March 2013 and 2014.

Yash Ltd.
Comparative statement of profit and loss
For the years ended 31^{st} March 2013 and 2014

Particulars	Note No.	2012-13 Rs.	2013-14 Rs.	Absolute change Rs.	Percentage change Rs

Revenue from operations		10,00,000	15,00,000	5,00,000	50
Less Employees benefit expenses		6,00,000	7,00,000	1,00,000	16.67
Profit before tax		4,00,000	8,00,000	4,00,000	100
Tax rate 25%		1,00,000	2,00,000	1,00,000	100
Profit after tax		3,00,000	6,00,000	3,00,000	100

(a) Calculate Net profit Ratio for the years ending 31st march , 2013 and 2014.

(b) Identify any two values which yash Ltd. Is trying to propagate.

Q.8 Calculate ' Return on investment ' and Debt to Equity Ratio from the following information;

Net profit after interest tax Rs. 3,00,000 (6)

10%Debenture Rs. 5,00,000

Tax rate Rs, 40 %

Capital employed Rs. 4,00,000

Ans (I) return on investment= net profit before interest and tax/capital employed X 100

= Rs.5,50,000/Rs, 40,00,000X100= 13.75

(ii) debt to equity ratio Debt/ Equity= Rs. 5,00,000/Rs. 35,00,000= 1:7

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Cash Flow Statement (AS-03)

(08 Marks = 6 + 1+ 1)

Meaning, objectives and preparation (as per AS 3 (Revised) (Indirect Method only)

Note: *(i) Adjustments relating to depreciation and amortization, profit or loss on sale of assets including investments, dividend (both final and interim) and tax.*

(ii) Bank overdraft and cash credit to be treated as short term borrowings.

(iii) Current Investments to be taken as Marketable securities unless otherwise specified.

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

Cash Flow Statement to be prepared as per AS-3:

(A) Cash Flow from Operating Activities
(B) Cash Flow from Investing Activities
(C) Cash Flow from Financing Activities

Cash Flow – Cash flow from business activities either towards the business or outwards from the business.

Flow of cash towards the business from its activities is called – Inflow of Cash.

Flow of cash outwards from the busines with its activities is called – Outflow of cash.

Cash flow statement shows inflows (receipts) and outflows (payments) of cash and cash equivalents of an enterprise during a specified period of time.

Objectives:

(A) To provides information about cash flow from operating, investing and financing activities during a specific period.

(B) To provides the information about the direction of flow of cash from one activity to another.

(C) To enables the users to assess the ability of the enterprise to generate cash and cash equivalents.

Operating Activity is the principal revenue producing activity of the enterprise,

Financing Activity is that activity which changes the size & composition of owner's capital & borrowing of the enterprise whereas

Investing Activity include the acquisition and disposal of long-term assets.

Cash Flow from Operating Activity has four important sections as –

(a) Net profit before tax & dividend
(b) Adjustments for Non-Cash and Non-Operating charges, losses / Incomes, gains
(c) Adjustments for changes in Working Capital
(d) Tax paid during an accounting period

(a) Net Profit before tax and dividend

Net Profit (shown from statement of profit & loss account) + Provided Tax + Provided Dividend

(b) Adjustments for Non-Cash and Non-Operating charges, losses / Incomes, gains

- **Add**: Those non-cash & non-operating items which is charged while preparing statement of profit & loss account but for which there was no flow of cash –

  >> Depreciation on fixed tangible assets
  >> Amortization on fixed Intangible assets
  >> Loss on sale of fixed assets
  >> Interest paid on borrowings

>> Transfer to General Reserve

- **Less**: Those non-cash & non-operating incomes, gains which were taken into account while preparing statement of profit & loss account but for which there was no flow of cash –
  >> Gain on sale of fixed assets
  >> Interest, Dividend received on Investments

(c) <u>Adjustments for changes in Working Capital</u>

Working Capital = Current Asset – Current Liabilities

Flow of cash due to change in working capital is not counted while preparing statement of profit & loss account, therefore, cash flow due to changes in working capital during an accounting period must be considered while preparing Cash Flow from Operating Activity.

<u>** The balance Creditors at the beginning of year was Rs 22,000 and at the end of year Rs 12,000.</u>

>>> Rs 10,000 paid to creditors during an accounting year is called "Out Flow of Cash"
Therefore, if Current Liabilities has been decreased are called – out flow of cash; and Current Liabilities has been increased are called – In Flow of Cash

<u>** The balance of Stock at the beginning of year was Rs 45,000 and at the end of year Rs 20,000.</u>

>>> Rs 25,000 decrease in stock due to sale and amount of cash received is called "In-Flow"
Therefore, if Current Assets has been decreased are called – In-Flow of Cash; and Current Assets has been increased are called – Out-Flow of Cash.

Changes in Working Capital	Current Assets	Current Liabilities
Increase	Out-Flow of Cash	In-Flow of Cash
Decrease	In-Flow of Cash	Out-Flow of Cash

(d) Tax paid during an accounting period

<u>Sample Format for Cash Flow from Operating Activity</u>

Statement showing computation of Cash Flow from Operating Activities (Indirect Method)			
Net Profits before Tax	<u>Note No.</u>		----------
<u>Adjustment for Non-Cash & Non-Operating Items</u>:			
Add: Depreciation		---------	
Add: Transfer to General Reserve		---------	
Add: Goodwill Written Off		---------	
Add: Loss on sale of Fixed Asset		--------	
Less: Gain on sale of Fixed Asset		(-------)	---------
<u>Operating Profit before change in working capital</u>			----------
<u>Adjustment for working capital changes</u>:			---------
Add: Increase in Current Liabilities (Inflow)		---------	
Add: Decrease in Current Assets (Inflow)		---------	
Less: Increase in Current Assets (Outflow)		(--------)	
Less: Decrease in Current Liabilities (Outflow)		(--------)	

Less: Income Tax Paid			(--------)
Net Cash flow From Operating Activities			--------------

- **X Ltd, made a profit of ₹ 1,00,000 after considering the following items: CBSE – 2009.**
  (a) Depreciation on fixed assets ₹ 20,000 (b) Writing off preliminary expenses ₹ 10,000.
  (c)Loss on sale of furniture ₹ 1,000. (d) Provision for taxation ₹ 1,60,000.
  (e) Transfer to General Reserve ₹ 14,000. (f) Profit on sale of machinery ₹ 6,000.

Items	31/03/2007 (₹)	31/03/2008 (₹)
Debtors Out-flow	24,000	30,000
Creditors In-flow	20,000	30,000
Bills Receivable In-Flow	20,000	17,000
Bills Payable Out-flow	16,000	12,000
Prepaid Expenses Out-flow	400	600

Solution: **Calculation of Cash Flow from Operating Activities**

Particulars		(₹)
Net Profit before Tax	**2,74,000**	
Net Profit 1,00,000		
Provision for Taxation 1,60,000		
Transfer to General Reserve 40,000		
Adjustment for:		
Add: Depreciation on Fixed Assets	20,000	
Witting off Preliminary Expenses	10,000	
Loss on Sale of Furniture	1,000	
Less: Profit on Sale of Machinery	(6,000)	
Operating Profit before Working Capital Changes	**2,99,000**	
Add: Increase in Creditors (Inflow of cash)		
Decrease in Bills Receivable (Inflow)	10,000	
Less: Increase in Debtors (Outflow)	3,000	
Decrease in Bills Payable (Outflow)	(6,000)	
Increase in Prepaid Expenses (Outflow)	(4,000)	**3,01,800**
Net Cash Flow from Operating Activities	(200)	
	3,01,800	

Net Flow of Cash = Inflow of Cash – Outflow of Cash

From the following summarized balance sheets of a company, calculate cash flow from operating activities:

Particulars	31.3.2019 (₹)	31.3.2020 (₹)
I. Equity and Liabilities		
Share holder's funds:		
Equity Share Capital	1,00,000	1,00,000
Reserves & Surplus (Profit & Loss Balance)	30,000	60,000
Non Current Liabilities:		
6% Debentures	**60,000**	80,000
Current Liabilities:		
Creditors	30,000	35,000
Bills Payable	30,000	10,000
Other Current Liabilities	40,000	45,000
Total	**2,90,000**	**3,30,000**
II. Assets		
Non Current Assets: Fixed assets	1,50,000	1,90,000

Non Current Investments	40,000	30,000
Current Assets		
Stock	40,000	30,000
Debtors	40,000	45,000
Cash	20,000	35,000
Total	**2,90,000**	**3,30,000**

Additional Informations:

(1) A piece of machinery costing ₹ 5,000, on which depreciation of ₹ 2,000 had been charged was sold for ₹ 1,000. Depreciation charged during the year was ₹ 17,000.

(2) New debentures have been issued on 1st August, 2019.
Balance of Debenture Rs 60,000 become increase on 1st August 2019, therefore interest to be claculated on 60,000 for the period of 04 months and on Rs 80,000 interest to be claculated for 08 months. (1,200 + 3,200 = 4,400)

Machinery Account

To Balance b/d (3,000 + 1,47,000)	1,50,000	***Bank A/c investing: Inflow***	1,000
To Bank A/c investing: outflow	60,000	Loss on sale A/c *Operating:add*	2,000
(Balancing figure as purchase)		Depreciation A/c *Operating: add*	17,000
		By Balance c/d	1,90,000
	2,10,000		2,10,000

Bank A/c	Dr. 1,000	
Loss on sale A/c	Dr. 2,000	
To Machinery A/c		3,000

Solution: **Calculation of Cash Flow from Operating Activities**

Particulars				(₹)
(A) Cash Flow from Operating Activities:			30,000	
Net Profit before Tax				
Net Profit		30,000		
Adjustment for: (Non-Cash / Non-Operating)				
Add: Interest on Debenture @ 6%	4,400			
Loss on sale of Machinery	2,000			
Depreciation	17,000		23,400	
Less:				
Operating Profit before Working Capital Changes			53,400	
Add:				
Increase in Creditors	5,000			
Increase in other liabilities	5,000			
Decrease in Stock	10,000	20,000		
Less:				
Decrease Bills Payable	20,000			
Increase in Debtors	5,000	(25,000)	(5,000)	
			48,400	
Less: Tax paid during year			NIL	
Net Cash Flow from Operating Activities				**48,400**
(B) **Cash Flow from Investing Activities**:				
(1) Investments sold			10,000	

(2) Machinery purchased	(60,000)	
(3) Old Machinery sold	1,000	
(C) **Cash Flow from Financing Activities**:		**(49,000)**
(1) Issue of Debentures	20,000	
(2) Interest paid on debentures	(4,400)	**15,600**
Cash Flow / Used from/in business activities during the year		**15,000**
Add: Opening Cash & Cash Equivalents		**20,000**
Closing Cash & Cash Equivalents		**35,000**

Cash Flow from Financing Activities

(1) Issue of shares --------------------------: In-Flow of Cash
(2) Issue of Debentures -----------------------: In-Flow of Cash
(3) Borrowing long term Loans -------------------: In-Flow of Cash
(4) Interest paid on Debentures, Loans -----------: Out-Flow of Cash
(5) Dividend paid to shareholders ----------------: Out-Flow of Cash
(6) Redemption / Re-Payment of Debentures / Loans -: Out-Flow of Cash L

Cash Flow from Investing Activities

(1) Purchase of Fixed Assets--------------------: Out-Flow of Cash
(2) Investment made to outside ----------------- : Out-Flow of Cash
(3) Investment Sold ---------------- : In-Flow of Cash
(4) Old Fixed Asset (Tangible) Sold ------: In-Flow of Cash
(5) Interest, Dividend received --------------- : In-Flow of Cash

****** If question is silent for the increase or decrease of Investment then we have to assumed that Investment Sold or Purchased at the end of year.*******

Cash Flow Statement

(A) Cash Flow from Operating Activities	**XXXX**	
(B) Cash Flow from Financing Activities	**XXXX**	
(C) Cash Flow from Investing Activities	**XXXX**	
Cash Inflow during year from business activities	**XXXX**	
Add: Opening Cash & Cash Equivalents	**XXXX**	
Closing Cash & Cash Equivalents		**XXXX**

Sale and Purchase of Non-Current Fixed (Tangible) Assets

Case (A): AB Ltd had the following balance as at 31st March, 2019 and as at 31st March, 2020 as under –

Machinery A/c 1,50,000 1,90,000

** A piece of machinery costing ₹ 5,000 (depreciation thereon ₹ 2,000) sold at ₹ 1,000.

** Depreciation made on Machinery during the year was ₹ 17,000.

Solution: **Machinery Account**

To *Balance b/d* (3,000 + 1,47,000)	*1,50,000*	**Bank A/c *investing: Inflow***	**1,000**
To Bank A/c *investing: outflow*	**60,000**	**Loss on sale A/c** *Operating:add*	**2,000**
(Balancing figure as purchase)		Depreciation A/c *Operating: add*	17,000
		By *Balance c/d*	*1,90,000*
	2,10,000		2,10,000

Bank A/c	Dr. 1,000	
Loss on sale A/c	Dr. 2,000	
To Machinery A/c		**3,000**

Cash Flow Statement

		Amount	Amount in ₹
(A) Cash Flow from Operating Activities:			
Net Profit before Tax & Dividend		**XXXX**	
Add: Non-Cash/Operating charges		**19,000**	
(1) Loss on sale of machinery	**2,000**		
(2) Depreciation	**17,000**		
(B) Cash Flow from Financing Activities:			
(C) Cash Flow from Investing Activites:			
(1) Sale of machinery			
(2) Purchase of machinery			**1,000**
			(60,000)

Case (B): AB Ltd had the following balance as at 31st March, 2019 and as at 31st March, 2020 as under –

Machinery A/c	1,50,000	1,90,000
Provision for Depreciation A/c	30,000	35,000

** A piece of machinery costing ₹ 5,000 (**depreciation thereon ₹ 2,000**) sold at ₹ 1,000.

*** Depreciation on Machinery made during the year **₹ 7,000.**

Solution:

Machinery Account

Particulars	Amount in ₹	Particulars	Amount in ₹
To *Balance b/d* (**Original Cost**)	*1,50,000*	Provision for Depreciation A/c	2,000
To Bank A/c ***investing: outflow*** (Balancing figure as purchase)	**45,000**	**Bank A/c** ***investing: Inflow***	**1,000**
		Loss on sale A/c *Operating:add*	**2,000**
		By *Balance c/d* (Original Cost)	*1,90,000*
	1,95,000		1,95,000

Provision for Depreciation Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Machinery A/c	2,000	Balance b/d	**30,000**
		Depreciation A/c (Depreciation of the year as balancing figure)	**7,000**
Balance c/d	**35,000**		
	37,000		37,000

1. Sale of Machinery by ₹ 1,000 is an OUT FLOW of cash Under Investing Activities
2. Purchase of Machinery by ₹ 45,000 is an Out-Flow of Cash under Investing Activities
3. Depreciation on Machinery for the year ₹ 7,000 is non-cash charged, Add to Operating Activities for adjustment
4. Loss on sale of asset by ₹ 2,000 is non-operating charges, Add to Operating Activities for Adjustment

CBSE Sample Paper 2021

Prepare Cash Flow Statement on the basis of information given in the Balance Sheets of Reiga Ltd as at 31st March, 2019 and 31st March, 2020:

Particulars	Note No.	31st March, 2019	31st March, 2020
I. Equity & Liabilities			
1. Shareholders Funds			
(a) Share Capital		2,00,000	2,50,000
(b) Reserve & Surplus	1	50,000	70,000
2. Non-Current Liabilities			

Long-Term Borrowings	2	1,00,000	80,000
3. Current Liabilities			
(a) Trade Payable	3	60,000	1,60,000
(b) Other Current Liabilities	4	25,000	20,000
		4,35,000	5,80,000
II. Assets			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	1,50,000	2,00,000
(ii) Intangible Assets	6	10,000	2,000
(b) Long-Term Loans & Advances		1,00,000	1,30,000
2. Current Assets			
(a) Inventories		70,000	90,000
(b) Trade Receivables		40,000	60,000
(c) Cash & Cash Equivalents		65,000	98,000
		4,35,000	5,80,000

Note to Accounts

Particulars	31st March, 2019	31st March, 2020
1. Reserve & 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
4. Other Current Liabilities Outstanding Expenses	25,000	20,000
5. Tangible Fixed Assets Machinery Less: Provision for Depreciation	 2,00,000 (50,000)	 2,60,000 (60,000)
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.

Cash Flow Statement

Particulars			Amount	Amount in ₹
(A)	<u>**Cash Flow from Operating Activities:**</u>			**1,30,000**
	Net Profit before Tax and Dividend			
	Net Profit	20,000		
	Add: Non-Cash and Non-Operating charges			
	Interest on Debentures	12,000		
	Amortization of Goodwill	8,000		
	Loss on Sale of machinery	15,000		
	Depreciation on machinery	<u>20,000</u>		

Cash flow from Operating before changes in Working Capital	**75,000**	
Adjustments for changes in Working Capital		
Add: Increase in CL and Decrease in CA		
Creditors 20,000		
Bills Payables 80,000 1,00,000		
Less: Increase in CA and Decrease in CL		
Outstanding Expenses (5,000)		
Inventories (20,000)		
Trade Receivables (20,000) (45,000)	**55,000**	
Less: Income Tax paid	**------**	
(B) Cash Flow from Financing Activities:		**18,000**
Issue of Shares	**50,000**	
Redemption of Debentures	**(20,000)**	
Interest on Debentures paid	**(12,000)**	
(C) Cash Flow from Investing Activities:		**(1,15,000)**
Long-Term Loans & Advance		
Purchase of Fixed Asset (Machinery)	**(30,000)**	
Old Fixed Asset (Machinery) sold	**(1,00,000)**	
Cash flow during year from business activities	**15,000**	**33,000**
Add: Opening Cash & Cash Equivalents		**65,000**
Closing Cash & Cash Equivalents		**98,000**

Machinery Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Balance b/d	2,00,000	Provision for Depreciation A/c	10,000
Bank A/c (Purchase of machinery as balancing figure)	**1,00,000**	**Bank A/c**	**15,000**
		Loss on sale A/c	**15,000**
		Balance c/d	2,60,000
	3,00,000		3,00,000

Provision for Depreciation Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Machinery A/c (Accumulated Dep. On sold machinery trans.)	10,000	Balance b/d	50,000
Balance c/d	60,000	**Depreciation A/c** (Provide depreciation during year as balancing figure)	**20,000**
	70,000		70,000

Question:

From the following information of Nova Ltd, calculate the **cash flow from Investing activities**: (3)

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Machinery (At Cost)	5,00,000	3,00,000
Accumulated Depreciation on Machinery	1,00,000	80,000
Goodwill	1,50,000	1,00,000
Land	70,000	1,00,000

Additional Information: During the year, a machine costing ₹ 50,000 on which the accumulated depreciation was ₹ 35,000, was sold for ₹ 12,000.

Machinery Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Balance b/d Bank A/c (Purchase as balancing figure)	**3,00,000** **2,50,000**	Provision for Depreciation A/c Bank A/c Loss on sale A/c Balance c/d	**35,000** 12,000 3,000 **5,00,000**
	5,50,000		5,50,000

Provision for Depreciation Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Machinery A/c (transfer entry for accu. Dep. On sold asset) Balance c/d	**35,000** **1,00,000**	Balance b/d Depreciation A/c (depreciation of the current year as balancing figure)	**80,000** **55,000**
	1,35,000		1,35,000

Cash Flow from Investing Activity

(1)	Sale of Machinery	12,000
(2)	Purchase of Machinery	(2,50,000)
(3)	Purchase of Goodwill	(50,000)
(4)	Sale of Land	30,000

Question:

The profit of Jova Ltd for the year ended 31st March, 2019 after appropriation was ₹ 2,50,000. (3)

Additional Information:

S. No.	Particulars	Amount (₹)
1.	Depreciation on Machinery	20,000
2.	Goodwill written off	9,000
3.	Loss on sale of Furniture	2,000
4.	Transfer to General Reserve	22,500

The following was the position of Current Assets and Current Liabilities as at 31st March 2018 and 2019:

Particulars	31.03.2018 (₹)	31.03.2019 (₹)
Income received in advance	8,000	--------------
Inventories	12,000	8,000

Calculate the Cash flow from operating activities.

Solution: **Cash Flow from Operating Activities**

Particulars			Amount in ₹
Net profit before Tax & Dividend:			2,72,500
Net Profit		2,50,000	
Add: Transfer to General Reserve		22,500	
Add: Depreciation on Machinery	20,000		
Add: Written-off Goodwill	9,000		
Add: Loss on Sale of Machinery	2,000	31,000	31,000
Cash flow before changes in working Capital			3,03,500
Adjustment for Changes in Working-Capital			
Add: Decrease in Inventories	4,000		
Less: Increase in Income received in advance	(8,000)	(4,000)	(4,000)
Net Cash Generated (Flow) from Operating Activities during the year			**2,99,500**

Adjustment of Provision for Tax and Dividend in Cash Flow Statement

Case A:

Particulars	31.03.2019	31.03.2020
Provision for Tax	22,000	30,000

Adjustment: ……………………………….

Solution:

(1) Tax paid during year for the provided amount of tax in the previous year i.e. 2018-19 ₹ 22,000.

Therefore, it is a case of Out-Flow of Cash under operating activity, it will be subtracted at the end step.

(2) ₹ 30,000 provided tax in the year 2019-20 (current year) is charged to statement of profit & loss Account BUT no flow of cash as it was not paid in the current year and it will be paid in the year 2020-21.

Therefore, it is Non-Cash charge and added back to Net Profit for making Net Profit before Tax & Dividend.

Case B:

Particulars	31.03.2019	31.03.2020
Provision for Tax	22,000	30,000

Adjustment: Tax paid during year 2019-20 ₹ 35,000 OR Provision for Tax made in the year 2019-20 ₹ 43,000.

Provision for Tax Account

Particulars	₹	Particulars	₹
To Bank A/c	35,000	By Balance b/d	22,000
		By Statement of Profit & Loss A/c (Provided tax in the year 2019-20 as balancing figure)	43,000
To Balance c/d	30,000		
	65,000		65,000

(1) ₹ 43,000 added back to Net Profit to make it as Net Profit before Tax under Operating Activity

(2) ₹ 35,000 paid Tax, it is an Out Flow of Cash. Therefore, it will be subtracted at the end under Operating Activity.

Proposed Dividend As per AS-4, Contingencies and Events Occurring after the Balance Sheet Date, Proposed dividend is shown in the Notes to Accounts. It will be shown as contingent liability since it becomes a liability after it is declared (approved) by the shareholders. It will be accounted in the books of account after it is declared (approved) by the shareholders in the Annual General Meeting. Dividend for the year **2018-19** Rs 15,000 will be approved in **2019-20**.

Since, previous year's Proposed Dividend will be declared (approved) in the current year; previous year's Proposed Dividend will be accounted as dividend payable. Also, declared dividend is paid within 30 days of its declaration therefore; it will be paid within the same financial year.

Briefly, proposed dividend of previous year after declaration (approved) by the shareholders will be debited to surplus i.e., Balance in Statement of Profit and Loss. While preparing cash flow statement, previous year's proposed dividend will be added to Net Profit under operating activities and will be shown under financial activity as out-flow of cash.

Particulars	2019-20	2020-21
Proposed Dividend	30,000	45,000
Provision for Tax	50,000	70,000

Adjustment: Interim dividend paid ₹ 20,000.

And ₹ 50,000 also paid in the year 2020-21 which out-flow of cash under Financing activities.

Provision for Tax: ₹ 50,000 tax paid in the year 2020-21 and ₹ 70,000 provision for tax charged in statement of profit & loss account in the year 2020-21 which is non-cash charge. Therefore, 70,000 added to Net Profit and at the end of Cash Flow from Operating Activities - ₹ 50,000 subtracted.
Proposed Dividend: ₹ 30,000 will be charged in the year of 2020-21 of statement of profit & loss. It is a non-operating charged
And dividend will be paid at the approved amount which also ₹ 30,000 in the year 2020-21.

Particulars	2019-20	2020-21
Proposed Dividend	30,000	45,000
Provision for Tax	50,000	70,000

Adjustment: Interim dividend paid ₹ 20,000.

Cash Flow Statement

(A) Cash from Operating

a. Net Profit	XXX		XXX
Add: Non-Cash charge			
Provision for Tax 2020-21		70,000	
Add: Non-Operating charge			
Proposed Dividend (30,000 + 20,000)		50,000	
		1,20,000	
Less: Tax paid		(50,000)	

(B) Cash Flow from Financing

Payment of Dividend (30,000 + 20,000) (50,000)

(C) Cash Flow from Investing

S.N.	Particulars	Trading, Manufacturing Enterprises	Bank, Financing Enterprises
1	**Interest Paid: Out-Flow**	Financing	**Operating**
2	Dividend Paid: Out-Flow	Financing	**Financing**
3	**Interest Received: In-Flow**	Investing	**Operating**
4	**Dividend Received: In-Flow**	Investing	**Operating**

QUESTION BANKS

Cash Flow Statement MCQs Questions with Answers

Question 1.
As per Companies Act 2013, preparation of cash flow statement is :
(a) Mandatory
(b) Recommendatory
(c) Required under the Companies Act
(d) None of these
Ans: (a) Mandatory

Question 2.
Issue of shares in consideration of purchase of plant and machinery results into :
(a) Inflow of Cash
(b) Outflow of Cash
(c) Neither Inflow nor Outflow
(d) None of these
Answer: (c) Neither Inflow nor Outflow

Question 3.
If net profit is 7 50,000 after writing off goodwill 7 10,000 then the cash flow from operating activities will be:
(a) ₹ 60,000
(b) ₹ 40,000
(c) ₹ 50,000
(d) ₹ 30,000
Answer: (a) ₹ 60,000

Question 4.
If net profit is ₹ 35,000 after writing off good will ₹ 6,000 and loss on sale of furniture ₹ 1,000, cash flow from operating activities will be :
(a) ₹ 35,000
(b) ₹ 42,000
(c) ₹ 29,000
(d) ₹ 28,000
Answer: (b) ₹ 42,000

Question 5.
Cash sales in :
(a) Operating Activity
(b) Investing Activity
(c) Financing Activity
(d) None of these
Answer: (a) Operating Activity

Question 6.
Cash from operating activities will decrease due to :
(a) Increase in Current Assets
(b) Decrease in Current Liabilities
(c) Neither of the two
(d) Both (a) and (b)
Answer: (d) Both (a) and (b)
Question 7.
Which of the following is an example of Cash Flow from Operating Activities ?
(a) Purchase of Machinery
(b) Issue of Shares
(c) Purchases of Inventory for Cash
(d) Purchases of Investment
Answer: (c) Purchases of Inventory for Cash

Question 8.
While calculating operating profit which will be added to net profit:
(a) Interest received
(b) Profit on sale of Asset
(c) Increase in General Reserve
(d) Refund of Tax
Answer: (c) Increase in General Reserve

Question 9.
While calculating cash flow from operating netivities which will be deducted ?
(a) Increase in Creditors

(b) Increase in Debtors
(c) Decrease in Debtors
(d) Decrease in Prepaid Expenses
Answer: (b) Increase in Debtors

Question 10.
While calculating cash flow from operating activities, which will be added ?
(a) Increase in Stock
(b) Increase in Creditors
(c) Decrease in Bills Payable
(d) Increase in Debtors
Answer: (b) Increase in Creditors

Question 11.
An example of Cash Flow from Investing Activities :
(a) Cash Sales
(b) Issue of Shares
(c) Payment of cash for purchase of machinery
(d) Payment of Dividend
Answer: (c) Payment of cash for purchase of machinery

Question 12.
An example of Cash Flows from Financing Activity is :
(a) Sale of goods
(b) Sale of Investment
(c) Cash receipts from issue of shares
(d) Interest received
Answer: (c) Cash receipts from issue of shares

Question 13.
How will you treat payment of 'Interest of Debentures' while preparing a Cash Flow Statement ?
(a) Cash Flow from Operating Activities
(b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities
(d) Cash Equivalents
Answer: (c) Cash Flow from Financing Activities

Question 14.
Where will you show purchase of goodwill in Cash Flow Statement:
(a) Cash Flow from Operating Activities
(b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities
(d) Cash Equivalent
Answer: (b) Cash Flow from Investing Activities

Question 15.
Interest received by a finance company is classified under which kind of activity while preparing a Cash Flow Statement ?
(a) Cash Flow from Operating Activities
(b) Investing Activities
(c) Financing Activities
(d) Cash Equivalent

Answer: (a) Cash Flow from Operating Activities

Question 16.
Which of the following item is considered as cash equivalents:
(a) Bank Overdraft
(b) Bills Receivable
(c) Debtors
(d) Short-term Investment
Answer: (a) Bank Overdraft

Question 17.
Which of the following item is not considered as cash equivalents ?
(a) Bank Overdraft
(b) Commercial Papers
(c) Treasury Bills
(d) Investment
Answer: (d) Investment

Question 18.
Cash payment to employees is a Cash Flow from:
(a) Operating Activities
(b) Investing Activities
(c) Finance Activities
(d) All the above
Answer: (a) Operating Activities

Question 19.
Which of the following is not a Cash in Flow ?
(a) Sale of Fixed Asset
(b) Purchase of Fixed Asset
(c) Issue of Debentures
(d) Sale of Goods for Cash
Answer: (b) Purchase of Fixed Asset

Question 20.
In cash flow statement, the item of 'Interest' is shown in:
(a) Operating Activities
(b) Investing Activities
(c) Financial Activities
(d) In both (d) & (c)
Answer: (d) In both (d) & (c)

Question 21.
Which of the following is not a Cash Outflow:
(a) Increase in Creditors
(b) Increase in Debtors
(c) Increase in Stock
(d) Increase in prepaid expenses
Answer: (a) Increase in Creditors

Question 22.

Cash from operation is equal to :
(a) Net Profit + Increase in Current Assets
(b) Net Profit + Decrease in Current Liabilities
(c) Operating Profit + Adjustment of Current Assets and Current Liabilities
(d) All of the above
Answer: (b) Net Profit + Decrease in Current Liabilities

Question 23.
Income tax refund is a cash of:
(a) Source
(b) Application
(c) Both (a) & (b)
(d) None of these
Answer: (a) Source

Question 24.
Cash Flow Statement in based upon:
(a) Cash basis of accounting
(b) Accrual basis of accounting
(c) (a) and (b) both
(d) None of these
Answer: (a) Cash basis of accounting

Question 25.
Cash Flow Statement is related to:
(a) AS-3
(b) AS-6
(c) AS-9
(d) AS-12
Answer: (b) AS-6

Question 26.
Cash Flow Statement is prepared from:
(a) Balance Sheet
(b) Profit & Loss Account
(c) Additional Information
(d) All of these
Answer: (d) All of these

Question 27.
Following Is included in Cash Flow from Operating Activities:
(a) Royalties, Fees, Commission
(b) Purchase of Debentures
(c) Purchase of Machinery
(d) issue of Shares
Answer: (a) Royalties, Fees, Commission

Question 28.
Following are included in cash equivalent:
(a) Treasury Bill
(b) Trade Bill

(c) Bank Deposits of Short Maturity Period
(d) All of above
Answer: (d) All of above

Question 29.
Claims received from Insurance Companies are treated as:
(a) Cash Flow from Operating Activities
(b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities
(d) None of these
Answer: (a) Cash Flow from Operating Activities

Question 30.
Which activity comes under ‘Operating Activities’ ?
(a) Purchase of Land
(b) Issue of Debentures
(c) Proceeds from Issuance of Equity Shares
(d) Cash Sales
Answer: (d) Cash Sales

Question 31.
Which of the following is not a cash inflow ?
(a) Decrease in Debtors
(b) Issue of Debentures
(c) Decrease in Creditors
(d) None of these
Answer: (c) Decrease in Creditors

Question 32.
Which one of following is not a non-cash item ?
(a) Cash Sales
(b) Goodwill written off
(c) Depreciation
(d) Provision of Bad Debts
Answer: (a) Cash Sales

Question 33.
Cash flow statement according to AS-3 is mandatory to:
(a) All enterprises
(b) Companies listed on a stock exchange
(c) Enterprises having turnover expending 50 Rs crore
(d) (b) & (c) both
Answer: (d) (b) & (c) both

Question 34.
Decrease in Current Asset is……….in operating profit
(a) Subtracted
(b) Added
(c) Divided
(d) Multiplied
Answer: (b) Added

Question 35.
Following are true about cash equivalent:
(a) More Liquid Short-term Investment
(b) Minimum risk
(c) Maturity of 3 months or less than 3 months
(d) All the above
Answer: (d) All the above

Question 36.
Which of the following activity comes under Financial Activities ?
(a) Receipts from issurence of Equity Shares
(b) Cash Sales
(c) Bank Overdraft
(d) Purchase of Debentures
Answer: (a) Receipts from issurence of Equity Shares

Question 37.
An analysis of cash flow is useful for..—.planning.
(a) Short-term
(b) Long-term
(c) Medium-term
(d) Very Long-period
Answer: (a) Short-term

Question 38.
Which calculating cash flow from operating activities which is added net profit ?
(a) Increase in Stock
(b) Decrease in Stock
(c) Increase in Debtors
(d) Decrease in Creditors
Answer: (b) Decrease in Stock

Question 39.
Which of the following is not the source of Cash ?
(a) Purchase of Fixed Assets
(b) Funds from Operations
(c) Issue of Debentures
(d) Sale of Fixed Assets
Answer: (a) Purchase of Fixed Assets

Question 40.
While calculating profit from operating activities, which will be added back to net profit:
(a) Goodwill Written off
(b) Depreciation
(c) Loss oh Sale of Fixed Assets
(d) All the Above
Answer: (d) All the Above

Question 41.
Profit during the year ₹ 20,000. During the year, there was increase in stock by ₹ 9,000 and decrease in debentures of ₹ 5,000. What is the amount of cash from operating activities ?
(a) ₹ 6,000

(b) ₹ 16,000
(c) ₹ 24,000
(d) ₹ 34,000
Answer: (b) ₹ 16,000

Question 42.
Given:
Net Profit during the year ₹ 1,00,000
Debtors in the beginning the year of ₹ 30,000
Debtors at the end of the year ₹ 36,000
What is the amount of cash from operating activities ?
(a) ₹ 30,000
(b) ₹ 94,000
(c) ₹ 1,06,000
(d) ₹ 1,66,000
Answer: (b) ₹ 94,000

Question 43.
Net Profit during the year ₹ 30,000
Creditors in the beginning ₹ 24,000
Creditors at the end ₹ 16,000
What is the amount of cash from operating activities :
(a) ₹ 30,000
(b) ₹ 34,000
(c) ₹ 22,000
(d) ₹ 40,000
Answer: (c) 7 22,000

Question 44.
Redemption of Debentures/Preference shares results into:
(a) Source of fund
(b) Use Or application of fund
(c) No flow of fund
(d) No flow of cash
Answer: (b) Use Or application of fund

Question 45.
Which of the following is not an example of cash outflows ?
(a) Repayment of loans
(b) Decrease in creditors
(c) Issue of debentures
(d) None of these
Answer: (c) Issue of debentures