

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
2025-2026

Class : XII

ACCOUNTANCY

Under the Guidance of

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सचिव (शिक्षा)

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MESSAGE

The Directorate of Education remains steadfast in its vision to achieve excellence in the academic domain and its commitment to develop meaningful, engaging, and child-friendly learning content.

Each year, the Directorate carefully reviews and updates the Support Material to ensure alignment with the latest CBSE guidelines and emerging academic developments.

The Support Material provides comprehensive academic support through well-structured practice questions and exercises that strengthen conceptual understanding and exam readiness and aims to nurture students' critical thinking, analytical abilities, and problem-solving skills. Through such sustained efforts, the Directorate of Education continues to guide students towards academic excellence and holistic growth.

This Support Material is intended to bridge classroom learning and examination preparation, enabling students to consolidate knowledge through systematic practice. It has been thoughtfully designed for students, with the belief that its effective use will strengthen their understanding and support them in achieving their learning goals with confidence.

I appreciate the dedication and collaborative effort of all those involved in the development of this material and extends my best wishes to all students—may this Support Material serve as an essential academic aid, enhancing students' confidence and preparedness for examinations.

Best wishes.


(Pandurang K. Pole)

VEDITHA REDDY, IAS
Director, Education & Sports



सत्यमेव जयते

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MESSAGE

DE-5/228/Exam/Message/S.M/2018/
402
dated - 09/05/25

Education is the cornerstone of a progressive society, and providing students with the right learning resources is essential for their academic and personal growth. Keeping this in mind, the Directorate of Education, GNCT of Delhi, develops comprehensive Support Material every year for various subjects of Classes IX to XII.

The support material serves as an additional study resource to supplement textbooks by offering clear and easy-to-understand explanation of complex topics. Our dedicated team of expert faculty members has meticulously reviewed and updated this material, aligning it with the latest CBSE syllabus, question paper pattern and assessment guidelines. Our effort is to simplify difficult concepts and make them more accessible to students, helping them save time and effort with ready references for effective preparation.

As Ruskin Bond beautifully said, "Education must inspire the spirit of inquiry, Creativity and Joy" True learning goes beyond memorisation-it encourages curiosity, fosters creativity, and makes the learning process meaningful and enjoyable.

In alignment with the vision of NEP 2020, the CBSE framework now places emphases on competency-based assessments for 50% of the evaluation, highlighting the need for students to develop critical thinking and problem-solving skills. The Support Material is designed to help students analyse concepts deeply, think innovatively, and apply their knowledge affectively, ensuring they are well-prepared not only for exams but also for real-life challenges.

I appreciate the dedicated efforts of the entire team of subject experts in developing this valuable learning resource. I am confident that both teachers and students will make the best use of these material to enhance learning and academic success.

Wishing all students great success in their exam and a bright, fulfilling future ahead.


(VEDITHA REDDY, IAS)

Dr. RITA SHARMA
Additional Director of Education
(School/Exam)



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D.O. No. **DE.S/228/EXAM/ME/SM/**
2018/570
Dated: .. **02/07/2025**

MESSAGE

"Children are not things to be molded, but are people to be unfolded." -
Jess Lair

In line with this insightful quote, the Directorate of Education, Delhi, has always made persistent efforts to nurture and unfold the inherent potential within each student. This support material is a testimony to this commitment.

The support material serves as a comprehensive tool to facilitate a deeper understanding of the curriculum. It is crafted to help students not only grasp essential concepts but also apply them effectively in their examinations. We believe that the thoughtful and intelligent utilization of these resources will significantly enhance the learning experience and academic performance of our students.

Our expert faculty members have dedicated themselves to the support material to reflect the latest CBSE guidelines and changes. This continuous effort aims to empower students with innovative approaches, fostering their problem-solving skills and critical thinking abilities.

I extend my heartfelt congratulations to the entire team for their invaluable contribution to creating a highly beneficial and practical support material. Their commitment to excellence ensures that our students are well-prepared to meet the challenges of the CBSE examinations and beyond.

Wishing you all success and fulfilment in your educational journey.

(Dr. Rita Sharma)

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
2025-2026

ACCOUNTANCY

Class : XII

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

भारत का संविधान

भाग 4क

नागरिकों के मूल कर्तव्य

अनुच्छेद 51 क

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

- (क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;
- (ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- (ग) भारत की संप्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण बनाए रखे;
- (घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- (ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभावों से परे हो, ऐसी प्रथाओं का त्याग करे जो महिलाओं के सम्मान के विरुद्ध हों;
- (च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;
- (छ) प्राकृतिक पर्यावरण की, जिसके अंतर्गत वन, झील, नदी और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;
- (ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- (झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- (ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत् प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और
- (ट) यदि माता-पिता या संरक्षक हैं, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य को शिक्षा के अवसर प्रदान करे।



Constitution of India

Part IV A (Article 51 A)

Fundamental Duties

It shall be the duty of every citizen of India —

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

Note: The Article 51A containing Fundamental Duties was inserted by the Constitution (42nd Amendment) Act, 1976 (with effect from 3 January 1977).

* (k) was inserted by the Constitution (86th Amendment) Act, 2002 (with effect from 1 April 2010).



भारत का संविधान उद्देशिका

हम, भारत के लोग, भारत को एक ¹[संपूर्ण प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य] बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक न्याय,

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,

प्रतिष्ठा और अवसर की समता

प्राप्त कराने के लिए,

तथा उन सब में

व्यक्ति की गरिमा और ²[राष्ट्र की एकता

और अखंडता] सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

दृढसंकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवंबर, 1949 ई. को एतद्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) "प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य" के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) "राष्ट्र की एकता" के स्थान पर प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

JUSTICE, social, economic and political;

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

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

FRATERNITY assuring the dignity of the individual and the ²[unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

Team Members for Review of Support Material

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Accountancy (Subject Code 055)
Class-XII (2025-26)

Theory : 80 Marks
Project : 20 Marks

3 hours

Units		Marks
Part A	Accounting for Partnership Firms and Companies	
	Unit 1. Accounting for Partnership Firms	36
	Unit 2. Accounting for Companies	24
		60
Part B	Financial Statement Analysis	
	Unit 3. Analysis of Financial Statements	12
	Unit 4. Cash Flow Statement	8
		20
Part C	Project Work	
	Project work will include:	
	Project File	12 Marks
	Viva Voce	8 Marks

Part A: Accounting for Partnership Firms and Companies

Unit 1: Accounting for Partnership Firms

Units/Topics	Learning Outcomes
<ul style="list-style-type: none"> • 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: meaning, nature, factors affecting and methods of valuation - average profit, super profit and capitalization. <p><i>Note: Interest on partner's loan is to be treated as a charge against profits.</i></p> <p>Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization), adjusted through partners capital/ current account.</p> <p>Accounting for Partnership firms - Reconstitution and Dissolution.</p> <ul style="list-style-type: none"> • Change in the Profit Sharing Ratio among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet. • Admission of a partner - effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and re-assessment of liabilities, treatment of reserves, accumulated profits and losses, 	<p>After going through this Unit, the students will be able to:</p> <ul style="list-style-type: none"> • state the meaning of partnership, partnership firm and partnership deed. • describe the characteristic features of partnership and the contents of partnership deed. • discuss the significance of provision of Partnership Act in the absence of partnership deed. • differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. • develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. • develop the understanding and skill of making past adjustments. • state the meaning, nature and factors affecting goodwill • develop the understanding and skill of valuation of goodwill using different methods. • state the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners. • develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of reserves and accumulated profits by preparing revaluation account and balance sheet. • explain the effect of change in profit sharing ratio on admission of a new partner. • develop the understanding and skill of

<p>adjustment of capital accounts and preparation of capital, current account and balance sheet.</p> <ul style="list-style-type: none"> • Retirement and death of a partner: effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits, losses and reserves, adjustment of capital accounts and preparation of capital, current account and balance sheet. Preparation of loan account of the retiring partner. • Calculation of deceased partner's share of profit till the date of death. Preparation of deceased partner's capital account and his executor's account. • Dissolution of a partnership firm: meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlement of accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)). <p>Note:</p> <p>(i) If the realized value of tangible assets is not given it should be considered as realized at book value itself.</p> <p>(ii) If the realized value of intangible assets is not given it should be considered as nil (zero value).</p> <p>(iii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.</p>	<p>treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm.</p> <ul style="list-style-type: none"> • explain the effect of retirement / death of a partner on change in profit sharing ratio. • develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment. • develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's and executor's account. • discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner. • understand the situations under which a partnership firm can be dissolved. • develop the understanding of preparation of realisation account and other related accounts.
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Unit-3 Accounting for Companies

Units/Topics	Learning Outcomes
<p>Accounting for Share Capital</p> <ul style="list-style-type: none"> • Features and types of companies. • Share and share capital: nature and types. 	<p>After going through this Unit, the students will be able to:</p> <ul style="list-style-type: none"> • state the meaning of share and share capital

<ul style="list-style-type: none"> Accounting for share capital: issue and allotment of equity and preference shares. Public subscription of shares - over subscription and under subscription of shares; issue at par and at premium, calls in advance and arrears (excluding interest), issue of shares for consideration other than cash. Concept of Private Placement and Employee Stock Option Plan (ESOP), Sweat Equity. Accounting treatment of forfeiture and re-issue of shares. Disclosure of share capital in the Balance Sheet of a company. <p>Accounting for Debentures</p> <ul style="list-style-type: none"> Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures (concept of TDS is excluded). Writing off discount / loss on issue of debentures. <p>Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS 16)</p>	<p>and differentiate between equity shares and preference shares and different types of share capital.</p> <ul style="list-style-type: none"> understand the meaning of private placement of shares and Employee Stock Option Plan. explain the accounting treatment of share capital transactions regarding issue of shares. develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares. describe the presentation of share capital in the balance sheet of the company as per schedule III part I of the Companies Act 2013. explain the accounting treatment of different categories of transactions related to issue of debentures. develop the understanding and skill of writing off discount / loss on issue of debentures. understand the concept of collateral security and its presentation in balance sheet. develop the skill of calculating interest on debentures and its accounting treatment. state the meaning of redemption of debentures.
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Part B: Financial Statement Analysis

Unit 4: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: Meaning, Nature, Uses and importance of financial Statement. Statement of Profit and Loss and Balance Sheet in	After going through this Unit, the students will be able to: <ul style="list-style-type: none"> develop the understanding of major headings and sub-headings (as per Schedule III to the

<p>prescribed form with major headings and sub headings (as per Schedule III to the Companies Act, 2013)</p> <p>Note: <i>Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded.</i></p> <ul style="list-style-type: none"> • Financial Statement Analysis: Meaning, Significance Objectives, importance and limitations. • Tools for Financial Statement Analysis: Comparative statements, common size statements, Ratio analysis, Cash flow analysis. • Accounting Ratios: Meaning, Objectives, Advantages, classification and computation. • Liquidity Ratios: Current ratio and Quick ratio. • Solvency Ratios: Debt to Equity Ratio, Total Asset to Debt Ratio, Proprietary Ratio and Interest Coverage Ratio. Debt to Capital Employed Ratio. • Activity Ratios: Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Fixed Asset Turnover Ratio, Net Asset Turnover Ratio and Working Capital Turnover Ratio. • Profitability Ratios: Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment. 	<p>Companies Act, 2013) of balance sheet as per the prescribed norms / formats.</p> <ul style="list-style-type: none"> • state the meaning, objectives and limitations of financial statement analysis. • discuss the meaning of different tools of 'financial statements analysis'. • develop the skill of preparation of preparation of comparative and common size statement, understand their uses and difference between the two. • state the meaning, objectives and significance of different types of ratios. • develop the understanding of computation of current ratio and quick ratio. • develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratio and interest coverage ratio. • develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. • develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.
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Note: Net Profit Ratio is to be calculated on the basis of profit before and after tax.

Unit 5: Cash Flow Statement

Units/Topics	Learning Outcomes
<ul style="list-style-type: none"> • Meaning, objectives Benefits, Cash and Cash Equivalents, Classification of Activities and preparation (as per AS 3 (Revised) (Indirect Method only) 	<p>After going through this Unit, the students will be able to:</p> <ul style="list-style-type: none"> • state the meaning and objectives of cash flow statement.

<p>Note:</p> <p><i>(i) Adjustments relating to depreciation and amortization, profit or loss on sale of assets including investments, dividend (both final and interim) and tax.</i></p> <p><i>(ii) Bank overdraft and cash credit to be treated as short term borrowings.</i></p> <p><i>(iii) Current Investments to be taken as Marketable securities unless otherwise specified.</i></p>	<ul style="list-style-type: none"> • develop the understanding of preparation of Cash Flow Statement using indirect method as per AS 3 with given adjustments.
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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.

**Suggested Question Paper Design
Accountancy (Code No. 055)**

Class XII (2025-26)

**Theory: 80 Marks
Project: 20 Marks**

3 hrs.

S N	Typology of Questions	Marks	Percentage
1	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	32	40%
3	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	24	30%
4	Analysing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	24	30%
TOTAL		80	100%

32

CONTENTS

S. No.	Chapter Name	Page No.
Part-A		
1.	Accounting for Partnership Firms, Fundamentals	01–42
2.	Goodwill: Nature and Valuation	43–70
3.	Reconstitution of Partnership	71–102
4.	Accounting for Partnership Firms: Admission of a Partner	103–157
5.	Retirement/Death of a Partner	158–195
6.	Dissolution of a Partnership Firm	196–219
7.	Accounting for Share Capital	220–264
8.	Accounting for Issue of Debentures	265–294
Part-B		
1.	Financial Statements of a Company	295–315
2.	Accounting Ratios	316–347
3.	Comparative and Common Size Statements	348–367
4.	Cash Flow Statement	368–416
•	CBSE Question Paper 2023-24	417–438

Chapter -1

Accounting for Partnersip Firms Fundamentals

TOPIC	MEANING/EXPLANATION
Meaning of Partnership	Section 4 of the Indian Partnership Act 1932 defines Partnerships as the 'relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
Essential Features of Partnership	<ol style="list-style-type: none"> 1. Two or More Persons 2. Agreement 3. Lawful Business 4. Mutual Agency 5. Sharing of Profit 6. Relationship of Mutual agency among the partners <p>Note:</p> <p>ñ By virtue of Section 464 of the Companies Act 2013, the Central Government is empowered to prescribe maximum number of partners in a firm but the number of partners cannot be more than 100</p> <p>ñ The Central government has prescribed the maximum number of partners in a firm to be 50 under Rule 10 of the Companies (Miscellaneous) Rules, 2014, So, a partnership firm cannot have more than 50 partners.</p>
Partnership Deed	The Partnership Act does not require that the agreement must be in writing. But wherever it is in writing, the document, which contains terms of the agreement is called 'Partnership Deed'
In the absence of Partnership deed/if Partnership deed is silent (the relevant provisions of the	<ol style="list-style-type: none"> 1. Profits/losses are shared equally by all the partners 2. Interest on capital is not allowed to partners 3. Interest on drawing is not charged from partners 4. Interest on advances/loan by a partner is paid @ 6% p. a.

Indian Partnerships act 1932, become applicable	5. Remuneration (Salary and Commission etc.) to Partners not allowed.
Meaning of Partners and firm	Persons who have entered into partnership with one another are individually called partners and collectively called 'firm'
Firm's name	The Name under which the business is carried is called the 'firm's name'
Is Partnership firm has legal entity?	A partnership firm has no separate legal entity, apart from the partner's constituting it.
Rights of Partners Partners	<ol style="list-style-type: none"> 1. Right to participate in the management of the business. 2. Right to be consulted about affairs of the company 3. Right to inspect the books of account and have a copy of it. 4. Right to share profits or losses with others in the agreed ratio etc.
Contents of Partnership deed	<ul style="list-style-type: none"> • Description of the Partners and Firm. • Principal place and nature of the business. • Commencement of Partnership, Capital Contribution • Interest on Capital/Drawing/Partner's Loan • Methods of valuation of Goodwill/Assets etc.
Liabilities of Partners (subject to contract between the Partners)	<ol style="list-style-type: none"> 1. If a partner derives any profit for him/her self from any transaction of the firm or from the use of the property or business connection of the firm or the firm name, he/she shall account for the profit and pay it to the firm. 2. If a partner carries on any business of the same nature as and competing with that of the firm, he/she shall account for and pay to the firm, all profit made by him/her in that business.
Profit and Loss Appropriation Account	It is merely an extension of the Profit and Loss Account of the firm. It shows how the profits are appropriated or distributed among the partners.

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

Difference between fixed and fluctuating capital account	Basis of Distinction	Fixed Capital Account	Fluctuating Capital Account
	1. Number Of Accounts	<ul style="list-style-type: none"> Two accounts maintained for each partner i.e. fixed capital account and current account 	<ul style="list-style-type: none"> Only one account capital account is maintained
	2. Fixed balance	<ul style="list-style-type: none"> Balance of fixed account remains fixed except when fresh capital is introduced or withdrawn 	<ul style="list-style-type: none"> Balance fluctuate with every transaction of partner with firm.
	3. Adjustments	<ul style="list-style-type: none"> All adjustments for drawing, interest on drawing, Interest on capital, salary, commission, share of profit/ loss are adjusted in current account 	<ul style="list-style-type: none"> All adjustments for drawing, interest on drawing, interest on capital, salary, commission, fresh capital introduced / withdrawn, share of profit/loss are adjusted in capital account

	4. Balance	<ul style="list-style-type: none"> It always shows credit balance in capital account 	<ul style="list-style-type: none"> It may show credit or debit balance
Commission to Partners	<p>It may be computed as follows:</p> <p>1. If it is given as a percentage of net profit or of net profit before charging such commission. COMMISSION = Net Profit (before commission) x rate of commission/100</p> <p>2. If it is given as a percentage of net profit after charging such commission. COMMISSION = Net Profit (before commission) x rate of commission/100 + rate of commission</p>		
Calculation of interest of drawing	<p>[INTEREST ON DRAWING = TOTAL DRAWINGS X RATE OF INTEREST /100 X AVERAGE PERIOD/12]</p> <ul style="list-style-type: none"> [AVERAGE PERIOD = MONTHS LEFT AFTER FIRST DRAWING + MONTHS LEFT AFTER LAST DRAWING/2] 		

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

	<p>Note: if the unequal amount is withdrawn at different dates or when there is irregular drawings, Interest on drawing will be calculated by simple method or product method Interest on drawing in case of product method =</p> <p>Total product X rate of interest/100x1/12 (in case of months or 1/365 (in case of days)</p>							
Calculation of interest of capital	<p>1. Interest on capital is generally provided for in two situations:</p> <p>(i) when the partners contribute unequal amounts of capitals but share profits equally</p> <p>(ii) where the capital contribution is same but profit sharing is unequal</p> <p>2. where there are both addition and withdrawal of capital by of partners during a financial year, the interest on capital is calculated as follows:</p> <p>(i) On the opening balance of the capital accounts of partners, interest is calculated for the whole year.</p> <p>(ii) On the additional capital brought in by any partner during the year, interest is calculated from the date of introduction of additional capital to the last day of the financial year.</p> <p>(iii) On the amount of capital withdrawn (other than usual drawings) during the year interest for the period from the date of withdrawal to the last day of the financial year is calculated and deducted from the total of the interest calculated under points: (i) and (ii) above.</p> <p><i>Alternatively, it can be calculated with respect to the amounts remained invested for the relevant periods.</i></p>							
Provisions related to interest on capital	<table border="1"> <thead> <tr> <th>CASES</th> <th>PROVISION</th> </tr> </thead> <tbody> <tr> <td>1. When partnership deed does not exist or nothing is mention in question about interest on capital</td> <td>Interest on capital is not allowed</td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>		CASES	PROVISION	1. When partnership deed does not exist or nothing is mention in question about interest on capital	Interest on capital is not allowed		
	CASES	PROVISION						
1. When partnership deed does not exist or nothing is mention in question about interest on capital	Interest on capital is not allowed							

<p>2. When partnership deed provides for interest on capital but silent as to treatment of interest as a charge or appropriation</p>	<ul style="list-style-type: none"> • Interest on capital always treated as appropriation • In case of loss: interest on capital is not allowed • In case of sufficient profit: interest on capital is allowed • In case of insufficient profit: interest is allowed only to the extent of Profits in the ratio of interest on capital.
<p>When partnership deed provides for interest on capital as a charge</p>	<p>Interest on capital is allowed whether there is a profit or loss.</p>

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

Journal Entries Related to Profit and Loss Appropriation Account:

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

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

PARTNERSHIP FUNDAMENTALS PRACTICE QUESTIONS

1. Kumar, Raja and Sanjay set up a partnership firm on April 1 2018. They contributed ₹. 5,00,000, ₹ 4,00,000 and ₹ 3,00,000, respectively as their capitals and agreed to share profits and losses in the ration of 3: 2: 1. Kumar is to be paid a salary of Rs. 10,000 per month and to Raja, a Commission of ₹ 50,000. It is also provided that interest to be allowed on capital at 6% p.a.The drawings for the year were Kumar rs. 60,000, Raja ₹ 40,000 and Sanjay ₹ 20,000. Interest on drawings of ₹ 2700 was charged on Kumar's drawings, Rs 1800 on Raja's drawings and ₹ 900 on Sanjay's drawings. The net profit as per Profit and Loss Account for the year ending March 31, 2019 was ₹ 3,56,600. Pass the necessary journal entries and Prepare the Profit and Loss Appropriation Account to show the distribution of profit among the partners.

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

7.	Profit and Loss Appropriation A/c Dr. To Interest on capital A/c (For transferring interest on capital to profit and Loss Appropriation Account)	72,000	72, 000
8.	Kumar's capital A/c Dr. Raja's capital A/c Dr. Sanjay's capital A/c Dr To interest on drawings (For charging interest on drawings to partner's capital accounts)	2,700 1,800 900	5400
9.	Interest on drawings A/c Dr. To Profit and Loss Appropriation Ac/ (For transferring interest on drawings to Profit and Loss Appropriation Account)	5,400	5400
10.	Profit and Loss Appropriation A/c Dr To Kumar's capital A/c To Raja's capital A/c To Sanjay 's capital A/c (For transferring Share of profit or Loss after appropriations)	1,20,000	60,000 40,000 20,000

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

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

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

Profit and Loss Appropriation Account

Particulars	Amount (₹).	Particulars	Amount (₹).
Rajiv's Salary	25,000	Net Profit (before Rajiv's salary and after manager commission [1,50,000-7,500])	1,42,500
Interest on capital Sonia 30,000 Rajiv <u>18000</u>	48,000		
Profit transferred to capital A/c: Sonia 41,700 Rajiv 27,800	69,500		
	1,42,500		1,42,500

Partners Capital Account

Dr.

Cr.

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

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

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

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

$$\left(6,00,000 \times \frac{12}{100}\right) + \left(1,60,000 \times \frac{12}{100} \times \frac{6}{12}\right) = 72,000 + 9,600 = ₹ 81,600$$

4. Arun and Ajay are partners sharing profits and losses in the ratio of 3:2 . Their capital accounts showed balance of ₹ 15,00,000 and

₹ 20,00,000 respectively on March 31, 2018. Show the treatment of interest on capital for the year ending March 31, 2019 in each of the following alternatives:

- (a) if the partnership deed is silent as to the payment of interest on capital and the profit for the year is ₹ 5,00,000.
- (b) if partnership deed provides for interest on capital @ 8% p.a. and the firm incurred a loss of ₹ 1,00,000 during the year.
- (c) If partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of ₹ 5,00,000; during the year.
- (d) if the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of ₹ 1,40,000; during the year.

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

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

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

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

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

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

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

- (a) if he withdrew ₹ 30,000 per month at the beginning of the month.
- (b) if an amount of ₹ 30,000 per month was withdrawn by him at the end of each month.
- (c) if the amounts withdrawn were: ₹ 1,20,000 on June 01, 2018, ₹ 80,000; of August 31, ₹ 30,000; on September 30, 2018, ₹ 70,000, on November

30, 2018, and ₹ 60,000 on January 31, 2019.

- (d) if he withdrew ₹ 3,00,000 per quarter at the beginning of the quarter.
- (e) if he withdrew ₹ 3,00,000 per quarter at the end of the quarter.
- (f) if he withdrew ₹ 3,00,000 during the year.
- (g) if he withdrew ₹ 1,50,000 at the middle of the each quarter.

- Ans.** (a) $3,60,000 \times \frac{9}{100} \times \frac{6.5}{12} = ₹ 17,550$
 (b) $3,60,000 \times \frac{9}{100} \times \frac{5.5}{12} = ₹ 14,850$
 (c) Statements showing Calculation of Interest on Drawings (product method)

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

$$\text{Interest on drawings} = 23,40,000 \times \frac{9}{100} \times \frac{1}{12} = ₹ 17,550$$

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

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

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

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

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

Profit and Loss Appropriation Account

Dr.

Cr

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

7. Priya, Deepa and Kashish are partner's sharing profits in the ratio of 5:4:1 Kashish is given a guarantee that her share of profits in any given year would not be less than ₹ 50,000. Deficiency , if any would be borne by Priya and Deepa equally. Profits for the year amounted to ₹ 4,00,000. Prepare Profit and Loss appropriation Account.

Profit and Loss Appropriate Account

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

8. On March, 31, 2019 the balance in the capital accounts of Sonu, Monu and Tony, after making adjustments for profits, drawing, etc. were ₹ 8,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 5 p.a. The drawings during the year were Sonu ₹ 2,00,000; Monu ₹ 1,50,000 and Tony, ₹ 90,000. Interest on drawings, chargeable to partners were Sonu ₹ 5,000, Monu ₹ 3,600 and Tony ₹ 2,000. The net profit during the year amount to ₹ 1,20,000, The Profit sharing ratio was 3:2:1. Record necessary adjustment entries.

Statement Showing Calculation of Capital at the Beginning

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

Statement Showing Adjustment

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

Journal

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

9. Aanchal, Aarav and Avika form a partnership firm , sharing profits in the ratio of 3:2:1, subject to the following:

- (i) Avika's share in the profits, guaranteed to be not less than ₹ 1,50,000 in any year.
- (ii) Aarav gives guarantee to the effect that gross fee earned by her for the firm shall be equal to her average gross fee of the proceeding five years, when she was carrying on profession alone (which is ₹ 2,50,000). The net profit for the year ended March 31, 2019 is ₹ 7,50,000. The gross fee earned by Aarav for the firm was ₹ 1, 60,000. You are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Dr. Profit and Loss Appropriation Account Cr.

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

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

- Interest on capital @ 2.5% p.a.;
- Salary to Mudit ₹ 18,000 p.a. and commission to Uday ₹ 12,000
- Mudit was allowed a commission of 6% of divisible profit after charging such commission.

Pass a rectifying journal entry in the books of the firm. Show workings clearly.

Sol.

Adjustment Table

Particulars	Mudit's		Sudhir's		Uday's		Firm's	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Profit given	60,000	–	20,000	–	20,000	–	–	1,00,000
Interest on Capital	–	10,000	–	4,000	–	3,000	17,000	–
Salary	–	18,000	–	–	–	–	18,000	–
Commission	–	3,000	–	–	–	12,000	15,000	–
Profit to be credited	–	30,000	–	10,000	–	10,000	50,000	–
Total	60,000	61,000	20,000	14,000	20,000	25,000		

$$\text{Mudit's Commission} = (53,000 \times 6/106) = ₹ 3,000$$

Rectifying Journal Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sudhir's Current A/c	Dr.	6,000	
	To Mudit's Current A/c			1,000
	To Uday's Current A/c			5,000
	(Being interest on capital, salary and commission to partners omitted in distributing profits, now adjusted)			

11. The partners of a firm, Alia, Bhanu and Chand distributed the profits for the year ended 31st March, 2017, ₹ 80,000 in the ratio of 3 : 3 : 2 without providing for the following adjustments.

- Alia and Chand were entitled to a salary of ₹ 1,500 each p.a.
- Bhanu was entitled for a commission of ₹ 4,000.
- Bhanu and Chand had guaranteed a minimum profit of ₹ 35,000 p.a. to Alia any deficiency to borne equally by Bhanu and Chand.

Pass the necessary Journal entry for the above adjustments in the books of the firm. Show workings clearly.

Sol.

Adjustment Table

Particulars	Alia's		Bhanu's		Chand's		Firm's	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Profit Given	30,000	–	30,000	–	20,000	–	–	80,000
Salary	–	18,000	–	–	–	18,000	36,000	–
Commission	–	–	–	4,000	–	–	4,000	–
Profit to be credited	–	35,000	–	5,000	–	–	40,000	–
Total	30,000	53,000	30,000	9,000	20,000	18,000		

Divisible profits = ₹ 80,000 – ₹ 36,000 – ₹ 4,000 = ₹ 40,000

Alia's Share = ₹ 15,000 + ₹ 20,000 = ₹ 35,000

Bhanu's Share = ₹ 15,000 – 10,000 = ₹ 5,000

Chand's share = ₹ 10,000 – 10,000 = nil

Rectifying Journal Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bhanu's Capital A/c	Dr.	21,000	
	Chand's Capital A/c	Dr.	2,000	
	To Alia's Capital A/c			23,000
	(Being salary, commission to partners omitted in distribution of profit, guarantee to Alia, now adjusted)			

12. Following is the extract of the Balance Sheet of, Neelkant and Mahadev as on March 31, 2017:

Balance Sheet as at March 31, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current Amount	1,00,000		
Mahadev's Current Account	1,00,000		
Profit and Loss Appropriation (March 2017)	8,00,000		
	30,00,000		30,00,000

During the year Mahadev's drawings were ₹ 30,000. Profits during 2017 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a. for the year ending March 31, 2017.

Sol. Interest on Capital:

$$\text{Neelkant's } 10,00,000 \times \frac{5}{100} = ₹ 50,000$$

$$\text{Mahadev's } 10,00,000 \times \frac{5}{100} = ₹ 50,000$$

Note: In this question, as the balances of both Partner's Capital Account and of Partner's Current Account are mentioned, so it has been assumed that the capital of the partners is fixed

As we know, when the capital of the partners is fixed, drawings and interest on capital does not affect the capital balances of the partner. Rather, it would affect their current account balances. Therefore in this case, capital at the beginning (ie opening capital) and capital at the end (i.e. closing capital) of the year would remain same. Thus, the interest on capital is calculated on fixed capital balances (given in the Balance Sheet of the question).

13. A & B are partners in the ratio of 3 : 2 The firm maintains fluctuating capital accounts and the balance of the same as on 31-03 2020 amounted to ₹ 1,60,000 and ₹ 1,40,000 for A and B respectively Their drawings during the year were Rs 30,000 each As per partnership deed interest on capital @10% pa on opening capitals had been provided to them. Calculate opening capital of partners given that their profits were ₹ 90,000. Show your workings clearly.

Sol. **Calculation of Opening Capital**

Particulars	A	B
Closing Capital	1,60,000	1,40,000
Add: Drawings	30,000	30,000
Less Profits	37,800	25,200
	1,52,200	1,44,800
Less: Interest on Capital	13,836	13,164
Opening Capital	1,38,364	1,31,636

$$\text{Total closing capital (of A and B)} = 1,60,000 + 1,40,000 = ₹ 3,00,000$$

$$\text{Add: Total Drawing (of A and B)} = ₹ 60,000$$

$$\text{Less: Profits (including interest on Capital)} = ₹ 90,000$$

$$\text{Total capital in the beginning of the year} = ₹ 2,70,000$$

$$\text{Interest on Capital } ₹ 2,70,000 \times \frac{10}{100} = ₹ 27,000$$

$$\text{Divisible profits} = 90,000 - 27,000 = ₹ 63,000$$

MULTIPLE CHOICE QUESTIONS

1. Find the odd one out:
 - a) Interest on Loan
 - b) Partner Salary
 - c) Rent paid to Partner's
 - d) Managers Commission
2. A, B, and C are partner's sharing profits in the ratio of 5:3:2. According to the partnership agreement C is to get a minimum amount of ₹ 20,000 as his share of profits every year. The net profit for the year ended 31st March, 2019 amounted to ₹ 80,000. How much amount contributed by A in favour of C?
 - a) ₹ 1,500
 - b) ₹ 1,250
 - c) ₹ 2,500
 - d) ₹ 4,000
3. The relation of partner with the firm is that of:
 - a) An Owner
 - b) An Agent
 - c) An Owner and an Agent
 - d) Manager
4. Arun and Anugya are Partners They do not have any Partnership agreement (Partnership deed) Arun has provided a Capital of ₹ 70,000 whereas Anugya has provided ₹ 15,000 only as Capital. Anugya however, has provided ₹ 20,000 as loan to the Firm. What interest (if any) will be given to Arun and Anugya?
 - a) Arun — ₹ 7,000 and Anugya - ₹ 1,500
 - b) Anugya is entitled to claim interest on his loan of ₹20,000 @ 6% p.a. and Arun - Nil
 - c) Arun - Nil and Anugya - ₹ 3,500
 - d) Anugya - Nil and Arun - Nil
5. X, Y and Z are Partners in a Firm. At the time of division of profit for the year, there was dispute between the Partner's Profits before interest on Partner's Capital were ₹ 45,000. Y demands interest @ 24% p.a. on his loan of ₹ 2,40,000. There was no agreement on this point. Share of profit of X, Y and Z will be:
 - a) ₹ 15,000 to each Partner
 - b) ₹ 12,600 for X and Z & Y ₹ 19,800
 - c) X - ₹10,200, Y - ₹ 39,000 and Z - ₹ 10,200
 - d) ₹ 10,200 to each Partner

6. Mohit and Rajesh are partners in the ratio of 3 ; 2. Their capitals are ₹ 4,00,000 and ₹ 2,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm incurred a loss of ₹ 1,20,000 for the year ended 31st March 2021. Interest on Capital will be:
- Mohit ₹ 32,000; Rajesh ₹ 16,000
 - Mohit ₹ 16,000; Rajesh ₹ 8,000
 - Mohit ₹ 28,400; Rajesh ₹ 19,000
 - No Interest will be allowed
7. X, Y, and Z are equal partners with fixed capitals of ₹ 1,00,000, ₹ 1,50,000 and ₹ 2,00,000 respectively. After closing the accounts for the year ending 31st March, 2020 it was discovered that interest on capitals @ 8% p.a. was omitted to be provided. In the adjusting entry :
- Dr. X and Cr. Y by ₹ 4,000
 - Cr. X and Dr. Z by ₹ 4,000
 - Dr. X and Cr. Z by ₹ 4,000
 - Cr. X and Dr. Y by ₹ 4,000
8. A, B, and C sharing profits in the ratio of 2 : 1: 1 have fixed capitals of ₹ 8,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. After closing the accounts for the year ending 31st March, 2020 it was discovered that interest on capitals was provided @ 6% instead of 8% p.a. In the adjusting entry:
- Cr. A ₹ 2,000; Dr. B ₹ 3,000 and Cr. C ₹ 1,000
 - Dr. A ₹ 1,000; Cr. B ₹ 3,000 and Dr. C ₹ 2,000
 - Cr. A ₹ 1,000; Dr. B ₹ 3,000 and Cr. C ₹ 2,000
 - Dr. A ₹ 2,000; Cr. B ₹ 3,000 and Dr. C ₹ 1,000
9. If fixed amount is withdrawn by a partner on the first day of each quarter, interest on the total amount is charged for _____ months.
- 4.5 months
 - 6 months
 - 7.5 months
 - 3 months
10. On 1st January 2021, a partner advanced a loan of ₹ 1,00,000 to the firm. In the absence of agreement, interest on loan on 31st March, 2021 will be
- ₹ 9,000
 - ₹ 3,000
 - ₹ 6,000
 - ₹ 1,500

Matching Questions

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

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

2. Match the following items:

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

3. Match the following

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

4. Match the following

Description	Options
1 A entitled to a salary of Rs 10,000 per annum and commission of 10 % of the Net profit after charging his salary but before charging his commission . The Net profit Rs 2,30,000. What will be the amount of A's Commission.	(a) Rs 23,000

2 B entitled to commission of 10 % on net profit after charging his commission . The Net profit Rs 2,20,000 what will be the amount of B's Commission .	(b) Rs 22,000
	(c) Rs 20,000
	(d) Rs 25,000
	(e) Rs 27,000

5. Match the following

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

ANSWERS

MULTIPLE CHOICE Questions

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

Matching Questions

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

Assertion and Reason Type Questions

- Assertion:** Nipun, a partner in a firm with three partners has advanced a loan of ₹50,000 to the firm in the beginning of financial year without any agreement. He claims an interest on loan @6% p.a.

Reasoning: In the absence of any agreement/provision in the partnership deed, provisions of Indian partnership Act, 1932 would apply.

 - both A and R are correct, and R is the correct explanation of A.
 - Both (A) and (R) are correct.
 - (A) is wrong, but (R) is correct
 - Both (A) and (R) are wrong
- Assertion:** By virtue of section 464 of the Companies Act 2013, the Central Government is empowered to prescribe maximum number of partners in a firm but the number of partners cannot be more than 100.

Reasoning: The Central government has prescribed the maximum number of partness in a firm to be 100.

 - Both A and R are correct, and R is the correct explanation of A.
 - Both Aan d R are correct, but R is not the correct explanation of A.
 - A is correct but Ris incorrect.
 - A is incorrect but R is correct.
- Assertion:** If Rohit and Sachin jointly purchase a plot of land, they become the joint owners of the property and not the partners.

Reasoning: Mere coownership of a property does not amount to partnership.

 - Both Aa nd R are correct, and R is the correct explanation of A.
 - Both Aan d R are correct, but R is not the correct explanation of A.
 - A is correct but R is incorrect.
 - A is incorrect but R is correct.
- Assertion:** Liability of a partner for acts of the firm is unlimited

Reasoning: Partners private assets cannot be used for paying off the firm's debts.

- (a) Both A and R are correct, and R is the correct explanation of A.
 - (b) Both A and R are correct, but R is not the correct explanation of A.
 - (c) A is correct but R is incorrect.
 - (d) A is incorrect but R is correct.
5. **Assertion:** Under fixed capital method the capital account always show a credit balance.

Reasoning: In the absence of any instruction, the capital account should be prepared by fluctuating capital method.

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

Statement Based Questions

1. **Statement I:** The profits and losses of the firm are distributed among the partners in an agreed ratio.
Statement II: If the partnership deed is silent, the firm's profits and losses are to be shared in the ratio of capital by all the partners.
- (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is Correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
2. **Statement I:** Interest on Capital is generally provided when the unequal partners contribute amounts of capitals but share profits equally.
Statement II: Interest on capital is also provided where the capital contribution is same but profit sharing is unequal.
- (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
3. **Statement I:** Charging interest on drawings discourages excessive amounts of drawings by the partners.
Statement II: When the partners withdraw different amounts of money at different time intervals, the interest is calculated using the product method.
- (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.

4. **Statement I:** A partnership firm has no separate legal entity, apart from the partners constituting it.
Statement II: It is necessary that partnership agreement is in written form.
- (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
5. **Statement I:** The business of a partnership concern may be carried on by all the partners or any of them acting for all.
Statement II: There exists a relationship of mutual agency between all the partners.
- (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is Correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.

More than one Answers Type Questions

1. In the absence of an agreement, partners are entitled to:
- (i) Profit share in equal ratio.
 - (i) Commission for making additional sale.
 - (i) Interest on Loan & Advances by them to the firm
 - (iv) Salary for working extra hours.
 - (v) Interest on Capital.
- Choose the correct option:
- (a) Only (i), (iv) and (v).
 - (b) Only (ii) and (ii).
 - (c) Only (ii).
 - (d) Only (i) and (ii).
2. Under fixed capital method:
- (i) the capitals of the partners shall remain fixed unless additional capital is introduced or a Part of the capital is withdrawn as per the agreement among the partners.
 - (ii) All items like share of profit or loss, interest on capital, drawings, interest on drawings. etc are recorded in a separate accounts, called Partner's Current Account.
 - (iii) The partners' current accounts will always show a credit balance
 - (iv) The partners' capital account on the other hand, may show a debit or a credit balance

- (v) under this method, two accounts are maintained for each partner viz., capital account and current account,

Choose the correct option:

- (a) Only (i), (ii) and (v).
- (b) Only (ii) and (iii),
- (c) Only (iii).
- (d) Only (i) and (v).

3. In the profit and loss account items to be shown are:

- (i) Interest on drawing
- (ii) Interest on partners loan
- (iii) Rent to a partner
- (iv) Salary to a partner
- (v) Commission to a partner.

Choose the correct option:

- (a) Only (i), (iv) and (v).
- (b) Only (i) and (ii).
- (c) Only (i).
- (d) Only (i) and (ii).

4. Contents of the Partnership Deed includes:

- (i) Names and Addresses of the firm and its main business;
- (ii) Names and Addresses of all partners;
- (iii) Amount of capital to be contributed by each partner;
- (iv) The accounting period of the firm;
- (v) Rules regarding operation of partners personal Bank Accounts;

Choose the correct option:

- (a) Only (i), (iv) and (v).
- (b) Only (ii) and (iii).
- (c) Only (i).
- (d) Only (i), (ii), (iii) and (iv).

5. Under fluctuating capital method:

- (i) the capitals of the partners shall remain fixed unless additional capital is introduced or a part of the capital is withdrawn as per the agreement among the partners.
- (ii) All Items like share of profit or loss, interest on capital, drawings, interest on drawings, etc. recorded in Partner's Capital Account.
- (iii) The partners' capital accounts will always show a credit balance
- (iv) The partners' capital account may show a debit or a credit balance.

(v) under this method, two accounts are maintained for each partner viz., capital account and current account,

Choose the correct option:

- (a) Only (i), (ii) and (v).
- (b) Only (ii) and (iv).
- (c) Only (ii).
- (d) Only (ii) and (v).

Journal Entry Type Questions

1. Gupta and Sarin are partners in a firm sharing profits in the ratio of 3:2. Their fixed capitals are: Gupta Rs. 2,00,000, and Sarin Rs. 3,00,000. After the accounts for the year are prepared it is discovered that interest on capital @10% p.a. as provided in the partnership agreement, has not been credited in the capital accounts of partners before distribution of profits. Adjustment entry to rectify the error will be:

A	Gupta's Capital A/c Dr. To Sarin's Capital A/c (being adjustment entry is made)	10,000	10,000
B	Gupta's Current A/c Dr. To Sarin's Current A/c (being adjustment entry is made)	10,000	10,000
C	Sarin's Capital A/c Dr. To Gupta's Capital A/c (being adjustment entry is made)	10,000	10,000
D	Sarin's Current A/c Dr. To Gupta's Current A/c (being adjustment entry is made)	10,000	10,000

2. Krishna, Sandeep and Karim are partners sharing profits in the ratio of 3:2:1. Their fixed capitals are: Krishan Rs. 1,20,000, Sandeep Rs. 90,000 and Karim Rs. 60,000. For the year 2022-23, interest on capital was credited to them @ 6% p.a. instead of 5% p.a. adjustment entry.to rectify the error will be:

A	Karim's Capital A/c Dr. To Krishna's Capital A/c (being adjustment entry is made)	150	150
B	Krishna's Current A/c Dr. To Sandeep's Current A/c (being adjustment entry is made)	150	150

C	Sandeep's Capital A/c To Karim's Capital A/c (being adjustment entry is made)	Dr.	150	150
D	Karim's Current A/c To Krishna's Current A/c (being adjustment entry is made)	Dr.	150	150

3. Radha, Mary and Fatima are partners sharing profits in the ratio of 5:4:1. Fatima is given a guarantee that her share of profit, in any year will not be less than Rs. 5,000. The profits for the year ending March 31, 2023 amounts to Rs. 35,000. Shortfall if any, in the profits guaranteed to Fatima is to be borne by Radha and Mary in the ratio of 3:2. Adjustment entry to borne deficiency will be:

A	Radha's Capital A/c Mary's Capital A/c To Fatima's Capital A/c (being adjustment entry is made)	Dr. Dr.	900 600	1,500
B	Radha's Capital A/c Mary's Capital A/c To Fatima's Capital A/c (being adjustment entry is made)	Dr. Dr.	1200 300	1,500
C	Fatima's Capital A/c Mary's Capital A/c To Radha's Capital A/c (being adjustment entry is made)	Dr. Dr.	900 600	1,500
D	Radha's Capital A/c Mary's Capital A/c To Mary's Capital A/c (being adjustment entry is made)	Dr. Dr.	600 900	1,500

4. X, Y and Z are in Partnership, sharing profits and losses in the ratio of 3:2:1, respectively. Z's share in the profit is guaranteed by X and Y to be a minimum of Rs. 8,000. The net profit for the year ended March 31, 2023 was Rs. 30,000. Adjustment entry to borne deficiency will be:

A	X's Capital A/c Y's Capital A/c To Z's Capital A/c (being adjustment entry is made)	Dr. Dr.	1,200 1,800	3,000
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B	X's Capital A/c Dr. Y's Capital A/c Dr. To Z's Capital A/c (being adjustment entry is made)	1,800 1,200	3,000
C	X's Capital A/c Dr. To Z's Capital A/c (being adjustment entry is made)	3000	3,000
D	X's Capital A/c Dr. Y's Capital A/c Dr. To Z's Capital A/c (being adjustment entry is made)	3,600 2,400	6,000

5. Ashok, Brijesh and Cheena are partners sharing profits and losses in the ratio of 2 : 2 : 1. Ashok and Brijesh have guaranteed that Cheena share in any year shall be less than Rs. 20,000. The net profit for the year ended March 31, 2023 amounted to Rs. 70,000. Adjustment entry to borne deficiency will be:

A	Ashok's Capital A/c Dr. Brijesh's Capital A/c Dr. To Cheena's Capital A/c (being adjustment entry is made)	3,000 3,000	6,000
B	Ashok's Capital A/c Dr. Brijesh's Capital A/c Dr. To Cheena's Capital A/c (being adjustment entry is made)	4,500 4,500	9,000
C	Ashok's Capital A/c Dr. To Cheena's Capital A/c (being adjustment entry is made)	6,000	6,000
D	Ashok's Current A/c Dr. Brijesh's Current A/c Dr. To Cheena's Current A/c (being adjustment entry is made)	3,000 3,000	6,000

Case Based Questions

1. A, B and C were partners sharing profits in the ratio of 1:2:3. Their fixed capitals on 1st April, 2020 were: A ₹3,00,000; B ₹4,50,000 and C ₹10,00,000. Their partnership deed provided the following:
- (i) A provides his personal office to the firm for business use charging yearly rent of ₹1,50,000.

- (ii) Interest on capitals @8% p.a. and interest on drawing @8% p.a.
- (iii) A was allowed a salary @10,000 per month.
- (iv) B was allowed a commission of 10% of net profit as shown by Profit and Loss account, after charging such commission.
- (v) C was guaranteed a profit of ₹3,00,000 after making all adjustments.

The net profit for the year ended 31st march, 2021 was ₹10,30,000 before making above adjustments. You are informed that A has withdrawn ₹5,000 in the beginning of each month, B has withdrawn ₹5,000 at the end of each month and C has withdrawn ₹24,000 in the beginning of each quarter. Choose the correct option based on the above information:

- (i) A's rent will be shown in:
 - (a) Profit and loss account
 - (b) Profit and Loss Appropriation account
 - (c) A's Capital account
 - (d) None of the above.
- (ii) Net profit for the year is:
 - (a) ₹10,30,000
 - (b) ₹11,80,000
 - (c) ₹7,30,000
 - (d) ₹8,80,000
- (iii) What will be the divisible profit?
 - (a) ₹5,56,000
 - (b) ₹5,50,000
 - (c) ₹35,52,000
 - (d) ₹5,53,000
- (iv) What will be the total interest on drawings?
 - (a) ₹24,000
 - (b) ₹12,000
 - (c) ₹36,000
 - (d) ₹48,000.
- (v) What will be the commission of B?
 - (a) ₹8,00,000
 - (b) ₹96,000
 - (c) ₹80,000
 - (d) ₹72,000.

2. Read the following hypothetical situation, Answer Question No. 1 and 2

Puneet and Raju are partners in a clay toys making firm. Their capitals were ₹5,00,000 and ₹10,00,000 respectively. The firm allowed Puneet to get a commission of 10% on the net profit before charging any commission and Raju to get a commission of 10% on the net profit after charging all commission, Following is the Profit and Loss Appropriation Account for the year ended 31st March 2022.

Profit and Loss Appropriation Account for the year ended 31st March 2022

Particulars	Amount (₹)	Particulars	Amount (₹)
To Puneet's Capital A/c (Commission) (..... x10/100)	44,000	By profit and Loss A/c	.....
To Raju's Capital A/c (Commission)	.....	
To Profit share transferred to:	.....	
Puneet's Capital A/c	.....	
Raju's Capital A/c			

(i) Raju's commission will be:

- (a) ₹40,000 (b) ₹44,000
(c) ₹36,000 (d) ₹36,440

(ii) Net profit for the year is:

- (a) ₹10,30,000 (b) ₹11,80,000
(c) ₹7,30,000 (d) ₹8,80,000

ANSWERS

Assertion Reasoning based questions

- (a) Both A and R are correct, and R is the correct explanation of A.
- (c) A is correct but R is incorrect.
- (a) Both A and R are correct, and R is the correct explanation of A.
- (c) A is correct but R is incorrect.
- (b) Both A and R are correct, but R is not the correct explanation of A.

Statement based questions

- (c) Statement I is correct and statement II is incorrect.
- (a) Both statements are correct.
- (a) Both statements are correct.
- (c) Statement I is correct and Statement II is incorrect
- (a) both statements are correct.

More than one answers type questions

- (d) Only (i) and (ii).

Case Study Based Questions
FUNDAMENTAL OF PARTNERSHIP

3. Read the following information carefully and answer the questions 1 to 5 that follow:

X and Y are partners in the ratio of 3 : 2. Their capital balances as on 1st April 2020 amounting to ₹2,00,000 each. On 1st February, 2021, X contributed an additional capital of 1,00,000. Following are the terms of deed:

- (a) Interest on capital @6% per annum
- (b) Interest on drawings @ 8% per annum.
- (c) Salary to X ₹ 1500 per month
- (d) Commission to Y @10% on net profit after charging interest on capital, salary and his commission.

Drawings of the partners were ₹ 20,000 and ₹ 30,000 respectively during the year

Net profit earned by the firm was ₹ 2,08,000

Choose the correct option based on the above information:

- 1. What is the amount of Interest on capitals of X and Y?
 - (a) ₹ 12,000 each
 - (b) ₹ 12,000 to X and ₹ 13,000 to Y
 - (c) ₹ 13,000 to X and ₹ 12,000 to Y
 - (d) None of the above
- 2. What is the amount of interest on drawings of X and Y?
 - (a) ₹ 1200 and ₹ 1800 respectively
 - (b) ₹ 800 and ₹ 1200 respectively
 - (c) ₹ 1200 and ₹ 800 respectively
 - (d) ₹ 1600 ₹ 2400 respectively
- 3. What is the amount of commission payable to Y?
 - (a) ₹ 15,000
 - (b) ₹ 16,500
 - (c) ₹ 20,800
 - (d) None of these
- 4. What is X's share in the net divisible profit?
 - (a) ₹ 1,24,400
 - (b) ₹ 83,600
 - (c) ₹ 91,200
 - (d) ₹ 60,800
- 5. What will be the closing capital of X after all adjustments?
 - (a) ₹ 4,22,200
 - (b) ₹ 4,01,400
 - (c) ₹ 3,00,000
 - (d) ₹ 4,23,000

ANSWER:

Q. NO.	ANSWER WITH EXPLANATION
1.	(c) : IOC to X = $(2,00,000 \times 6/100) + (1,00,000 \times 6/100 \times 2/12) = 13,000$ IOC to Y = $2,00,000 \times 6/100 = 12,000$
2.	(b) : IOD will be calculated for an average period of six months since time of drawings is not given.
3.	(a) : $2,08,000 - 13,000 - 12,000$ (OC) $- 18,000$ (salary) = $1,65,000 \times 10/110 = 15,000$
4.	(c) : Divisible profit = $2,08,000$ (NP) + 800 + $1,200$ (IOD) $- 13,000 - 12,000$ (IOC) $- 18,000$ (salary) $- 15,000$ (commission) = $1,52,000$. Share of X in divisible profit = $1,52,000 \times 3/5 = 91,200$
5.	(b) : Closing capital of x = $2,00,000$ (opening capital) + $1,00,000$ (addl capital) + $13,000$ (IOC) + $18,000$ (salary) + $91,200$ (profit share) $- 20,000$ (drawings) $- 800$ (IOD) = $4,01,400$

Work Sheet on Accounting for Partnership Firms Fundamentals

- Q.1 Does partnership firm has a separate legal entity? Give reason in support of your answer.
- Q.2 A group of 55 persons want to form a partnership business in India. Can they do so? Give reason in support of your answer.
- Q.3 Why is it necessary to have a partnership deed?
- Q.4 Arun and Anugya are childhood friends. Arun is a consultant whereas Anugya is an architect. They contributed equal amounts and purchased a building for ₹5 crores. After a year, they sold it for ₹8 crores and shared the profits equally. Are they doing the business in partnership? Give reason in support of your answer.?
- Q.5 Do all forms of business organisation prepare a Profit and Loss Appropriation Account?
- Q.6 List any two circumstances under which the fixed capital of partners may change.
- Q.7 If the Partners' Capital Accounts are fixed, where will you record the following items: (a) Salary payable to a partner (b) Drawings made by a partner (c) Fresh capital introduced (d) Shares of profit earned by a partner.
- Q.8 Can a partner be exempted from sharing the losses in a firm? If yes, under what circumstances?

- Q.9 A partnership deed provides for the payment of interest on capital but there was a loss instead of profit during the year 2020-21. At what rate will interest on capital be allowed?
- Q.10 Distinguish between 'Fixed Capital Account' and 'Fluctuating Capital Account'
- Q.11 A and B are partners without any partnership agreement. They have difference of opinion on the following points. State who is correct in each case,
- A wants a salary of ₹ 12,000 p.m. as he works for the business and B does not.
 - A has invested three times the capital invested by B. So he wants interest @ 6% p.a. B objects to it.
 - B has given a loan of ₹ 8,00,000 to firm, without any agreement on interest. B wants interest @ 9% p.a. (Bank rate) whereas A wants to pay interest @ 6%.
 - A wants to distribute profits in the ratio of capitals i.e., 3 : 1. B says that the profits should be divided equally,
 - A wants to introduce his son C into his business, B has objection to it.
- Q.12. The partners P and Q decided to appropriate the profits of the firm on the following terms :
- Interest on capital is payable @ 10% p.a.
 - Both P and Q will get remuneration as : P — ₹3,000 per month. Q — ₹ 40,000 per annum,
 - Interest on P's Loan @ 6% p.a. which was advanced on 1-9-2019 and the amount being ₹ 2,00,000.
 - Interest on drawings @ 2% irrespective of period. The amount of drawings being P — ₹ 1,20,000 and Q — ₹1, 60,000.
 - Profits will be shared in the ratio 3 : 2.
 - One-tenth of divisible profit is to be transferred to General Reserve. For the year ended 31-3-2020 the profit of the firm was ₹ 3,09,400. On 1-4-2019 the capital balances of P and Q were ₹ 3,20,000 and ₹ 4,00,000 respectively. Pass necessary journal entries and prepare Profit and Loss Appropriation A/c on that date in the books of the firm.
- Q.13 X and Y are partners with capital of ₹60,000 and ₹20,000 respectively on 1st April, 2019. The net profit (before taking into account the provisions

of the Deed) for the year ended 31st March, 2020 was ₹24,500. Interest on capitals is to be allowed at 6% per annum. Y is entitled to a salary of ₹6,000 per annum. The drawings of the partners were ₹6,000 and ₹8,000; the Interest for X being ₹200 and Y ₹100. Show how the profit will be divided between X and Y and also show the Capital Accounts

- (i) If the capitals are fluctuating and
- (ii) if the capitals are fixed.

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

- (a) When the amount is withdrawn at the beginning of each month,
- (b) When the amount is withdrawn at the end of each month,
- (c) When the amount is withdrawn in the middle of each month,
- (d) When the amount is withdrawn at the beginning of each quarter,
- (e) When the amount is withdrawn at the end of each quarter,
- (f) When the amount is withdrawn in the middle of each quarter.

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

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

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

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

- (a) Kapil will get a half yearly salary of ₹ 9,000 and Ruby will get a quarterly salary of ₹6,000.
- (b) Interest on capital will be allowed @ 6% p.a.
- (c) Kapil will be allowed a commission of 5% of profits after charging salary and interest on capital but before commission,
- (d) Ruby will be allowed a commission of 10% after charging all salary, interest on capital and commissions. Profits for the year ended 31st March, 2020 amounted to ₹3,12,000. Prepare Profit and Loss Appropriation A/c.
- Q.18 X, Y and Z were partners. Their Fixed capitals were ₹30,000; ₹20,000 and ₹10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital @ 5% p.a. In addition Y was also entitled to draw a salary of ₹ 500 per month. Z was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to Y. The net profits for the year were ₹ 30,000, distributed in the ratio of their capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 2 : 2 : 1. Pass the necessary adjustment entry showing the workings clearly.
- Q.19 Maanika, Bhavi and Komal are partners sharing profits in the ratio of 6:4:1. Komal is guaranteed a minimum profit of ₹ 2,00,000. The firm incurred a loss of ₹ 22,00,000 for the year ended 31st March, 2018. Pass necessary journal entry regarding deficiency borne by Maanika and Bhavi.
- Q.20 Show the division of profit among the partners in the following cases:
- (a) A and B are partners sharing profits in the ratio of 3 : 2. From 1st January, 2019 they admit C into partnership giving him 1/5th share of the profits with a guaranteed profit of ₹ 6,000 minimum. A and B as between themselves continued to share profits as before. Profits of the firm for 2019 were ₹ 24,000.
- (b) X and Y share profits and losses in the ratio of 3 : 2. As from 1st January, 2019. They admit Z who is to have a tenth share of the profits with a guaranteed minimum of ₹7,500. X and Y continued to share profits as before but agree to suffer any excess over 1/10th going to Z. The profits of the firm in respect of the year are ₹50,000.
- (c) Z, the manager, was admitted by X and Y with a 1/3rd share in the profits and a salary of ₹3,000 p.a. X and Y were sharing profits in the ratio of 3 : 2. Z, as manager, was getting a salary of ₹9,000 p.a. and commission of 5% on net profit after charging such commission and salary.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Q.25 Mudit, Sudhir and Uday are partners in a firm sharing profits in the ratio of 3 : 1 : 1. Their fixed capital balances are ₹4,00,000, ₹1,60,000 and ₹1,20,000 respectively. Net profit for the year ended 31st March, 2018 distributed amongst the partners was ₹1,00,000, without taking into account the following adjustments :
- Interest on capitals @ 2.5% p.a.;
 - Salary to Mudit ₹18,000 p.a. and commission to Uday ₹12,000
 - Mudit was allowed a commission of 6% of divisible profit after charging such commission. Pass a rectifying journal entry in the books of the firm. Show workings clearly.
- Q.26 On March 31, 2021 after the close of books of accounts the Capital Accounts of A, B and C stood at ₹50,000, ₹40,000 and ₹25,000 respectively. The profits of ₹42,000 were divided equally between them. Later on it was discovered that interest on capital @ 5% p.a. had been omitted. The partners shared profits in the ratio 2:2:1. Pass necessary journal entry.
- Q.27 P, Q and R were partners in a firm having fixed capitals of ₹80,000; ₹90,000 and ₹1,00,000 respectively. They share profits in the ratio 5:3:2. During the year 2020-2021 interest on capital was allowed @ 12% p.a. instead of 10% p.a. Q and R noticed the error and brought it to the attention of P. You are required to pass an adjustment entry to rectify the above
- Q.28 A, B and C were partners in a firm sharing profits and losses in the ratio 5 : 3 : 2. On April, 2020 their capitals were ₹1,50,000; ₹1,20,000 and ₹1,00,000 respectively. For the year ended 31st March, 2021, interest on capital was credited to them @ 9% p.a. instead of 12% p.a. Give rectifying journal entry.

WORK SHEET ANSWERS

Q.NO.	ANSWER
11	(a) B; (b) B; (c) A; (d) B; (e) B.
12	Share of Profit P ₹86,400 Q ₹57,600
13	Profit transferred to : X's Capital ₹7,000 Y's Capital ₹7,000 (i) Fluctuating Capital Method: X's Capital A/c balance ₹64,400; Y's Capital A/c balance ₹30,100 (ii) Fixed Capital Method X's Capital A/c balance ₹60,000; Y's Capital A/c balance ₹20,000 Fixed Capital Method X's Current A/c balance ₹4,400; Y's Current A/c balance ₹10,100

14	a- ₹19,500; b- ₹16,500, c- ₹18,000, d- ₹22,500, e- ₹13,500, f- ₹18,000
15	₹7525
16	Sonu ₹4500, Monu ₹2800, Tony ₹700
17	(Share of profit Kapil- ₹1,13,792; Ruby- ₹75,862)
18	X's current A/c Dr. 5640 To Y's current A/c 4860 To Z's Current A/c 780
19	Maanika's Capital A/c Dr. 2,40,000 Bhavi's Capital A/c Dr 1,60,000 To Komal's Capital A/c 4,00,000
20	(a) DIVISION OF PROFIT A's share ₹11,520 – 720 = ₹10,800 B's share ₹7,680 – 480 = ₹7,200 C's share = ₹ 6,000 Total = ₹24,000
	(b) X's share ₹25,500 Y's share ₹17,000 Z's share ₹7,500
	(c) X = ₹20,800 (24,000 – 3,200) Y = ₹ 11,200 (16,000 – 4,800) Z = ₹19,000 (including salary)
21	Mohan's Current A/c Dr. 38,000 To Ravi's Current A/c 38,000
22	X's capital A/c Dr. 8,500 To Y's capital A/c 5,500 To Z's capital A/c 3,000
23	C's current A/c Dr. 9,000 To A's Current A/c 8,000 To B's Current A/c 1,000
24	Rajiv's capital A/c Dr. 2,760 To Sanjeev's capital A/c 2,760
25	Sudhir's Current A/c Dr. 6,000 To Mudit's Current A/c 1,000 To Uday's Current A/c 5,000
26	Cr. A ₹3,140; B ₹2,640 and Dr. C ₹5,780
27	Current A/c's : Cr. P ₹1,100; Dr. Q ₹180; Dr. R ₹920
28	Dr. A ₹1,050; Cr. B ₹270 and Cr. C ₹780

CHAPTER 2

GOODWILL METHODS OF VALUATION OF GOODWILL

TOPIC	MEANING/EXPLANATION
Meaning of Goodwill	<p>Goodwill is the value of the reputation of a firm in respect of the profits expected in future over and above the normal profits.</p> <p>In simple words, goodwill can be defined as “the present value of a firm’s anticipated excess earnings” or as “the capitalised value attached to the differential profit capacity of a business”.</p> <p>Thus, goodwill exists only when the firm earns super profits Any firm that earns normal profits or is incurring losses has no goodwill.</p>
Characteristic/ Features of Goodwill	<ol style="list-style-type: none">1. It is an intangible asset.2. It is not a fictitious asset.3. It is difficult to ascertain the exact value of goodwill.4. It enhances the present as well as the future earning capacity a business.5. It helps in earning the supernormal profits against the normal profits.6. It is a basis for winning customers trust and faith7 A positive goodwill not only facilitates a firm to win customers trust but also helps the company to excel over its competitors.

Factors Affecting the Value of Goodwill:	<p>The main factors affecting the value of goodwill are as follows:</p> <ol style="list-style-type: none"> 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.
Need for Valuation of Goodwill:	<p>Normally, the need for valuation of goodwill arises at the time of sale of a business. But, in the context of a partnership firm it may also arise in the following circumstances:</p> <ol style="list-style-type: none"> 1. Change in the profit sharing ratio amongst the existing partners; 2. Admission of new partner; 3. Retirement of a partner; 4. Death of a partner; and 5. Dissolution of a firm involving sale of business as a going concern. 6. Amalgamation of partnership firms
Types of Goodwill	<p>1. Purchased/Acquired Goodwill</p> <p>Purchased goodwill comes around when a business concern is purchased for an amount above the fair value of the separable acquired net assets. As a result, it is shown on the balance sheet as an asset they are the only types of goodwill which can be recognized on a company's accounts.</p> <p>Value of Purchased Goodwill = Purchase Consideration – Net Assets</p>

	<p>2. Self Generated/Inherent Goodwill</p> <p>Self Generated/Inherent goodwill is the opposite of purchased goodwill and represents the value of a business more than the fair value of its separable net assets. This type of goodwill is internally generated and arises over time due to reputation, and it can be either positive or negative</p>
Methods of Valuation of Goodwill	<p>Goodwill calculated by one method may differ from the goodwill calculated by another method Hence, the method by which goodwill is to be calculated may be specifically decided between the existing partners and the incoming partner. The important methods of valuation of goodwill are as follows:</p> <ol style="list-style-type: none"> 1. Average Profits Method 2. Super Profits Method 3. Capitalisation Method
Accounting treatment of goodwill as per AS 26	<p>Accounting Standard 26 implies that</p> <p>(a) Purchased goodwill may be accounted for in the books and shown as an asset, where it is accounted for in the books and shown as assets, it should be written off as early as possible, but where it is to be written-off in more than one accounting year, it should be written off in a period not exceeding 10 years.</p> <p>In line with what is prescribed by the Accounting Standard, goodwill appearing in the balance sheet in written off at the time of firm's reconstitution</p> <p>(b) Self-generated goodwill is not accounted for in the books and shown as an asset. Thus if self generated goodwill be debited to goodwill account it should be written-off in the same financial year and should not be shown as an asset in the balance sheet. Alternatively value of goodwill may be adjusted by debiting new partners' current account and crediting in sacrificing partners in their sacrificing ratio. The effect under both the methods is same.</p>

SIMPLE AVERAGE PROFIT METHOD	<p>Under this method, the goodwill is valued at the agreed numbers of years of purchase of the average profits of the past years.</p> <p>STEPS OF CALCULATE GOODWILL</p> <p>1. Calculate Adjusted Profits/Normal Business Profit:</p> <p style="padding-left: 40px;">Profit or Loss of the past year</p> <p>ADD : Abnormal losses</p> <p style="padding-left: 40px;">Loss on Sale of Fixed Assets</p> <p style="padding-left: 40px;">Overvaluation of opening stock</p> <p style="padding-left: 40px;">Undervaluation of closing stock</p> <p style="padding-left: 40px;">Non-recurring Expenses</p> <p style="padding-left: 40px;">Capital Expenditure charged as Revenue Expenditure</p> <p>LESS : Abnormal gains</p> <p style="padding-left: 40px;">Profit on sale of Fixed Assets</p> <p style="padding-left: 40px;">Overvaluation of closing stock</p> <p style="padding-left: 40px;">Undervaluation of opening stock</p> <p style="padding-left: 40px;">Non-recurring incomes</p> <p style="padding-left: 40px;">Partner's remuneration, if it is not deducted</p> <p style="padding-left: 40px;">Income from Non-trade Investments</p> <p style="padding-left: 40px;">Any future Expense</p>
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	ADJUSTED/FUTURE MAINTAINABLE PROFIT
	<p>2. AVERAGE PROFIT = $\frac{\text{TOTAL OF ADJUSTED PROFIT}}{\text{No. of YEARS}}$</p> <p>3. GOODWILL = AVERAGE PROFIT X NO. OF YEAR'S OF PURCHASE</p>
SUPER PROF - IT METHOD	<p>Under this method, the goodwill is valued at the agreed number of year's of purchase of the super profits of the firm</p> <p>STEPS TO CALCULATE GOODWILL</p> <p style="text-align: center;">Opening capital employed + Closing capital employed</p> <p>1) Average Capital = $\frac{\text{Opening capital employed + Closing capital employed}}{2}$</p> <p>2) Calculate average maintainable profit (as above)</p> <p>3) Normal of profit = Average Capital Employed</p> <p style="text-align: right;">$\times \frac{\text{Normal rate of return}}{100}$</p> <p>4) Super Profit = Average maintainable profits - Normal Profits</p> <p>5) GOODWILL = SUPER PROFIT × NO. OF YEAR'S OF PURCHASE</p> <p><u>Calculation of capital employed</u></p> <ul style="list-style-type: none"> • Assets side Approach • Capital Employed = All Assets (except goodwill, non-trade investments and fictitious assets) - Outside liabilities • Liabilities side Approach

	Capital Employed = Capital + Reserves - Goodwill (if exists in books)- Fictitious Asset - Non- trade investments
CAPITALISATION OF AVERAGE PROFITS	<p>Under this method, the value of goodwill is calculated by deducting the actual capital employed from the capitalization value of the average profits on the basis of the normal rate of return</p> <p>STEPS TO CALCULATE GOODWILL</p> <ol style="list-style-type: none"> 1. Calculate Average Normal Profit 2. Capitalised value of the Business = $\frac{\text{Average profit} \times 100}{\text{Normal rate of return}}$ 3. Capital Employed = All Assets (except goodwill, non-trade investment and fictitious assets) - Outside liabilities 4. GOODWILL = Capitalised value of the Business - Net Assets
CAPITALISATION OF SUPER PROFITS	<p>Under this method, Goodwill is calculated by capitalizing the super profits</p> <p>STEPS TO CALCULATE GOODWILL</p> <ol style="list-style-type: none"> 1. Capital Employed = All Assets (except goodwill, non-trade investments and fictitious assets) - Outside Liabilities 2. Normal Profit = Capital Employed $\times \frac{\text{Normal rate of return}}{100}$ 3. Capital average maintainable profit (as above) 4. Super Profit = Average maintainable profits - Normal Profits 5. GOODWILL = $\frac{\text{Super Profit}}{\text{Normal rate of return}} \times 100$

1. Calculate value of goodwill on the basis of three years' purchase of average profit of the preceding five years which were as follows:

Year	2017-18	2016-17	2015-16	2014-15	2013-14
Profits (₹)	8,00,000	15,00,000	18,00,000	4,00,000 (Loss)	13,00,000

Answer: Goodwill = Average Profit × Number of year's purchase

$$\text{Average Profit} = \frac{8,00,000 + 15,00,000 + 18,00,000 - 4,00,000 + 13,00,000}{5}$$

$$= \frac{50,00,000}{5} = ₹ 10,00,000$$

Number of year's Purchase = 3

$$\therefore \text{Goodwill} = 10,00,000 \times 3 = ₹ 30,00,000$$

2. A and B are partners sharing profits in the ratio of 3 : 2. They decided to admit C as a partner from 1st April, 2018 on the following terms:
- C will be given 2/5th share of the profit.
 - Goodwill of the firm be valued at two years' purchase of three year's normal average profit of the firm.

Profits of the previous three years ended 31st March, were:

2018 – Profit ₹ 30,000 (after debiting loss of stock by fire ₹ 40,000)

2017 – Loss ₹ 80,000 (includes voluntary retirement compensation paid ₹ 1,10,000).

2016 – Profit ₹ 1,10,000 (including a gain (profit) of ₹ 30,000 on the sale of fixed assets).

You are required to calculate the value the goodwill

Answer

Goodwill = Normal Average Profit × Number of years' purchase

Year	Actual Profit	+	Abnormal Loss Non-recurring	–	Abnormal Gain Non-recurring	=	Normal Profit	
2018	30,000	+	40,000	–	Nil	=	70,000	
2017	(80,000)	+	1,10,000	–	Nil	=	30,000	
2016	1,10,000	+	Nil	–	30,000	=	80,000	
Normal Profit for 3 Years								1,80,000

$$\text{Normal Average Profit} = \frac{\text{Normal Profits for last 3 years}}{3}$$

$$= \frac{1,80,000}{3} = ₹ 60,000$$

Number of year's purchase 2

$$\therefore \text{Goodwill} = 60,000 \times 2 = ₹ 1,20,000$$

3. X and Y are partners sharing profits and losses in the ratio of 3 : 2. They admit Z into partnership for 1/4th share in goodwill. Z brings in his share of goodwill in cash.

Goodwill for this purpose is to be calculated at two years' purchase of the average normal profit of past three years. Profits of the last three years ended 31st March, were:

2016 – Profit ₹ 50,000 (including profit on sale of assets ₹ 5,000)

2017 – Loss ₹ 20,000 (includes loss by fire ₹ 30,000)

2018 – Profit ₹ 70,000 (including insurance claim received ₹ 18,000 and interest on investments and dividend received ₹ 8,000).

Calculate value of goodwill. Also, calculate goodwill brought in by Z.

Answer

Goodwill = Normal Average Profit × Number of years' purchase

Year	Actual Profit	+	Abnormal Loss Non-recurring	–	Abnormal Gain Non-recurring	=	Normal Profit	
2016	50,000	+	Nil	–	5,000	=	45,000	
2017	(20,000)	+	30,000	–	Nil	=	10,000	
2018	70,000	+	Nil	–	18,000 + 8,000	=	44,000	
Normal Profit for 3 Years								99,000

$$\text{Normal Average Profit} = \frac{\text{Normal Profits for last 3 years}}{3}$$

$$= \frac{99,000}{3} = ₹ 33,000$$

$$\text{Number of years' purchase} = 2$$

$$\therefore \text{Goodwill} = 33,000 \times 2 = ₹ 66,000$$

Z's Share of Goodwill = Goodwill of the Firm × Z's Share of Profit

$$= 66,000 \times \frac{1}{4} = ₹ 16,500$$

4. A and B are partners in a firm sharing profits and losses in the ratio of 2 : 1. They decide to take C into partnership for 1/4th share on 1st April, 2018. For this purpose, goodwill is to be valued at four times the average annual profit of the previous four or five years whichever is higher. The profits for goodwill purpose of past five years are:

Year	2013–14	2014–15	2015–16	2016–17	2017–18
Profit (₹)	14,000	15,500	10,000	16,000	15,000

Answer

Calculation of Average Profit for Five Years

Year	Profit
2013–14	14,000
2014–15	15,500
2015–16	10,000
2016–17	16,000
2017–18	15,000
Total Profit	70,500

$$\text{Average Profit } 70,500/5 = ₹ 14,100$$

Calculation of Average Profits for Four Years

Year	Profit
2014–15	15,500
2015–16	10,000
2016–17	16,000
2017–18	15,000
Total Profit	56,500

$$\text{Average Profit } 56,500/4 = ₹ 14,125$$

Average Profit of four years is taken to compute the value of goodwill of the firm. This is because Average Profit of four years is more than the Average Profit of five years.

$$\begin{aligned} \therefore \text{Goodwill} &= \text{Average Profit} \times \text{Number of years' purchase} \\ &= 14,125 \times 4 = ₹ 56,500 \end{aligned}$$

5. X and Y are partners in a firm. They admit Z into partnership for equal share. It was agreed that goodwill will be valued at three years; purchase of average profit of last five years. Profits for the last five years were:

Year Ended	31st March 2014	31st March 2015	31st March 2016	31st March 2017	31st March 2018
Profit (₹)	90,000 (Loss)	1,60,000	1,50,000	65,000	1,77,000

Books of Account of the firm revealed that:

- (i) The firm had gain (profit) of ₹ 50,000 from sale of machinery sold in the year ended 31st March, 2015. The gain (profit) was credited in Profit and Loss Account.

- (ii) There was an abnormal loss of ₹ 20,000 incurred in the year ended 31st March, 2016 because of a machine becoming obsolete in accident.
- (iii) Overhauling cost of second hand machinery purchase on 1st July, 2016 amounting to ₹ 1,00,000 was debited to Repairs Accounts. Depreciation is charged @ 20% p.a. on Written Down Value Method.
- Calculate the value of goodwill.

Answer

$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{No. of years' purchase} \\ &= 1,00,000 \times 3 = ₹ 3,00,000 \end{aligned}$$

Working Notes

W.N: 1 Calculation of Normal Profits

Year	Profit/Loss (₹)	Adjustment	Normal Profit (₹)
31 March, 2014	(90,000)		(90,000)
31 March, 2015	1,60,000	(50,000)	1,10,000
31 March, 2016	1,50,000	20,000	1,70,000
31 March, 2017	65,000	85,000	1,50,000
31 March, 2018	1.77,000	(17,000)	1,60,000
			5,00,000

***Adjustment Amount**

Overhauling cost of second hand machinery wrongly accounted as expense instead of capital expenditure. Profit to be increase by ₹ 1,00,000	1,00,000
Depreciation to be debited form P&L A/c $(1,00,000 \times 20/100 \times 9/12)$	15,000
Amount to be added back	85,000

W.N: 2 Calculation of Average Profit

$$\begin{aligned} \text{Average Profit} &= \frac{\text{Total Profit for past 5 years}}{\text{Number of Years}} \\ &= 5,00,000/5 = ₹ 1,00,000 \end{aligned}$$

6. Gupta and Bose had a firm in which they had invested ₹ 50,000. On an average, the profit were ₹ 16,000. The normal rate of return in the industry is 15%. Goodwill is to be valued at four years' purchase of profits in excess of profits @ 15% on the money invested. Calculate the value Goodwill.

Answer

$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$

$$\begin{aligned} \text{Normal Profit} &= \text{Capital Employed} \times \frac{\text{Normal Rate of Return}}{100} \\ &= 50,000 \times \frac{15}{100} = ₹ 7,500 \\ \text{Actual Profit} &= ₹ 16,000 \\ \text{Super Profit} &= \text{Actual Profit} - \text{Normal Profit} \\ &= 16,000 - 7,500 = ₹ 8,500 \\ \text{Number of years' purchase} &= 4 \\ \therefore \text{Goodwill} &= 8,500 \times 4 \\ &= ₹ 34,000 \end{aligned}$$

7. The total capital of the firm of Sakshi, Mehak and Megha is ₹ 1,00,000 and the market rate of interest is 15% The net profits for the last 3 years were ₹ 30,000, ₹ 36,000 and ₹ 42,000 Goodwill is to be valued at 2 years' purchase of the last 3 years super profits. Calculate the goodwill of the firm.

Answer

$$\begin{aligned} \text{Goodwill} &= \text{Super Profit} \times \text{Number of Years' Purchase} \\ \text{Super Profits} &= \text{Average Profit} - \text{Normal Profit} \\ \text{Average Profits} &= \text{Total Profits/Number of Years} \\ 30,000 + 36,000 + 42,000/3 &= ₹ 36,000 \\ \text{Normal Profits} &= \text{Capital Employed} \times \text{Normal Rate of Return}/100 \\ 1,00,000 \times 15/100 &= 15,000 \\ \text{Super Profits} &= 36,000 - 15,000 = 21,000 \\ \text{Goodwill} &= 21,000 \times 2 = ₹ 42,000 \end{aligned}$$

8. A partnership firm earned net profits during the past three years as follows:

Year ended	31st March, 2018	31st March, 2017	31st March, 2016
Net Profit (₹)	2,30,000	2,00,000	1,70,000

Capital investment in the firm throughout the above-mentioned period has been ₹ 4,00,000 Having regard to the risk involved, 15% is considered to be a fair return on the capital The remuneration of the partners during this period is estimated to be ₹ 1,00,000 p.a. Calculate value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

Answer

$$\begin{aligned} \text{Goodwill} &= \text{Super Profit} \times \text{Number of Years Purchase} \\ \text{Normal Profit} &= \text{capital Employed} \times \frac{\text{Normal Rate of Return}}{100} \\ &= 4,00,000 \times \frac{15}{100} = ₹ 60,000 \end{aligned}$$

Year	Profit before Partners' Remuneration	–	Partners' Remuneration	=	Actual Profit after Remuneration
2016	1,70,000	–	1,00,000	=	70,000
2017	2,00,000	–	1,00,000	=	1,00,000
2018	2,30,000	–	1,00,000	=	1,30,000

$$\begin{aligned} \text{Average Actual Profit after Remuneration} &= \frac{70,000 + 1,00,000 + 1,30,000}{3} = \frac{3,00,000}{3} \\ &= ₹ 1,00,000 \end{aligned}$$

$$\begin{aligned} \text{Super Profit} &= \text{Average Actual Profit after Remuneration} \\ &\quad - \text{Normal Profit} \\ &= 1,00,000 - 60,000 = ₹ 40,000 \end{aligned}$$

Number of years' purchase = 2

$$\therefore \text{Goodwill} = ₹ 40,000 \times 2 = ₹ 80,000$$

9. On 1st April, 2018, an existing firm had assets of ₹ 75,000 including cash of ₹ 5,000. Its creditors amounted to ₹ 5,000 on that date. The firm had a Reserve of ₹ 10,000 while Partners' Capital Accounts showed a balance of ₹ 60,000. If Normal Rate of Return is 20% and goodwill of the firm is valued at ₹ 24,000 at four years' purchase of super profit, find average profit per year of the existing firm.

Answer

$$\begin{aligned} \text{Average Profit} &= \text{Normal Profit} + \text{Super Profit} \\ \text{Capital Employed} &= \text{Total Assets} - \text{Creditors} \\ &= 75,000 - 5,000 = ₹ 70,000 \end{aligned}$$

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

$$= 70,000 \times \frac{20}{100} = ₹ 14,000$$

$$\text{Goodwill of the firm} = ₹ 24,000$$

Number of years' purchase = 4

$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$

$$\begin{aligned} \text{or, } 24,000 &= \text{Super Profit} \times 4 \\ \text{or. Super Profit} &= \frac{24,000}{4} \\ &= ₹ 6,000 \\ \therefore \text{Average Profit} &= \text{Normal Profit} + \text{Super Profit} \\ &= 14,000 + 6,000 = ₹ 20,000 \end{aligned}$$

9. Ayub and Amit are partners in a firm and they admit Jaspal into partnership w.e. f. 1st April, 2018. they agreed to value goodwill at 3 years' purchase of Super Profit Method for which they decided to average profit of last 5 years. The profit for the last 5 years were.

Year Ended	Net Profit (₹)	
31st March, 2014	1,50,000	
31st March, 2015	1,80,000	
31st March, 2016	1,00,000	(Including abnormal loss of ₹1,00,000)
31st March, 2017	2,60,000	(Including abnormal gain (profit) of 40,000)
31st March, 2018	2,40,000	

The firm has total assets of ₹ 20,00,000 and Outside Liabilities of ₹ 5,00,000 as on that date. Normal Rate of Return in similar business is 10%. Calculate value of goodwill.

Answer

$$\begin{aligned} \text{Goodwill} &= \text{Super profit} \times \text{No. of Years' Purchase} \\ &= 48,000 \times 3 = ₹ 1,44,000 \end{aligned}$$

Working Notes:

WN: 1 Calculation of Normal Profits:

Year	Profit (Loss) (₹)	Adjustment	Normal Profit (₹)
31 March, 2014	1,50,000	—	1,50,000
31 March, 2015	1,80,000	—	1,80,000
31 March, 2016	1,00,000	1,00,000	2,00,000
31 March, 2017	2,60,000	(40,000)	2,20,000
31 March, 2018	2,40,000		2,40,000
		Total Profit	9,90,000

WN: 2 Calculation of Super Profits

$$\begin{aligned} \text{Average Profit} &= \text{Total profit of past given Years/Number of Years} \\ &= 9,90,000/5 = ₹ 1,98,000 \\ \text{Normal Profit} &= \text{Capital Employed} \times \text{Normal Rate of Return}/100 \\ &= 15,00,000 \times 10/100 = ₹ 1,50,000 \\ \text{Super Profit} &= \text{Average Profit} - \text{Normal Profit} \\ &= 1,98,000 - 1,50,000 = ₹ 48,000 \end{aligned}$$

WN: 3 Calculation of Capital Employed

$$\begin{aligned} \text{Capital Employed} &= \text{Total Assets} - \text{Outside Liabilities} \\ &= 20,00,000 - 5,00,000 = ₹ 15,00,000 \end{aligned}$$

11. A business has earned average profit of ₹ 1,00,000 during the last few years Find out the value of goodwill by capitalisation method, given that the assets of the business are ₹ 10,00,000 and its external liabilities are ₹ 1,80,000 The normal rate of return is 10%.

Answer

$$\begin{aligned} \text{Goodwill} &= \text{Capitalised Value of Average Profits} \\ &\quad - \text{Actual Capital Employed} \\ \text{Capitalised Value of Average} &= \text{Average Profit} \times 100/\text{Normal} \\ &\quad \text{Rate of Return} = 1,00,000 \times 100/10 = 10,00,000 \\ \text{Actual Capital Employed} &= 10,00,000 - 1,80,000 = 8,20,000 \\ \text{Goodwill} &= 10,00,000 - 8,20,000 = ₹ 1,80,000 \end{aligned}$$

12. Calculate the value of goodwill of X and Y using following Information:

- (i) At two years' purchase of Average Profit
- (ii) At two years' purchase of Super Profit
- (iii) On the basis of capitalisation of super profit
- (iv) On the basis of capitalisation of average profit. It is given that
 - (a) Average Capital Employed is Rs 12,00,000
 - (b) Profit for the firm for past three years
2017 – ₹ 1,80,000; 2018 – ₹ 1,60,000; 2019 – ₹ 2,60,000
 - (c) Normal rate of return is 10%
 - (d) Remuneration to each partner is ₹ 3,000 per month
 - (e) Assets ₹ 13 50,000 and liabilities ₹ 1,50,000,

- Answer.** (i) At two years' purchase of average profit:

$$\text{Average Profit} = \frac{1,80,000 + 1,60,000 + 2,60,000}{3}$$

$$= \frac{6,00,000}{3} = ₹ 2,00,000$$

$$\begin{aligned} \text{Average Normal Profit} &= \text{Average Profit} - \text{Partners' Remuneration} \\ &= ₹ 2,00,000 - (₹ 3,000 \times 12 \times 2) \\ &= ₹ 1,28,000 \end{aligned}$$

$$\begin{aligned} \text{Goodwill} &= \text{Average Normal Profit} \times 2 \\ &= ₹ 1,28,000 \times 2 \\ &= ₹ 2,56,000 \end{aligned}$$

(ii) At two years' purchase of super profit:

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

$$= ₹ 12,00,000 \times \frac{10}{100} = ₹ 1,20,000$$

$$\begin{aligned} \text{Super Profit} &= \text{Average Profit} - \text{Normal Profit} \\ &= ₹ 1,28,000 - ₹ 1,20,000 \\ &= ₹ 8,000 \end{aligned}$$

$$\begin{aligned} \text{Goodwill at two years' Purchase} &= 8,000 \times 2 \\ &= ₹ 16,000 \end{aligned}$$

(iii) By Capitalisation of Super Profit

$$\begin{aligned} \text{Goodwill} &= \frac{\text{Super Profit}}{\text{Normal Rate of Return}} \times 100 \\ &= ₹ 8,000 \times 100/10 \\ &= ₹ 80,000 \end{aligned}$$

(iv) By Capitalisation of Average Profit

$$\text{Goodwill} = \text{Capitalised Value of Business} - \text{Net Assets}$$

$$\text{Capitalised Value of business} = \frac{\text{Average Normal Profit} \times 100}{\text{Normal Rate of Returns}}$$

$$\begin{aligned} &= \frac{1,28,000 \times 100}{10} \\ &= ₹ 12,80,000 \end{aligned}$$

$$\begin{aligned} \text{Net Assets} &= \text{Total Assets} - \text{Outsider's Liabilities} \\ &= ₹ 13,50,000 - ₹ 1,50,000 \\ &= ₹ 12,00,000 \end{aligned}$$

$$\begin{aligned} \text{So, Goodwill} &= ₹ 12,80,000 - ₹ 12,00,000 \\ &= ₹ 80,000 \end{aligned}$$

Case Study Based Questions

GOODWILL

Read the following information carefully and answer the questions 1 to 4 that follow:

Average profit earned by a firm is ₹ 80,000 which includes undervaluation of stock of ₹ 8,000 on an average basis. The capital invested in the business is ₹ 8,00,000 and the normal rate of return is 8%.

- Average Profits after adjustment of stock of the firm is:
(a) ₹ 80,000 (b) ₹ 88,000
(c) ₹ 72,000 (d) ₹ 64,000
- Normal Profits of the firm is:
(a) ₹ 80,000 (b) ₹ 88,000
(c) ₹ 72,000 (d) ₹ 64,000
- Super Profits of the firm is:
(a) ₹ 80,000 (b) ₹ 88,000
(c) ₹ 68,000 (d) ₹ 24,000
- Goodwill of the firm as per super profit method on the basis of 7 year of purchase is:
(a) ₹ 1,80,000 (b) ₹ 1.88,000
(c) ₹ 1.68,000 (d) ₹ 1.24,000

Q. No.	Answer with Explanation
1.	(b) Average Profits of the firm after adjustment = (Average Profits + Undervaluation of stock) = ₹ (80,000 + 8,000) = ₹ 88,000
2.	(d) Normal Profits = ₹ (Capital Employed × Normal Rate of Return/100) = ₹ (8,00,000 × 8/100) = ₹ 64,000
3.	(d) Super Profits = Average Profits – Normal Profits = ₹ (88,000 – 64,000) = ₹ 24,000
4.	(c) Goodwill = Super Profits × No. of Years of Purchase = ₹ (24,000 × 7) = ₹ 1,68,000

MCQ

- Capital employed by a partnership firm is ₹ 15,00,000. Its average profit is ₹ 60,000. The normal rate of return for a similar type of business is 10%. The amount of super profit is
(a) ₹ 50,000 (b) ₹ 10,000
(c) ₹ 6,000 (d) ₹ 56,000

2. Which of the following statement is correct?
- Goodwill is a fictitious asset.
 - Goodwill is a current asset.
 - Goodwill is a wasting asset.
 - Goodwill is an intangible asset
3. Average profit of a business over the last five years were ₹ 60,000. The normal yield on capital invested in such a business is estimated at 10% pa. Capital invested in the business is ₹ 5,00,000. Amount of goodwill, it is based on 3 year's purchase of last 5 years super profit will be
- ₹ 1,00,000
 - ₹ 1,80,000
 - ₹ 30,000
 - ₹ 1,50,000
4. Net assets of a firm including fictitious assets of ₹ 5,000 are ₹ 85,000. Net liabilities of the firm are ₹ 30,000. The normal Rate of Return is 10% and the average profit of the firm is ₹ 8,000. Value of goodwill as per capitalization of super profit method will be
- ₹ 20,000
 - ₹ 30,000
 - ₹ 25,000
 - ₹ 15,000
5. As per AS – 26, _____ Goodwill is recorded in the books of accounts.
- Purchase
 - Self-generated
 - Both a and b
 - None of these
6. The average Capital Employed of a firm is ₹ 4,00,000 and the Normal Rate of Return is 15%. The average Profit of the firm is ₹ 80,000 per annum. If management cost is estimated at ₹ 10,000 per annum, then on the basis of two years purchase of super profit, the value of goodwill will be
- ₹ 10,000
 - ₹ 20,000
 - ₹ 60,000
 - ₹ 80,000
7. A firm earns a profit of ₹ 1,10,000. The Normal Rate of Return is 10%. Assets of the firm are ₹ 11,00,000 and liabilities ₹ 1,00,000. Value of goodwill by the capitalisation of Average profit will be
- ₹ 2,00,000
 - ₹ 10,000
 - ₹ 5,000
 - ₹ 1,00,000
8. Net profits during the last three years of a firm are
- 1st Year – 18,000
 - 2nd Year – 20,000
 - 3rd Year – 22,000

The capital investment of the firm is ₹ 60,000. The normal Rat of Return is 10%. Value of goodwill on the basis of three years purchase of the super profit for the last three years will be

- (a) ₹ 21,000 (b) ₹ 42,000
(c) ₹ 84,000 (d) ₹ 20,000
9. For valuation of goodwill, normal profit is calculated by _____ abnormal gains and _____ abnormal losses.
(a) Adding, deducting
(b) Deducting, adding
(c) deducting, not treating
(d) Not treating, adding
10. Net Asset = All Assets (Except goodwill, fictitious assets and _____ investments) – Outside liabilities.
(a) Trade (b) Non-trade
(c) Long term (d) Short term
11. M/s Supertech India has assets of ₹ 5,00,000, whereas Liabilities are: Partners capitals – ₹ 3,50,000, General Reserve – ₹ 60,000 and Sundry creditors – ₹ 90,000. If the Normal rate of return is 10% and the Goodwill of the firm is valued at 90,000 at 2 years' purchase of super profit, the average profit of the firm will be
(a) ₹ 46,000 (b) ₹ 86,000
(c) ₹ 1,63,000 (d) ₹ 23,000
12. _____ refers to a specific number of years for which a business will earn the same amount of profits because of its past efforts.
(a) Amount of profits (b) Span of years
(c) Number of year purchase (d) Time of profits
13. If super profits are negative, then goodwill will be
(a) positive (b) negative
(c) either a and b (d) Ni
14. Tangible assets of the firm are ₹ 14,00,000 and outside liabilities are ₹ 4,00,000. The profit of the firm is ₹ 1,50,000 and the normal rate of return is 10%. The amount of capital employed will be
(a) ₹ 10,00,000 (b) ₹ 1,00,000
(c) ₹ 50,000 (d) ₹ 20,000
15. The profits earned by a business over the last 5 years are as follows: ₹ 12,000; ₹ 13,000; ₹ 14,000; ₹ 18,000 and ₹ 2,000 (loss). Based on 2 years purchase of the last 5 years profits, value of Goodwill will be

(a) ₹ 23,600

(b) ₹ 22,000

(c) ₹ 1,10,000

(d) ₹ 1,18,000

Q. No.	Answer
1.	B
2.	D
3.	C
4.	B
5.	A
6.	B
7.	D
8.	B
9.	B
10.	B
11.	B
12.	C
13.	D
14.	A
15.	B

MULTIPLE CHOICE QUESTIONS

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

a) ₹ 12,00,000	b) ₹ 10,00,000
c) ₹ 8,00,000	d) ₹ 14,00,000

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

a) ₹ 9,00,000	b) ₹ 7,50,000
c) ₹ 5,00,000	d) ₹ 9,75,000

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

a) ₹ 12,000	b) ₹ 36,000
c) ₹ 16,000	d) ₹ 24,000

4. Which of the following is not correct?
 - a) Super Profit = Actual (average) Profit - Normal Profit
 - b) Super Profit = Actual (average) Profit + Normal Profit
 - c) Value of goodwill = Total Capitalised Value of the business - Net Assets.
 - d) Goodwill = Average Profit x Number of Years Purchased

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

a) ₹ 20,000	b) ₹ 20,00,000
c) ₹ 10,000	d) ₹ 20,000

Matching Questions

1. Match the following:

Description	Options
1 Closing stock under valued	a. Deducted to the current year profits and added to the previous year profits for calculating the average profits

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

2. Identify the factors affecting the value of goodwill:

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

3. Match the following

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

4. Match the following

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

5. Match the following

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

ANSWERS

Fill In the Blanks

MULTIPLE CHOICE QUESTIONS

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

Matching Questions

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

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

ASSERTION REASON BASED QUESTIONS

1. **Assertion:** Over a period of time, a well-established business develops an advantage of good name, reputation and wide business connections.
Reasoning: This helps the business to earn more profits as compared to a newly set up business.
 - (a) Both A and R are correct, and R is the correct explanation of A.
 - (b) Both A and R are correct, but R is not the correct explanation of A.
 - (c) A is correct but R is incorrect.
 - (d) A is incorrect but R is correct.
2. **Assertion:** Goodwill is the value of the reputation of a firm in respect of the profits expected future over and above the normal profits.
Reasoning: Goodwill is as a fictitious asset.
 - (a) Both A and R are correct, and R is the correct explanation of A.
 - (b) Both A and R are correct, but R is not the correct explanation of A.
 - (c) A is correct but R is incorrect.
 - (d) A is incorrect but R is correct.
3. **Assertion:** Goodwill is the present value of a firm's anticipated excess earnings.
Reasoning: Goodwill is the capitalised value attached to the differential profit capacity of a business
 - (a) Both A and R are correct, and R is the correct explanation of A.
 - (b) Both A and R are correct, but R is not the correct explanation of A.
 - (c) A is correct but R is incorrect.
 - (d) A is incorrect but R is correct.
4. **Assertion:** Goodwill exists only when the firm earns super profits.
Reasoning: Any firm that earns normal profits or is incurring losses has no goodwill.
 - (a) Both A and R are correct, and R is the correct explanation of A.
 - (b) Both A and R are correct, but R is not the correct explanation of A.
 - (c) A is correct but R is incorrect.
 - (d) A is incorrect but R is correct.

5. **Assertion:** A firm that produces high value added products or having a stable demand is able to earn more profits.

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

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

Statement Based Questions

1. **Statement I:** The monopoly condition or limited competition enables the concern to earn high profits.

Statement II: High profits leads to low value of goodwill.

- (a) Both Statements are correct.
- (b) Both Statements are incorrect.
- (c) Statement I is correct and Statement II is incorrect.
- (d) Statement II is correct and Statement I is incorrect.

2. **Statement I:** Normally, the need for valuation of goodwill arises at the time of sale of a business.

Statement II: In the context of a partnership firm it may also arise at the time of admission partner.

- (a) Both Statements are incorrect.
- (b) Both statements are incorrect.
- (c) Statement I is correct and Statement II is incorrect.
- (d) Statement II is correct and Statement I is incorrect.

3. **Statement I:** Since goodwill is an intangible asset it is very difficult to accurately calculate its value.

Statement II: Various methods have been advocated for the valuation of goodwill of a partnership firm

- (a) Both Statements are correct.
- (b) Both Statements are incorrect.
- (c) Statement I is correct and Statement II is incorrect.
- (d) Statement II is correct and Statement I is incorrect.

4. **Statement I:** Goodwill calculated by one method always same as goodwill calculated by another method.

Statement II: The method by which goodwill is to be calculated, may be specifically decided between the existing partners and the incoming partner.

- (a) Both Statements are correct.
- (b) Both Statements are incorrect.
- (c) Statement I is correct and Statement II is incorrect.
- (d) Statement II is correct and Statement I is incorrect.

5. **Statement I:** Average profit method of goodwill is based on the assumption that a new business will not be able to earn any profits during the first few years of its operations.

Statement II: the person who purchases a running business must pay in the form of goodwill a sum which is equal to the profits he is likely to receive for the first few years.

- (a) Both Statements are correct.
- (b) Both Statements are incorrect.
- (c) Statement I is correct and Statement II is incorrect.
- (d) Statement II is correct and Statement I is incorrect.

Answers

Assertion Reasoning based questions

- 1. (a) Both A and R are correct, and R is the correct explanation of A.
- 2. (c) A is correct but R is incorrect.
- 3. (b) Both A and R are correct, but R is not the correct explanation of A.
- 4. (a) Both A and R are correct, and R is the correct explanation of A.
- 5. (c) A is correct but R is incorrect.

Statement based questions

- 1. (c) Statement I is correct and Statement II is incorrect.
- 2. (a) Both Statements are correct.
- 3. (a) Both Statements are correct.
- 4. (c) Statement I is correct and Statement II is incorrect.
- 5. (a) Both Statements are correct.

Work Sheet on Goodwill

- Q.1 State the meaning and characteristics of goodwill.
- Q.2 State any three circumstances other than (i) admission of a new partner; (ii) retirement of a partner, and (iii) death of a partner, when need for valuation of goodwill of a firm may arise.
- Q.3 Apart from Location and Profitability, list any two other factors affecting goodwill of a firm.
- Q.4 Why is 'Goodwill considered an Intangible Asset' but not a 'Fictitious Asset'?
- Q.5 Distinguish between average profits and super profits.
- Q.6 Differentiate between self-generated goodwill and purchased goodwill.
- Q.7 The profits and losses for last five years were : 1st Year —₹ 44,000 (including an abnormal gain of ₹ 8,000) 2nd Year— ₹ 60,000 (excluding ₹16,000 as insurance premium) 3rd Year—₹2 4,000 (after charging an abnormal loss of ₹ 8,000) 4th Year —₹ 24,000 5th Year - ₹8,000 (Loss) Calculate the amount of goodwill on the basis of 2½ years' purchases of last five years' average profits.
- Q.8 The profits of the firm of Arun, Ajay and Dinesh are given below:

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

- (i) On 1st July, 2018 the firm purchased machinery costing ₹20,000 but it was charged to revenue by mistake. Depreciation @ 10% p.a. was also not provided on it.
- (ii) During the year 2018-19 the personal expenses of Arun ₹6,000 and Ajay ₹4,000 were debited to miscellaneous expenses of the firm,
- (iii) Value of closing stock for the year ended 31st March 2017 was undervalued by ₹3,000.
- (iv) An annual insurance premium of (2,000 was not charged to Profit and Loss in any of the year.

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

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

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

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

- Q.10 On April 1, 2021, an existing firm had assets of ₹1,50,000 including cash of ₹10,000. The partners' capital accounts showed a balance of ₹1,20,000 and reserves constituted the rest. If the normal rate of return is 10% and the goodwill of the firm is valued at ₹48,000 at 4 years' purchase of super profits, find out the average profits of the firm.
- Q.11 A business has earned average profits of ₹24,000 during the last few years and the normal rate of return in a similar type of business is 12%. Ascertain the value of goodwill by capitalisation of average profits method, given that the value of net assets of the business is ₹1,40,000.
- Q.12. A firm having the assets of ₹50,00,000 and liabilities of ₹22,00,000 earns annual profits of ₹4,80,000. The rate of normal profits being 15%. Calculate the amount of goodwill by capitalisation of super profit method.
- Q.13 Calculate the value of goodwill of Nipun and Prisha using following information :
- At two years' purchase of Average Profit.
 - At two years' purchase of Super Profit.
 - On the basis of capitalisation of super profit.
 - On the basis of capitalisation of average profit.

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

- Q.14 A business has earned average profits of ₹ 1,00,000 during the last few years and the normal rate of return in similar business is 10%. Find out the value of goodwill by
- Capitalisation of super profit method.
 - Super profit method, if the goodwill is valued at 3 years' purchase of super profit. The assets of the business were ₹ 10,00,000 and its external liabilities ₹ 1,80,000.

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

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

Year ended 31st March	Profit (₹)
2016	82,000
2017	70,000
2018	80,000
2019	Loss (32,000)
2020	40,000

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

Work Sheet Answers

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

CHAPTER 3

CHANGE IN PROFIT SHARING RATIO AMONG THE EXISTING PARTNERS

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

Gaining Ratio	It is ratio in which one or more partners gain share of profit as a result of sacrificed share in profit by one or more partners of the firm Gaining Ratio = New Ratio – Old Ratio
NEW PROFIT SHARING RATIO	The ratio in which the partners agree to share the profits in future on reconstitution is known as new sharing ratio.
TREATMENT OF GOODWILL IN CASE OF CHANGE IN PROFIT SHARING RATIO	WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL ACCOUNTS
	i) In case of Fluctuating Capitals Gaining Partner's Capital Accounts Dr. To Sacrificing Partner's Capital Accounts (Being adjustment made for goodwill on change in profit sharing ratio)
	ii) In case of Fixed Capitals Gaining Partner's Current Accounts Dr- To Sacrificing Partner's Current Accounts (Being adjustment made for goodwill on change in profit sharing ratio)
	B) WHEN EXISTING GOODWILL IS WRITTEN OFF
	All Partner's Capital Accounts/Current A/c Dr. To Goodwill Account (Being the goodwill written off among partners in old ratio)
TREATMENT OF RESERVES, ACCUMULATED PROFITS & LOSSES	Accumulated Profits include credit balance of P&L A/c, General Reserves, Reserve Fund, Workmen Compensation Reserve, Investment Fluctuation Reserve etc. Accumulated Losses include debit balance of P&L A/c, Deferred Revenue Expenditure i.e. Advertisement Suspense A/c.
	A) WHEN QUESTIONS SILENT OR WHEN ACCUMULATED PROFITS OR LOSSES ARE TO BE DISTRIBUTED OR WHEN ACCUMULATED PROFITS/LOSSES ARE NOT TO BE SHOWN IN NEW BALANCE SHEET

CASE 3 WCC < WCR (less)	Workmen Compensation Reserve A/c Dr. To Provision for workmen Compensation Claim A/c To Partner's Capital/Current A/c's
CASE 4 WCC >WCR (more)	(i) Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Provision for Workmen Compensation Claim A/c (ii) Partner's Capital/Current A/c's Dr. To Revaluation A/c

WCC stands for WORKMEN COMPENSATION CLAIM

WCR stands for WORKMEN COMPENSATION RESERVE

TREATMENT OF INVESTMENT FLUCTUATION RESERVE

CASE 1 BV = MV	Investment Fluctuation Reserve A/c Dr. To Partner's Capital/Current A/c's
CASE 2 BV < MV	Investment Fluctuation Reserve A/c Dr- To Partner's Capital/Current A/c's (Entire reserve distributed in partner's old ratio) Investments A/c Dr. To Revaluation A/c (For increase in value of Investments) Revaluation A/c To Partner's Capital/Current A/c's
CASE 3 BV > MV	i) When Fall in value is less than investment Fluctuation Reserve Investment Fluctuation Reserve A/c Dr. To Investment A/c (BV-MV) To Partner's Capital/Current A/c's (In old ratio) ii) When Fall in vaue is equal to Investment Fluctuation Reserve Investment Fluctuation Reserve A/c Dr. To Investment A/c iii) When Fall in value is more than Investment Fluctuation Reserve Investment Fluctuation Reserve A/c Dr. Revaluation A/c Dr. To Investment A/c Partner's Capital/Current A/c's Dr. To Revaluation A/c

BV stands for Book value of Investments
 MV Stands for Market value of Investments

REVALUATION OF ASSETS & REASSESSMENT OF LIABILITIES	<p>It is a nominal account & prepared to revalue assets & reassess liabilities.</p> <p>WHEN QUESTION IS SILENT OR A) WHEN REVISED VALUES OF ASSETS & LIABILITIES ARE TO BE RECORDED</p> <p>Revaluation A/c is prepared & Profit/Loss of revaluation is distributed among old partner's in old ratio</p>
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Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Asset (decrease in value)	xxx	By Asset (increase in value)	xxx		
To Liability (increase in value)	xxx	By Liability (decrease in value)	xxx		
To Unrecorded liability	xxx	By Unrecorded asset	xxx		
To Profit (transferred to partner's capital account in old ratio)	xxx	By Loss (transferred to partner's capital account in old ratio)	xxx		
Total	xxx	Total	xxx		

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

Calculate the net effect of revaluation -----	₹
Increase in the value of Assets	xx
Add Decrease in the value of liabilities	xx
Less Decrease in the value of Assets	(xx)
Less Increase in the value of liabilities	(xx)

Net Effect on Revaluation	Gain/Loss
----------------------------------	------------------

For Gaining Partner = Share Gained × Net Effect on Revaluation

For Sacrificing Partner = Share Sacrificed × net Effect on Revaluation

i) In case the Net Effect is Gain on revaluation

Gaining Partner's Capital/Current Accounts Dr.

To Sacrificing Partner's Capital/Current Accounts

ii) In case the Net Effect is loss on revaluation

Sacrificing Partner's Capital/Current Accounts Dr.

To Gaining Partner's Capital/Current A/Cs

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

Solution:

Sacrificing ratio = Old ratio – New ratio

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

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

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

TREATMENT OF GOODWILL

Illustration 2. A, B & C are partners sharing profit & losses in the ratio of 5:4:1. It was decided that w.e.f. 15th April 2019. The profit sharing ratio will be 9:6:5.

Goodwill is to be valued at 2 years purchase of average profits of last 3 years profits. The profit for 2016-17, 2017-18 & 2018-19 were ₹ 42,000 & ₹ 48,000 & ₹ 60,000 respectively- Goodwill appears in the books at ₹ 10,000. Pass necessary journal entries for the treatment of goodwill.

Solution WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL

$$\text{Average Profit} = ₹ \frac{42,000 + ₹ 48,000 + ₹ 60,000}{3} = ₹ 50,000$$

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

Sacrificing/Gaining Ratio

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

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

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

Journal

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

Journal

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

TREATMENT OF RESERVES & LOSSES

Illustration 3) X, Y, Z are partners sharing profits & losses in the ratio of 5:3:2. They decide to share future profits & losses in the ratio of 2:3:5 w.e.f 1st April 2019

Following items appear in the balance sheet as on 31/3/18

General Reserve 75,000

Workmen Compensation Reserve ₹ 12,500

Profit & Loss Account ₹ 37,500

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

ii) Pass necessary journal entries

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

Solution (i)**Journal**

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

ii) ADJUSTMENT ENTRY

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

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

Working Notes**1) Calculation of Net Effect of Reserves & Profit**

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

2) Calculation of Sacrificing/Gaining Ratio

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

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

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

REVALUATION OF ASSETS & LIABILITIES

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

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

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

- (i) Stock be valued at ₹ 2,20,000.
- (ii) Machinery is to be depreciated by 10%
- (iii) A provision for doubtful debts is to be made on debtors at 5%
- (iv) Building is to be appreciated by 20%

(v) A liability for ₹ 5,000 included in Sundry creditors is not likely to arise-Partners agreed that the revised values are to be recorded in the books. You are required to prepare journal, revaluation account, partner's capital Accounts and revised Balance Sheet.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1st April 2019	Revaluation A/c Dr.		56,200	
	To Stock			20,000
	To Machinery			31,800
	To Provision for doubtful debts A/c (Revaluation of assets)			4,400

1st April 2019	Building A/c Sundry creditor A/c To Revaluation A/c (Revaluation of assets and liabilities)	Dr. Dr.	80,000 5,000	85,000
1st April 2019	Revaluation A/c To Piyush's capital A/c To Pooja's capital A/c To Praveen's capital A/c (Profit on revaluation)	Dr.	28,800	10,800 10,800 7,200

Dr. Revaluation A/c

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

Dr. Partner's Capital A/cs Cr.

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

Balance Sheet

As on April 1, 2019

Liabilities	(₹)	Assets	(₹)
Sundry creditors	43,000	Cash at bank	74,000
Bank Loan	72,000	Sundry debtors	88,000
Capital accounts		Less: provision 5%	(4,400)
Piyush 4,10,800		Stock	2,20,000
Pooja 3,10,800	10,28,800	Machinery	2,86,200
Praveen 3,07,200		Building	4,80,000
	11,43,800		11,43,800

Illustration 5- If in the above Illustration No4 Partners agreed that The revised values of assets & Liabilities are not to be shown the books- You are required to record the effect by passing a single journal entry- Also prepare the revised balance sheet.

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

Capital Accounts

Particulars	Piyush	Pooja	Praveen	Particulars	Piyush	Pooja	Praveen
To Pooja's Capital A/c	1,200			By bal. b/d	40,00,000	3,00,000	3,00,000
To Praveen Capital A/c	800			By Piyush's Capital A/c		1,200	800
To Balance c/d	398,000	3,01,200	3,00,800				
	4,00,000	3,01,200	3,00,800		4,00,000	3,01,200	3,00,800

Balance Sheet

As on April 1 2019

Balance Sheet of Piyush Pooja and Praveen

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

W.Note-1 Calculation of Gain due to revaluation

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

2. Calculation of Sacrificing / Gaining Ratio-

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

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

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

Amount Sacrificed/Gained

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

Illustration 6) Bhavya and Sakshi are partners in a firm- Sharing profits and losses in the ratio in the of 3 : 2 On 31st March-2018 their balance Sheet was as under.

Balance Sheet of Bhavya and Sakshi

Liabilites	(₹)	Assets	(₹)
Sundry Creditors	13,800	Furniture	16,000
General Reserve	23,400	Land and Building	56,000
Investment Fluetuation Fund	20,000	Investments	30,000
Bhavya's Capital	50,000	Trade Receivables	18,500
Sakshi's Capital	40,000	Cash in Hand	26,700
	1,47,200		1,47,200

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

- a. Investment to be valued at ₹20,000
- b. Goodwill of the firm valued at ₹24,000
- c. General Reserve not to be distributed between the partners-

You are required to pass necessary journal entries in the goods of the firm-Show working-

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

	(Being Investment Fluctuation Fund adjusted against the Fluctuations in market Value and balance was distributed amongst partners)			
31.3.18	Sakshi's Capital A/c Dr. To Bhavya's Capital A/c (Being adjustment of goodwill made between partners due to change in profit sharing ratio between partners)		2,400	2,400
31.3.18	Sakshi's Capital A/c Dr. To Bhavya's Capital A./c (Being Genrral Reserve adjusted among the partners without writing it off)		2340	2340

Sacrificing ratio = old ratio & new ratio

Bhavya's = $\frac{3}{5} - \frac{1}{2} = \frac{1}{10}$ Sacrifice

Sakshi's = $\frac{2}{5} - \frac{1}{2} = \frac{1}{10}$ Gain

Change in Profit sharing ratio

7. A, B and C sharing profits and losses in the ratio of 4 : 3 : 2, decide to share future profits and losses in the ratio of 2 : 3 : 4 with effect from 1st April, 2018. An extract of their Balance Sheet as at 31st March, 2020 is as follows:

Liabilities	Assets
Workmen Compensation Reserve 63,000	

Show the accounting treatment under the following alternative cases:

Case 1: If there is no claim made against Workmen Compensation Reserve.

Case 2: If a claim on account of workmen compensation is estimated at 18,000.

Case 3: If claim on account of workmen compensation reserve is exactly 63,000.

Case 4: If claim on account of workmen compensation reserve is 72,000,

Solution:

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 1 April	Case 1 Workmen Compensation Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of workmen compensation reserve to partners' capital accounts in their old profit-sharing ratio)		63,000	28,000 21,000 14,000
2020 1 April	Case 2 Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of surplus workmen compensation reserve to partners' capital accounts in their old profit-sharing ratio)		63,000	18,000 20,000 15,000 10,000
2020 1 April	Case 3 Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c (Being amount for workmen compensation claim provided for)		63,000	63,000
2020 1 April	Case 4 Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Provision for Workmen Compensation Claim A/c (Being amount provided for workmen compensation claim)		63,000 9,000	72,000
1 April	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred partners capital accounts in old ratio)		4,000 3,000 2,000	9,000

8. A, B and C are sharing profits and losses in the ratio of 4 : 3 : 2, decided to share future profits and losses in the ratio of 2 : 3 : 4 with effect from 1st April, 2018.

An extract of their Balance Sheet as at 31st March, 2020 is:

Liabilities	Assets
Investments Fluctuation Reserve 18,0000	Investments (At cost) 2,00,000

Case 1: If there is nor additional information.

Case 2: If the market value of investments is ₹ 2,00,000.

Case 3: If the market value of investment is ₹ 1,91,000.

Case 4: If the market value of investment is ₹ 2,18,000.

Case 5: If the market value of investments is ₹ 1,73,000.

Solution.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 1 April	Case 1 Investment Fluctuation Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of excess Investment Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		18,000	8,000 6,000 4,000
2020 1 April	Case 2 Investment Fluctuation Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of excess Investment Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		18,000	8,000 6,000 4,000
2020 1 April	Case 3 Investment Fluctuation Reserve A/c Dr. To Investments A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of excess Investments Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		18,000	9,000 4,000 3,000 2,000

2020	Case 4			
1 April	Investments Fluctuation Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of excess Investments Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		18,000	8,000 6,000 4,000
1 April	Investment A/c Dr. To Revaluation A/c (Being the value of Investment brought up to market value)		18,000	18,000
1 April	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of gain (profit) on revaluation)		18,000	8,000 6,000 4,000
2020	Case 5			
1 April	Investments Fluctuation Reserve A/c Dr. Revaluation A/c Dr. To Investment A/c (Being the fall in value of investment adjusted through Investments Fluctuation Reserve and shortfall charged to Revaluation Account)		18,000 9,000	27,000
1 April	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c		4,000 3,000 2,000	9,000

9. A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2019 stood as follows:

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital A/c			Land and Building		3,50,000
A	2,50,000		Machinery		2,40,000
B	2,50,000		Computers		70,000

C	2,00,000	7,00,00	Investments (Market value ₹ 90,000)	1,00,000
General Reserve		60,000	Sundry Debtors	50,000
Investments Fluctuation Reserve		30,000	Cash in Hand	10,000
Sundry Creditors		90,000	Cash at Bank	55,000
			Advertisement Suspense	5,000
		<u>8,80,000</u>		<u>8,80,000</u>

They decided to share profits equally w.e.f 1st April, 2019. They also agreed that:

- (i) Value of Land and Building be decreased by 5%.
- (ii) Value of Machinery be increased by 5%.
- (iii) A Provision for Doubtful Debts be created @ 5% on Sundry debtors.
- (iv) A Motor Cycle valued at ₹ 20,000 was unrecorded and is not to be recorded in the books.
- (v) Out of Sundry Creditors ₹ 10,000 is not payable.
- (vi) Goodwill is to be valued at 2 years' purchase of last 3 years profits. Profits being for 2018-19 ₹ 50,000 (Loss); 2017-18 ₹ 2,50,000 and 2016-17 ₹ 2,50,000.
- (vii) C was to carry out the work for reconstituting the firm at a remuneration (including expenses) of ₹ 5,000 which was paid by cheque. Expenses came to ₹ 3,000.

Pass Journal entries and prepare Revaluation Account.

Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
2019 April 1	General Reserve A/c	Dr.	60,000	
	To A's Capital A/c			30,000
	To B's Capital A/c			18,000
	To C's Capital A/c			12,000
	(Reserve distributed)			
	A's Capital A/c	Dr.	2,500	
	B's Capital A/c	Dr.	1,500	
C's Capital A/c	Dr.	1,000		
	To Advertisement Suspense A/c			5,000
	(Advertisement Suspense distributed)			

Investment Fluctuation Reserve A/c	Dr.	30,000	
To Investment A/c			10,000
To A's Capital A/c			10,000
To B's Capital A/c			6,000
To C's Capital A/c			4,000
(Investment Fluctuation Reserve distributed)			
Machinery A/c	Dr.	12,000	
Motor Cycle A/c	Dr.	20,000	
Creditors A/c	Dr.	10,000	
To Revaluation A/c			42,000
(Assets revalued)			
Revaluation A/c	Dr.	25,000	
To Land and Building A/c			17,500
To Provision for doubtful debts A/c			2,500
To Bank A/c (Recreation)			5,000
Revaluation A/c	Dr.	17,000	
To A's Capital A/c			8,500
To B's Capital A/c			5,100
To C's Capital A/c			3,400
(Profit on revaluation transferred to Partners' Capital A/c)			
B's Capital A/c	Dr.	10,000	
C's Capital A/c	Dr.	40,000	
To A's Capital A/c			50,000
(Goodwill Adjusted)			

Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
Land & Building A/c	17,500	Machinery A/c	12,000		
Provision for Doubtful Debts A/c	2,500	Motor Cycle A/c	20,000		
Bank A/c (Remuneration)	5,000	Creditors A/c	10,000		
Profit transferred to:					
A	8,500				
B	5,100				
C	3,400				
	17,000				
	<u>42,000</u>				<u>42,000</u>

Working Notes:**WN 1:** Calculation of sacrifice or gain

$$A : B : C = 5 : 3 : 2 \text{ (Old Ratio)}$$

$$A : B : C = 1 : 1 : 1 \text{ (New Ratio)}$$

Sacrificing (or Gaining Ratio) = Old ratio – New Ratio

$$\text{A's Share} = 5/10 - 1/3 = 5/20 \text{ (Sacrifice)}$$

$$\text{B's Share} = 3/10 - 1/3 = 1/30 \text{ (Gain)}$$

$$\text{C's Share} = 2/10 - 1/3 = 4/30 \text{ (Gain)}$$

WN 2: Valuation of Goodwill

$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{No. of years' Purchase} \\ &= 1,50,000 \times 2 = ₹ 3,00,000 \end{aligned}$$

$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{No. of years' Purchase} \\ &= 1,50,000 \times 2 = ₹ 3,00,000 \end{aligned}$$

WN 3: Adjustment of Goodwill

$$\text{Amount credited to A's Capital A/c} = 3,00,000 \times 5/30 = ₹ 50,000$$

$$\text{Amount debited to B's Capital A/c} = 3,00,000 \times 1/30 = ₹ 10,000$$

$$\text{Amount debited to C's Capital A/c} = 3,00,000 \times 4/30 = ₹ 40,000$$

10. Parth, Raman and Zaisha are partners in a firm manufacturing furniture. They have been sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2017 they decided to share future profits and losses in the ratio of 2 : 5 : 3. Their Balance Sheet showed a debit balance of ₹ 4,000 in Profit & Loss Account; balance of ₹ 36,000 in General Reserve and a balance of ₹ 12,000 in Workmen's Compensation Reserve. It was agreed that:
- The goodwill of the firm be valued at ₹ 76,000.
 - The Stock (book value of ₹ 40,000) was to be depreciated by 8%.
 - Creditors amounting to ₹ 900 were not likely to be claimed.
 - Claim on account of Workmen's Compensation amounted to ₹ 20,000.
 - Investments (book value ₹ 38,000) were revalued at ₹ 40,000.

Pass necessary Journal Entries for the above

Solution.**Books of the Parth, Raman And Zaisha****Journal Entries**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 April 1	Parth's Capital A/c	Dr.	2,000	
	Raman's Capital A/c	Dr.	1,200	

	Zaisha's Capital A/c To P & L A/c (Being Debit balance of P & L A/c Distributed in old ratio)	Dr.	800	4,000
April 1	General Reserve A/c To Parth's Capital A/c To Raman's Capital A/c To Zaisha's Capital A/c (Being General Reserve distributed in old ratio)	Dr.	36,000	18,000 10,800 7,200
April 1	Revaluation A/c Workmen's Compensation Reserve A/c To Provision for Workmen's Compensation Claim A/c (Being Liability created for workmen's compensation claim)	Dr. Dr.	8,000 12,000	20,000
April 1	Revaluation A/c To Stock A/c (Being decrease in value of stock)	Dr.	3,200	3,200
April 1	Investments A/c Creditors A/c To Revaluation A/c (Being increase in value of investments and amount not likely to be claimed by creditors)	Dr. Dr.	2,000 900	2,900
April 1	Parth's Capital A/c Rman's Capital A/c Zaisha's Capital Ac To Revaluation A/c (Being Loss on Revaluation transferred in old ratio)	Dr. Dr. Dr.	4,150 2,490 1,660	8,300
April 1	Raman's Capital A/c (2/10 of 76,000) Zaisha's Capital A/c (1/10 of 76,000) To Parth's Capital A/c (3/10 of 76,000)	Dr. Dr.	15,200 7,600	22,800

Working Notes:

- (i) Revaluation A/c Debited with 8,000 + 3,200 11,200
Revaluation A/c Credited with 2,900
Therefore, Loss on Revaluation 8,300
- (ii) Calculation of Sacrifice or Gain

Old Ratio 5 : 3 : 2

New Ratio 2 : 5 : 3

$$\text{Parth: } \frac{5}{10} - \frac{2}{10} = \frac{3}{10} \text{ Sacrifice}$$

$$\text{Raman: } \frac{3}{10} - \frac{5}{10} = \frac{2}{10} \text{ Gain}$$

$$\text{Zaisha: } \frac{2}{10} - \frac{3}{10} = \frac{1}{10} \text{ Gain}$$

CHAPTER-4 CHANGE IN PROFIT SHARING RATIO

(MCQs) AMONG THE EXISTING PARTNERS

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

- a) A's Capital A/c Dr. by (₹) 4800; B's Capital A/c Cr. by (₹) 3600;
C's Capital A/c Cr. by (₹) 1200
- b) A's Capital A/c Cr. by (₹) 3600; B's Capital A/c Dr. by (₹) 2400;
C's Capital A/c Dr. by (₹) 1200
- c) A's Capital A/c Dr. by (₹) 1200; C's Capital A/c Cr. by (₹) 1200;
- d) A's Capital A/c Cr. by (₹) 1200; C's Capital A/c Dr. by (₹) 1200;

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

- a) Dr. A by (₹) 50,000; Cr. B by (₹) 50,000
- b) Dr. A by (₹) 50,000; Cr. C by (₹) 50,000
- c) Cr. A by (₹) 50,000; Dr. B by (₹) 50,000
- d) Cr. A by (₹) 50,000; Dr. C by (₹) 50,000

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

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

- c) (₹) 9000 is shown as provision in revaluation A/c
- d) (₹) 9000 is distributed amongst partners in their Capital ratio.

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

- a) Revaluation of Partnership
- b) Reconstitution of Partnership
- c) Realization of Partnership
- d) None of the Above.

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

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

The Single Adjusting entry will be

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

Answers to MCQ

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

Change In Profit Sharing Ratio Assertion Reasoning Based Questions

1. **Assertion:** Any change in the existing agreement amounts to reconstitution of the partnership firm.

Reasoning: This results in an end of the existing agreement and a new agreement comes into being with a changed relationship among the members of the partnership firm and/or their composition

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

2. Assertion: Sometimes the partners of a firm may decide to change their existing profit sharing ratio.

Reasoning: This may happen on account of a change in the existing partners' role in the firm.

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

3. Assertion: Goodwill is the present value of a firm's anticipated excess earnings.

Reasoning: Goodwill is the capitalised value attached to the differential profit capacity of a business.

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

4. Assertion: Goodwill exists only when the firm earns super profits.

Reasoning: Any firm that earns normal profits or is incurring losses has no goodwill.

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

5. Assertion: A firm that produces high value added products or having a stable demand is able to earn more profits.

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

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (c) A is correct but R is incorrect.
- (d) A is incorrect but R is correct.

Statement Based Questions

- 1. Statement I:** A Change in profit sharing ratio means one or more partners acquires interest from another partner or partners.

Statement II: Here its share of profit partnet decreases to Same extent

 - (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
- 2. Statement:** When all the partners of a firm agree to change their profit sharing ratio, the ratio may be changed

Statement II: The ratio in which the partners are to share the profits in future on reconstitution is known as New profit sharing ratio.

 - (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
- 3. Statement I:** Gaining Ratio is the ratio in which the profit sharing ratio of gaining partners increases.

Statement II: It is calculated by taking difference between New profit sharing ratio and old profit sharing ratio.

 - (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
- 4. Statement I:** Sacrificing Ratio is the ratio in which the profit sharing ratio of sacrificing partners decreases.

Statement II: It is calculated by taking difference between old profit sharing ratio and new profit sharing ratio.

 - (a) Both Statements are correct.
 - (b) Both Statements are incorrect.
 - (c) Statement I is correct and Statement II is incorrect.
 - (d) Statement II is correct and Statement I is incorrect.
- 5. Statement I:** If old ratio-new ratio is negative it means sacrifice and if it is positive it means gain.

Statement II: In case of change in profit sharing ratio, the sacrificing partner must compensate the gaining partner by paying the proportionate amount of goodwill.

 - (a) Both Statements are correct.
 - (b) Both statements are incorrect.

- (c) Statement I is correct and statement II is incorrect.
 (d) Statement II is correct and statement I is incorrect.

Journal Entry Type Questions

1. Anant, Gulab and Khushbu were partners in a firm sharing profits in the ratio of 5:3:2. From 1st April, 2014, they decided to share the profits equally. For this purpose the goodwill of the firm was valued of ₹2,40,000. Necessary journal entry for the treatment of goodwill on change in the profit sharing ratio of Anant, Gulab and Khushbu will be:

A	Gulab's Capital A/c Dr Khushbu's Capital A/c Dr To Anant's Capital A/c (being adjustment entry is made)	8,000 32,000	40,000
B	Gulab's Capital A/c Dr. Khushbu's Capital A/c Dr. To Anant's Capital A/c (being adjustment entry is made)	32,000 8,000	40,000
C	Gulab's Capital A/c To Khushbu's Capital A/c (being adjustment entry is made)	40,000	40,000
D	Khushbu's Current A/c To Gulab's Current A/c (being adjustment entry is made)	40,000	40,000

1. Kumar, Gupta and Kavita were partners in a firm sharing profits and losses equally. The firm was engaged in the storage and distribution of canned juice and its godowns were located at three different places in the city. Each godown was being managed individually by Kumar, Gupta and Kavita. Because of increase in business activities at the godown managed by Gupta, he had to devote more time. Gupta demanded that his share in the profits of the firm be increased to which Kumar and Kavita agreed. The new profit sharing ratio was agreed to be 1:2:1. For this purpose, the goodwill of the firm was valued at ₹7,20,000.

Necessary journal entry for the treatment of goodwill on change in the profit sharing ratio will be.

A	Gulab's Capital A/c Dr To Kumar's Capital A/c To Kavita Capital A/c (being adjustment entry is made)	1,20,000	60,000 60,000
---	--	----------	------------------

B	Kumar's Capital A/c Dr. To Gupta's Capital A/c To Kavita's Capital A/c (being adjustment entry is made)	1,20,000	60,000 60,000
C	Kavita's Capital A/c To Gupta's Capital A/c To Kumar's Capital A/c (being adjustment entry is made)	1,20,000	60,000 60,000
D	Kavita's Current A/c To Gupta A/c (being adjustment entry is made)	1,20,000	1,20,000

3. A and B shared profits & loss in the ratio of 2:3. starting 1st April 2019, they agreed to distribute profits equally. The firm goodwill was valued at ₹30,000. The adjustment entry will be.

A	A's Capital A/c Dr. To B's Capital A/c (being adjustment entry is made)	600	600
B	A's Capital A/c Dr. To B's Capital A/c (being adjustment entry is made)	6,000	6,000
C	B's Capital A/c To A's Capital A/c (being adjustment entry is made)	600	600
D	B's Current A/c Dr. To A's Capital A/c (being adjustment entry is made)	6,000	6,000

4. Arjun and Rama distributed profits and losses in the ratio 3:2 starting 1st April 2019, they accepted to distribute profits equally. Goodwill of the business was accounted for at 50,000. The adjustment entry will be

A	Rama's Capital A/c Dr. To Arjun's Capital A/c (being adjustment entry is made)	5,000	5,000
B	Rama's Capital A/c Dr. To Arjun's Capital A/c (being adjustment entry is made)	500	500

C	Arjuna's Capital A/c To Ram's Capital A/c (being adjustment entry is made)	500	500
D	Arjuna's Current A/c Dr. To Ram's Capital A/c (being adjustment entry is made)	5,000	5,000

5. Harish and Manish are partners sharing profits in the ratio of 4:1. They decided to distributed profits equally starting 1st April 2019. Their balance sheet as on 31st March 2019 shows a balance of advertisement suspense of ₹40,000. Journal entry at the time of change in profit sharing ratio will be:

A	Harish Capital A/c Dr. Manish's Capital A/c Dr. To Advertisement Suspense A/c (Being the advertisement suspense account written off)	32,000 8,000	40,000
B	Harish's Capital A/c Dr. Manish's Capital A/c Dr. To Advertisement Suspense A/c (Being the advertisement suspense account written off)	16,000 24,000	40,000
C	Harish's Capital A/c Dr. To Manish's Capital A/c (being adjustment entry is made)	10,000	10,000
D	Manish's Current A/c Dr. Harish's Current A/c Dr. To Cheena's Capital A/c (being adjustment entry is made)	32,000 8,000	40,000

Answer:

Assertion Reasoning Based Questions

- (a) Both A and R are correct, and R is the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (b) Both A and R are correct, but R is not the correct explanation of A.
- (a) Both A and R are correct, and R is the correct explanation of A.
- (c) A is correct but R is incorrect.

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

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

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

Balance Sheet as on 1/4/19

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

From the above date the partners decided to share the future profits equally.

For this purpose the goodwill of the firm was valued at ₹ 2,70,000

The partners also agreed for the following -

- (1) The claim against workmen compensation reserve was estimated at ₹ 2,00,000
- (2) Capitals of the partners was to be adjusted according to the new profit sharing ratio by opening Partners Current A/c

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

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

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

Profit sharing ratio w.e.f 1st April 2019 was decided to be equal following was also agreed among the partners;

- (1) Stock to be reduced to ₹ 40,000
- (2) Provision for D/d to be written back, Since all debtors are good-
- (3) Computers to be reduced by ₹ 20,000
- (4) Out of the salaries Payable, ₹ 10,000 was not payable
- (5) Outstanding expenses were not payable
- (6) An unrecorded asset (motor cycle) valued at ₹ 10,000 to be accounted
- (7) Goodwill of the firm was valued at ₹ 50,000
- (8) Total capital of the firm ₹ 6,00,000 was to be in profit sharing ratio excess capital to be withdrawn & short to be introduced

Prepare Revaluation Account. Partners Capital Accounts Balance Sheet of the new firm.

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

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

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

- (i) Stock is to be valued at ₹1,10,000
- (ii) Machinery is to be depreciated by 10%
- (iii) A provision for doubtful debts is to be made on debtors @ 5%.
- (iv) Building to be appreciated by 20%
- (v) A liability for ₹3000 included in Sundry Creditors are not likely to arise.

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

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2016 April 1	Revaluation A/c To Stock To Machinery A/c To Provision for Doubtful Debt A/c (For Decrease in the value of assets and provisions made for D/D)		(a)	(b) (c) (d)
April 1	Building A/c Dr. Creditors A/c Dr. To Revaluation A/c (For increase in the value of assets and decrease in the value of liabilities)		(e) (f)	(g)
April 1	Ps Capital A/c Dr. To Qs Capital A.c To Rs Capital A/c (for transferring profit on revaluation to the capital A/c of partners in old profit sharing ratio)		(H)	(I) (J)
April 1	P's Capital A/c Dr. Q's Capital A/c Dr. R's Capital A/c Dr. To (n) (For tranfer of advertisement expenditure to all partners)		(k) (l) (m)	

Answers to Practice Exercise

- Q.1 B's Capital A/c Dr 3000
C's Capital A/c Dr 12000
To A's Capital Ac 15,000
- Q.2. Keshav's Capital A/c Dr. 32000
To Meenakshi's Capital A/c 16000
To Mohit's Capital A/c 16000
- Q.3. R's Capital 6,400
To P's Capital A/c 3200
To Q's Capital A/c 3200
- Q.4. Loss of Revaluation = ₹ 30,000
P's Currentl A/c (Dr) ₹ 18600

Q's Current A/c (Dr) ₹ 14000
R's Current A/c ₹ 38000
R's Current A/c ₹ 1,62,000

Q.5 Gain of Revaluation A/c = ₹ 10,000
Om, Jai, Jagdish Cap A/c = ₹ 2,00,000 each
Shortage of Capital for Jai = ₹ 26,666
Shortage of Capital for Jagdish = ₹ 56,667
Surplus of Capital for Om = ₹ 1,33,333

Q.6 a) 28, 400 b) 10,000 c) 15,900 d) 2,500
e) 40,000 f) 3,000 g) 43,000 h) 43,000
i) 5,475 j) 5,475 k) 3,650 l) 1,500
m) 1,500 n) 1,000 o) 4,000

CHAPTER 4

ADMISSION OF A NEW PARTNER

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

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

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

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

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

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

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

Treatment of Investment Fluctuation Reserve

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

	<table border="1" style="width: 100%;"> <tr> <td colspan="2" style="text-align: center;">(iii) When fall in value is more than investment</td> </tr> <tr> <td style="width: 70%;">Fluctuation Reserve</td> <td></td> </tr> <tr> <td>Investment Fluctuation Reserve A/c</td> <td style="text-align: right;">Dr.</td> </tr> <tr> <td>Revaluation A/c</td> <td style="text-align: right;">Dr.</td> </tr> <tr> <td colspan="2">To Investment A/c</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>Old Partners' Capital / Current A/cs</td> <td style="text-align: right;">Dr.</td> </tr> <tr> <td colspan="2">To Revaluation A/c</td> </tr> </table> <p>BV stands for Book value of Investment MV stands for Market value of investment</p>	(iii) When fall in value is more than investment		Fluctuation Reserve		Investment Fluctuation Reserve A/c	Dr.	Revaluation A/c	Dr.	To Investment A/c				Old Partners' Capital / Current A/cs	Dr.	To Revaluation A/c												
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<p>Revaluation of Assets and Reassessment of Liabilities</p>	<p>It is a nominal account and prepared to revalue assets and reassess liabilities. (A) When Revised Values of Assets and Liabilities are to be Recorded Revaluation A/c is prepared and Profit/Loss of revaluation is distributed among old partners' in old ratio.</p> <table style="width: 100%; text-align: center;"> <tr> <td style="width: 30%;">Dr.</td> <td style="width: 40%;">Revaluation A/c</td> <td style="width: 30%;">Cr</td> </tr> </table> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th style="width: 25%;">Particulars</th> <th style="width: 15%;">Amount (Rs)</th> <th style="width: 25%;">Particulars</th> <th style="width: 35%;">Amount (₹)</th> </tr> </thead> <tbody> <tr> <td>To asset (decrease in value)</td> <td>xxx</td> <td>By asset (increase in value)</td> <td>xxx</td> </tr> <tr> <td>To liability (increase in value)</td> <td>xxx</td> <td>By liability (decrease in value)</td> <td>xxx</td> </tr> <tr> <td>To Unrecorded liability</td> <td>xxx</td> <td>By Unrecorded asset</td> <td>xxx</td> </tr> <tr> <td>To profit (transferred to old partners capital account in old ratio)</td> <td>xxx</td> <td>By Loss (transferred to old partners' capital account in oldratio)</td> <td>xxx</td> </tr> <tr> <td>Total</td> <td>xxx</td> <td>Total</td> <td>xxx</td> </tr> </tbody> </table>	Dr.	Revaluation A/c	Cr	Particulars	Amount (Rs)	Particulars	Amount (₹)	To asset (decrease in value)	xxx	By asset (increase in value)	xxx	To liability (increase in value)	xxx	By liability (decrease in value)	xxx	To Unrecorded liability	xxx	By Unrecorded asset	xxx	To profit (transferred to old partners capital account in old ratio)	xxx	By Loss (transferred to old partners' capital account in oldratio)	xxx	Total	xxx	Total	xxx
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Total	xxx	Total	xxx																									
<p>Adjustment of capital</p>	<p>(i) Adjustment of Old Partners' Capital on the basis of new Partners' Capital Step 1. Calculate total Capital of the firm on the basis of New Partners' Capital : Total capital of the firm on the = $\frac{\text{Capital of the New Partner}}{\text{Share of profit of New Partner}}$ basis of New Partners' Capital Step 2. Determine New Capital of each Partner by dividing the Total Capital in new profit sharing ratio. Step 3. Ascertain Present Capital of the Old Partners' after all adjustments</p>																											

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) C gets 1/5 wholly from A

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

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

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

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

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

SACRIFICING RATIO

Illustration 2.

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

Calculate (a) Sacrificing ratio

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

Solution:

(a) Calculation of Sacrificing Ratio

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

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

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

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

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

$$\Rightarrow 12 : 6 \text{ or } 2 : 1$$

(b) Calculation of New Profit sharing ratio

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

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

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

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

$$\begin{aligned} X : Y : P : Q &= 24 : 18 : 12 : 6 \\ &= 4 : 3 : 2 : 1 \end{aligned}$$

Illustration 3.

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

Calculate New Profit Sharing Ratio and Sacrificing Ratio.

Solution:

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

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

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

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

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

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

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

$$\text{Y's new share} = \frac{2}{5} - \frac{3}{16} = \frac{32-15}{80} = \frac{17}{80}$$

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

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

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

Admission of a partner.

New Profit sharing Ratio

Illustration 4.

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

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

Future ratio of Guddu and Bablu = 3 : 2

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

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

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

So, N.P.S.R.

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

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

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

Sacrificing ratio = old Ratio – New Ratio

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

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

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

original share calculate new profit sharing ratio.

Sol. Old profit sharing ratio = 1 : 1

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

(Treat Partner who is retaning his/her share as new partner to

calculate share of Profit)

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

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

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

New P.S.R.

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

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

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

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

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

ADMISSION OF A PARTNER

REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES

When revised values of assets and liabilities are to be recorded

Revaluation Account is opened.

It's a nominal account.

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

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

Journal entries of revaluation account

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

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

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

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

- (i) Value of stock is to be increased by ₹ 5,000 {Book value of stock is ₹ 1,00,000}.
- (ii) Value of stock is to be increased to ₹ 1,05,000 (Book value of stock is ₹ 1,00,000).
- (iii) Value of stock is to be brought up to 105% of its value (Book value of stock is ₹ 1,00,000).

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

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

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

So 100% value is

$$90,000 \times 100/90 = 1,00,000.$$

Therefore, Increase in Plant is ₹ 10,000.

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

(v) Book value of Machinery is ₹1,10,000 which is 110%.

So 100% value is

$$1,10,000 \times 100/110 = 1,00,000 .$$

Therefore, Decrease in machinery is ₹ 10,000.

Revaluation A/c Dr 10,000

To Machinery 10,000

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

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

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

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

Question for practice

- Q. K and S are partners sharing profits in the ratio of 3:2. They share. Pass Journal entries for the following on P's admission
- (i) Value of furniture is to be increased by ₹10,000 (Book ₹50,000).
 - (ii) Value of furniture is to be increased to ₹50,000 (Book ₹40,000).
 - (iii) Value of furniture is to be brought up to 120% of its value furniture is ₹20,000).
 - (iv) Stock is found undervalued by ₹4,000 (Book value of stock ₹ 20,000)
 - (v) Creditors are written back by ₹ 5,000.
 - (vi) Debtors ₹ 80,000. Existing provision for doubtful ₹ 4,000 debts are to be written off on P's admission ₹ 5,000 and 5% Provision is to be maintained for doubtful debts on debtors

Illustration 6.

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

Solution:

$$\text{Goodwill share of C} = ₹ 3,00,000 - ₹ 2,50,000 = ₹ 50,000$$

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

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

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

Calculate the amount of capital to be brought by C.

Solution:

Combined capital of A and B = ₹ 3,85,000 + ₹ 4,15,000 = ₹ 8,00,000

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

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

$$\frac{4}{5} = ₹ 8,00,000$$

$$\text{C's capital} = ₹ 8,00,000 \times \frac{5}{4} \times \frac{1}{5} = ₹ 2,00,000$$

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

Solution:

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

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

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

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

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

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

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

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

Illustration 7. When Premium for Goodwill is Brought in Cash

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

Journalise the above transaction when—

- (i) Goodwill is retained in the firm
- (ii) Goodwill is withdrawn by old partners

Solution:

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

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

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

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

Working Notes:

1. Calculation of Sacrificing ratio–

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

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

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

2. Calculation of C's share of Goodwill–

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

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

(b) When Premium for Goodwill is Brought in Kind

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

Solution:**Goodwill is Brought in Kind**

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

(c) When Premium for Goodwill is not Brought in by partner

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

Journalize the above transaction.

Solution:

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

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

Working Note: Calculation of New Profit sharing ratio—

Let total share of the firm = 1

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

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

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

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

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

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

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

Journalize the above transaction.

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

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

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

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

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

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

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

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

Illustration 8.

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

The following terms were agreed upon—

- (i) Rahul will bring ₹ 1,50,000 as his capital and his share of goodwill in cash.
 - (ii) Goodwill of the firm be valued at ₹ 2,40,000.
 - (iii) There was a claim of Workmen compensation for ₹ 1,70,000
 - (iv) The market value of investment was ₹ 18,000 less than the Book value.
 - (v) The partners decided to share future profits in the ratio of 3 : 1 : 1.
- Pass the necessary Journal entries on Rahul's admission.

Solution:

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
1 st April 2019	General Reserve A/c Dr. To Naresh's Capital A/c To Suresh's Capital A/c (Being General Reserve distributed between old partners in oldratio, 3 : 1)		1,20,000	90,000 30,000
	Naresh's Capital A/c Dr. Suresh's Capital A/c Dr. To Profit and Loss A/c (Being P and L distributed between old partners in old ratio, 3 : 1)		45,000 15,000	60,000

Solution :

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

Working Note :

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

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

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

Total capital of A, B and C

$$= ₹ 26000 + ₹ 22000 + ₹ 26000$$

$$= ₹ 74000$$

Goodwill of the firm

$$= \text{Total capital of new firm} - \text{Combined capital of A, B and C}$$

$$= ₹ 104000 - ₹ 74000$$

$$= ₹ 30000$$

C's share of Goodwill

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

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

Illustration 10.

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

Liabilities	₹	Assets	₹
Creditors	42,000	Current Assets	2,00,000
Employee's Provident Fund	20,000	Investments	50,000
Contingency Reserve	30,000	Furniture	20,000
Profit and Loss Account	45,000	Machinery	90,000

Workment Compensation Reserve	18,000	Advertisement Expenditure Deferred (Revenue Expenditure)	20,000
Investment Fluctuation Reserve	25,000		
Capitals X	1,20,000		
Capitals Y	80,000		
	<u>2,00,000</u>		
	3,80,000		<u>3,80,000</u>

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

- Claim on account of Workmen's Compensation is estimated at ₹ 10,000.
- Market value of Investments is ₹ 46,000.

Give necessary journal entries to adjust accumulated profits and losses.

Solution:

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
1 st April 2019	Investment Fluctuation Reserve Dr. To Investment A/c (Value of Investment brought down to market value)		4,000	4,000
	Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c (Provision made for workmen compensation claim)		10,000	10,000
1 st April 2019	Contingency Reserve Dr. Profit and Loss A/c Dr. Workmen Compensation Reserve (₹ 18,000 – ₹ 10,000) Dr. Investment Fluctuation Reserve (₹ 25,000 – ₹ 4,000) Dr. To X's Capital A/c To Y's Capital A/c (Transfer of accumulated profits to old partners in their old profit sharing ratio i.e., 3 : 2)		30,000 45,000 8,000 21,000	62,400 41,600

1 st April 2019	X's Capital A/c	Dr.	12,000	20,000
	Y's Capital A/c	Dr.	8,000	
	To Advertisement Expenditure A/c			
	(Transfer of accumulated loss to old partners in their old profit sharing ratio i.e., 3 : 2)			

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

Illustration 11.

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

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

Z is admitted into partnership on the following terms:

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

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

Solution:

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Revaluation A/c Dr. To Stock A/c To Provision for Doubtful Debts To Provision for Discount on Debtors (Decrease in the value of stock and creation of provision on debtors)		6,560	5,600 200 760
	Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Liability for Workmen's Compensation A/c (Recording of liability for Workmen's Compensation)		12,000 3,000	15,000
	X's Capital A/c Dr. Y's Capital A/c Dr. To Revaluation A/c (Loss on revaluation transferred to old partner's Capital A/cs)		5,975 3,585	9,560
	X's Capital A/c Dr. Y's Capital A/c Dr. To Investments A/c (Investments taken over by old partners)		5,000 3,000	8,000
	X's Capital A/c Dr. Y's Capital A/c Dr. To Goodwill A/c (Existing goodwill written off in old ratio i.e., 5 : 3)		6,250 3,750	10,000
	Z's Current A/c Dr. To X's Capital A/c To Y's Capital A/c (Z's share of goodwill credited to old partners in the sacrificing ratio i.e., 13 : 3)		6,000	4,875 1,125

Sacrificing ratio = Old ratio – New ratio

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

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

Sacrificing ratio = 13 : 3

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

Illustration 10.

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

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

On the above date, the partners decide to admit Anshu as a partner on the following terms:

- (i) The new profit-sharing ratio of Deepika, Rajshree and Anshu will be 5 : 3 : 2, respectively
- (ii) Anshu shall bring ₹ 32,000 as his capital.
- (iii) Anshu is unable to bring in any cash for his share of goodwill. Partners, therefore, decide to calculate goodwill on the basis of Anshu's share in the profits and the capital contribution made by him to the firm.
- (iv) Plant and Machinery would be increased by ₹ 12,000.
- (v) Stock would be increased to ₹ 40,000.

- (vi) Provision for Doubtful Debts is to be maintained at ₹ 4,000. Value of Land and Building has appreciated by 20%. Furniture has depreciated by 10%.
- (vii) There is an additional liability of ₹ 8,000 being outstanding salary payable to employees of the firm. This liability is not included in the outstanding liabilities, stated in the above Balance sheet. Partners decide to show this liability in the books of accounts of the reconstituted new firm.

Prepare revaluation account, Partner's Capital Accounts and the Balance Sheet Deepika, Rajshree and Anshu.

Solution:

Dr.		Revaluation Account		Cr.	
Particulars	₹	Particulars	₹		
To Provision for Doubtful debts	3,200	By Plant and Machinery	12,000		
To Furniture	1,000	By Stock	8,000		
To Outstanding Salary	8,000	By Land and Building	10,000		
To Profit transferred to :					
Deepika Capital A/c (3/5)	10,680				
Rajshree Capital A/c (2/5)	7,120				
	<u>17,800</u>				
	30,000				<u>30,000</u>

Dr.				Capital Accounts				Cr.			
Particulars	X	Y	Z	Particulars	X	Y	Z				
	₹	₹	₹		₹	₹	₹				
				By Balance b/d	48,000	40,000	—				
				By Revaluation	10,680	7,120	—				
				By Anshu's Current A/c	2,220	2,220	—				
				By Bank A/c	—		32,000				
To Balance c/d	60,900	49,340	32,000								
	<u>60,900</u>	<u>49,340</u>	<u>32,000</u>		<u>60,900</u>	<u>48,340</u>	<u>32,000</u>				

Opening Balance Sheet
(as at 1st April, 2017)

Liabilities	₹	Assets	₹
Sundry Creditors	16,000	Cash in Hand	1,200
Public Deposits	61,000	Cash at Bank	28,800
Outstanding Liabilities	10,000	Stock	40,000
Capital Accounts :	2,000	Prepaid Insurance	1,000
Deepika 48,000		Sundry Debtors	
Rajshree 40,000		28,000	
Anshu 32,000	1,42,240	Less : Provision	
		4,000	24,800
		Plant and Machinery	60,000
		Land and Building	60,000
		Furniture	9,000
		Anshu's Current A/c	4,440
	<u>2,29,240</u>		<u>2,29,240</u>

Working Note: (1) Bank Balance : ₹ 2,800 + ₹ 32,000 – Bank Overdraft ₹ 6,000 = ₹ 28,800.

(2) Calculation of Hidden Goodwill –

Total capital of firm based on Anshu share should be–

$$₹ 32,000 \times \frac{10}{2} = ₹ 1,60,000$$

Less Capital of Deepika (48,000 + 10,680) = ₹ (58,680)

Capital of Rajshree (40,000 + 7,120) = ₹ (47,120)

Capital of Anshu = ₹ (37,000)

Value of Goodwill = ₹ 22,200

$$\text{Anshu's share of Goodwill} = 22,200 \times \frac{2}{10} = ₹ 4,440$$

(3) Calculation of sacrificing ratio

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

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

Solution:

Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To plant and machinery	14,550	by Land and Building	28,000		
To Gain on Revaluation					
P	6,725				
K	6,725				
	13,450				
	28,000				28,000

Dr.				Revaluation Capital A/c				Cr.			
Particulars	P	K	C	Particular	P	K	C				
				by balance b/d	3,00,000	2,00,000					
				by C's Loan			1,20,000				
				by General reserve	50,000	50,000					
To Bank A/c	2,21,725	1,21,725		by P&L A/c	27,500	27,500					
				by Premium for Good will A/c	17,500	17,500					
To balance c/d	1,80,000	1,80,000	1,20,000	by Revaluation A/c	6,725	6,725					
	4,01,725	3,01,725	1,20,000		4,01,725	3,01,725	1,20,000				

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals		Stock	19,000
P	1,80,000	Debtors	22,000
K	1,80,000	Less: PDD	1,500
C	1,20,000		20,500
Creditors	50,000	Unexpired Insurance	5,000
Outstanding expenses	8,000	Share in x Ltd.	65,000
Bank overdraft	2,90,450	Plant & Machinery	1,30,950
		Land and Building	5,88,000
	8,28,450		8,28,450

Working Notes:

$$(1) \text{ Average Profit (3 years)} = \frac{55,000 + 1,00,000 + 55,000}{3}$$

$$= 70,000$$

$$\text{Goodwill of the firm} = 2 \times 70,000$$

$$= 1,40,000$$

$$\text{C's share of Goodwill} = 1,40,000 \times \frac{1}{4}$$

$$= 35,000$$

$$(2) \text{ Total Capital of new firm} = 1,40,000 \times \frac{4}{1}$$

$$= 4,80,000$$

New profit sharing ratio:

$$P = \frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$$

$$K = \frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$$

$$C = \frac{1}{4} \times \frac{2}{2} = \frac{2}{8}$$

New Capitals:

$$P = 4,80,000 \times \frac{3}{8} = 1,80,000$$

$$K = 4,80,000 \times \frac{3}{8} = 1,80,000$$

$$(3) \quad \text{Bank Overdraft} = 2,21,725 + 1,21,725 - 18,000 - 35,000 \\ = 2,90,450$$

Illustration 14.

A and B are in partnership sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31/3/2019 is as under—

Liabilities		Amount ₹	Assets		Amount ₹
A's Capitals	88,000		Goodwill		5,000
B's Capitals	1,27,000	2,15,000	Land and Building		30,000
Workmen Compensation Reserve		10,000	Investments (Market value ₹ 22,500)		25,000
Investment Fluctuation Reserve		5,000	Debtors	47,500	45,000
Employee's Provident Fund		5,000	Less Prov. For D/d		
C's Loan		1,50,000		2,500	1,50,000
			Stock		1,25,000
			Bank		1,25,000
			Advertisement Suspense A/c		5,000
		3,85,000			3,85,000

On April 1st 2019, they agreed to take C as a partner on the following conditions—

- (i) A will sacrifice 1/3rd of his share with B sacrifices 1/10th from his share in favour of C.
- (ii) C's loan will be converted into his capital.
- (iii) C brings in 60% of his share of goodwill in cash.
- (iv) Land and Building was found undervalued by ₹ 25,000 and Stock was found overvalued by ₹ 35,000.
- (v) All debtors are good.
- (vi) A B/R of ₹ 7004 discounted with bank was dishonoured, which is to be recorded in the books of account.
- (vii) Claim on account of Workmen Compensation is ₹ 5,000.
- (viii) An unrecorded accrued income of ₹ 5,000 to be provided for.
- (ix) A debtor whose dues of ₹ 25,000 were written off as bad debts, paid ₹ 20,000 in full settlement.
- (x) Goodwill is to be valued at 2 years' purchase of super profit of last 3 completed years. Profits for year ended 31st March are as follows—
 - 2017 – ₹ 2,40,000;
 - 2018 – ₹ 4,65,000;
 - 2019 – ₹ 6,90,000
 The normal profit is ₹ 3,15,000.

- (xi) Capital Accounts of the partners to be readjusted on the basis of their profit-sharing ratio and any excess or deficiency be adjusted by payment or receipt of amount.

Prepare Revaluation Account, Partner's Capital Account and the Balance sheet.

Solution:

Dr.		Revaluation Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Stock A/c	35,000	By Land and Building A/c	25,000		
To Gain on Revaluation transferred to—		By Provision for doubtful debt A/c	2,500		
A's Capital A/c	10,500	By bad debts recovered A/c	20,000		
B's Capital A/c	7,000	By Accrued Income A/c	5,000		
	52,500		52,500		

Dr.				Partner's Capital Account				Cr.			
Particulars	A	B	C	Particulars	A	B	C				
	₹	₹	₹		₹	₹	₹				
To Goodwill A/c	3,000	3,000	—	By balance b/d	88,000	127,000	—				
Suspense A/c	2,000	2,000	—	By C's Loan A/c	—	—	150,000				
To Bank A/c	—	13,000	—	By Premium for Goodwill A/c	36,000	18,000	—				
To balance c/d	2,00,000	1,50,000	1,50,000	By C's current A/c	24,000	12,000	—				
				By Revaluation A/c (Gain)	10,500	7,000	—				
				By Workmen compensation Reserve A/c	3,000	2,000	—				
				By Investment Fluctuation Reserve A/c	1,500	1,000	—				
				By Bank A/c	43,000	—	—				
	206,000	167,000	150,000		206,000	167,000	150,000				

Balance Sheet as at 1st April 2019

Liabilities	Amount ₹	Assets	Amount ₹
Workmen Compensation Claim	5,000	Land and Building	55,000
Employee's Provident Fund	5,000	Investment	22,500
Capital A/cs		Debtors	
A 2,00,000		(47,500 + 7004)	54,504
B 1,50,000		Stock	1,15,000
C 1,50,000	5,00,000	Bank	2,21,996
		Accrued Income	5,000
		C's Current Account	36,000
	5,10,000		5,10,000

Working Note:

1. Sacrificing share = Old share – New share

$$\text{A's new share} = \frac{3}{5} - \left(\frac{1}{3} \times \frac{3}{5} \right) = \frac{3}{5} - \frac{1}{5} = \frac{2}{5} \text{ or } \frac{4}{10}$$

$$\text{B's new share} = \frac{2}{5} - \frac{1}{10} = \frac{3}{10}$$

$$\text{C's new share} = \frac{1}{5} + \frac{1}{10} = \frac{3}{10}$$

New Profit sharing ratio A : B : C = 4 : 3 : 3

Sacrificing ratio A : B = 2 : 1

2. Calculation of C's share of Goodwill–

$$\begin{aligned} \text{Average profit} &= \frac{2,40,000 + 4,65,000 + 6,90,000}{3} \\ &= ₹ 4,65,000 \end{aligned}$$

$$\text{Normal Profit} = 3,15,000$$

$$\begin{aligned} \text{Super Profit} &= \text{Average profit} - \text{Normal profit} \\ &= ₹ 4,65,000 - ₹ 3,15,000 = ₹ 1,50,000 \end{aligned}$$

$$\begin{aligned} \text{Firm's Goodwill} &= \text{Super Profit} \times \text{No. of Year's purchase} \\ &= ₹ 1,50,000 \times ₹ 3,00,000 \end{aligned}$$

$$\begin{aligned} \text{Super Profit} &= \text{Average profit} - \text{Normal profit} \\ &= ₹ 4,65,000 - ₹ 3,15,000 = ₹ 1,50,000 \end{aligned}$$

$$\begin{aligned} \text{Firm's Goodwill} &= \text{Super profit} \times \text{No. of yrs' purchase} \\ &= ₹ 1,50,000 \times 2 = ₹ 3,00,000 \end{aligned}$$

$$\text{C's share of goodwill} = ₹ 3,00,000 \times \frac{3}{10} = ₹ 90,000$$

Journal

Bank A/c (60% 90,000)	Dr.	54,000	
To Premium for Goodwill A/c			54,000
Premium for Goodwill A/c	Dr.	54,000	
To A's Capital A/c			36,000
To B's Capital A/c			18,000
C's Current A/c	Dr.	36,000	
To A's Capital A/c			24,000
To B's Capital A/c			12,000

3. Adjustment of Capital

$$\text{Total Capital of firm} = ₹ 1,50,000 \times \frac{10}{3} = ₹ 5,00,000$$

$$\text{A's new Capital} = ₹ 5,00,000 \times \frac{4}{10} = ₹ 2,00,000$$

$$\text{B's new Capital} = ₹ 5,00,000 \times \frac{3}{10} = ₹ 1,50,000$$

$$\text{C's Capital} = ₹ 1,50,000$$

4. Dr.

Bank A/C

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To balance b/d	1,25,000	By B's Capital A/c	13,000
To Bad debt Recovered A/c	20,000	By dishonoured B/R paid	7,004
To Premium for Goodwill A/c	54,000	By bal. c/d	2,21,996
To A's Capital A/c	43,000		
	2,42,000		2,42,000

Adjusting Capital of New Partner on the Basis of Old Partners.

Illustration 15.

Sahaj and Nimish are partners in a firm. They share profit and losses in the ratio 2 : 1. They decided to admit Gauri for 1/3 share. At the time of her admission, Balance sheet of Sahaj and Nimish was as under—

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/cs		Machinery	1,20,000
Sahaj 20,000		Furniture	80,000
Nimish 80,000	2,00,000	Stock	50,000
General Reserve	30,000	Sundry Debtors	30,000
Creditors	30,000	Cash	20,000
Employees Provident Fund	40,000		
	3,00,000		3,00,000

Gauri brought her share of Goodwill in cash and proportionate capital. It was also agreed—

- (i) Reduce the value of stock by ₹ 5000.
- (ii) Depreciate furniture by 10% and appreciate machinery by 5%
- (iii) ₹ 3000 of the debtors proved bad. A provision of 5% was to be created on Sundry debtors for doubtful debts.
- (iv) Goodwill of the firm was valued at ₹ 45000.

Prepare Revaluation A/c, Partner's Capital A/cs and Balance sheet of reconstituted firm.

Solution:

Dr.		Revaluation Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Stock A/c	5,000	By Machinery A/c	6,000		
To Furniture	8,000	By Loss transferred to			
To (Sundry Debtors) Bad debts	3,000	Sahay's Capital A/c	7,567		
To provision for bad debts $(30,000 - 3000) \times \frac{5}{100}$	1,350	Nimish's Capital A/c	3,783	11,350	
	17,350			17,350	

Dr. Partners Capital Account Cr.

Particulars	Sahaj	Nimish	Gauri	Particulars	Sahaj	Nimish	Gauri
	₹	₹	₹		₹	₹	₹
To Revaluation A/c	7,567	3,783	—	By balance b/d	120000	80000	—
To Balance c/d	142433	91217	116825	By General Reserve A/c	20000	10000	—
				By Premium for Goodwill A/c	10000	5000	—
				By Bank A/c			116825
	150000	95000	116825		150000	95000	116825

Bank A/c

Particulars	Amount	Particulars	Amount
	₹		₹
To Gauri's Capital A/c	116825	By balance c/d	131825
To Premium for Goodwill	15000		
	131825		131825

**Balance Sheet of New Firm
As on 1st January 2019**

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/cs		Machinery	1,26,000
Sahaj 142433		Furniture	72,000
Nimish 91217		Stock	45,000
Gauri 116825	350475	Sundry Debtors	30,000
Employees Provident Fund		Less Bad debts	(3,000)
Creditors	40000	Less Provision for D/d	(1,350)
	30000	Cash	20,000
		Bank	1,31,825
	4,20,475		4,20,475

Working Note:

(1) Gauri's share of Goodwill

$$= 45000 \times \frac{1}{3} = ₹ 15,000$$

(2) Total adjusted Capital Old

$$= ₹ 14,2,433 + ₹ 91,217 = ₹ 2,33,650$$

Proportionate Capital Gauri (1/3 share)

$$= ₹ 2,33,652 \times \frac{3}{2} \times \frac{1}{3}$$
$$= ₹ \frac{2,33,650}{2} = ₹ 1,16,825$$

PRACTICE EXERCISE

1. On 1-4-2016, A and B entered into partnership for sharing profits in the ratio of 4 : 3. They admitted C as a new partner on 1-4-2018 for 1/5th share which he acquired equally from A and B.

A, B and C earned profit at a higher rate than the Normal Rate of Return for 31-3-2019. Therefore, they decided to expand their business. To meet the requirements of addition at Capital they admitted D as a new partner on 1-4-2019 for 1/7th share in profits which he acquired from A and B in 7 : 3 ratio.

Calculate :

- (a) New Profit Sharing Ratio of A : B : C for 2018-19.
- (b) New Profit Sharing Ratio of A : B : C : D on D's admission.
2. (a) Vikram and Abhishek are partners sharing profits and Losses in the ratio of 8 : 5. They admit 'Avishi' and decide that the profit sharing ratio between Abhishek and Avishi shall be the same as existing between 'Vikram' and 'Abhishek'.

Calculate New Profit Sharing Ratio and Sacrificing Ratio.

- (b) A, B and C are partners in a firm for the profit sharing ratio 4 : 3 : 1. They admitted 'D' as a new partner. 'A', sacrifice 1/3rd of his share in favour of 'D' and 'B', Sacrifice 1/4th from his share in favour of new partner C in neutral.

Calculate New Profit Sharing Ratio.

3. A and B share profits and losses in the ratio of 5 : 3. They admit Cas a partner who pays ₹ 54,000 as premium for goodwill for $\frac{1}{5}$ th share in the future profits of the firm.

Pass journal entries for goodwill and calculate new profit sharing ratio in each of the following case—

- (a) If he acquires his share of profits in the Original ratio of existing partne₹
- (b) If he acquires his share of profits in equal proportions from the existing partne₹
- (c) If he acquires his share in the ratio of 3 : 1 from the existing partne₹
- (d) If he acquires his share of profits as $\frac{1}{6}$ th from A and $\frac{1}{30}$ th from B.
4. Rahul and Anurag are partners sharing profits in the ratio of 3 : 2. They decided to admit Bajaj as a new partner and to share future profits and losses equally.

Bajaj brings in ₹ 50,000 as his capital. Goodwill of the firm is valued at ₹ 60,000.

Pass necessary Journal entries—

- (a) When no goodwill appears in books.
- (b) When goodwill appears at ₹ 50,000.
5. P and Q share profits in the ratio of 7 : 3. R is admitted for $\frac{2}{7}$ th share in profits. Goodwill already appears in the balance sheet at ₹ 1,00,000. Pass necessary journal entries if—
- (a) R cannot bring cash for his share of goodwill ₹ 80,000.
- (b) R brings in cash ₹ 40,000 out of his share of goodwill ₹ 80,000.
6. Hari, Ravi and Shri were partners in a firm sharing profits in the ratio of 3 : 2 : 1. They admitted Mihir as a new partner for $\frac{1}{7}$ th share in the profit. The new profit sharing ratio will be 2 : 2 : 2 : 1 respectively. Mihir brought ₹ 3,00,000 for his Capital and ₹ 45000 for his $\frac{1}{7}$ th share of goodwill.

Pass necessary Journal entries in the books of the firm.

7. Balance sheet of X and Y who share profit and losses in the ratio of 5 : 3 as at 31-3-2019 was as follows—

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/cs		Land and Building	3,00,000
X 2,50,000		Machinery	2,00,000
Y 1,50,000	4,00,000	Stock	70,000
Profit and Loss A/c	1,30,000	Debtors	30,000
Workmen Compensation Reserve	60,000	Cash	10,000
Sundry Creditors	50,000	Advertisement	
		Expenditure	30,000
	6,40,000		6,40,000

They admit Z as a new partner for $\frac{1}{3}$ rd share in profits of the firm which he acquires from X and Y in the ratio of 3 : 1. Z brings in ₹ 4,00,000 as Capital. Ascertain the amount of goodwill and pass journal entries on admission of Z.

8. A, B and C are partners in a firm sharing profit and losses in the ratio of 3 : 2 : 1. D is admitted as new partner for $\frac{1}{4}$ th share in the profits of the firm, which he gets $\frac{1}{8}$ th from A and $\frac{1}{16}$ th each from B and C. The total capital of the new firm after D's admission will be ₹ 2,40,000. D is required to bring in cash equal to $\frac{1}{4}$ th of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capital of A, B and C after all adjustment in respect of goodwill and revaluation of assets and liabilities have been made are A ₹ 80,000; B ₹ 28,000.

Calculate the capitals of all the partners and record the journal Entries.

9. Krishna and Suresh are partners in a firm sharing profits in the ratio of 3 : 2.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	15,000	Plant and Machinery	30,000
Reserves	5,000	Patents	5,000
Capital account		Furniture	3,000
Krishan 30,000		Stock	16,000
Suresh 20,000	50,000	Debtors	15,000
		Cash	1,000
	70,000		70,000

On that data Mohan is admitted as a partner for $\frac{1}{5}$ th share on the following terms.

- (a) He is contribute ₹ 14,000 cash which includes his share of premium for goodwill and capital.
- (b) Goodwill is valued at 2 years, purchase of the average profits of the last four years which were ₹ 10,000; ₹ 9,000; ₹ 8,000 and ₹ 13,000 respectively.
- (c) Plant to be written down to ₹ 25,000 and patents written up by ₹ 8,000.
- (d) Revaluation Account, Partners' capital accounts and the balance sheet of the new firm.

10. A and B are partners in a firm. C was taken in to partners from 1-4-2019. C brought in ₹ 40,000 as his capital but he is unable to bring any amount for goodwill. Now profit sharing ratio is 3 : 2 : 1.

Their Balance Sheet as on 31-3-2019 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Provision for Doubtful Debts.	4,000	Cash	10,000
Workmen Compensation fund	5,600	Sundry Debtors	80,000
Outstanding Expenses			
Creditors	3,000		
Capitals :	30,000	Stock	20,000
A			
B	50,000	Fixed Assets	38,600
	60,000	Profit and Loss	4,000
	1,52,600		1,52,600

Following terms were agreed upon–

- (a) Claim on account of workmen's Compensation in ₹ 3,000.
- (b) To write off Bad Debts amounting to ₹ 6,000.
- (c) Creditors are to be paid ₹ 2,000 more.
- (d) ₹ 2,000 be provided for an unforeseen liability.
- (e) Outstanding expenses be brought down to ₹ 1,200.
- (f) Goodwill is valued at 1½ years purchase of the average profits of last three years, less ₹ 12,000. Profits of 3 years amounting to ₹ 12,000; ₹ 18,000 and ₹ 30,000. Prepare Revaluation A/C, capital accounts and balance sheet.

11. Following is the balance sheet of A, B and C sharing profits and losses in the ratio of 6 : 5 : 3 respectively.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	18,900	Cash	1,890
Bills Payable	6,300	Debtors	24,460
General Reserve	10,500	Stock	29,400
Capitals :		Furniture	7,350
A 35,400		Land and Building	45,150
B 29,850		Goodwill	5,250
C 14,550	79,800		
	1,15,500		1,15,500

They agreed to take D into partnership and give him 1/8th share on the following terms—

- (a) That furniture be depreciated by ₹ 920.
- (b) An old customer, whose account was written off as bad, has promised to pay ₹ 2,000 in full settlement of his debts.
- (c) That a provision of ₹ 1,320 be made for outstanding repair bills.
- (d) That the value of land and building have appreciated to brought up to ₹ 54,910.
- (e) That D should bring in ₹ 17,700 as his capital.
- (f) That D should bring in ₹ 14,070 as his share of goodwill.
- (g) That after making above adjustment, the capital accounts of old partners be adjusted on the basis of the proportion of D's capital to his share in business i.e., actual cash to be paid off or brought in by the old partners, as the case may be.

Pass Journal Entries and prepare the balance sheet of new firm.

12. P and R were partners in a firm sharing profits in the ratio of 3 : 1. On 31-3-2019. Q admitted to the firm. On the date of admission, the Balance Sheet of the firm was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	27,000	Bank	27,600
Bills Payable	12,000	Debtors 6,000	
Outstanding Salary	2,200	Less : Provision 400	5,600
Provision for Legal Claims	6,000	Stock	9,000
Capitals :		Furniture	4,100
P 66,000		Building	96,900
R 30,000	96,000		
	1,43,200		1,43,200

On Q's admission, it was agreed that

New profit sharing ratio of P : R : Q will be 3 : 1 : 2.

Premises will be appreciated by 2% and furniture will be appreciated by ₹ 1,700. Stock will be depreciated by 10%. 5% provision for doubtful debts was to be made on debtors and ₹ 7,200 for legal damages. Goodwill of the firm was valued at ₹ 24,000. Q will bring sufficient amount of cash for goodwill and capital in such a way that his capital is 1/3 of the capital of the firm after his admission.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of P, R and Q's.

13. Following is the balance sheet of A and B as on 31 March 2019 who were partners sharing profits and losses in the ration of 2 : 1. When they admitted C for 1/5th share on the terms that after his admission capitals of all the partners will be proportionate to their profits in the firm on the basis of the capitals of A and B after making all the adjustment.

You are required to complete the following balance sheet, revaluation A/c and capital a/cs of the partners after admission of C and the balance sheet of the Balance Sheet of A and B as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	30,000	Building	2,00,000
A's capital A/c	a	Machinery	50,000
B's capital A/c	b	Debtors 20,000	
General reserves	30,000	By provision for doubtful debts (1000)	19,000
		Stock	18,000
		Goodwill	12,000
		Cash A/c	4,000
		Profit and loss A/c	c

Revaluation A/c

Liabilities	Amount ₹	Assets	Amount ₹
To stock	2000	By buiding	3000
To creditors	600	By provision for	
To A's capital A/c	d	doubtful debts	500
To B's capital A/c	e		

Partners Capital A/c

Particulars	A's Capital	B's Capital	C's Capital	Particulars	A's Capital	B's Capital	C's Capital
To Goodwill	8000	4000		By balance	1,30,000	1,40,000	
To profit and loss A/c	18000	9000		B/d			
				By general reserves	f	g	
				By premium for goodwill	20,000	10,000	
				By h	i	j	
To balance C/d	l	m	n	By cash			k
	o	p	q		o	p	q

**Balance Sheet of A, B and C
as on 31st March 2019**

Particulars	Amount ₹	Particulars	Amount ₹
Creditors	—	Building	—
General reserves	—	Machinery	—
A's Capital A/c	—	Debtors	—
B's Capital A/c	—	By provision for doubtful debts	—
C's Capital A/c	—	Stock	—
		Goodwill	—
		Profit and loss A/c	—
		Cash	—
	—		—

14. A, B and C are partners sharing profits in the ratio of 4 : 3 : 2. Their Balance Sheet stood as under—

Liabilities	Amount ₹	Assets	Amount ₹
Outstanding Expenses	16,000	Cash	121000
Sundry Creditors	1,24,000		
Capitals : Amount			
A 7,20,000		Debtors	172000
B 4,15,000		Stock	185000
C 3,45,000	14,80,000	Furniture	77000
		Plant and Machinery	465000
Reserve Fund	1800000	Land and Building	780000
	180000		1800000

D is admitted on the following terms for 1/5th share:

- Stock was valued at ₹ 1,72,000.
- Furniture were under valued by ₹ 3,000
- An amount due to a customer ₹ 10,000 was doubtful and provision was required.
- Goodwill of firm was valued ₹ 2,00,000.
- D was required to bring ₹ 4,00,000 and on the basis of his share, other partners will also share capital proportionately.
- A, B and C will share profits in the ratio of 3 : 2 : 1 were to share future profits in ratio 3 : 2.

Prepare Revaluation A/c, Partner's Capital A/c and Balance Sheet of new firm.

Multiple Choice Questions

- When a new partner brings his share of goodwill in cash, the amount is debited to—
 - Goodwill A/c
 - Capital A/cs of new partner
 - Capital A/cs of old partners
 - Cash A/c
- When a new partner doesn't bring his share of goodwill in cash, the amount is debited to—
 - Cash A/c
 - Current A/c of new partner

- (c) Capital A/cs of old partners
 - (d) Premium for Goodwill A/c
3. It, at the time of admission, some profit and loss account balance appears in the books, it will be transferred to–
 - (a) Profit and loss adjustment A/c
 - (b) Revaluation A/c
 - (c) Old partner's capital account
 - (d) All partner's capital accounts
 4. If, at the time of admission, there is some unrecorded liability, it will be–
 - (a) Credited to revaluation account
 - (b) Debited to revaluation account
 - (c) Debited to partner's capital account
 - (d) Credited to partner's capital account
 5. If at the time of admission, the revaluation A/c shows a loss, it should be–
 - (a) Credited to old partners capital A/c in old ratio.
 - (b) Credited to old partners capital A/c in sacrificing ratio.
 - (c) Debited to old partners capital A/c in old ratio.
 - (d) Debited to old partners capital A/c in sacrificing ratio.
 6. Revaluation A/c is a–
 - (a) Real account
 - (b) Asset account
 - (c) Personal account
 - (d) Nominal account
 7. When the balance sheet is prepared after the new partnership agreement, the assets and liabilities are recorded at–
 - (a) Current figures
 - (b) Revalued figures
 - (c) Historical cost
 - (d) Realisable value
 8. L and M are partners sharing profits in ratio of 3 : 2 respectively. N was admitted for $\frac{1}{5}$ th share of profit. Machinery would be appreciated by 10% (Book value ₹ 80,000) and Building would be depreciated by 20% (₹ 2,00,000). Unrecorded debtors of ₹ 1250 would be brought into books new and a creditor amounting to ₹ 2750 died and need not pay anything on this account. What will be profit/loss on revaluation?

(a) Loss ₹ 28,000	(b) Profit ₹ 28,000
(c) Loss ₹ 40,000	(d) Profit ₹ 40,000

9. A and B are partners sharing profits in the ratio of 5 : 4. They admitted C for $\frac{1}{5}$ th profit, for which he paid ₹ 90,000 against capital and ₹ 45,000 against goodwill. Find the capital balance for each partner taking C's capital as base capital.
- (a) ₹ 2,00,000; ₹ 90,000; ₹ 90,000
 (b) ₹ 3,00,000; ₹ 2,40,000; ₹ 1,35,000
 (c) ₹ 2,00,000; ₹ 1,60,000; ₹ 90,000
 (d) ₹ 3,00,000; ₹ 1,35,000; ₹ 1,35,000
10. X and Y are partners sharing profits and losses in the ratio of 5 : 3. On admission, C brings ₹ 70,000 as cash and ₹ 40,000 against Goodwill. New profit ratio between X, Y and Z is 7 : 5 : 4. The Sacrificing ratio of X and Y is—
- (a) 3 : 1 (b) 1 : 3
 (c) 4 : 5 (d) 5 : 9
11. A and B are partners in a firm with capital of ₹ 1,80,000 and ₹ 2,00,000. C was admitted for $\frac{1}{3}$ rd share in profit and brings ₹ 3,40,000 as capital, calculate the amount of goodwill—
- (a) ₹ 2,40,000 (b) ₹ 1,00,000
 (c) ₹ 1,50,000 (d) ₹ 3,00,000
12. A, B, C and D are partners. A and B share $\frac{2}{3}$ rd of profits equally and C and D share remaining profits in the ratio of 3 : 2. Find the profit sharing ratio of A, B, C and D.
- (a) 5 : 5 : 3 : 2 (b) 7 : 7 : 6 : 4
 (c) 2.5 : 2.5 : 8 : 6 (d) 3 : 9 : 8 : 3
13. Sacrificing ratio is used to distribute in case of admission of a partner.
- (a) Reserves
 (b) Goodwill
 (c) Revaluation profit
 (d) Balance in profit and loss account
14. X, Y and Z are partners sharing profit in the ratio of 3 : 2 : 1. They agree to admit M into the firm. X, Y and Z agreed to give $\frac{1}{3}$ rd, $\frac{1}{6}$ th, $\frac{1}{9}$ th share of their profit. The share of profit of M will be—
- (a) $\frac{11}{54}$ (b) $\frac{12}{54}$
 (c) $\frac{13}{54}$ (d) $\frac{14}{54}$
15. A and B are partners sharing profits in the ratio of 2 : 3. Their balance sheet shows machinery at ₹ 4,00,000; stock at ₹ 1,60,000 and Debtors at ₹ 3,20,000. C is admitted and new profit sharing ratio is agreed at 6 : 9 : 5. Machinery is revalued at ₹ 3,40,000 and a provision is made

(a) Workmen Compensation Reserve A/c	Dr	40,000	
To P's Capital A/c			20,000
To Q's Capital A/c			20,000
(b) Workmen Compensation Reserve A/c	Dr	30,000	
To P's Capital A/c			15,000
To Q's Capital A/c			15,000
(c) Workmen Compensation Reserve A/c	Dr	40,000	
To Workmen compensation claim		30,000	
To P's Capital A/c			5,000
To Q's Capital A/c			5,000
(d) Workmen Compensation Reserve A/c	Dr	40,000	
To Workmen compensation claim		30,000	
To P's Capital A/c			3,333
To Q's Capital A/c			3,333
To R's Capital A/c			3,334

20. Match the following

Column I

- I. Premium for Goodwill
- II. Revaluation Gain
- III. Share of New Capitals from total capital

Column II

- (a) New profit sharing ratio
- (b) sacrificing ratio
- (c) old profit sharing ratio

Choose the correct option:

- | | |
|----------------------------|----------------------------|
| (a) I-(a), II-(b), III-(a) | (a) I-(b), II-(a), III-(c) |
| (c) I-(c), II-(a), III-(b) | (d) I-(b), II-(c), III-(a) |

21. Kamal, Manish and Shivam started a partnership and invested capitals of ₹10,00,000, ₹10,00,000, and ₹16,00,000 respectively. Sharing profits in the ratio of 1:1:2. They are mainly based in North India and are now looking to expanding their business to south India. They decided to double their present capitals. Capitals were brought in by Kamal and Manish as were required but Shivam could bring half of the required amount. To cover the shortfall in capital, new partner Mayank was admitted who brought the amount that Shivam could not bring as capital and would get $\frac{1}{4}$ th share of Shivam's share of profit. Mayank also brought ₹2,00,000 as premium for goodwill.

Based on the above information choose correct option to the following questions:

- (i) New profit sharing ratio is

- (b) Cr. A's Capital A/c by ₹ 27000 and B's Capital A/c by ₹ 27000; NPSR = 21 : 11 : 8
- (c) Cr. A's Capital A/c by ₹ 40500 and B's Capital A/c by ₹ 13500; NPSR = 19 : 13 : 8
- (d) Cr. A's Capital A/c by ₹ 45000 and B's Capital A/c by ₹ 9000; NPSR = 55 : 41 : 24
4. (a) Bajaj (Dr.) ₹ 20,000; Rahul (Cr.) ₹ 16,000; Anurag (Cr.) ₹ 4000
- (b) (i) Bajaj (Dr.) ₹ 20,000; Rahul (Cr.) ₹ 16,000; Anurag (Cr.) ₹ 4000
(ii) Rahul (Dr.) ₹ 30,000; Anurag (Dr.) ₹ 20,000; Goodwill (Cr.) ₹ 50,000
- (c) (i) Rahul (Dr.) ₹ 60,000; Anurag (Dr.) ₹ 40,000; Goodwill (Cr.) ₹ 1,00,000
(ii) Goodwill (Dr.) ₹ 60,000; Rahul (Dr.) ₹ 36,000; Anurag (Cr.) ₹ 24,000
(iii) Rahul (Dr.) ₹ 20,000; Anurag (Dr.) ₹ 20,000; Bajaj (Dr.) ₹ 20,000; Goodwill (Cr.) ₹ 60,000
5. (a) Rs current A/c Dr. by ₹ 80,000; P(Cr.) ₹ 56,000 and Q(Cr.) ₹ 24000
- (b) (i) Bank A/c Dr. ₹ 40,000; Premium for Goodwill A/c (Cr.) ₹ 40,000
(ii) Premium for Goodwill Dr. ₹ 40,000; R's current A/c Dr. ₹ 40,000; P(Cr.) ₹ 56,000 and Q (Cr.) ₹ 24,000.
6. Premium for Goodwill Dr. 45000; Shri Dr. 37500; Hari Cr. 67500 and Ravi Cr. 15,000.
7. Hidden Goodwill = 2,40,000; Z's share of Goodwill = 80,000
- (a) Z's current Dr. 80,000; X Cr. 60,000 and Y Cr. 20,000
- (b) P and L Dr. 1,30,000; WCR Dr. 60,000; X Cr. 118750 and Y Cr. 71250
8. A,B and D will bring 10,000; 35,000; 60,000 respectively while C will withdraw 3000.
A's capital = ₹ 9000; B's capital = ₹ 65,000; C's capital = ₹ 25,000; D's capital = ₹ 60,000.
9. Profit on Revaluation = ₹ 3000
Krishna's Capital A/c = ₹ 37200
Suresh's Capital A/c = ₹ 24800
Mohan's Capital A/c = ₹ 10000
Balance Sheet Total = ₹ 87000

10. Loss on Revaluation = ₹ 4200

A's Capital A/c = ₹ 47200

B's Capital A/c = ₹ 60200

C's Capital A/c = ₹ 40000

Balance Sheet Total = ₹ 185600

11. Profit on Revaluation = ₹ 9520

A's Capital A/c = ₹ 44100

B's Capital A/c = ₹ 36750

C's Capital A/c = ₹ 22050

D's Capital A/c = ₹ 14700

Balance Sheet Total = ₹ 144120

13. (a) 130000

(b) 140000

(c) 27000

(d) 600

(e) 300

(f) 20000

(g) 10000

(h) Revaluation A/c

(i) 600

(j) 300

(k) 72975

(l) 144600

(m) 147300

(n) 72975

(o) 170600

(p) 16300

(q) 72975

Balance Sheet Total = ₹ 395475

14. Loss on Revaluation = ₹ 20000

A's Capital A/c = ₹ 780000

C's Capital A/c = ₹ 337000

Balance Sheet Total = ₹ 1740000

CHAPTER 5

RETIREMENT/DEATH OF A PARTNER

Retirement of a Partner	Retirement of a partner means ceasing to be partner of the firm. A partner may retire 1. If there is Agreement to this effect 2. All Partners' give consent 3. At will by giving written notice
Amount due to Retiring/ Deceased Partner	1. Credit Balance of his capital. 2. Credit Balance of his current account (if any). 3. Share of Goodwill. (To be given by gaining partners) 4. Share of Reserves or Undistributed Profits. 5. His share in the profit on revaluation of assets and reassessment of liabilities. 6. If retirement is during the year, the retiring partner will be given. Share in profits up to the date of retirement. 7. Interest on capital if involved. 8. Salary if any up to the date of Retirement/Death Deductions from the above Sum (To be Debited to the Capital Account) 1. Debit balance of his current account (if any) 2. Share of existing Goodwill to be written off. 3. Share of Accumulated loss. 4. Drawings and interest on drawings (if any). 5. Share of loss on account of Revaluation of assets and liabilities. 6. His share of business loss up to the date of Retirement/Death (To P & L suspense A/c)
Gaining Ratio	The ratio in which the continuing partners have acquired the share from the retiring/deceased Partner is called Gaining Ratio.

Sacrificing Ratio v/s Gaining Ratio	
Why the Retiring or Deceased Partner is entitled to his share of Goodwill at the time of Retirement/Death?	Because the Goodwill has been earned by the firm with the efforts of the existing partners, hence at the time of retirement/death of a partner it is valued as per agreement.
Hidden Goodwill	If the firm has agreed to settle the retiring or deceased partner by paying a lump sum amount, then the amount paid to him in excess of what is due shall be treated as his share of goodwill and known as hidden goodwill
Disposal Amount due to Retiring partner	The outgoing partners' account is settled as per the terms of partnership deed i.e. 1. In lump sum immediately 2. In various instalments with or without interest as agreed 3. Partly in cash immediately and partly in instalments at the agreed intervals
What are the provisions if the Retiring Partner is not paid fully at the time of Retirement	In the absence of any agreement, Section 37 of the Indian Partnership Act, 1932 is applicable, which states that the outgoing partner has an option to receive 1. Either Interest @ 6% p.a. till the date of payment 2. Such share of Profits which has been earned with his/her money
Deceased Partner share of profit may be calculated	1. On the basis of last years profit (On Average Basis) 2. On the basis of sales

Points to remember -

1. When the question is silent about the amount payable to retiring partner, then the whole amount payable is transferred to his/her loan account.
2. In case of death of a partner, Capital Account of the Deceased Partner is closed by transferring the whole amount to the executors of the deceased Partner.
3. Any payment to the executors of the deceased partner is made through executor's account, not through the deceased partners' capital account.
4. Goodwill already appeared in the books must be written off in old PSR.
5. All accumulated profits and all accumulated losses are to be distributed among old partners in their old PSR.

6. In case of specific fund, like investment fluctuation fund, market value of the investment must be considered. For workman compensation fund, actual liabilities must be considered (to be deducted from fund).
7. Revaluation profit/loss is to be distributed in old PSR.

Accounting Treatment

1. Calculation of new profit-sharing ratio and gaining ratio
2. Treatment of goodwill.
3. Revaluation account preparation with the adjustment in respect of unrecorded assets/liabilities.
4. Distribution of reserves and accumulated profits/loss.
5. Ascertainment of share of profit/loss till the date of retirement/death.
6. Adjustment of capital if required.
7. Settlement of the Accounts due to Retired/Deceased partner.

1. New Profit Sharing Ratio & Gaining Ratio

Calculation of the two ratios.

Following situations may arise

- (i) When no information about new ratio or gaining ratio is given in the question
 - > In this case it is considered that the share of the retiring partner is acquired by the remaining partners in the old ratio. Then no need to calculate the new ratio/gaining ratio as it will be the same as before.
- (ii) **Gaining ratio is given which is different from the old ratio in this case,**
 - > **New share of continuing partner = old share + share gained from the outgoing partner.**
- (iii) **If the new ratio is given**
 - > **Gaining ratio = New Ratio - Old ratio**

2. Treatment Of Goodwill.

Steps to be followed

1. When old goodwill appears in the books then first of all this is written off in the old ratio. Remember **Old Goodwill in Old Ratio.**

All Partner's capital A/c	Dr.
To Goodwill A/c	
2. After writing off old goodwill, adjustment of retiring partner's share of goodwill will be made through the following journal entry

Gaining Partner's Capital A/c	Dr. (in gaining ratio)
To Retiring / Deceased Partner's	Current A/c (if any)
To Retiring/Deceased Partners'	Capital A/c

3. Revaluation of Assets and Reassessment of Liabilities

Revaluation A/c is prepared in the same way as in the case of admission of a new partner. Profit and loss on revaluation is transferred among all the partners in old ratio.

4. Adjustment of Reserves and Surplus (Profits)

(Appearing in the Balance Sheet - Liability Side)

- (a) General Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit & Loss A/c (Credit Balance) Dr.
To all partners' Capital/Current A/c (in old ratio)
- (b) Specific Funds - if the specific funds such as workmen's compensation fund or investment fluctuation fund are in excess of actual requirement, the excess will be transferred to the Capital A/c in old ratio.
Workmen Compensation Fund A/c Dr.
Investment Fluctuation Funds A/c Dr.
To All Partner's Cap A/c's (in old Ratio)
- (c) For distributing accumulated losses (P & A/c Dr. Balance)

All partner's Capital/Current A/c Dr. (in old ratio)
To P & L A/c

5. Adjustment of Capitals

At the time of retirement /death, the remaining partners may decide to adjust their capitals in their new profit sharing Ratio. Then following situation may arise

Case 1 . When the total capital of the new firm is not given in the question

- Then the sum of the adjusted capitals of remaining partners' will be treated as the total capital of the new firm which will be divided in their New Profit Sharing Ratio.
- Excess or Deficiency of capital in the individual capital A/c is calculated.
- Such excess or shortage is adjusted by withdrawal or contribution in cash or transferring to Partner's current A/cs.

Journal Entries

- (a) For excess Capital withdrawn by the partners
Partner's Capital A/c Dr.
To Cash/Bank A/c / Partner's Current A/c

$$\text{B's Gain} = 3/8 - 2/6 = 1/24$$

$$\text{Gaining ratio} = 3:1$$

Illustration 4: A, B and C are partners sharing profits and losses in the ratio of 3:2:1. B retires and gifted $\frac{1}{2}$ of his share in favour of A and sells remaining share to A and C in the ratio of 1:2. Find out gaining ratio and new ratio.

Solution:

$$\text{B's share} = \frac{2}{6} = \frac{1}{3}; \text{ gifted to A} = \frac{1}{3} \times \frac{1}{2} \times \frac{1}{6}$$

$$\text{Remaining shares of B} = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$$

A's gain = Gifted share of B + Share sold by B

$$\text{Share sold by B to A} = \frac{1}{6} \times \frac{1}{3} = \frac{1}{18}$$

$$\text{A's gain} = \frac{1}{6} + \frac{1}{18} = \frac{3+1}{18} = \frac{4}{18} \text{ or } \frac{2}{9}$$

$$\text{C's gain} = \frac{1}{6} \times \frac{2}{3} = \frac{2}{18} \text{ or } \frac{1}{9}$$

$$\text{Gaining ratio} = \frac{2}{9} : \frac{1}{9} \text{ or } 2 : 1$$

$$\text{A's new share} = \frac{3}{6} + \frac{2}{9} = \frac{9+4}{18} = \frac{13}{18}$$

$$\text{C's new share} = \frac{1}{6} + \frac{1}{9} = \frac{3+2}{18} = \frac{5}{18}$$

New profit sharing ratio of A and C is $\frac{13}{18} : \frac{5}{18}$ or 13 : 5

Illustration 5: A, B and C were partners sharing profits in the ratio of 6:4:5. On 1st April, 2016, B retired from the firm and the new profit sharing ratio between A and C was decided as 11:4. On B's retirement, the goodwill of the firm valued at ₹ 1,80,000. Pass journal entry for treatment of goodwill on B's retirement.

(CBSE Delhi)

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April, 1	A's Capital A/c Dr. To B's Capital A/c To C's Capital A/c (Being adjustment of goodwill made on B's retirement)		60,000	48,000 12,000

Working Notes:

$$\text{Gaining Ratio} = \text{A's gain} = \frac{11}{15} - \frac{6}{15} = \frac{11-6}{15} = \frac{5}{15}$$

$$\text{C's gain} = \frac{4}{15} - \frac{5}{15} = -\frac{1}{15} \text{ (sacrificed)}$$

$$\text{B's share is goodwill} = 1,80,000 \times \frac{4}{15} = ₹ 48,000$$

$$\begin{aligned} \text{A will compensate C to the extent of sacrifice made by C i.e. } & 1,80,000 \times \frac{1}{15} \\ & = ₹ 12,000 \end{aligned}$$

Illustration 6: M, N, & P are partners in a firm. P retires & the goodwill of the firm is valued at ₹ 30,000. M & N decide to share future profits in the ratio of 3:2. Pass necessary

1. If goodwill A/c already appears in the books at ₹ 18,000

Solution:

Old ratio of M, N & P = 1:1:1 (since profit sharing ratio is not given it is treated as equal) New ratio = 3:2

$$\text{M's gain} = 3/5 - 1/3 = 4/15$$

$$\text{N's gain} = 2/5 - 1/3 = 1/15$$

$$\text{Gaining ratio} = 4 : 1$$

$$\text{Ps share of goodwill} = 30,000 \times 1/3$$

$$= ₹ 10,000$$

Case 1. If goodwill A/c appears in the books at ₹ 18,000.

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.	M's Capital A/c Dr. N's Capital A/c Dr. P's Capital A/c Dr. To Goodwill A/c (Being the existing goodwill written off in old ratio i.e. 1:1:1)		6,000 6,000 6,000	18,000
2.	M's Capital A/c Dr. N's Capital A/c Dr. To P's Capital A/c (Goodwill adjusted in Gaining Ratio)		8,000 2,000	10,000

Illustration 7 : R, S & T are partners in a firm sharing profit & loss in the ratio of 2:2:1. T Retires and his balance in capital a/c after adjustment for reserve & revaluation of assets & liabilities comes out to be ₹ 50,000. R & S agree to pay him ₹ 60,000. Give journal entry for the adjustment of goodwill.

Solution:

New ratio between R & S = gaining ratio = 2:2 or 1:1

T's share of goodwill (hidden) = 60,000 – 50,000 = 10,000

Hence adjustment entry is

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	R's capital A/c Dr. S's capital A/C Dr. To T's capital A/c (T's share of goodwill adjusted in gaining ratio i.e. 1:1)		5,000 5,000	10,000

Illustration 8: X, Y and Z are partners sharing profits in the ratio of 3:2:1. Y retires selling his share to X and Z for ₹ 36,000; ₹ 24,000 being paid by X and ₹ 12,000 by Z. The profit after Y's retirement is ₹ 63,000.

Pass necessary journal entries to

- (i) Record the sale of Y's share to X and Z and
(ii) Distribute the profit between X and Z.

Solution:

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Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	X's Capital A/c Dr.		24,000	
	Z's Capital A/c Dr.		12,000	
	To Y's Capital A/c (Being Y's share is purchase by X and Z on his retirement)			36,000
			63,000	
(ii)	Profit & Loss Appropriation A/c Dr.			45,500
	To X's Capital A/c To Y's Capital A/c (Being profit distributed between X and Z in new profit sharing ratio)			17,500

Working Notes:

$$\text{Gaining ratio} = 24000:12000 = 2:1$$

$$\text{Y's share} = \frac{2}{6}$$

$$\text{X's gaining share} = \frac{2}{6} \times \frac{2}{3} = \frac{4}{18}$$

$$\text{Z's gaining share} = \frac{2}{6} \times \frac{1}{3} = \frac{2}{18}$$

$$\text{X's new share is} = \frac{3}{6} + \frac{4}{18} = \frac{9+4}{18} = \frac{13}{18}$$

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

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

Illustration 9: A, B and C are partner sharing profits in the ration of 3:2:1 . A dies on 31st July 2015. The profits of the firm for the year ending 31st March 2015, were 42,000. Calculate A's share of profit :-

A). On time Basis from 1 April to 31st July 2015 on the basis of Last year's profit.

(B). On sales basis Sales for the last year ₹ 2,10,000 and for current year upto

31st July is ₹ 90,000

Solution

(A). A's Profit = Preceding year's profit × Proportionate Period × Share of A

$$= ₹ 42,000 \times 4/12 \times 3/6$$

$$= ₹ 7,000$$

Journal Entries

Date	Particulars	L.F	Debit (Rs)	Credit (₹)
2015 July 31	Profit and Loss Suspense A/c Dr. To A's Capital A/c (A's share of profit transferred to his capital A/c)		7,000	7,000

$$(B). \quad = \frac{90,000}{2,10,000} \times 42,000$$

$$= ₹ 18,000$$

$$\text{A's share} = ₹ 18,000 \times 3/6$$

$$= ₹ 9,000$$

Illustration 10. Anjali, Muskan and Jasmeet were partners in a firm sharing profits in capital ratio. On 31st March, 2020. Their Balance sheet was as follows:

Liabilities	(₹)	Assets	(₹)
Creditors	30,000	Cash	12,000
Investment Fluctuation reserve	10,000	Bank balance	3,000
Workmen compensation Reserve	12,000	Bulding	6,00,000
		Furniture	1,00,000
		Investments	1,00,000
		stock	2,00,000
		Debtors	60,000
Profit and Loss A/c	20,000	Less : PDD (3,000)	57,000
Capitals			
Anjali	4,00,000		
Muskan	3,00,000		
Jasmeet	3,00,000		
	10,00,000		
	10,72,000		10,72,000

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

- (1) Goodwill of the firm was valued at ₹ 70,000.
- (2) Workmen compensation claim is estimated 25% more than the balance in workmen compensation reserve.
- (3) Investment were sold to muskan for cash ₹ 95,000.
- (4) Provision for doubtful debts is to be maintained at the existing rate after writing off. Some debtors as bad debts, and the new provision for doubtful debts amounts to ₹ 2,500.
- (5) Furniture purchased for ₹ 40,000 wrongly included in the value of building.
- (6) Building to be depreciated by 10%.
- (7) Amount due to muskan was transferred to her loan account after paying 30% of the total dues, By taking necessary loan from bank if any.

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

Solution:

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

Dr.				Partner's Capital A/cs				Cr.			
Particulars	Anjali	Muskan	Jasmeet	Particulars	Anjali	Muskan	Jasmeet				
To Revaluations A/c	27,400	20,550	20,550	by bal. b/d	4,00,000	3,00,000	3,00,000				
To muskan's Capital A/C	12,000		9,000	by IFRA/c	2,000	1,500	1,500				
To Bank A/c Cash A/c		92,385		by P&LA/c	8,000	6,000	6,000				
To Muskan's Loan	2,15,565			By Anjali's Capital A/c		12,000					
To balance c/d	3,70,600		2,77,950	by Jasmeet's Capital A/c		9,000					
	4,10,000	3,28,500	3,07,500		4,10,000	3,28,500	3,07,500				

Balance Sheet

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

Working Note:

(1) Debtors	60,000
Less: bad debts	<u>(10,000)</u>
	50,000
Less: PDD	<u>(2,500)</u>
	47,500

$$\text{Rate of Provision for doubtful debts} = \frac{3,000}{60,000} \times 100 = 5\%$$

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

$$\therefore \text{bad debts} = 60,000 - 50,000 = 10,000$$

Illustration 11. P, Q and R are partners in a firm whose B/S as an 31.3.2019 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	18,240	Bank	16,240
Gen. Reserve	7,500	Debtors	22,500
Capitals		Plant	26,500
Capitals		Furniture	5,000
P 20,000			
Q 14,500			
R 10,000	44,500		
	70,240		70,240

Q. Retired with the following terms:

- (i) To reduce plant and furniture by 5% and 10% resp.
- (ii) To provide for PDD @ 5% on debtors.
- (iii) Creditors are to be for paid more ₹ 3050.
- (iv) Goodwill was valued at ₹ 12,000
- (v) New ratio 5 : 3.
- (vi) Q should be paid and the amount required to pay Q shall be brought in by P and R in such a way that their capitals are in new profit sharing ratio. Prepare revaluation A/c. Partner's capital A/c and B/S.

Ans. Dr. Revaluation A/c Cr.

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

Dr. Cr.

Particulars	P	Q	R	Particular	P	Q	R
To (loss on Rev. Revaluation)	2,000	2,000	2,000	by bal. b/d	20,000	14,500	10,000
To Q's Cap. A/c	3,500		500	by Gen. Reserve	2,500	2,500	2,500
To Bank A/c		19,000		by P's cap. A/c		3500	
				by bank		500	
To bal. c/d	28,750		17,250	by bank	11,750		7250
	34,250	21,000	19,750		34,250	21,000	19750

B/S

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors (1824 + 3050)	21,290	Bank	16,240

Capitals		Debtors	22,500	
		Less: PDD	1125	21,375
Capitals		Plant		25,175
P	28,750	Furniture		4,500
R	17,250		46,000	
			67,290	67,290

W.N.

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

(2) Gaining Ratio

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

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

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

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

(4) New Capitals

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

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

DEATH OF A PARTNER

Accounting treatment in the case of death is same as in the case of retirement except the following:

1. The deceased partners claim is transferred to his executor's account.
2. Normally the retirement takes place at the end of the Accounting Period but the death may occur at any time. Hence the claim of deceased partner shall also include his share of profit or loss, interest on capital and drawings if any from the date of the last balance sheet to the date of his death.

- Calculation of Profits/ Loss for the intervening Period

It is calculated by any one of the two methods given below:

- a. On Time Basis: In this method proportionally profit for the time period is calculated either on the basis of last year's profit or on the basis of average profits of last few years and then deceased partner's share is calculated based on his share of profits.
- b. On Turnover or Sales Basis: in this method the profits up to the date of death for the current year are calculated on the basis of current year's sales up to the date of death by using the formula.

Profits for the current year up to the date of death =

Sales of the current year up to the date of death/total sales of last year x Profit for the last year.

Then from this profit the deceased partner's share of profit is calculated.

Payment for retiring deceased partner :-

- a. When payment is made in full
retiring deceased partners capitals A/c to bank Dr.
- b. When Payment is made in instalments. When payment is made in instalments interest is paid on instalments at agreed price or @ 6% per annum. Journal entries are
- (i) When interest is allowed
- Interest A/c Dr.
To Deceased Partner's Executor or retiring partner loan A/c
- (ii) When instalment is paid
- retiring partners loan A/c or Deceased partners executor a/c = A/c Dr.
To Bank A/c (interest & instalment amount)

Illustration 12.

Rinku, Pinku and Tinku were in partnership sharing profits in 3 : 2 : 1. On 1st April, Pinku retires from the firm. On that date, their balance sheet was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Trade creditors	5,700	Cash in Hand	9,000
Outstanding expenses	4,500	Debtors	16,000
General Reserve	10,500	Less: Provision	1,000
			15,000
		Stock	12,000
		Building	22,500
Workmen compensation Reserve	4,800	Investments	8,000
Capitals		Plant	4,000
Rinku	20,000		

Pinku	15,000		
Tinku	10,000	45,000	
		70,500	70,500

Adjustments:

- (1) Goodwill of the firm valued at ₹ 15,000.
- (2) Rinku took over investments at an agreed value of ₹ 7,200 for cash.
- (3) Building and plant were revalued at ₹ 24,300 and ₹ 3,600 respectively.
- (4) Provision for doubtful debts to be increased to ₹ 2,950
- (5) Outstanding expenses to be reduced to ₹ 3,750.
- (6) Claim on account of workmen compensation is ₹ 1,800.
- (7) Pinku be paid ₹ 5,000 in cash and balance will be transferred to his Loan A/c.
- (8) Rinku and Tinku decided to adjust their capital in profit sharing ratio after Pinku's retirement, by bringing or withdrawing necessary cash.

Prepare Revaluation A/c partner's Capital A/c and Balance sheet after Pinku's retirement.

Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Investments	800	by outstanding expenses	750		
To Plant	400	by building	1,800		
To Provision for doubtful debts	1,950	by Loss on Revaluation	600		
	3,150		3,150		

Dr.				Partners' Capital A/c				Cr.			
Particular	Rinku	Pinku	Tinku	Particular	Rinku	Pinku	Tinku				
To Pinku's Capital	3,750		1,250	by balance b/d	20,000	15,000	10,000				
To Revaluation A/c (Loss)	300	200	100	by General Reserve	5,250	3,500	1,750				
To Cash A/c To Pinku's Loan		5,000 19,300		by Workmen Compensation Reserve	1,500	1,000	500				
Cash A/c			2,500	by Rinku's Capital		3,750					
				by Tinku's Capital		1,250					
To balance c/d	25,200		8,400	by Cash A/c	2,500						
	29,250	24,500	12,250		29,250	24,500	12,250				

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Trade creditors	5,700	Cash in Hand (900 + 2500 – 2500 + 7200 – 500)	11,200
Outstanding Expenses	3,750	Debtors 16,000	
		Less: Provision 2,950	13,050
Workmen Compensation claim	1,800	Stock	12,000
Pinku's Loan	19,300	Building	24,300
Capital		Plant	3,600
Rinku 25,200			
Tinku 8,400	33,600		
	64,150		64,150

Working Notes:

(1) Pinku's share of Goodwill = $15,000 \times \frac{2}{6} = 5,000$

(2) Total Capital of new firm = adjusted capital of Rinku
+ adjusted capital of Tinku
= 22,700 + 10,900 = 33,600

to be divided in 3 : 1

Retirement of a Partner

Illustration 13

Raman, Ayush and Aalok are partners in a firm, sharing profits and losses in 5 : 3 : 2. On 1st April, 2021 Raman decided to retire from the firm.

After making all the adjustments in his capital on the date of retirement his claim amounted to ₹ 2,50,000.

You are required to pass journal entries in the following cases:

- (i) When no information is given regarding settlement of Raman's Claim.
- (ii) When Raman's claim is to be settled immediately in full. Available cash and bank balance on 1st April, 2021 was ₹ 90,000.
- (iii) When Raman's claim is to be paid in full and if required, bank loan should be taken to the extent of shortage of funds.
- (iv) Raman is to be paid ₹ 80,000 by a cheque accepting a 3 month draft of ₹ 50,000 and balance is to be transferred into his Loan A/c.

Solution

Journal

Date	Particular	L.F.	Dr. ₹	Cr. ₹
(i)	Raman Capital A/c To Raman's Loan A/c	Dr.	2,50,00	2,50,000

	(Amount due to Raman transferred to his Loan A/c)			
(ii)	Raman's Capital A/c Dr. To Bank A/c To Bank overdraft (Raman paid in full by availing overdraft facility of ₹ 1,60,000)	2,50,000		90,000 1,60,000
(iii)	Bank A/c Dr. To Bank Loan A/c (Loan of ₹ 1,60,000 taken from bank)	1,60,000		1,60,000
	Raman's Capital A/c Dr. To Bank A/c (Full payment made to Raman)	2,50,000		2,50,000
(iv)	Raman's Capital A/c Dr. To Bank A/c To Bills Payable A/c To Raman's Loan A/c (Paid Raman ₹ 80,000 by cheque accepting a draft ₹ 50,000 fro 3 months and balance transferred to his Loan A/c)	2,50,000		80,000 50,000 1,20,000

Illustration 14.

Seeta, Geeta and Anita are partners in a firm. Geeta retires on 1st April, 2018. On the date of retirement 60,000 is due to her after all adjustments. It is agreed to pay her 20,000 on the date of retirement and balance into four half yearly instalments (equal) along with Interest @ 10% p.a. Books are closing on 31st March every year. First instalment is due on 31st Dec, 2018. Prepare Geeta's Loan A/c till final settlement.

Solution:

Dr.			Geeta's Loan A/c		Cr.	
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)	
2018 July 1	To Bank A/c	20,000	2018 July 1	by Geeta's Capital A/c	60,000	
2018 Dec 31	To Bank A/c (10,000 + 2,000)	12,000	2018 Dec 31	by Interest A/c $(40,000 \times \frac{10}{100} \times \frac{6}{12})$	2,000	
			2019 March 31	by Interest A/c $(30,000 \times \frac{10}{100} \times \frac{3}{12})$	750	

2019 March 31	To balance c/d	30,750			
		62,750			62,750
2019 June 30	To Bank A/c (10,000 + 750 + 750)	11,500	2019	by balance b/d	30,750
Dec 31	To Bank A/c (10,000 + 1,000)	11,000	June 30	by Interest A/c $(30,000 \times \frac{10}{100} \times \frac{3}{12})$	750
			31 Dec	by Interest A/c $(20,000 \times \frac{10}{100} \times \frac{6}{12})$	1,000
			2020 March 31	by Interest A/c (1,000 $\times \frac{10}{100} \times \frac{3}{12})$	250
2020 March 30	To balance c/d	10,250			
		32,750			32,750
2020 June 30	To Bank A/c (10,000 + 250 + 250)	10,500	2020 April 1	by balance c/d	10,250
		10,500	June 30	by Interest A/c $(10,000 \times \frac{10}{100} \times \frac{3}{12})$	250
					10,500

Illustration 15.

Ram, Lakhan and Bharat are partners in a firm. On 1st April 2015, Bharat retires. On the date of retirement ₹ 1,20,000 was due to him after all the adjustments. Ram and Lakhan agreed to pay him this amount into three instalments of ₹ 40,000 including interest @ 10% p.a. on the outstanding amount and the balance including interest in the fourth years, at the end of each year. Prepare Bharat's Loan A/c till the date of final settlement.

Dr.			Bharat's Loan A/c		Cr.	
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)	
2016 March 31	To bank A/c	40,000	2015 April 12	by Bharat's Capital	1,20,000	

			2016 March 31	by Interest A/c $(1,20,000 \times \frac{10}{100})$	12,000
March 31	To balance c/d	92,000			
		1,32,000			1,32,000
			2016 April 1	by balance b/d	92,000
2017 March 31	To Bank A/c	40,000	2017 March	by Interest A/c $(92,000 \times \frac{10}{100})$	9,200
March 31	To balance c/d	61,200			
		1,01,200			1,01,200
			2017 April 1	by balance b/d	61,200
2018 March 31	To Bank A/c	40,000	2018 March 31	by Interest A/c $(61,200 \times \frac{10}{100})$	6,120
March 31	To balance c/d	27,320			
		67,320			67,320
			2018 April 1	by balance c/d	27,320
2019 March 31	To Bank A/c	30,052	2019 March 31	by Interest A/c $(27,320 \times \frac{10}{100})$	2,732
		30,052			30,052

Illustration 16: Karma, Varma and Sharma are partners sharing profit and losses in the ratio 4 : 3 : 2. Verma died after 3 months of closing books of account. His share of profit calculated as 9,000. Pass Journal entries if:

- (i) There is no change in profit sharing ratio
- (ii) New profit sharing of karma and sharma is 1 : 1.

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

To Verma's Cap A/c 9,000

- (ii) Gaining Ratio = New Ratio – Old Ratio

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

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

Karma's Cap A/c Dr.	1,800	
Sharma's cap A/c Dr.	7,200	
To verma's Cap A/c		9,000

Illustration 17: What will be the entries if in above Question there was a share of loss of ₹6,000 of verma.

Sol. (i) Verma's cap A/c Dr. 6,000
 To P & L Suspense A/c 6,000

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

Illustration 18: The balance sheet of P, Q & R as at 31st Dec.2014 was as follows.

Liabilities	₹	Assets	₹
Bills Payable	20,000	Cash at Bank	1,58,000
Employees Provident Fund	50,000	Bills Receivable	8,000
Workmen compensation reserve	90,000	Stock	90,000
Loan	1,71,000	Sundry Debtors	1,60,000
Capital Accounts		Furniture	20,000
P 2,27,500		Plant & Machinery	65,000
Q 1,52,500		Building	3,00,000
R 1,20,000	5,00,000	Advertisement	
		Suspense	30,000
	8,31,000		8,31,000

The profit ratio was 3:2:1 R died on 30th April 2015. The partnership deed provides that:

- Goodwill is to be calculated on the basis of 3 years purchase of preceding 5 years' average profits. The profits were 2014. ₹ 2,40,000, 2013 ₹ 1,60,000, 2012 ₹ 2,00,000, 2011 ₹ 1,00,000 and 2010 - ₹ 50,000.
- Deceased partner should be given share of profits upto the date of death on the basis of previous year profits.
- The assets have been revalued as under
 Stock ₹ 1,00,000, Debtors ₹ 1,50,000, Furniture ₹ 15,000. Plant and Machinery ₹ 50,000, Building ₹ 3,50,000. A bill for ₹ 6000 was found worthless.

- d. A sum of ₹ 72,333 was paid immediately to R's executor & balance is paid in two equal instalments (annual) with interest of 10% p.a. On outstanding amount. Ist instalment was paid on 30th April 2016.

Prepare Revaluation account & R's executor account till it is finally settled. Accounts are closed on 31st December each year.

Solution:

Revaluation Account

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Debtors A/c	10,000	By Stock A/c	10,000
To Furniture A/c	5,000	By Building A/c	50,000
To Plant & Machinery A/c	15,000		
To Bill Receivable A/c	6,000		
To profits transferred to			
P's capital A/c	12,000		
Q's Capital A/c	8,000		
R's Capital A/c	<u>4000</u>		
	60,000		60,000

R's Capital Account

Dr.			Cr.		
Date	Particular	₹	Date	Particular	₹
2013	To Advertisement		2013	By balance b/d	1,20,000
30 th	Suspense A/c		30 th April	By Workmen	15,000
April	(30,000 × 1/6)	5,000	30 th April	Compensation	
			30 th April	reserve	
			30 th April	By Revaluation	4,000
30 th	To R's Executor	2,22,333	30 th April	A/c	
April	A/c		30 th April	By P's Capital A/c	45,000
				(Goodwill)	
			30 th April	By Q's capital A/c	30,000
				(Goodwill)	
			30 th April	By P&L Suspense	13,333
				A/c	
		2,27,333			2,27,333

R's Executor Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particular	₹
30.4.15	To Bank A/c	72,333	30.4.15	By R's capital A/c	2,22,333
31.12.15	To Balance c/d	1,60,000	31.12.15	By interest A/c (10% on 1,50,000 × $\frac{8}{12}$)	10,000
		2,32,333			2,32,333
30.4.16	To Bank A/c 75000 <u>15000</u>	90,000	1.1.16	By Balance b/d	1,60,000
30.12.16	To Balance c/d	80,000	30.4.16	By Interest A/c $(\frac{10}{100} \times 1,50,000 \times \frac{4}{12})$	5,000
		1,70,000	31.12.16	$(\frac{10}{100} \times 75,000 \times \frac{8}{12})$	5,000
		82,500			1,70,000
30.4.17	To Bank A/c 80,000 Add Interest <u>2,500</u>	82,500	1.1.17	By Balance b/d	80,000
		82,500	30.4.17	By interest A/c $(\frac{10}{100} \times 75,000 \times \frac{4}{12})$	2,500
		82,500			82,500

Working Note:

$$\begin{aligned} \text{Average Profit} &= 2,40,000 + 1,60,000 + 2,00,000 + 1,00,000 + 50,000/5 \\ &= ₹ 1,50,000 \end{aligned}$$

$$\text{R's share} = 1,50,000 \times \frac{1}{2} = ₹ 75,000$$

contribution by P&Q in ratio 3:2

$$\text{P's share} = \frac{3}{5} \times 75,000 = ₹ 45,000 \quad \text{Q's share} = \frac{2}{5} \times 75,000 = ₹ 30,000$$

$$\text{R's share of profits} = 2,40,000 \times \frac{4}{12} \times \frac{1}{6} = ₹ 13,333$$

Illustration 19: (Death of a partner) M, N and O were partners in a firm sharing profits and losses equally.

Their Balance Sheet on 31-12.2014 was as follows:

Liabilities	(₹)	Assets	₹
Capitals:		Plant and machinery	60,000
M 70,000		Stock	30,000
N 70,000		Sundry Debtors	95,000
O <u>70,000</u>	2,10,000	Cash at Bank	40,000
General Reserve	30,000	Cash in Hand	35,000
Creditors	20,000		
	<u>2,60,000</u>		<u>2,60,000</u>

N died on 14th March, 2015. According to the Partnership Deed, executors of the deceased partner are entitling to:

- (i) Balance of partner's capital A/c
- (ii) Interest on capital @ 5% p.a.
- (iii) Share of goodwill calculated on the basis of twice the average of past three years' profits.
- (iv) Share of profits from the closure of the last accounting year till the date of death on the basis of twice the average of three completed year's profits before death. Profits for 2012, 2013 and 2014 were ₹ 80,000, ₹ 90,000, ₹ 1,00,000 respectively. Show the working for deceased partner's share of goodwill and profits till the date of his death. Pass the necessary journal entries and prepare N's Capital A/c to be rendered to his executors.

(CBSE 2011 Modified)

Solution**Journal**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 March, 14th	General Reserve A/c Dr. To N's Capital A/c (Being transfer of N's share of general reserve of his Capital A/c)		10,000	10,000
	Interest on Capital A/c Dr. To N's Capital A/c (Being interest 5% p.a. credited to N's Capital A/c upto 14.03.2010)		700	700
	M's Capital A/c Dr. O's Capital A/c Dr. To N's Capital A/c (Being goodwill adjusted in gaining ratio i.e. 1:1)		30,000 30,000	60,000
	Profit and Loss Suspense A/c Dr. To N's Capital A/c (Being the transfer of N's share of profit to his capital A/c)		12,000	12,000
	N's Capital A/c Dr. To N's Executor A/c (Being the transfer of amount due to N's executor A/c)		1,52,700	1,52,700

N's Capital A/c

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To N's Executors A/c	1,52,700	By Balance b/d	70,000
		By General Reserve A/c	10,000
		By Interest on Capital A/c (70,000*5/100*73/365)	700
		By M's Capital A/c	30,000
		By O's Capital A/c	30,000
		By Profit & Loss Suspense A/c (90,000*2*73/365*1/3)	12,000
	1,52,700		1,52,700

Working Note:

1. Calculation of Goodwill
 Average profit for 3 years
 $(₹ 80,000 + 90,000 + 1,00,000)/3 = ₹ 90,000$
 Goodwill of the firm = Average Profit \times No. of years of Purchase
 $= 90,000 \times 2 = ₹ 1,80,000$
 N's Share in Goodwill = $1,80,000 \times 1/3 = 60,000$
2. Time from the date of last balance Sheet (31st December, 2014) to the date of death (14th March, 2015)
 $= 31 \text{ days of January} + 28 \text{ days of Feb (2015 is not a leap year)} + 14 \text{ days of March}$
 $= 73 \text{ days}$

Death of a Partner (Share of Profit/Loss)

If books have not been closed, then share of Profit/Loss for the period of work done in current year is calculated either on the basis of previous year's average profit

or on the basis of percentage of profit/loss on sales/turnover such profit/Loss share of deceased partner can be recorded in the books in two ways:

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

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

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

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

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

<u>For share of profit</u>	<u>For share of Loss</u>
Gaining partners's cap.current A/c	Deceased/sacrificing
To deceased/sacrificing	partner's cap/current A/c
Partner's cap/current A/c	To gaining partner's
	capital/current A/c

PRACTICE QUESTIONS

Q.1. L, M and N were partners in a firm sharing profits in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year and balance of general reserve as on 31.03.2016 was ₹ 12,000.

N died on 1st Oct. 2016. It was agreed between his executors and the remaining partners that:

- a) Goodwill be valued at 3 years purchase of the average profits of the previous eight year The average profits of previous eight years were ₹ 12,000.
- b) Revaluation profit was ₹ 18,000.
- c) Profit for the year 2016-2017 be taken as having accrued at the same rate as the previous year which was ₹ 30,000.
- d) Interest on Capital be provided @ 10% p.a.

Fill in the missing figures in the following accounts:

N's Capital Account

Dr.		Cr.	
Particulars	(₹)	Particulars	₹
To _____	_____	By balance b/d	_____
		By _____	_____
		By L's Capital A/c	_____
		By M's Capital A/c	_____

N's Executor's Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To cash	4,250	By _____	_____
To Executors Loan A/c	25,000		

Balance is N's opening Capital & interest on Capital

$$29,250 - 13,500 = ₹ 15,750$$

$$\text{Let N's Capital} = ₹ x$$

$$\text{Interest on capital} = x \times \frac{10}{100} \times \frac{6}{12} = \frac{x}{20}$$

$$₹ 15,750 = x + \frac{x}{20}$$

$$₹ 15,750 = \frac{21x}{20}$$

$$x = 15,750 \times \frac{20}{21} = ₹ 15,000$$

N's Capital (opening) = ₹ 15,000

$$\text{Interest on Capital} = 15000 \times \frac{10}{100} \times \frac{6}{12}$$

Interest N's Capital = ₹ 750

Q.2.

B/s

Liabilities	(₹)	Amount	Amount
Profit & loss A/c	9,000	Cash	51,300
Capitals :		Bill receivable	10,800
R 80,000		Debtors	35,600
S 50,000		Stock	44,600
T <u>40,000</u>	1,70,000	Furniture	7,000
Bank loan	12,800	Plant &	19,500
Creditors	25,000	Machinery	
		Building	48,000
	2,16,800		2,16,800

S retired from the firm on 1-4-2009 and his share was ascertained on the revaluation of assets as follows:

Stock ₹ 40,000; Furniture ₹ 6,000; Plant and Machinery ₹ 18,000; Building ₹ 60,000; ₹ 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at ₹ 12,000.

R & T agreed to share future profits in ratio 3 : 2. S was to be paid ₹ 17,680 in cash on retirement and the balance in three equal yearly installments. Prepare Revaluation Account, Partners' Capital Accounts, S's Loan Account and Balance Sheet on 1-4-2009.

[Ans. Profit on Revaluation ₹ 3,200; Capital A/cs : R ₹ 82,480 and T ₹ 40,040; S's Loan ₹ 42,000; Balance Sheet Total ₹ 2,02,320; Gaining Ratio 1:1]

Q.3. P,Q and R are partners in a firm whose books are closed on 31st March every year.. R died on 24 August 2018 and R is share of profits upto date of death is to be calculated on the basis of the average profits of the last three year Net Profits of the last three years were ₹ 10,000 ₹ 14,000 and ₹ 13,800. Calculate R's share of Profits and pass journal entry.

Q.4. A, B, and C partners sharing profits in 4 : 3 : 2. Their Balance Sheet as under:

Liabilities		Assets	
Capitals :		Land & Building	1,20,000
(₹)		Stock	32,000
A	50,000	Debtors	25,000
B	40,000	Less : Provision	500
C	26,000	Bank	3,500
Creditors			
	1,16,000		
	64,000		
	1,80,000		1,80,000

B retired on this date on the following terms.

1. Land & Building appreciated by 15%.
2. Create provision for doubtful debts @ 5% on debtors (Hi) Stock be reduce to ₹ 28,000.
3. Liability for damages ₹ 650.
4. Goodwill of the firm was ₹ 45,000 and new profit sharing ratio was agreed as 5:3.
5. B was paid ₹ 3,100 and balance in 3 equal instalments with interest @ 5% p.a. Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet of new firm and B's loan A/c till the date of his final payment.

[Ans. Profit on Revaluation ₹ 12,600; For Goodwill: Dr. A ₹ 8,125 and C ₹ 6,875; Capital A/cs: A ₹ 47,475 and C ₹ 21,925; Bank Balance ₹ 400; Balance Sheet ₹ 1,90,000)

Q.5. B, C and D are partners, sharing profits in the ratio 2:2:1:1. B and D died in an accident and A and C decided to share future profits equally. Goodwill of the firm is valued at ₹ 60,000. Pass necessary journal entry.

[Ans. Gaining ratio of A and C is 1:2, Dr. A ₹ 10,000, C ₹ 20,000 and Cr. B ₹ 20,000, D ₹ 10,000]

Q.6. Mohan Sohan and Hari were partners in a firm sharing profits in 2:2:1 ratio. The firm closes its books on 31st March every year. Mohan died on 24-8-2017. On Mohan's death, the goodwill of the firm was valued ₹ 75,000. The partnership deed provided that on the death of a partner, his share in the profits of the firm in the year of his death will be calculated on the basis of last year's profits. The profit of the firm for the year ended 31-3-2017 was ₹ 2,00,000. Calculate Mohan's share of profit till the time of his death and pass the necessary journal entries for the treatment of goodwill and his share of profit.

[Ans. Profit share ₹ 32,000, (i) Dr. Hari ₹ 20,000, Sohan ₹ 10,000 and Cr. Mohan ₹ 30,000, (ii) Dr. P&L Suspense and Cr. Mohan ₹ 32,000]

Q.7. A, B and C were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2017, their Balance sheet was as under:

Liabilities		Amount	Assets		Amount
Creditors		17,000	Buildings		20,000
General Reserve		10,000	Machinery		30,000
A's capital A/c	30,000		Stock		10,000
B's capital A/c	25,000		Patents		6,000
C's capital A/c	15,000	70,000	Debtors		8,000
			Cash		13,000
		87,000			87,000

A died on 1st October, 2017. It was agreed between his executors and the remaining partners that: (a) Goodwill to be valued at 2 years' purchase of the average profits of the previous five years, which were, 2012: ₹ 15,000; 2013, 113,000; 2014 : ₹ 12,000 and 2015: 15,000 and 2016: ₹ 20,000. Patents be valued at ₹ 8,000; Machinery at ₹ 28,000; Buildings at ₹ 30,000.

- (c) Profits for the year 2017-18 be taken as having accrued at the same rate as that of the previous year.
 (d) Interest on capital be provided at 10% p.a.

- (e) A sum of ₹ 11,500 was to be paid to his executors immediately. Prepare A's Capital A/c and his

Executor's Account at the time of his death.

Ans: Balance of A's Executor's Account ₹ 50,000 and A's Capital ₹ 61,500: Goodwill share of ₹ 15,000(3:2), Profit share ₹ 5,000]

Q.8. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 :1. The Balance Sheet as on 31.3.2016

Liabilities		Amount	(?) Assets	Amount
Creditors		4,000	Building	20,000
Reserves		6,000	Plant & Machinery	16,000
Capitals :			Stock	5,100
A	24,000		Debtors	6,000
B	12,000		Cash at Bank	6,900
C	<u>8,000</u>	44,000		
		54,000		54,000

A died on 30-9-2016. Under the partnership agreement, the executors of a deceased partner were entitled to:

- Amount standing to the credit of partner's Capital A/c.
- Interest on capital @ 12% p.a.
- Share of goodwill on the basis of four years' purchase of last three years average profit.
- Interest on drawings @8% p.a. A had been with drawing ₹ 500 in the beginning of every month.
- Share of profit from the closing of the last financial year to the date of death on the basis of the last year's profit. Profits for the year 2014, 2015 and 2016 were ₹ 8,000, ₹ 12,000 and ₹ 7,000 respectively. Prepare A's Capital A/c to be rendered to his executor

Ans. A's Executors A/c '45120, Goodwill share = ₹ 18,000

Question 9: (Preparation of balance sheet of the reconstituted firm) Vijay, Vivek and Vinay are partners in a firm sharing profits in 2:2:1 ratio, On 31.3.2015 Vivek retires from the firm. On the date of Vivek's retirement the balance sheet of the firm was as follows:

Balance Sheet of Vijay, Vivek and Vinay

Liabilities	₹	Assets	₹
Creditors	54,000	Bank	55,200
Bills Payable	24,000	Debtor 12,000	
Outstanding Rent	4,400	Less: Provision for	
Provision for Legal Claim	12,000	Doubtful <u>800</u>	11,200
Capitals:		Stock	18,000
Vijay 92,000		Furniture	8,000
Vivek 60,000		Premises	1,94,000
Vinay <u>40,000</u>	1,92,000		
	2,86,400		2,86,400

On Vivek's retirement it was agreed that:

- Premises will be appreciated by 5% and furniture will be appreciated by ₹ 2,000. Stock will be depreciated by 10%
- Provision for bad debts was to be made at 5% on debtors and provision for legal damages to be made for ₹14,400.
- Goodwill of the firm is valued at ₹ 48000
- Amount due to Vivek is to be settled on the following basis

Case 1. ₹50,000 from Vivek Capital A/c will be transferred to his loan A/c and the balance will be paid by cheque.

or

Case 2: Transfer to Vivek loan A/c and Vijay and Vinay decided to adjust their capital in new Profit sharing Ratio by withdrawing or bringing cash.

or

Case 3. Transfer to Vivek loan A/c and New firm capital is fixed 1,20,000 in new profit sharing Ratio.

- Q.6 Amount due to outgoing partner is shown on the balance sheet as his:-
- (a) Liability (b) Assets
(c) Capital (d) Loan
- Q.7 Retiring partner is compensated for parting with the firm's future profits in favour of remaining partner's. The remaining partner's contribute to such compensation amount in:-
- (a) Gaining Ratio (b) Capital Ratio
(c) Sacrificing Ratio (d) Profit sharing Ratio
- Q.8 Choose the correct sequence of events in case of retirement of a partner.
- (i) Preparation of Revaluation A/c
(ii) Transferring amount due to retiring partner into loan A/c
(iii) Preparation of capital A/c to calculate amount due to retiring partner
(iv) Adjustment of goodwill in gaining ratio
- (a) (iv), (i), (ii), (iii) (b) (i), (iv), (iii), (ii)
(c) (iii), (ii), (i), (iv) (d) (ii), (iv), (i), (iii)
- Q.9 **Assertion (A):** Deceased partner will get share in firm's goodwill payable to his/her legal representative.

Reason (R): Deceased partner's legal representative is entitled to share in firm's goodwill since deceased partner has foregone his/her share in the profits of the firm in favour of other partners.

In the context of above two statement, which of the following is correct?

- (a) Assertion (A) and Reason (R) are correct and (R) is the correct explanation of (A)
(b) Assertion (A) and Reason (R) are correct but (R) is not the correct explanation of (A).
(c) Assertion (A) is correct but Reason (R) is not correct
(d) Assertion (A) is not correct but Reason (R) is correct.
- Q.10 **Assertion (A):** Amount due to executors of deceased partner is always transferred to their Loan Account.

Reason (R): Deceased partner's legal representative is entitled to share in firm's goodwill since deceased partner has foregone his/her share in the profits of the firm in favour of other partners.

In the context of above two statement, which of the following is correct?

- (a) Assertion (A) and Reason (R) are correct and (R) is the correct explanation of (A)
(b) Assertion (A) and Reason (R) are correct but (R) is not the correct explanation of (A).

- (c) Assertion (A) is correct but Reason (R) is not correct
- (d) Assertion (A) is not correct but Reason (R) is correct.

Q.11 In the event of death of a partner during the accounting year–

Statement I: Time is considered while calculating interest on deceased partner's capital as per deed.

Statement II: Time is not considered to distribute revaluation gain/loss on the date of death.

Choose the correct option.

- (a) Statement I is correct but statement II is incorrect
- (b) Statement II is correct but statement I is incorrect
- (c) Both the statements are correct
- (d) Both the statements are incorrect.

Q.12 Statement I: Goodwill appearing in the books at the time of retirement of a partner is written off in the old profit sharing ratio

Statement II: Goodwill is valued and retiring partner's share is adjusted in gaining ratio

Choose the correct option:

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement I is correct but statement II is incorrect.
- (d) Statement II is correct but statement I is incorrect.

Q.13 Match the following and choose correct option:

Column I

Column II

- | | |
|----------------------------------|----------------------------------|
| (I) Revaluation A/c | (A) Part payment of Loan |
| (II) Partner's capital Accounts | (B) Increase in Building |
| (III) Balance Sheet | (C) General Reserve distribution |
| (IV) Retiring partner's Loan A/c | (D) Closing Bank Balance |
- (a) I-C, II-A, III-D, IV-B
 - (b) I-B, II-C, III-D, IV-A
 - (c) I-D, II-C, III-A, IV-B
 - (d) I-A, II-B, III-C, IV-D

Q.14 P,Q,R are partners in a firm. Q retires on oct. 1, 2019. His share or profit till oct 1, 2019 in the year is to be calculated on the basis of last year's profit. Profit for the year ended march 31, 2019 was ₹1,20,000.

- (a) Profit and loss suspense A/c Dr 40,000
 To Q's Capital A/c 40,000

- (b) Q's Capital A/c Dr 40,000
 To Profit and Loss suspense A/c 40,000
- (c) Profit and loss suspense A/c Dr. 20,000
 To Q's capital A/c 20,000
- (d) Q's Capital A/c Dr. 20,000
 To profit and loss suspense A/c 20,000

Q.15 A and B are partners in a firm. They admitted C as partner. After 3 years B decided to retire. On his retirement, amount due to him after all adjustments was ₹48,000. A and C decided to pay ₹8,000 immediately and transfer balance into his loan A/c

Journal entry for making payment of ₹8,000 will be:

- (a) B's Loan A/c Dr. 8,000
 To Bank A/c 8,000
- (b) Bank A/c Dr 8,000
 To B's Loan A/c 8,000
- (c) B's capital A/c Dr 8,000
 To Bank 8,000
- (d) Bank A/c Dr 8,000
 To B's Capital A/c 8,000

Q.16 Rohit Virat and Sachin were partners in a firm sharing profits in the ratio 3:2:1. The firm closes its books on 31st March every year. On 30th June, Sachin died. Partnership deed provided that on the death of a partner his executors will be entitled to the following:

- (a) Balance in his capital which amounted to ₹1,00,000 and Interest on capital @12% p.a.
- (b) His share in the profits of the firm till the date of his death amounted to ₹20,000.
- (c) His share in the goodwill of the firm. The goodwill of the firm on Sachin's death was valued at ₹3,00,000.

On the basis of the above answer the following questions:

- (I) Interest on Sachin's capital will be
- (a) ₹12,000 (b) ₹3,000
 (c) ₹6,000 (d) ₹9,000
- (II) Journal entry for adjustment of goodwill will be:
- (a) Sachin's capital A/c Dr. 3,00,000

To Rohit's Capital A/c	1,80,000
To Virat's Capital A/c	1,20,000
(b) Sachin's capital A/c Dr.	50,000
To Rohit's Capital A/c	30,000
To Virat's Capital A/c	20,000
(c) Rohit's Capital A/c Dr	1,80,000
Virat's Capital A/c Dr	1,20,000
(d) Rohit's Capital A/c Dr	30,000
Virat's Capital A/c Dr	20,000
To Sachin's Capital A/c	50,000

(III) Amount due to sachin's executors will be:

- | | |
|---------------|---------------|
| (a) ₹1,20,000 | (b) ₹1,70,000 |
| (c) ₹1,82,000 | (d) ₹1,73,000 |

MCQs Answers

- | | |
|------|-------------|
| 1. D | 9. A |
| 2. C | 10. B |
| 3. D | 11. C |
| 4. A | 12. A |
| 5. B | 13. B |
| 6. D | 14. C |
| 7. A | 15. C |
| 8. B | 16. (I) (b) |
| | (II) (d) |
| | (III) (c) |

CHAPTER 6

DISSOLUTION OF PARTNERSHIP FIRM

S.NO.	TOPIC			
1.	Dissolution of partnership firm	As per 39 of the partnership act 1932, "Dissolution of the firm means dissolution of partnership among all the partners in the firm." Its means business of the firm ends. All the assets of the firm are disposed off and all outside Liabilities and partner capital are paid.		
2.	Mode of dissolution of firm	1. Dissolution by agreement 2. Compulsory Dissolution 3. On happening of an event like insolvency of a partner 4. Dissolution by notice 5. Dissolution by court		
3.	Dissolution of partnership V/S Dissolution of firm	BASIS	Dissolution of Partnership	Dissolution of firm
		1. End of business	The business of the firm continue	The business of the firm closed

		2. Settlement of assets & liabilities	Liabilities are reassessed and new balance sheet is opened	Assets are realized and liabilities are paid off.
		3. Economic relationship	Economic relationship between the partners are changed	Economic relationship between the partners are to end.
		4. Court's intervention	No intervention of the court can be dissolved by mutual agreement	A firm can be dissolved by the court's order.
		5. Closer of books and accounts	Books of accounts of the firm need not to be closed.	Books of accounts of the firm are closed.
		6. Effect	It may or may not dissolution of firm	It necessarily in dissolution of partnership.

4.	SETTLEMENT OF ACCOUNTS	<p>As per section 48 of the partnership act 1932, the following rules shall apply.</p> <p>1. Treatment of losses: losses including deficiencies of capital, shall be paid :- (i) first out of profit, (ii) next out of capital and (iii) if necessary, by the partners individually in the profit sharing ratio.</p> <p>2. Application of assets: Assets of the firm shall be applied in the following manner.</p> <p>(i) In paying firm's debts to the third party.</p> <p>(ii) In paying each partner proportionately what is due to him on a/c of loan(i.e. partner's loan)</p> <p>(iii) In paying each partner proportionately what is due to him on a/c of capital</p> <p>(iv) The residue, if any shall be divided among the partners in their profit sharing ratio.</p>
5.	PRIVATE DEBTS V/S FIRM'S DEBTS	<p>SEC 49 Of the act applied as follows:</p> <p>(i) Firms property is applied first for settling the firms debts, surplus if any can be utilized for payment of their private debts up to received share.</p> <p>(ii) Private property is applied first for private debts then towards firms liability.</p>

Dissolution of a Partnership Firm

Settlement of Accounts

Section 48 of the Indian Partnership Act, 1932 deals with the settlement of accounts

when the firm is dissolved.

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

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

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

REALISATION ACCOUNT

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

STEPS INVOLVED IN PREPARATION OF REALISATION ACCOUNT

1. Transfer all assets from balance sheet to the debit side of realisation A/c except: Cash/Bank balance, Loan to partner(s). Partners' capital/current a/c, Partners' Drawings. Accumulated losses, Fictitious assets.
2. Transfer all liabilities from balance sheet to the credit side of realisation A/c Except:
Partners' capital/current A/c, Loan by partner(s), General reserve, Accumulated Profits, Workmen compensation reserve (surplus only).
3. Record the sale of assets at given realised value and assets(s) taken over by the partner(s) against credit side of realisation account.
As per CBSE Tangible assets are realised either at given value or. Book values
4. Record the payment of liabilities or agreed to be paid by partner (whether recorded or unrecorded) to the debit side of realisation A/c except investment fluctuation reserve, provision for doubtful debts, provision for depreciation, Provision for discount on debtors.
If amount payable is not given for a liability then it is paid at book value.
5. Record Dissolution expenses and remuneration payable to a partner (if any).
6. Find gain/loss on account of realisation of assets and repayment of liabilities by balancing the account and distribute it among partners in their profit sharing ratio.

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

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

STEP : 2 TRANSFER THE LIABILITIES TO REALISATION A/c

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

STEP:3a For sale of assets

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

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

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

STEP:4a To pay liability

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

STEP:4b Liability assumed by the partner

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

STEP:5 Remuneration to a Partner

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

STEP:6 TO DISTRIBUTE GAIN ON REALISATION

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

To distribute

Loss on Realisation

Partners Capital/current A/c Dr.

To Realisation A/c

* Accumulated Profits, Losses & Reserves

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

General Reserve A/c Dr.

P & L A/c Dr.

Contingency Reserve A/c Dr.

To Partners capital A/c

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

Partner's capital A/c Dr.

To profit and loss A/c

To deferred revenue expenditure

(Advertisement suspense A/c)

(3) Workmen Compensation Reserve

(i) Workmen compensation Reserve

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

(ii) Workmen compensation A/c Dr.

To partner's capital A/c

(Surplus in workman compensation reserve A/c after claim)

JOURNAL ENTRIES FOR FEW IMPORTANT ITEMS

1. TO SETTLE LOAN GIVEN BY PARTNER TO THE FIRM

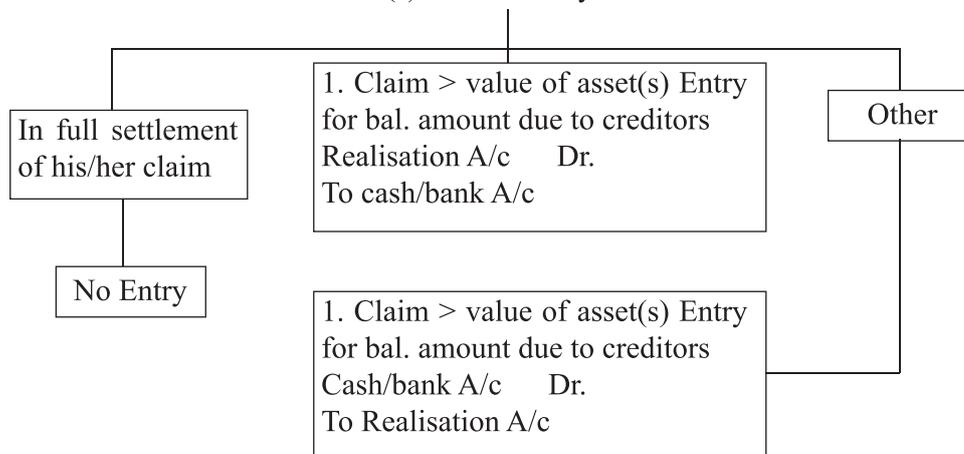
Date	Particulars	L.F.	Dr.	Cr.
	Partners' loan A/c Dr. To Cash/Bank / Realisation A/c (for asset given against loan) To Realisation A/c (if any, difference) (Being partners' loan discharged)			

2. TO SETTLE LOAN GIVEN TO PARTNER BY THE FIRM

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

Note : Until unless specified Loan to partner is not debited to his/her capital/current A/c but received in cash/bank.

3. Asset(s) taken over by the creditor



4. Realisation Expenses

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

For Realisation Expenses Journal

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

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

Illust. 1. Record necessary journal entries in the following cases:

- (a) Creditors were ₹16,000. They accepted Machinery valued at ₹18,000 in full settlement of their claim.
- (b) Creditors worth ₹85,000 accepted ₹40,000 as cash and Investment worth ₹43,000, in full settlement of their claim.
- (c) Creditors were ₹90,000. They accepted Buildings valued ₹1,20,000 and paid cash to the firm ₹30,000.

JOURNAL

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

Distinction between Revaluation Account and Realisation Account

Basis of Difference	Revaluation Account	Realisation Account
Purpose	It is prepared to show assets and liabilities in the books at their revised values.	It is prepared to ascertain profit or loss from sale of assets and repayment of Liabilities.

When to be prepared	It is prepared at the time of change in profit sharing ratio among the existing partner, admission, retirement and death of a partner.	It is prepared at the time of dissolution of a firm.
Preparation of Account	This account may be prepared at a number of times during the life of a firm.	This account is prepared once during the life of a firm.
Content	This account records only those assets and liabilities whose book values have been changed.	This account records all assets (except cash, fictitious assets etc.) and all outside liabilities.
Result	A Firm continues its business even after the preparation of revaluation account.	The business activities of a partnership firm comes to an end after preparation of realisation account

Illust. 2: Following is the Balance Sheet of X and Y, who share profits and losses in the ratio of 4.1, as at 31st March, 2015

BALANCE SHEETAs on 31st March, 2015

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	8,000	Bank	20,000
Bank Overdraft	6,000	Debtors	17,000
X's Wife Loan	8,000	Less : Provision	(2,000)
Y's Loan	3,000	Stock	15,000
Investment Fluctuation fund	5,000	Investments	25,000
Capital		Buildings	25,000
X	50,000	Goodwill	10,000
Y	40,000	Profit and Loss A/c	10,000
	1,20,000		1,20,000

The firm dissolved on the above date and the following arrangement was decided upon:

- (i) X agreed to pay off his wife's loan.
- (ii) Debtors of ₹ 5,000 proved bad.
- (iii) Other assets realised-Investment 20% less; and Goodwill at 60%
- (iv) One of the creditors for ₹ 5,000 was paid only ₹ 3,000
- (v) Buildings were auctioned for ₹ 30,000 and auctioneer's commission amounted to ₹ 1,000.
- (vi) Y took over part of Stock at ₹ 4,000 (being 20% less than the book value. Balance stock realised 50%.
- (vii) Realisation expenses amounted to ₹ 2,000.

Prepare Realisation A/c, Partner's Capital A/cs and Bank A/c

Realisation Account

Dr.

Cr.

Particulars	₹	Particulars	₹
To Goodwill	10,000	By Investment Fluctuation Fund	5,000
To Buildings	25,000	By Provision for Doubtful Debts	2,000
To Investments	25,000	By Creditors	8,000
To Stock	15,000	By Bank overdraft	6,000
To Debtors	17,000	By X's Wife Loan	8,000
To X's Capital A/c (X's wife loan)	8,000	By Bank A/c (Asset realised)	
To Bank A/c (Bank overdraft)	6,000	Debtors 12,000	
To Bank A/c (Creditors) (3000+3000)	6,000	Investment 20,000	
To Bank A/c (Expenses on Realisation)	2,000	Goodwill 6,000	
To Bank A/c (auctioneer Commission)	1,000	Buildings 30,000	
		Stock <u>5,000</u>	73,000
		By Y's Capital A/c (Stock)	4,000
		By Loss transferred to:	
		X's Capital A/cs 7,200	
		Y's Capital A/cs <u>1,800</u>	9,000
	<u>1,15,000</u>		<u>1,15,000</u>

Y's Loan A/c

Dr.

Cr.

Particulars	₹	Particulars	₹
To Bank A/c	3,000	By balance b/d	3,000
	3,000		3,000

Partner's Capital A/cs

Dr.

Cr.

Particulars	₹	₹	Particulars	₹	₹
To Profit and Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c (Assets taken)	—	4,000	(Cr. Balance)		
To Realisation A/c (Loss on Realisation)	7,200	1,800	(By Realisation A/c	8,000	—
To Bank A/c (Excess cash paid)	42,800	32,200	Liabilities taken)		
	58,000	40,000		58,000	40,000

Bank A/c

Dr.

Cr.

Particulars	₹	Particulars	₹
To Balance b/d (Cash at Bank)	20,000	By Balance b/d (Bank Overdraft)	6,000
To Realisation A/c (Assets Realised)	73,000	By Realisation A/c (Liabilities Paid)	1,000
		By Realisation A/c	6,000
		By Realisation A/c (Exp. Paid)	2,000
		By Y's Loan A/c (Partner's Loan Paid)	3,000
		By X' Capital A/c	42,000
		By Y's Capital A/c	32,200
	93,000		93,000

Illust. 3 Pass the necessary journal entries on the dissolution of a firm in the following cases:

- (a) Dharama, a partner, was appointed to look after the process of dissolution at a remuneration of ₹ 12,000 and he had to bear the dissolution expenses. Dissolution expenses ₹ 11,000 were part by the Bharna.
- (b) Jay a partner was to look after the process of dissolution and for this work he was allowed a remuneration of ₹ 7,000 agreed to bear all dissolution expenses. Actual expenses ₹ 6000 were paid from firm's Bank A/c.
- (c) Realisation expenses ₹ 12000 borne by the partner Deepa. These expenses were paid by Deepa by drawing cash from the firm. She was allowed commission ₹ 10,000 for process of dissolution.
- (d) Dev, a partner, agreed to do the work of dissolution for ₹ 7500. He took away stock for his commission.
- (e) A debtor of ₹ 8,000 already transferred to realization account agreed to pay the realization expenses of ₹ 7,800 in full settlement.
- (f) Realisation expenses amounted to ₹ 15,000 out of this ₹ 12000 were to be borne by 'A' a partner and the balance by firm.

Solution:

Journal

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

Illust. 4 Pass Journal entries for the following transactions in the book of the firm on its dissolution:

- A) Bills receivable of ₹ 20000 discounted with the bank is dishonoured as drawee was declared insolvent and 30% amount is received in cash from him.
- b) 100 shares of Bajaj Auto Ltd. acquired at a cost ₹ 3,600 had been written off from the books. These were valued at ₹ 12 par share, and were divided among partner's A and B in 2 : 1.
- c) Mr. Verma, a creditor to whom ₹ 6,000 are due, accepted office equipment at ₹ 4,000 and the balance paid to him by cash.
- d) Debtors of ₹ 5,00,000 and provision for doubtful debts of ₹ 20,000 transferred to realisation account. On dissolution bad debts were ₹ 1,00,000 and remaining debtors realised at 30% discount.
- e) Loan owed by B towards firm is ₹ 30,000. It was decided by the firm that B will pay to the creditor ₹ 25,000 in settlement of his loan.
- f) The firm had borrowed ₹ 35,000 from Rashmi, a partner. The firm got dissolved; Rashmi decided to take furniture against the payment of her loan.

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	(a) Cash A/c Dr. To Realisation A/c (Being 30% realized from drawer)		6,000	6,000
	Realisation A/c Dr. To Bank A/c (Being full amount paid to Bank)		20,000	20,000
	(b) As capital A/c Dr B's Capital A/c Dr. To Realisation A/c (Being shares taken by A and B)		800 400	1,200
	(c) Realisation A/c Dr To cash A/c (Being Net ₹ 2000 paid to Mr. Verma)		2,000	2,000
	(d) Cash A/c Dr To Realisation A/c (Being 70% realised from Debtors)		2,80,000	2,80,000
	(e) Realisation A/c Dr To B's Loan A/c (Being B's loan transferred)		30,000	30,000
	(f) Rashmi's Loan A/c Dr To Realisation A/c (Being loan settled by providing furniture)		35,000	35,000

Practice Question

Q.1 Pass the journal entries to effect the followings

- (i) bank loan of ₹ 12000 is paid off.
- (ii) Deferred advertisement expenses A/c appeared in the books at ₹28000.
- (iii) Creditors agreed to take over the machine in full settlement of their claim. (creditors ₹ 2,50,000 and machinery ₹ 2,25,000)
- (iv) Z, an old customer, whose account was written off as bad in the previous year, paid ₹ 500.
- (v) A contingent liability (not provided for) of ₹ 1000 was also discharge.
- (vi) An unrecorded computer realized ₹ 7000.

Q.2 X and Y were partners sharing profits and losses in ratio of 4:1. Their firm was dissolved on 31.3.15. Complete the missing information:

Realisation Account

Particulars	₹	Particulars	₹
To Goodwill A/c	10,000	By Investment Fluctuation Fund A/c	5,000
To building A/c	25,000	By Provision for Doubtful Debts A/c	2,000
To Investments A/c	25,000	By Creditors A/c	8,000
To Stock A/c	15,000	By Bank Overdraft A/c	6,000
To Debtors A/c	20,000	By X's Brother Loan	8,000
To X's Capital A/c (Brother's loan)	(a)	By Bank A/c (Assets Realised) ₹	
To Bank A/c's: ₹		Debtors	12,000
Creditors	6000	Investments	20,000
Bank Overdraft	<u>6000</u>	Goodwill	7,000
	12,000	Buildings	30,000
To Bank A/c (Realisation Expenses)	(b)	Stock (50% of 10,000)	<u>5,000</u>
		By Y's Capital A/c(stock)	
		X's Capital A/c	(c)
		Y's Capital A/c	(d)
			(e)
	(f)		74,000
			(f)

Partner's Capital Account

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To profit & Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c (Stock)		4,000	By Realisation A/c	(k)	
To Realisation A/c (Loss)	(g)	(h)			
To Bank A/c (Bal. Fig.)	(i)	(j)			
	(l)	(m)		(l)	(m)

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Y's loan A/c	6,000
To Realisation A/c	(n)	By Realisation A/c (liabilities paid off)	12,000
		By Realisation Expenses A/c	2,000
		By X's Capital A/c	(o)
		By Y's Capital A/c	(p)
	(q)		(q)

Hints:

- a) Brother's ₹ 8,000 (Given on Cr. Side of Realisation A/c)
- b) Realisation Expenses ₹ 2,000 (From Bank A/c Cr. side)
- c) Stock ₹ 4,000 (From Y's Capital A/c Dr. side)
- d) ₹ 8,000 (e) ₹ 2,000 (f) 1,17,000 (g) ₹ 8,000 (h) ₹ 2,000
- (i) ₹ 42,000 (j) ₹ 32,000 (k) ₹ 8,000 (l) ₹ 58,000 (m) ₹ 40,000
- (n) ₹ 74,000 (o) ₹ 42,000 (p) ₹ 32,000 (q) ₹ 94,000

Q.3 A and B showing profits and losses in the ratio of 3:2 agreed upon the dissolution of the firm on 31st March 2018 at which date their Balance sheet was as follows:

Liabilities	₹ Amount	Assets	₹ Amount
Trade creditor	60,000	Cash	6,000
Employee Provident Fund	15,000	Bank	30,000
Bills payable	25,000	Stock	80,000
Investment fluctuation reserve	24,000	Sunday Debtors	66,000
		Loss Provision	<u>6,000</u>
Profit and Loss A/c	11,000	for D/D	60,000
Capital A/c		Plant and Machinery	30,000
A	90,000	Land and Building	33,000
B	30,000	Investment	10,000
Workman Compensation Reserve	20,000	Goodwill	15,000
		Pre Paid Insurance	1,000
		Advertisement Expenditure	10,000
	2,75,000		2,75,000

The firm was dissolved on the given date and following transition took place :

- (1) B undertook to pay employee provident fund.
- (2) A took 60% stock at a profit of 10% and remaining stock was sold at a discount of 20% on cost.
- (3) Land and building & investments realized ₹ 1,40,000 and ₹ 8,000 respectively.
- (4) Trade creditor accepted plant & machinery loss 10% of value and cash ₹ 27,000 in full settlement of their claim.
- (5) ₹ 8,000 of Book debts proved bad bills payable were paid in full.
- (6) Realisation expenses paid by A ₹ 5,000.
- (7) There were a contingent liability of ₹ 1,000 for Bill discounted also discharged.

Prepare Realisation A/c, partner's capital A/c and Bank A/c.

(Ans. Profit of realisation ₹ 1,06,200, partner final payment ₹ 1,18,520 A, ₹ 58,800 B Total & Bank A/c 2,67,400)

Q.4. Ram, Rahim and Rehman were partners in a firm sharing profits in ratio 4 : 1 : 5. On 28-2-2017, the firm was dissolved. On the date of dissolution, the Balance Sheet of the firm was as follows : Rehman was appointed to realize the assets and liabilities for which he was to be given a commission of ₹ 5,000 and to bear the actual expenses of realization himself.

Liabilities	Amount(₹)	Assets	Amount (₹)
Bank loan	4,34,000	Bank	48,000
Creditors	3,80,000	Debtors 2,74,000	
General reserve	1,00,000	Less provision <u>8,000</u>	2,66,000
Ram's wife's loan	40,000	Stock	1,08,000
Capitals:		Furniture	1,32,000
Ram	14,00,000	Machinery	4,00,000
Rahim	6,00,000	Building	30,00,000
Rehman	10,00,000		
	39,54,000		39,54,000

Assets realised as follows: bad debts proved ₹ 4,000. Stock at 15% less. Furniture was taken over by Ram for 9,000. Building was sold for ₹ 29,00,000. Rehman took over 50% of the machinery at 5% less than the book value. Bank Loan was paid with interest of ₹ 79,500. A computer already written off was taken over by Rahim for ₹ 3000. Creditors allowed a discount of 5%. Expenses of dissolution ₹ 7,000 were paid by Rehman. Remaining machinery was sold at 10% profit.

Pass journal entries at the time of dissolution.

Q.5. Complete the following journal at the time of a partner ship firm of A, B and C and D were sharing the profits & losses in the ratio of 1 : 2 : 2

Realisation A/c Dr.		6,50,000	
To stock A/c			40,000
To building A/c			2,10,000
To machinery A/c			2,50,000
To Goodwill A/c			_____
To debtors A/c			12,000
To investment A/c			1,00,000
(_____			

_____)			
Creditors A/c	Dr.	45,000	
M₹ A's Loan A/c	Dr.	1,20,000	
Bank Loan A/c	Dr.	2,00,000	
Provision for doubtful debts A/c	Dr.	2,000	
To realization A/c			_____
(_____			

_____)			
_____	Dr.	_____	
To _____			_____
(being the machinery sold at 10% less than book value, debtors realized at 20% discount and half of the investment was realized at 25% above book value)			

(being the machinery sold at 10% less than book value, debtors realized at 20% discount and half of the investment was realized at 25% above book value)		
<p>_____ Dr.</p> <p>To _____</p> <p>(creditors worth ₹ 36,000 took over the stock at valuation of ₹ 30,000)</p>	_____	_____
<p>_____ Dr.</p> <p>To _____</p> <p>(A agreed to pay off his wife's loan)</p> <p>_____ Dr.</p> <p>To _____</p> <p>(A took over the half of the investment at 10% discount)</p>	_____	_____
<p>_____ Dr.</p> <p>To _____</p> <p>(Building was sold by the bank for setting off its loan for ₹ 2,50,000 and the balance amount of cash was given to the firm)</p>		
<p>(_____ Dr. _____</p> <p>_____ To _____</p> <p>_____)</p>	_____	_____
<p>(_____ Dr. _____</p> <p>_____ To _____</p> <p>_____)</p>		
<p>B's loan A/c _____ Dr.</p> <p>To _____</p> <p>(B's loan for ₹ 50,000 _____)</p>		

Partners' Capital A/c

Particulars	A's capital	B's capital	C's capital	Particulars	A's capital	B's Capital	C's capital
To realization A/c				By balance B/d	5000	175,000	1,15,000
To cash				By gen reserves	2,000	2,000	4,000
				By Profit & loss A/c	30000	30000	60000
				By realization A/c			
				By realization A/c			
				By cash			

Cash A/c

Particulars	Amount	Partners	Amount
balance B/d	4000		

Q. 6 Following was the balance sheet of D, G, And T on 28-2-2017

Liabilities(₹)	Amount	Assets	Amount
R's Loan	12,000	Furniture	15,000
Creditors	50,000	Land & Building	2,45,000
General Insurance	20,000	G' s Capital	20,000
G's Loan	8,000	Bank	20,000
Bills payable	10,000	Debtors	30,000
D' s Capital 1,00,000		Stock	20,000
T's Capital 1,50,000	2,50,000		
	3, 50,000		3,50,000

The firm was dissolved on the above date on the following terms:-

- (i) Debtors realised ₹ 28,000 and creditores and bills payable were paid at discount of 10%

Q.6 Anu, Khusi and Anmol are partners, The firm had given a loan of (₹) 20,000 to khushi. On the event of dissolution, the loan will be settled by :-

- (A) Transferring it to debit side of Realisation A/c
- (B) Transferring it to credit side of Realisation A/c
- (C) Transferring it to debit side of Partner's capital.
- (D) Khusi paying Anu and Anmol Privately

Q.7 On dissolution, goodwill account is transferred to :-

- (A) capital accounts of partners
- (B) On the Credit of Cash account
- (C) On the debit of Realisation A/c
- (D) On Credit of Realisation A/c

Q.8 Where it is agreed that a partner will be paid a lump-sum amount for dissolution expenses payment is made by the firm, the payment is debited to

- (A) Realisation Account
- (B) Concerned Partner's Capital Account
- (C) All Partner's Capital A/c
- (D) None of these

Q.9 At the time of disssolution total assets are ₹6,00,000 and outside liabilities are ₹2,40,000. If assets realised at 20% more than the book value and dissolution expenses paid were ₹8,000, gain/loss on realisation will be:

- (A) ₹ 1,20,000 (B) Loss ₹ 1,20,000
- (C) Gain ₹ 1,12,000 (D) Loss ₹ 1,12,000

Q.10 At the time of dissolution of partnership firm loan by a partner ₹40,000 appeared in the balance sheet firm agreed to settle this loan by giving investments worth ₹36,000 (already transferred in realisation A/c) in full settlement of loan.

Choose the correct journal entry for the above:

(A) Loan by partner A/c Dr	40,000	
To cash A/c	40,000	
(B) Loan by partner A/c Dr	40,000	
To concerned partner's capital A/c	40,000	
(C) Loan by partner A/c Dr.	40,000	
To Realisation A/c		40,000
(D) Realisation A/c Dr.	36,000	
To Loan by partner A/c		36,000

MCQs (Answers)

- | | |
|--------|---------|
| 1. (C) | 6. (C) |
| 2. (B) | 7. (C) |
| 3. (A) | 8. (A) |
| 4. (A) | 9. (C) |
| 5. (C) | 10. (C) |

CHAPTER 7

ACCOUNTING FOR SHARE CAPITAL

Company	A Company is an artificial person created by law, having separate entity with a perpetual succession and a common seal.
Characteristics of a company	<ol style="list-style-type: none">1. A company has a separate legal entity which is distinct and separate from its members.2. It has perpetual existence3. It has its own common seal.4. Shares of a company are transferable subject to certain conditions.5. The liability of the members of the company is limited to the extent of unpaid amount of the shares held by them.

TYPES OF COMPANY

(i) Public Company Sec. 2(71) of companies Act, 2013	A company which is not a private company and which is not a subsidiary of a private company.
(ii) Private Company Sec. 2(68) of companies Act, 2013	A private company is one which by its Articles of Association restricts the right to transfer its shares, must have at least 2 persons, except in case of one person company and limits the number of its members to 200 (excluding its employees)
(iii) One Person Company (OPC) Sec. 2(62) of companies Act, 2013	<p>The companies Act, 2013, define OPC as a Company which has only one person as a member’.</p> <p>Rule 3 of the companies (Incorporation) Rules, 2014, provides that:</p> <ol style="list-style-type: none">(a) Only a natural person being an Indian Citizen and resident in India can form one person company.(b) It cannot carry out nonbanking financial investment activities(c) Its paid up share capital is not more than ₹ 50 Lakhs(d) Its average annual turnover of three years does not exceed ₹ 2 Crores.

IMPORTANT TERMS USED IN ACCOUNTING FOR SHARE CAPITAL

a) Share Capital	Capital raised by issue of shares is called share capital.
b) Authorized Capital	It is also called as Nominal or Registered capital. It is the maximum amount of Capital a company can issue. It is stated in the Memorandum of Association.
c) Issued Capital	This is part of authorized capital which is offered to public for subscription. It can not exceed authorized capital.
d) Subscribed and fully paid up capital	It is that part of the issued capital which is fully called up by the company and fully paid up by the shareholders.
e) Subscribed but not fully paid up capital	It is that part of the issued capital which is either not fully called up by the company or not fully paid up by the shareholders or both.
f) Called Up Capital	It is the amount of nominal values of shares that has been called up by the company for payment by the subscriber towards the share.
g) Paid Up Capital	It is part of called up capital that the members of company or shareholders have paid. Paid up capital = Called-up capital - Calls in arrears
h) Reserve Capital	It is part or portion of uncalled share capital of an unlimited company which can be called only in case of winding up of the company.
i) Capital Reserve	It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholders Funds.
j) Private Placement of Shares (Section-42)	Private Placement of Shares means issue and allotment of shares to a select group of persons privately and institutional investors, not to the public.
k) Calls in arrear	Any Amount which has been called or demanded by company from shareholders but not paid by the shareholder till the last date mentioned in call letter is called as calls in arrear. Company can charge interest on this rate mentioned in Article of Association or 10% p.a. as per Table F. Such amounts are shown in "Notes to Accounts".
l) Calls in advance	Any Amount paid in excess of what has asked to pay is called as calls in advance. Interest is paid on this at rate mentioned in Article of Association or 12% p.a. as per Table F.

m) Issue of shares at discount (Sec 53)	A Company cannot ordinarily issue shares at discount other than sweat equity shares.
n) Issue of shares at premium (Sec 52)	<p>The money received on premium is transferred to securities Premium account and the amount received on Securities Premium can be utilized for the following purpose; (Section 52)</p> <ol style="list-style-type: none"> 1. Issue of fully paid bonus shares to the shareholders 2. Write off preliminary expenses of the company 3. Writing off securities issue expenses, commission paid, discount on issue of securities. 4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company. 5. For Buy back of its own shares as per Section 68.
o) Employee stock option plan (ESOP) Sec. 62(1)(b) of Companies Act, 2013	ESOP or sweat equity share means option granted by the company to its employees and directors to subscribe the shares of the company at a price that is lower than the market price. But it is not an obligation on the employee to subscribe for it.
p) Over Subscription	<p>When applications for more shares of a company are received than the number of shares offered to the public for subscription, it is called over subscription.</p> <p>First Alternative - To fully accept some applications and totally reject the others; the application money received on rejected applications is fully refunded.</p> <p>Second Alternative - To make a proportionate allotment to all applicants (called 'pro-rata' allotment), the excess application money received is normally adjusted towards the amount due on allotment.</p> <p>Third Alternative - To reject some shares outrightly & pro-rata allotment is made to the remaining applicants.</p>
q) Under Subscription	<p>When number of shares applied is less than the shares offered for subscription, it is called under subscription. In this case, allotment is made in full to all the applicants if minimum subscription is followed.</p> <p>Acc. to SEBI guidelines, minimum subscription means if a company does not receive subscription for at least 90% of the shares issued, it cannot allot the shares. Rather it will have to refund the application money to the subscribers.</p>

Accounting treatment of Issue of Shares to Public for Cash

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

If Calls in Arrear A/c is Opened

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

If Calls in Advance A/c is Opened

On non-receipt of call amount	Bank A/c Dr. To Calls-in Advance A/c
When relevant call is made due, calls in advance A/c is adjusted	Calls-in Advance A/c Dr. To Relevant Call A/c
Disclosure in Balance Sheet - It is shown in Equity & Liabilities part of Balance Sheet under the head Current Liabilities & sub-head Other Current Liabilities.	

Issue of Shares for Consideration other than Cash			
<i>Issue at par</i>		<i>Issue at premium</i>	
Purchase of Assets			
1. On Purchase of Assets	Sundry Assets A/c Dr. To Vendor's A/c	Sundry Assets A/c Dr. To Vendor's A/c	
2. On Issue of Shares	Vendor's A/c Dr. To Share Capital A/c	Vendor's A/c Dr. To Share Capital A/c To Securities Premium A/c	
Purchase of Business			
1. On Purchase of Business	Sundry Assets A/c Dr. Goodwill A/c (b/f) Dr. To Sundry Liabilities A/c To Vendor's A/c To Capital Reserve A/c (b/f)	Sundry Assets A/c Dr. Goodwill A/c (b/f) Dr. To Sundry Liabilities A/c To Vendor's A/c To Capital Reserve A/c (b/f)	
2. On Issue of Shares	Vendor's A/c Dr. To Share Capital A/c	Vendor's A/c Dr. To Share Capital A/c To Securities Premium A/c	

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

Forfeiture of Shares

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

If Calls-in-arrear account is not maintained

Share Capital A/c (Called up amount) Dr. To Share Forfeiture A/c (Amount already received) To Share Allotment A/c (unpaid allotment amount) To Share Calls A/c (unpaid calls amount individually)	Share Capital A/c (Called up amount) Dr. Securities Premium A/c Dr. To share Forfeiture A/c (Amount already received) To Share Allotment A/c (unpaid allotment amount) To Share Calls A/c (unpaid calls amount individually)
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If Calls-in-arrear account is maintained

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

Re-issue of Forfeited Shares

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

- **Maximum discount on re-issue of forfeited shares** = Amount forfeited (i.e. amount already received at the time of forfeiture)
- **Minimum re-issue price of a forfeited share**
 - = Paid-up value of a share – Forfeited amount per share
 - = Amount not received

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

On Transfer of Share Forfeiture A/c to Capital Reserve A/c	Share Forfeiture A/c Dr. To Capital Reserve A/c Dr.
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Case 1) When All Forfeited Shares are Reissued

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

Case 2) When All Forfeited Shares are not Reissued

Profit / Gain on Reissued Shares =

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

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

CHAPTER - 7 SHARE CAPITAL

Illustration 1: Bliss Products Ltd. registered with capital of ₹ 90,00,000 divided into 90,000 equity-shares, of ₹100 each.

The company issued prospectus inviting applications for 50,000 equity shares of ₹ 100 each payable as ₹ 20 on application, ₹ 30 on allotment, ₹ 20 on first call and balance on second call.

Applications were received for 45,000 shares. Raman to whom 1600 shares were allotted failed to pay final call money and these shares were forfeited. Of the forfeited shares, 600 shares were reissued to Sukhman, credited as fully paid for ₹ 90 per share.

Present the Share Capital as per Schedule III of Companies Act, 2013

Sol.

Extract of Balance Sheet of Bliss Products Ltd.

Particulars	Note No.	(₹)
I. EQUITY AND LIABILITIES		
1. Shareholder's Fund		
a. Share Capital	1	44,70,000

Notes to Accounts:

Note No.	Particulars	Amount (₹)
1.	Share Capital	
	Authorized Capital	90,00,000
	90,000 Equity shares of ₹ 100 each	
	Issued Capital	50,00,000
	50,000 Equity shares of ₹ 100 each	
	Subscribed Capital	
	Subscribed and Fully Paid-up	
	44,000 Equity shares of ₹ 100 each	44,00,000
	Add: Forfeited Shares (1,000 of ₹ 70 each)	<u>70,000</u>
		44,70,000

Illustration 2: Denpar Ltd. was registered with an authorized capital of ₹ 2,00,000 in shares of ₹ 10 each. Of these, 6,000 shares were issued as fully paid-up to the vendor for purchase of building. 8,000 shares were subscribed for by the people. ₹ 5 per share were called up, payable ₹ 2 on application; ₹ 1 on allotment; ₹1 on first call and ₹ 1 on second call. The amounts received in respect of these shares were as follows:

On 6000 shares – the full amount called

On 1250 shares – ₹ 4 per share

On 500 shares – ₹ 3 per share

On 250 shares – ₹ 2 per share

Present the capital in the Balance Sheet of the company as per Schedule II of the Companies Act, 2013. Also prepare Notes to accounts.

Sol.

Balance Sheet of Denpar Ltd. (an Extract)

Particulars	Note No.	Current Year (₹)
I. EQUITY AND LIABILITIES		
1. Shareholder's Fund		
a. Share Capital	1	97,000

Notes to Accounts:

Particulars	Details	Amount (₹)
Authorized Capital 20,000 shares of ₹ 10 each		<u>2,00,000</u>
Issued Capital 6,000 shares of ₹ 10 each issued to vendor of building 8,000 shares of ₹ 10 each issued to public	60,000 <u>80,000</u>	<u>1,40,000</u>
Subscribed Capital Subscribed and Fully Paid-up 6,000 shares of ₹ 10 each issued to vendor		60,000
Subscribed but not fully paid-up 8,000 shares of ₹ 10 each, ₹ 5 called up Less Calls-in-arrears A/c	40,000 (3,000)	37,000
		97,000

Illustration 3: Dev Ltd. has an authorized capital of ₹ 10,00,000 divided into equity shares of ₹ 10 each. The company invited applications for 50,000 shares. Applications for 45,000 shares were received. Final call of ₹ 3 per share was not made. All money were duly received except on first call of ₹ 2 per share on 1000 shares. 600 of these shares were forfeited. Present the 'share capital' in the Balance Sheet of the company. Also, prepare Notes to accounts.

Sol.

Balance Sheet of Dev Ltd. (an Extract)

	Note No.	Current Years (₹)
I. EQUITY AND LIABILITIES		
1. Shareholder's Fund		
a. Share Capital	1	3,13,000

Notes to Accounts:

Particulars	Details	Amount (₹)
Authorized Capital 1,00,000 shares of ₹ 10 each		<u>10,00,000</u>
Issued Capital 50,000 equity shares of ₹ 10 each issued to public		<u>5,00,000</u>
Subscribed Capital Subscribed but not fully paid-up 44,400 equity shares of ₹10 each, ₹ 7 called up Add Shares forfeited A/c (600 × 5) Less Calls-in-arrears A/c (400 × 2)	3,10,800 3,000 <u>(800)</u>	3,13,000

Illustration 4: Ram Ltd. has an authorized capital of ₹15,00,000 divided into 1,00,000 equity shares of ₹10 each and 50,000, 9% preference share of ₹ 10 each. The company invited applications for all the preference shares but only 90,000, equity shares.

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

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

Prepare Balance Sheet as per Schedule III of Companies Act.

Sol.

Extract of Balance Sheet of Ram Ltd.

Particulars	Note No	Amount(₹)
I. Equity and Liabilities		
1. Shareholder Fund		
(a) Share Capital	1	11,77,000

Notes to Account

Note No.	Particulars	(₹) Amount
1	Share Capital	
	Authorized Capital	
	1,00,000 equity shares of ₹ 10 each	10,00,000
	50,000, 9% preference shares of ₹ 10 each	5,00,000
		15,00,000
	Issued Capital	
	90,000 equity shares of ₹10 each	9,00,000
	50,000, 9% preference shares of ₹ 10 each	5,00,000
		14,00,000
	Subscribed Capital	
	Subscribed and fully paid-up	
	50,000, 9% preference shares of ₹ 10 each	5,00,000
Subscribed but not fully paid-up		
84,500 equity shares of ₹ 10 each ₹ 8 called up	6,76,000	
Less: Call in arrears	(2,000)	
Add: Shares forfeited A/C	<u>3,000</u>	
	11,77,000	

Illustration 5: Janta Papers Limited invited applications for 1,00,000 equity shares of ₹ 25 each payable as under:

On Application ₹5.00 per share

On Allotment ₹7.50 per share

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

On Second and Final Call ₹ 5.00 per share (due two months after First Call)

Applications were received for 4,00,000 shares on January 01, 2025 and allotment was made on February 01, 2025. Record journal entries in the books of the company to record these share capital transactions under each of the following circumstances:

- I. The directors decide to allot 1,00,000 shares in full to selected applicants and the applications for the remaining 3,00,000 shares were rejected outright.
- II. The directors decide to make a pro-rata allotment of 25 per cent of the shares applied for to every applicant; to apply the balance of application money towards amount due on allotment; and to refund the amount remaining thereafter. The company does not open Calls-in-Advance A/c.
- III. The directors totally reject applications for 2,00,000 shares, accept full applications for 80,000 shares and make a pro-rata allotment of the 20,000 shares to remaining applicants and the excess application money is to be adjusted towards allotment and calls to be made.

Sol. Case I Journal of Janta Papers Ltd.

	Particulars	LF	Dr. (₹)	Cr. (₹)
1 Jan 2025	Bank A/c Dr. To Equity Share Application A/c (Being the money received on application for 4,00,000 shares @ ₹ 5 per share)		20,00,000	20,00,000
1 Feb 2025	Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Being shares allotted & money refunded on rejected applications)		20,00,000	5,00,000 15,00,000
1 Feb 2025	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being amount due on allotment of 1,00,000 shares @ ₹ 7.50 per share)		7,50,000	7,50,000
1 Feb 2025	Bank A/c Dr. To Equity Share Allotment A/c (Being the allotment money received)		7,50,000	7,50,000
1 Apr 2025	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due on 1,00,000 shares @ ₹ 7.50 per share)		7,50,000	7,50,000
1 Apr 2025	Bank A/c Dr. To Equity Share First Call A/c (Being the first call money received)		7,50,000	7,50,000
1 June 2025	Equity Share Second & Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,00,000) shares @ ₹ 5 per share)		5,00,000	5,00,000
1 June 2025	Bank A/c Dr. To Equity Share Second and Final Call A/c (Being the final call money received)		5,00,000	5,00,000

Sol. Case II Journal of Janta Papers Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1 Jan 2025	Bank A/c Dr. To Equity Share Application A/c (Being the money received on application for 4,00,000 shares @ ₹ 5 per share)		20,00,000	20,00,000
1 Feb 2025	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Being shares allotted, excess application money transferred to allotment account & money refunded on rejected applications)		20,00,000	5,00,000 7,50,000 7,50,000
1 Feb 2025	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being amount due on allotment of 1,00,000 share @ ₹ 7.50 per share)		7,50,000	7,50,000
1 Apr 2025	Equity Share First Call A/c Dr. To Equity- Share Capital A/c (Being first call money due on 1,00,000 shares @ ₹ 7.50 per share)		7,50,000	7,50,000
1 Apr 2025	Bank A/c Dr. To Equity Share First Call A/c (Being the first call money received)		7,50,000	7,50,000
1 June 2025	Equity Share Second & Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ ₹ 5 per share)		5,00,000	5,00,000
1 June 2025	Bank A/c Dr. To Equity Share Second & Final Call A/c (Being the final call money received)		5,00,000	5,00,000

Sol. Case III Journal of Janta Papers Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1 Jan 2025	Bank A/c Dr. To Equity Share Application A/c (Being the money received on application for 4,00,000 shares @ ₹ 5 per share)		20,00,000	20,00,000

1 Feb 2025	Equity Share Application A/c To Equity Share Capital A/c To Call-in-advance A/c To Bank A/c (Being amount of application adjusted to share capital, Share allotment and calls in advance and balance money refunded on rejected applications)	Dr.	20,00,000	5,00,000 4,00,000 11,00,000
1 Feb 2025	Equity Share Allotment A/c To Equity Share Capital A/c (Being amount due on allotment of 1,00,000 @ ₹ 7.50 per share)	Dr.	7,50,000	7,50,000
1 Feb 2025	Bank A/c Calls-in-advance A/c To Equity Share Allotment A/c (Being the allotment money received)	Dr. Dr.	6,00,000 1,50,000	7,50,000
1 Apr 2025	Equity Share First Call A/c To Equity Share Capital A/c (Being first call money due on 1,00,000 shares @ ₹ 7.50 per share)	Dr.	7,50,000	7,50,000
1 Apr 2025	Bank A/c Calls-in-advance A/c To Equity Share First Call A/c (Being calls in advance adjusted against first call and the balance money on call received)	Dr.	6,00,000 1,50,000	7,50,000
1 June 2025	Equity share Second and Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ ₹ 5 per share)	Dr.	5,00,000	5,00,000
1 June 2025	Bank A/c Calls-in-advance A/c To Equity Share Second & Final Call A/c (Being calls in advance adjusted against final call and the balance money on call received)	Dr. Dr.	4,00,000 1,00,000	5,00,000

Working Notes:

1. Application received for 4,00,000 shares. 2,00,000 shares were rejected. Remaining 2,00,000 shares were allotted 1,00,000 shares as follows:
 - (a) 80,000 shares were allotted 80,000 shares (i.e. full allotment)
 - (b) 1,20,000 shares were allotted 20,000 shares (i.e. pro-rata allotment in the ratio of 1 : 6)

2. Excess Application Money			₹ 15,00,000
Less: Transfers:			
Share allotment 20,000 shares ₹ 7.50		₹ 1,50,000	
Share first call 20,000 shares ₹ 7.50		₹ 1,50,000	
Share second and final call 20,000 shares @ ₹ 5		₹ 1,00,000	₹ (4,00,000)
			₹ 11,00,000

Amount to be refunded (including ₹10,00,000 of the rejected applications)

Illustration 6: Saregama Ltd invited applications for issuing 80,000 equity shares of ₹ 100 each at a premium of ₹ 10. The amount was payable as follows:

On Application - ₹ 30

On allotment - ₹ 30 (including a premium of ₹ 10)

On 1st call - ₹ 30

On Final Call Balance

Applications of 1,20,000 shares were received. Allotment was made on pro rata basis to all applicants. Excess money received on application was adjusted on sums due on allotment. Dhvani, who was allotted 1,600 shares, failed to pay allotment money and Sargam who applied of 6,000 shares did not pay 1st call money. These shares were forfeited immediately after 1st call. 2,000 of these shares (including all shares of Dhvani) were reissued to Tarang for ₹95 per share as ₹80 paid up. Pass necessary journal entries in books of Saregama Ltd. by opening calls in arrear, calls in advance account, if final call has not been made.

Sol. Journal of Saregama Ltd.

Date	Particulars	L.F	Amount (₹)	Amount (₹)
	Bank A/c Dr. To Share Application A/c (Being the money received on application)		36,00,000	36,00,000
	Share Application A/c Dr. To Equity Share Capital A/c To Calls-in-advance A/c (Being application money adjusted)		36,00,000	24,00,000 12,00,000
	Share Allotment A/c Dr. To Share Capital A/c To securities Premium A/c (Being amount due on allotment)		24,00,000	16,00,000 8,00,000
	Bank A/c Dr. Calls-in-advance A/c Dr. Calls-in-arrear A/c Dr. To Share Allotment A/c (Being the allotment money received)		11,76,000 12,00,000 24,000	24,00,000

	Share First Call A/c To Share Capital A/c (Being first call money due)	Dr.	24,00,000	24,00,000
	Bank A/c Calls-in-arrear A/c To Share First Call A/c (Being first call money received)	Dr. Dr.	22,32,000 1,68,000	24,00,000
	Share Capital A/c (5600×₹80) Security Premium A/c (1600× ₹10) To Calls in Arrear A/c To Share forfeited A/c (Being Dhwani & Sargam's share forfeited for non-payment of allotment & / or call money)	Dr. Dr.	4,48,000 16,000	1,92,000 2,72,000
	Bank A/c To Share Capital A/c To Securities Premium A/c (Being forfeited share's reissued for 95 per share ₹ 80 paid up)	Dr.	1,90,000	1,60,000 30,000
	Share Forfeited A/c To Capital Reserve A/c (Being balance in shares forfeited account transferred to capital reserve)	Dr.	92,000	92,000

Illustration 7:

- X Ltd. forfeited 10 shares of ₹10 each, ₹7 called up on which the shareholder had paid application and allotment money of ₹5 per share. Out of these, 8 shares were re-issued to Y for ₹8 per share at ₹8 fully paid up. Record the journal entries for forfeiture and reissue of shares by opening calls in arrear, calls in advance account.
- L Ltd forfeited Mr M's shares who has applied for 600 shares and was allotted 400 shares failed to pay allotment money of ₹ 4 per share including premium of ₹ 2 on which he had paid application money of ₹ 2 only. Pass necessary journal entries for forfeiture of shares by opening calls in arrear, calls in advance account.
- Crown Ltd forfeited 50 shares of ₹10 each, for non- payment of final call money of ₹ 3 per share. Out of these 20 shares were reissued to Taj at ₹8 per share. Record the journal entries for forfeiture and reissue of shares assuming that the company maintains calls in arrear, calls in advance account.

Sol. (a)**Journal**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c Dr. To Equity Share Forfeiture A/c To Calls-in Arrear A/c (Being 10 shares forfeited)		70	50 20
	Bank A/c Dr. To Equity Share Capital A/c (Being 80 shares reissued as ₹ 8 per share paid up for ₹ 8 per share)		64	64
	Equity Share Forfeited A/c Dr. To Capital Reserve A/c (Being the balance in share forfeited account transferred to capital reserve)		40	40

Sol. (b)**Journal**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Share Forfeiture A/c To Calls-in Arrear A/c (Being Mr. M's shares forfeited)		1,600 800	1,200 1,200

Sol. (c)**Journal**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c Dr. To Equity Share Forfeiture A/c To Calls-in Arrear A/c (Being 50 shares forfeited)		500	350 150
	Bank A/c Dr. Equity Share Forfeited A/c Dr. To Equity Share Capital A/c (Being 20 shares forfeited as ₹ 8 per share)		160 40	200
	Equity Share Forfeited A/c Dr. To Capital Reserve A/c (Being the balance in share forfeited account transferred to capital reserve)		100	100

Illustration 8: A company forfeited 8000 shares of ₹ 10 each on which ₹ 8 were called (including ₹ 1 premium) and ₹ 6 was paid (including ₹ 1 premium). Out of these 5000 shares were reissued at maximum possible discount. Pass necessary journal entries.

Sol.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c Dr.		56,000	
	To share forfeited A/c			40,000
	To calls in Arrear A/c			16,000
	(Being shares forfeited)			
	Bank A/c Dr.		10,000	
	Shares forfeited A/c		25,000	
	To Share Capital A/c			35,000
	(Being 5000 shares reissued at maximum discount)			

Illustration 9: BG Limited issued 2,00,000 equity shares of ₹ 20 each at a premium of ₹ 5 per share. The shares were allotted in the proportion of 5 : 4 of shares applied and allotted to all the applicants.

Deepak, who had applied for 900 shares, failed to pay Allotment money of ₹ 7 per share (including premium) and on his failure to pay 'First and Final Call' of ₹ 2 per share, his shares were forfeited. 400 of the forfeited shares were reissued at ₹ 15 per share as fully paid up.

Showing your working clearly, pass necessary Journal entries for the forfeiture and reissue of Deepak's shares in the books of BG Limited. The company maintains 'Call in Arrears' Account'.

Sol.

Journal of BG Ltd

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c Dr.		14,400	
	Security Premium A/c Dr.		2,160	
	To Calls in Arrear A/c			3,600
	To Share forfeited A/c			12,960
	(Being 720 shares forfeited)			

Bank A/c	Dr.	6,000	
Share Forfeited A/c	Dr.	2,000	8,000
To Share Capital A/c (Being 400 forfeited share's reissued @ ₹ 15 each)			
Share Forfeited A/c	Dr.	5,200	5,200
To Capital Reserve A/c (Being balance in share forfeited account transferred to capital reserve)			

Working Note :

- Deepak applied for 900 shares. He must have been allotted $900 \times \frac{4}{5} = 720$ sh.
Excess money received on application = $900 - 720 = 180$ sh. \times ₹ 16 = ₹ 2,880
- Amount due from Deepak on allotment on 720 shares @ 7 each = ₹ 5040

Amount to be paid on allotment = ₹2,880

Less Excess money on application = (₹2,160)
(Out of this amount, $720 \times ₹ 2 = ₹ 1,440$ is a part of share capital & balance of ₹ 1,440 is a part of securities premium)
- Securities Premium Reserve related to Deepak's shares is $720 \times ₹ 5 = ₹ 3,600$
Out of which, Excess application money already received = ₹(1,440)

Balance amount not received will be debited in forfeiture entry = ₹2,160
- Calls in arrear = Allotment ₹ 2,160 + First & Final call ₹ 1,440 = ₹ 3600
- Amount transferred to Capital Reserve:
Since, Forfeited amount on 720 shares = ₹ 12,960
Hence, Forfeited amount on 400 reissued shares = $\frac{12960}{720} \times 400 = ₹ 7200$
Less Loss on Reissue 400 shares @ 5 each = (2000)

Amount transferred to Capital Reserve = ₹ 5200

Illustration 10: R.P. Ltd. forfeited 1,500 shares of Rahim of ₹ 10 each issued at a premium of ₹ 3 per share for non-payment of allotment and first call money. Rahim had applied for 3,000 shares. On these shares, amount was payable as follows :

On application	– ₹ 3 per share
On allotment (including premium)	– ₹ 5 Per share
On first call	– ₹ 3 per share
On final call – Balance	

Final call has not been called up 1,000 of the forfeited shares were reissued for ₹ 8,500 as fully paid-up. Record the necessary journal entries for the above transactions in the books of R.P. Ltd. Also, Prepare Share Forfeited A/c.

R.P.Ltd.**Sol.****Journal**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Share Capital A/c Security Premium A/c To Share forfeited A/c To Calls in Arrear A/c (Being 1500 shares forfeited)	Dr. Dr.	12,000 3,000	7,500 7,500
	Bank A/c Share Forfeited A/c To Share Capital A/c (Being 1000 forfeited shares reissued)	Dr. Dr.	8,500 1,500	10,000
	Share Forfeited A/c To Capital Reserve A/c (Being balance in share forfeited account transferred to capital reserve)	Dr.	3,500	3,500

Dr. SHARE FORFEITED A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Share Capital A/c	1,500	By Share Capital A/c	7,500
To Capital Reserve A/c	3,500		
To Balance c/d	2,500		
	7,500		7,500

Illustration 11: A company forfeited certain number of shares of face value of ₹10 each. For non-payment of final call money of ₹4. These shares were reissued at a discount of ₹5 and amount of ₹4500 was transferred to capital reserve account. Pass the necessary journal entries to show the above transactions and prepare share forfeited account.

Sol.**JOURNAL**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Share Capital A/c To share forfeited shares A/c To share final call A/c (Being 4500 shares forfeited)	Dr.	45,000	27,000 18,000
	Bank A/c Forfeited shares A/c To Share Capital A/c (Being 4500 shares reissued)	Dr.	22,500 25,000	45,000

	Forfeited shares A/c	Dr.		4,500
	To Capital Reserve A/c			4,500
	(Being balance of share forfeiture transferred to capital reserve)			

Dr. SHARE FORFEITED A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Share Capital A/c	22,500	By Share Capital A/c	27,000
To Capital Reserve A/c	4500		
	27,000			27,000

Illustration 12: Kajol Ltd. issued a prospectus inviting applications for 80,000 equity shares of ₹ 10 each payable as follows:

₹ 2 on application

₹ 3 on allotment

₹ 2 on first call

₹ 3 on final call

Applications were received for 1,20,000 equity shares. It was decided to adjust the excess amount received on account of over subscription till allotment only. Hence allotment was made as under:

(i) To applicants for 20,000 shares - in full

(ii) To applicants for 40,000 shares - 10,000 shares

(iii) To applicants for 60,000 shares - 50,000 shares

Allotment was made and all shareholders except Tamanna, who had applied for 2,400 shares out of the group (iii), could not pay allotment money. Her shares were forfeited immediately, after allotment. Another shareholder Chhaya, who was allotted 500 shares out of group (ii), failed to pay first call. 50% of Tamanna's shares were reissued to Satnaam as ₹ 7 paid up for payment of ₹ 9 per share.

Pass necessary journal entries in the books of Kajol Ltd. for the above transactions by opening calls in arrears and calls in advance account wherever necessary.

JOURNAL OF KAJOL LTD.

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Equity Share Application A/c (Being the application money received on 1,20,000 shares @ ₹ 2 per share)		2,40,000	2,40,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Being shares allotted, excess application money transferred to allotment account & money refunded on rejected applications)		2,40,000	1,60,000 50,000 30,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being amount due on allotment of 80,000 shares @ ₹ 3 per share)		2,40,000	2,40,000

Bank A/c	Dr.	1,84,800	
Calls-in Arrear A/c	Dr.	5,200	
To Equity Share Allotment A/c (Being the allotment money received on 80,000 shares after adjusting excess application money)			1,90,000
Equity Share Capital A/c	Dr.	10,000	
To Share Forfeiture A/c			4,800
To Calls-in Arrear A/c (Being 2,000 shares forfeited)			5,200
Equity Share First Call A/c	Dr.	1,56,000	
To Equity Share Capital A/c (Being first call money due on 78,000 shares @ ₹ 2 per share)			1,56,000
Bank A/c	Dr.	1,55,000	
Calls-in Arrear A/c	Dr.	1,000	
To Equity Share first Call A/c (Being the first call money received)			1,56,000
Bank A/c (1000 × 9)	Dr.	9,000	
To Equity Share Capital A/c			7,000
To Security Premium A/c (Being 1,000 forfeited shares reissued @ 7 paid up, for ₹ 9 per share)			2,000
Share Forfeiture A/c	Dr.	2,400	
To Capital Reserve A/c (Being the balance of share forfeiture account transferred to capital reserve)			2,400

Working Note :

- In Category (ii) applicants of 40,000 shares are allotted 10,000 shares
 Excess money received on application
 $= 40,000 - 10,000 = 30,000 \text{ sh.} \times ₹ 2 = ₹ 60,000$
 Since amount due on allotment on 10,000 shares @ ₹ 3 each = ₹ 30,000.
 Only ₹ 30,000 can be adjusted & remaining ₹ 30,000 will be returned.
 In Category (iii) applicants of 60,000 shares are allotted 50,000 shares
 Excess money received on application
 $= 60,000 - 50,000 = 10,000 \text{ sh.} \times ₹ 2 = ₹ 20,000$
 Entire excess of ₹ 20,000 will be adjusted on allotment.

Total Excess money received on application = ₹30,000 + ₹20,000 = ₹50,000

2. Shares allotted to Tamanna = $2400 \times \frac{50,000}{60,000} = 2000$ shares

Excess money received from Tamanna = $2400 - 2000 = 400$ sh. \times ₹2 = ₹800

3. Amount not received from Tamanna on allotment

Amount due on allotment	= $2000 \times 3 = ₹6000$
Less Excess money on application	= (800)
	5,200

4. Amount received on allotment

Total Amount due on allotment	= $80,000$ sh. \times ₹3 = 2,40,000
Less Excess money on application	= (50,000)
Less Amount not received from Tamanna	= (5,200)
	1,84,800

Illustration 13: Concept Stationary Ltd. invited applications for issuing 3,00,000 shares of ₹10 each at a premium of ₹3 per share. The amounts were payable as follows :

On application and allotment – ₹7 per share.

On first & final call – balance (including premium of ₹3)

Applications were received for 4,00,000 shares & allotment was made as follows :

- (i) To applicants for 80,000 shares – 80,000 shares.
- (ii) To applicants for 40,000 shares – nil
- (iii) Balance of the applicants were allotted shares on pro-rata basis.

Excess money received with applications was adjusted towards sums due on first and final call. Amit, who belonged to category (i) and was allotted 4,000 shares and Veni, who belonged to category (iii) and was allotted 4,400 shares failed to pay the first and final call money. Their shares were forfeited.

The forfeited shares were re-issued at ₹7 per share fully paid-up. Pass necessary journal entries for the above transactions in the books of the company.

Journal of Concept Stationary Ltd.

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		28,00,000	
	To Share Application & Allotment A/c (Being the application & allotment money received on 4,00,000 shares @ ₹ 7 per share)			28,00,000

Share Application & Allotment A/c	Dr.	28,00,000	
To Share Capital A/c (3,00,000×₹7)			21,00,000
To Calls in Advance A/c (60,000×₹7)			4,20,000
To Bank A/c (40,000×₹7)			2,80,000
(Being shares allotted, excess application money transferred to allotment account & money refunded on rejected applications)			
Share First & Final Call A/c	Dr.	18,00,000	
To Share Capital A/c (3,00,000×₹3)			9,00,000
To Securities Premium A/c (3,00,000×₹3)			9,00,000
(Being first & final call money due)			
Bank A/c	Dr.	13,38,000	
Calls-in Arrear A/c	Dr.	42,000	
Calls-in Advance A/c	Dr.	4,20,000	
To Share First Call A/c			18,00,000
(Being the first call money received)			
OR			
Bank A/c	Dr.	13,38,000	
Calls-in Advance A/c	Dr.	4,20,000	
To Share Capital A/c			17,58,000
(Being the first call money received)			
Share Capital A/c	Dr.	84,000	
Securities Premium A/c	Dr.	25,200	
To Share Forfeiture A/c			67,200
To Calls-in Arrear A/c			42,000
(Being 8,400 shares forfeited)			
Bank A/c	Dr.	58,800	
Share Forfeiture A/c	Dr.	25,200	
To Share Capital A/c			84,000
(Being forfeited shares reissued @ 7 per share, as fully paid up)			
Share Forfeiture A/c	Dr.	42,000	
To Capital Reserve A/c			42,000
(Being the balance of share forfeiture account transferred to capital reserve)			

Illustration 14: DLF Ltd. invited applications for issuing 50,000 shares of ₹10 each at a premium of ₹2 per share. The amount was payable as follows:

On application ₹3 per share (including premium ₹1)

On Allotment ₹3 per share (including premium ₹1)
 On First Call ₹3 per share
 On Second & Final Call Balance amount

Applications for 70,000 shares were received. Allotment was made on the following basis:

Applications for 10,000 shares - Full;
 Applications for 50,000 shares - 80%
 Balance of the applications were rejected.

₹ 1,13,250 were received on account of allotment. A few shareholders to whom shares were allotted on pro-rata basis, failed to pay the allotment money and first call money ₹1,41,000 were received on first call. The directors decided to forfeit all those shares on which amount was due but was not received. The forfeited shares were re-issued @₹8 per share fully paid up. Final call was not made.

Pass the necessary journal entries assuming that the company maintains Calls-in-Arrears Account.

Journal of DLF Ltd.

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Equity share Application A/c (Being the application money received on 70,000 shares@ ₹3 per share)		2,10,000	2,10,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium A/c To Equity Share Allotment A/c To Bank A/c Dr. (Being shares allotted,excess application money transferred to allotment account and money refunded on rejected application)		2,10,000	1,00,000 50,000 30,000 30,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being amount due on allotment of 50,000 shares @ ₹2 + 1 per share)		1,50,000	1,00,000 50,000
	Bank A/c Dr. Calls-in Arrear A/c Dr. To Equity Share Allotment A/c (Being the allotment money received on 50,000 shares @ ₹3 per share after adjusting excess application money)		1,13,250 6,750	1,20,000

Equity Share First Call A/c To Equity Share Capital A/c (Being first call money due on 50,000 shares @ ₹ 3 per share)	Dr.		1,50,000	1,50,000
Bank A/c Calls-in Arrear A/c To Equity Share First Call A/c (Being the first call money received)	Dr. Dr.		1,41,000 9,000	1,50,000
Equity Share Capital A/c (3000 × 7) Securities Premium A/c (3000 × 2) To Share Forfeiture A/c To Calls-in Arrear A/c (Being 3,000 shares forfeited)	Dr. Dr.		21,000 6,000	11,250 15,750
Bank A/c (3000 × 8) Share Forfeiture A/c To Equity Share Capital A/c (Being forfeited shares reissued @ 8 per share, as fully paid up)	Dr. Dr.		24,000 6,000	30,000
Share Forfeiture A/c To Capital Reserve A/c (Being the balance of share forfeiture account transferred to capital reserve)	Dr.		5,250	5,250

Working Note:

No. of shares forfeited = Unpaid first call money/ Amount of first call per share
= ₹9,000/ ₹3
= 3,000 shares

If 3,000 shares are allotted, then no. of shares applied = $\frac{50}{40} \times 3000 = 3750$ shares

Amount received on 3750 shares on application @ 3 per share = ₹11,250

Amount due on 3000 shares on application @ 3 per share = ₹ 9000

Excess application money adjusted towards allotment = ₹ 2250

Illustration 15: Sudarshan Ltd. invited applications for 1,00,000 Equity Shares of ₹10 each. The shares are issued at a premium of ₹5 per share. The amount was payable as follows:

On Application & Allotment ₹8 per share (including premium ₹3)
On First & Final Call Balance including premium

Applications for 1,50,000 shares were received. Applications for 10,000 shares were rejected & Pro-rata was made to the remaining applicants on the following basis:

- (i) Applications for 80,000 shares were allotted 60,000 shares
- (ii) Applications for 60,000 shares were allotted 40,000 shares

X, who belonged to the first category & was allotted 300 shares, failed to pay the first call money. Y, who belonged to the second category & was allotted 200 shares also failed to pay the first call money. Their shares are forfeited. The forfeited shares were issued @ 12 per share fully paid up.

Pass the necessary journal entries & prepare Cash Book.

Journal of Sudarshan Ltd.

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Equity Share Application & Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c To Calls in Advance A/c (40,000 sh. @ ₹ 8) (Being shares allotted, excess application money transferred to allotment)		11,20,000	5,00,000 3,00,000 3,20,000
	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being first & final call money due on 1,00,000 shares)		7,00,000	5,00,000 2,00,000
	Call-in Advance A/c Dr. To Equity Share First & Final Call A/c (Being the calls in advance adjusted to share first & final call A/c)		3,20,000	3,20,000
	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Share First & Final Call A/c To Share Forfeiture A/c (Being 300 shares of X & 200 shares of Y forfeited)		5,000 1,000	1,900 4,100
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being the balance of share forfeiture account transferred to capital reserve)		4,100	4,100

Dr.

CASH BOOK

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share Application & Allotment A/c (1,50,000 shares × ₹8)	12,00,000	By Equity Share Application & Allotment A/c (Refund of applications for 10,000 shares @₹8 per share)	80,000
To Equity Share First & Final Call A/c	3,78,100	By Balance c/d	15,04,100
To Equity Share Capital A/c	5,000		
To Securities Premium A/c	1,000		
	15,84,100		15,84,100

Working Note :

1. No. of shares applied by X = $\frac{80,000}{60,000} \times 300 = 400$

No. of shares applied by Y = $\frac{80,000}{60,000} \times 200 = 300$

2. Excess amount received from X = $400 - 300 = 100$ shares @ ₹8 = ₹ 800
Excess amount received from Y = $300 - 200 = 100$ shares @ ₹8 = ₹ 800

3. Amount due from X & Y on First & Final call = ₹3,500
(300 sh. @ ₹ 7 of X ; 200 sh. @ ₹ 7 of Y)

Less Excess received on Application & Allotment = (1,600)

Amount due but not paid on First & final call = 1,900

4. Total Amount due on First & Final call = ₹7,00,000

Less Excess Received on Application & Allotment = (3,20,000)

Less Amount not received from X and Y on First and Final Call = (1,900)

Amount due but not paid on First & Final call = 3,78,100

Illustration 16: From the following information complete Journal entries.

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Share Capital A/c	Dr.	?	
	Securities Premium A/c	Dr.	1000	
	To Share Forfeiture A/c			?
	To Calls in Arrears A/c			3,500
	(Being? shares forfeited for non payment of ...? ... including premium of ₹ 2 per share)			

Bank A/c	Dr.		?	
Share Forfeiture A/c	Dr.		?	
To Share Capital A/c (Being ___? ___ shares reissued at ₹9 per share as fully paid)				?
Share forfeiture A/c	Dr.		600	
To Capital Reserve A/c (Being forfeiture money transferred to capital reserve)				600

Dr. Share Forfeited A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Share Capital A/c	?	By Share Capital A/c	1500
To Capital Reserve A/c	600		
To Balance c/d	600		
	1500		1500

Sol. (face value of share is ₹10 each)

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Share Capital A/c	Dr.	4,000	
	Securities Premium A/c	Dr.	1,000	
	To Share Forfeiture A/c			1,500
	To Calls in Arrears A/c			3,500
	(Being 500 shares forfeited for non-payment of ₹7 per share including premium of ₹2 per share).			
	Bank A/c	Dr.	2,700	
	Share Forfeiture A/c	Dr.	300	
	To Share Capital A/c (Being 300 shares reissued at ₹ 9 per share as fully paid).			3,000
	Share forfeiture A/c	Dr.	600	
	To Capital Reserve A/c (Being forfeiture money transferred to capital reserve)			600

Dr.		Share Forfeited A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Share Capital A/c	300	By Share Capital A/c	1500		
To Capital Reserve A/c	600				
To Balance c/d	600				
	1500				1500

Illustration 17: Vinod Ltd. forfeited 5,000 shares of Rs.10 each, fully called-up, on which they had received only ₹35,000. Out of the forfeited shares 125 were reissued for ₹9 per share fully paid up. Fill the following missing figures:

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

Sol. Journal

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	Share Capital A/c Dr. To Share Forfeiture A/c To Calls-in-arrear A/c (Being 5000 shares forfeited for non-payment of ₹ 15000)		50,000	35,000 15,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 125 forfeited shares reissued)		1,125 125	1,250
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being gain on reissue of shares)		750	750

PRACTICE QUESTIONS

- Q.1. On 1st April, 2024, Shivalik Ltd. was formed with an authorized capital of ₹10,00,000 divided into 1,00,000 equity shares of ₹10 each. The company issued prospectus inviting application for 50,000 Shares. The issue price was payable as under:
On application ₹ 2 on allotment 6, balance on final call
- The issue was fully subscribed. All the amounts were duly received except the allotment and first final call money on 4000 equity shares. These shares were forfeited.
- (a) Present the share capital in the Balance sheet of the company as per revised schedule III, Part-I of the companies Act, 2013.
- (b) Also prepare Notes to Accounts for the same. {Hint: Subscribed but not fully paid up - ₹ 4,68,000} —CBSE 2024
- Q.2. Sibar Media & Entertainment Ltd. invited applications for 1,00,000 shares of ₹10 each at a premium of 10% payable as follows:
- | | |
|-----------------------|------------------------|
| On Application | ₹3 |
| On Allotment | ₹4 (including premium) |
| On first & final call | ₹4 |
- The applications were received for 90,000 shares and all of these were accepted. All money due were received except the first and final call on 2,000 shares which were forfeited. 1,000 shares were reissued @ ₹ 9 per share as fully paid. Assuming that all requirements of law were complied with, show how these transactions will be reflected in the company's Balance Sheet.
{Hint: Subscribed and fully paid: ₹8,90,000}
- Q.3. Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.
- (a) Rajan Ltd. purchased machinery of ₹7,20,000 from Kundan Ltd. The payment was made to Kundan Ltd. by issue of equity shares of ₹ 100 each at 20% premium.
- (b) Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of ₹2,50,000 payable as ₹2,20,000 in fully paid equity shares of ₹10 each and balance by a bank draft. The assets and liabilities consisted of the following: Plant & Machinery ₹90,000; Buildings ₹90,000; Sundry Debtors ₹30,000; Stock 50,000; Sundry Creditors ₹20,000; Cash ₹20,000
{Hint: (a) Equity shares issued = 6000 ; (b) Capital reserve - ₹10,000}
- Q.4. Elpha ltd. forfeited 400 shares of Rohit which were issued at ₹10 per share and ₹2 as premium for non payment of allotment money of ₹5 (including premium) and first call of ₹2, final call of ₹3 has not been done.
{Hint: Share forfeiture A/c - ₹800}

- Q.5. Ram holding 10 shares of ₹10 each of which he pays ₹2 on application ₹3 on allotment but could not pay ₹3 on first call. His shares were forfeited by the Director. The Final call is not made yet. Give Journal entries in the book of company.
{Hint: Share forfeited ₹50}
- Q.6. Abhishek. Ltd. Forfeited 200 shares of ₹10 each fully called up held by X for non-payment of allotment money of ₹3 per share and First & Final call of ₹4 per share. He paid the application money of ₹3 per share. These shares were reissued to Y for ₹8 per shares. Pass necessary journal entries.
{Hint: capital reserve ₹200}
- Q.7. Max Ltd. forfeited 500 shares of ₹100 each for non-payment of first call of ₹20 per share and final call of ₹25 per share 250 of these shares were re-issued at ₹50 per share fully paid-up. Pass the necessary journal entries in the books of Max Ltd. for forfeiture and re-issue of shares. Also prepare the Share Forfeiture Account
(Hint: capital reserve ₹1250; Total of Share Forfeited A/c ₹27,500)
- Q.8. Abhir Ltd. invited applications for 1,00,000 Equity Shares ₹10 each payable as ₹2 application, ₹3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at ₹8 per share as fully paid. Pass necessary journal entries in the books of company. Also, prepare cash book
(Hint: Share forfeited A/c ₹5000, capital reserve ₹3000, Cash book total 11,03,000)
- Q.9. AB Ltd. invites application for 1,00,000 equities of ₹ 10 each at premium of ₹ 6 per share. The amount was payable as follows
On Application and allotment ₹8 per share (including premium ₹3) First and final call - The balance amount (including premium)
Application for 1,60,000 shares were received. Applications for 10,000 shares were rejected and shares were allotted on pro-rata basis to remaining applicants. Excess money received on application and allotment was returned. The calls were made. A shareholder who applied for 200 shares, failed to pay the first and Final call money His shares were forfeited. All the forfeited shares were reissued at ₹5 per share fully paid up. Pass necessary journal entries for the above transaction in the books of AB Ltd.
(Hint: Capital reserve NIL) **CBSE 2024**
- Q.10. A holds 100 share of ₹10 each on which he has paid ₹1 per share on application. B holds 200 shares of ₹10 each on which he has paid ₹ 1 and ₹2 share on application and allotment respectively.

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

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

{Hint: Amount transferred to Capital Reserve – ₹2500}

	Amount forfeited	Allotment (2)	First call (3)	2nd call (2)	
A(100)	✓ 100	✗ 200	✗ 300	✗ 200	800
B(200)	✓ 200	✓ 400	✗ 600	✗ 400	1600
C(300)	✓ 300	✓ 600	✓ 900	✗ 600	2400
	✓ 600	✓ 1000 ✗ 200	✓ 900 ✗ 900	✗ 1200	4800

Q.11. Beta Ltd. issued 40,000 shares of ₹10 each at a premium of ₹2 payable ₹5 on application including premium, ₹4 on allotment and ₹3 on call.

Company received applications for 55,000 shares and allotment was made as under:

- (i) Applicants for 20,000 shares were allotted in full.
- (ii) Applicants for 25,000 shares were allotted 20,000 shares.
- (iii) Applicants for rest shares were allotted Nil shares.

Mr. X who was allotted 200 shares under category (i) paid full amount due on allotment.

Mr. Y holding 500 shares failed to pay call money. His shares were forfeited and reissued @ ₹8 per share fully paid.

{Hint: Amount transferred to Capital Reserve – ₹500}

Q.12. HP Ltd. issued 50,000 shares of ₹10 each payable ₹3 on application, ₹4 on allotment and ₹2 on final call. Company received applications for 70,000 shares and allotment was made on prorata basis. Alok who had applied for 700 shares failed to pay allotment and his shares were forfeited after allotment. Mohit failed to pay call money on 300 shares and his shares were forfeited. Company-reissued 500 shares ₹8 each fully paid up, including all the shares of Mohit. Journalise the transactions and draw Balance Sheet.

{Hint: Amount transferred to capital Reserve – ₹2440}

Q.13. Dawar Ltd. issued 50,000 shares of 10 each at a premium of 10% payable at a ₹2 per share on application, ₹3 on allotment, ₹3 each on first and final call. Applications were received for 70,000 shares. It was decided that:

- (a) Refuse allotment to the applicants for 10,000 shares;
- (b) Allot 20,000 shares to Pawan who had applied for similar number and
- (c) Allot the remaining shares on pro-rata basis.

Pawan failed to pay the allotment money and Mohan who belonged to the category 'C' and was allotted 3,000 shares, paid both the calls with allotment. Calculate the amount received on allotment.

{Hint: Allotment due $50,000 \times 3 = 1,50,000$,

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

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

On Application – ₹2 per share

On Allotment – ₹4.50 per share

On First and Final Call ₹ 6 per share

Owing to the heavy subscription, the allotment was made on pro-rata basis as follows:

- (i) Applicants for 20,000 shares were allotted 10,000 shares.
- (ii) Applicants for 56,000 shares were allotted 14,000 shares.
- (iii) Applicants for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilized on allotment and the surplus, if any, would be refunded. The directors decided to forfeit the shares of one shareholder Shyam, to whom, 1000 shares were allotted, who belongs to category (i), failed to pay allotment Money. Shares were forfeited after final call.

You are required to Pass necessary journal entries in the books of Rama Ltd. for the issue and forfeiture of shares.

{Hint: (1) Transfer of share application money to Share Capital A/c ₹80,000; to Share Allotment A/c ₹1,47,000; to bank A/c ₹21,000.

(2) Share Allotment Money Received in Cash ₹30,500,

(3) Amount forfeited ₹4,000}

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

On Application ₹40 (including 10 premium)

On Allotment ₹30 (including 10 premium)

On First Call ₹30

On Second and Final Call ₹20

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

Of the shares forfeited, 1,000 share were reissued as fully paid-up for ₹80 per share, which included the whole of Aman's shares. Record necessary journal entries in the books of High Light India Ltd. Also present the share capital in Balance Sheet of the company showing above transactions. As a matter of policy, the company does not maintain Calls-in-arrear account.

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

- Q.16. 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.

(Hint: Amount transferred to Capital Reserve – ₹7,200, Calls in arrear – ₹18,000 in allotment & ₹ 36,000 in first call = ₹54,000)

- Q.17. On 1st Jan 2023, Saraswati Ltd. issued 50,000 equity shares of ₹10 each at a premium of ₹4 per share, payable as follows:

On Application ₹6 (including ₹1 premium)

On Allotment ₹2 (including ₹1 premium)

On First Call ₹4

On Second and Final Call ₹2

Applications were received for 65,000 shares, of which applications for 5,000 shares were rejected & their money was refunded. Rest of the applications were issued shares on pro-rata basis & their excess money was towards allotment.

Ashok to whom 1,000 shares were allotted failed to pay the allotment money and his shares were forfeited immediately after allotment. Rohan, who applied for 1,800 shares failed to pay the two calls and his share were forfeited after the final call. 1,900 share were reissued as fully paid-up on receipt of ₹9 per share, which included the whole of Rohan's shares.

Record necessary journal entries.

(Hint: Amount transferred to Capital Reserve – ₹9,500)

ASSERTION - REASONING QUESTIONS

1. **Assertion (A):** In case of shares issued on Pro-rata basis, excess money received at the time of application can be utilized till allotment only.

Reason (R): Company has to pay interest on calls in advance for amount adjusted towards call (if any).

Codes:

- (A) Both (A) & (R) are true, but (R) is not the correct explanation of (A),
- (B) Both (A) & (R) are true, but (R) is the correct explanation of (A).
- (C) Both (A) & (R) are false.
- (D) (A) is false, but (R) is true.

2. **Assertion (A):** X Ltd. issued 50,000 Equity shares of ₹100 each. It received the full amount on shares except first & final of ₹25 on 200 shares. These 200 shares will be shown as 'Subscribed but not fully paid Capital'.

Reason (R): The shares on which calls are in arrears are not fully paid. Hence, they will be shown as Subscribed but not fully paid Capital'

Codes:

- (A) Both (A) & (R) are correct and (R) is the correct reason of (A).
- (B) Both (A) & (R) are correct but (R) is not the correct reason of (A).
- (C) Only (R) is correct.
- (D) Both (A) and (R) are wrong.

3. **Assertion (A):** Calls in arrears are deducted from Subscribed but not fully paid Capital.

Reason (R): Calls in advance are added to Subscribed but not fully paid Capital.

Codes:

- (A) Both (A) & (R) are correct and (R) is the correct reason of (A).

- (B) Both (A) & (R) are correct but (R) is not the correct reason of (A).
 (C) Only (A) is correct.
 (D) Both (A) and (R) are wrong.
4. **Assertion (A):** Forfeited shares may be reissued by the company at a discount also.

Reason (R): Amount of discount on reissue of forfeited shares cannot exceed the amount forfeited on reissued shares.

Codes:

- (A) Both (A) & (R) are correct and (R) is the correct reason of (A).
 (B) Both (A) & (R) are correct but (R) is not the correct reason of (A).
 (C) Only (R) is correct.
 (D) Both (A) and (R) are wrong
5. **Assertion (A):** Issued Share Capital & Subscribed Share Capital are always different.

Reason (R): Subscribed Share Capital is a part of Issued Share Capital. Thus, it will always be different from Issued Share Capital.

Codes:

- (A) Both (A) & (R) are correct and (R) is the correct reason of (A)
 (B) Both (A) & (R) are correct but (R) is not the correct reason of (A)
 (C) Both (A) & (R) are incorrect.
 (D) (A) is correct but (R) is incorrect.

MULTIPLE CHOICE QUESTIONS

- The forfeited shares can be reissued at:

(a) Par	(b) Premium
(c) Discount	(d) All of them
- Ordinary shares are also called:

(a) Equity shares	(b) Founder's shares
(c) Deferred shares	(d) Preference shares
- Forfeited amount is credited to

(a) Share premium	(b) Share capital
(c) Forfeited shares	(d) None of these
- The maximum amount with which the company is registered is called.

(a) Authorized Share Capital	(b) Issued Share Capital
(c) Paid up capital	(d) Called up capital

5. When shares are issued at premium amount of premium will be credited to
 (a) Securities premium account (b) Share first call account
 (c) Share allotment account (d) Share forfeited account
6. Minimum number of members in case of public company is
 (a) 4 (b) 5
 (c) 6 (d) 7
7. Maximum number of members in public limited company is
 (a) 10 (b) 20
 (c) 50 (d) unlimited
8. Premium on issue of shares can be used for
 (a) distribution of dividend (b) writing of capital losses
 (c) transferring to general reserve (d) paying fees to directors
9. Share allotment account is a
 a) personal account b) Real account
 c) Nominal account d) Impersonal account
10. A company forfeited 3,000 shares of ₹10 each (which were issued at par) held by Kishore for non-payment of allotment money of ₹5 per share. The called up value per share was ₹8 on forfeiture, the amount debited to share capital -
 (a) ₹30,000 (b) ₹24,000
 (c) ₹15,000 (d) ₹6,000
11. Z limited issued shares of ₹100 each at a premium of 10%. Premium is to be adjusted with allotment. Mr. Q holding 500 shares paid ₹ 20 on application but did not pay the allotment money of ₹30. If the company forfeited his 30% shares immediately after allotment, the share forfeiture account will be credited by—
 (a) ₹4,500 (b) ₹3,500
 (c) ₹1,650 (d) ₹3,000
12. Mithas Limited was formed with share capital of ₹50,00,000 divided into 50,000 shares of ₹100 each. 9,000 shares were issued to the vendor as fully paid for purchase consideration of a furniture acquired. 30,000 shares were allotted in payment of cash on which ₹70 per share was called and paid. State the amount of subscribed capital.
 (a) ₹50,00,000 (b) ₹30,50,000
 (c) ₹30,00,000 (d) ₹20,00,000
13. Metacaf Ltd. issued 50,000 shares of ₹100 each payable ₹20 on application (on 1st May 2018); ₹30 on allotment (on 1st January 2019); ₹20 on first call (on 1st July 2019) and the balance on final call (on 1st February 2020). Shankar, a shareholder holding 5,000 shares did not pay the first call on the due date. The

second call was made and Shankar paid the first call amount along with the second call. All sums due were received. Total amount received on 1st February was

- (a) ₹15,00,000 (b) ₹16,00,000
(c) ₹10,00,000 (d) ₹11,00,000

14. A company allotted 20,000 shares to the applicants of 50,000 shares after rejecting 10,000 applications. The ratio in which company allotted the shares will be

- (a) 2 : 5 (b) 3 : 5
(c) 1 : 2 (d) 1 : 3

15. The directors of Neelkamal Ltd. forfeited 70,000 equity shares of ₹10 each, ₹10 called up. For non-payment of final call of ₹1 per share, half of the forfeited shares were reissued at ₹20 per share fully paid up. On reissue of forfeited shares, the following amount will be transferred to the Capital Reserve Account—

- (a) ₹70,000 (b) ₹42,000
(c) ₹1,40,000 (d) ₹3,15,000

16. Mohan had been allotted for 600 shares by Rishabh Ltd. on pro-rata basis which had issued two shares for every three shares applied. He had paid application money of ₹3 per share and could not pay allotment money of ₹5 per share. First and final call of ₹2 per share was not yet made by the company. His shares were forfeited. The following entry will be passed—

Equity share Capital A/c	Dr.	₹ X
To share Forfeited A/c		₹ Y
To Equity share Allotment A/c		₹ Z

Here, X, Y and Z are—

- (a) ₹6,000; ₹2,700; ₹3,000 respectively
(b) ₹9,000; ₹2,700; ₹4,500 respectively
(c) ₹4,800; ₹2,700; ₹2,100 respectively
(d) ₹7,200; ₹2,700; ₹4,500 respectively

17. Vishnu Ltd forfeited 20 shares of ₹10 each, ₹8 called up, on which shambhu had paid application and allotment money of ₹5 per share, of these, 15 shares were reissued to Parvati as fully paid up for ₹6 per share. What is the balance in the share forfeited A/c after the relevant amount has been transferred to Capital Reserve Account?

- (a) ₹100 (b) ₹5
(c) ₹25 (d) ₹0

18. First call amount received in advance from the Shareholders before it is actually called up by the directors is-
- Debited to calls in advance account
 - Credited to share Allotment account
 - Debited to First call account
 - Credited to calls in-advance account.
19. In which of the following situation Companies Act, 2013, allows for issue of shares at discount?
- Issued to public
 - Issued as Sweat equity
 - Issued to vendors
 - None of the above
20. Net Assets minus Capital Reserve is-
- Purchase consideration
 - Total Assests
 - Goodwill
 - Net Assets
21. Alfa Ltd. invited applications for 50,000 equity shares of ₹ 10 each at a premium of 30%. The whole amount was payable on application. Applications were received for 2,50,000 shares. The company decided to allot the shares on a pro-rata basis to all the applicants. The amount refunded by the company was:
- ₹32,50,000
 - ₹15,60,000
 - ₹39,00,000
 - ₹26,00,000
22. Reserve capital is that part of _____ capital which cannot be called except at the time of winding up of the company.
- Issued
 - Called up
 - Uncalled
 - Nominal
23. Xeno Ltd. issued 25,000 equity shares of ₹10 each. The amount was payable as follows:
On Application offered were applied for and allotted. All the money due on allotment was received except on 1,500 shares. These shares were forfeited immediately after allotment. First and final call was not yet made. At the time of forfeiture, Share Capital Account will be debited :
- ₹15,000
 - ₹24,000
 - ₹13,500
 - ₹18,000
24. Money received in advance from shareholders before it is actually called up b the directors is:
- debited to calls in advance account
 - credited to calls in advance account
 - Private placement of shares
 - Sweat Equity

25. An offer of securities or invitation to subscribe securities to a select group of persons is termed as:
- (a) Buy back of shares (b) Employee stock option plan
(c) Private placement of shares (d) Sweat Equity
26. A share of ₹100 on which ₹80 is received is forfeited for non-payment of final call of ₹20. The minimum price at which this share can be reissued is:
- (a) ₹120 (b) ₹100
(c) ₹80 (d) ₹20
27. Shiv Ltd. forfeited 500 shares of ₹10 each on which ₹7 per share was paid. These shares were reissued for ₹9 per share fully paid. Amount transferred to Capital Reserve Account will be :
- (a) ₹3,000 (b) ₹5,000
(c) ₹4,500 (d) ₹3,500

JOURNAL ENTRY BASED QUESTIONS

1. Anshul ltd. took over assets worth ₹20,00,000 from Shiva ltd. by paying 30% through bank draft and balance by issue of shares of ₹100 each at a premium of 10%. The entry to be passed by Anshul ltd. for settlement will be—

(a) Shiva ltd	Dr.	20,00,000	
To share capital A/c			12,72,700
To Securities Premium A/c			1,27,270
To Bank A/c			6,00,000
To Statement of P&L A/c			30
(b) Shiva Ltd	Dr.	20,00,000	
To share Capital A/c			12,72,700
To Securities Premium A/c			1,27,270
To Bank A/c			6,00,030
(c) Shiva Ltd.	Dr.	20,00,000	
To Share Capital A/c			12,73,000
To Securities premium A/c			1,27,300
To Bank A/c			6,00,000
(d) Shiva ltd	Dr.	20,00,000	
To Share Capital A/c			12,73,000
To Securities premium A/c			1,27,300
To Bank A/c			5,99,700

2. What journal entry will be passed when purchase consideration is equal to net assets while purchasing business from vendor:

- | | | | |
|---------------------------|-----|---|---|
| (a) Sundry Assets A/c | Dr. | — | |
| Goodwill A/c | Dr. | — | |
| To vendor's A/c | | | — |
| (b) Sundry Assets A/c | Dr. | — | |
| To Capital Reserve A/c | | | — |
| To Vendor's A/c | | | — |
| (c) Sundry Assets A/c | Dr. | — | |
| To Sundry Liabilities A/c | | | — |
| To Vendor's A/c | | | — |
| (d) Capital Reserve A/c | Dr. | — | |
| To Vendor's A/c | | | — |

3. 700 shares of ₹10 each were reissued as ₹9 paid up for ₹7 per share. Entry for reissue will be—

- | | | | |
|----------------------|-----|------|------|
| (a) Bank A/c | Dr. | 4900 | |
| Share Discount A/c | Dr. | 1400 | |
| To Share Capital A/c | | | 6300 |
| (b) Bank A/c | Dr. | 4900 | |
| To Share Capital A/c | | | 4900 |
| (c) Bank A/c | Dr. | 4900 | |
| Share forfeited A/c | Dr. | 2100 | |
| To Share Capital A/c | | | 7000 |
| (d) Bank A/c | Dr. | 4900 | |
| Share forfeited A/c | Dr. | 1400 | |
| To Share Capital A/c | | | 6300 |

STATEMENT QUESTIONS

1. **Statement I:** Securities Premium Reserve can be used for issue of fully paid bonus shares and for distribution of dividend in cash.

Statement II: Balance of securities premium Reserve may be transferred to General Reserve Account.

- Both Statements are correct
- Both Statements are incorrect
- Statement I is correct and statement II is incorrect
- Statement I is incorrect and statement II is correct

2. **Statement I:** Balance left in Forfeited shares Account is shown in Note to Account on share capital.

Statement II: The excess amount of forfeited shares account is transferred to capital reserve Account.

- (a) Both Statements are correct
- (b) Both Statements are incorrect
- (c) Statement I is correct and statement II is incorrect
- (d) Statement I is incorrect and statement II is correct

3. **Statement I:** Table F of Companies Act 2013 states that there must be a fortnight break between two calls.

Statement II: Application money as per SEBI should not be less than 25% of issue price.

- (a) Both Statements are correct
- (b) Both Statements are incorrect
- (c) Statement I is correct and statement II is incorrect
- (d) Statement I is incorrect and statement II is correct

4. **Statement I:** A public company must have at least 7 members and there is no limit for maximum members.

Statement II: A private company must have atleast 2 members and there is no limit for maximum members.

- (a) Both Statements are correct
- (b) Both Statements are incorrect
- (c) Statement I is correct and statement II is incorrect
- (d) Statement I is incorrect and statement II is correct

5. **Statement I:** Called up capital means the share capital called up by the company on the subscribed shares.

Statement II: Calls not yet made by the shareholders but received in advance is shown as Paid up capital.

- (a) Both Statements are correct
- (b) Both Statements are incorrect
- (c) Statement I is correct and statement II is incorrect
- (d) Statement I is incorrect and statement II is correct

CASE/SOURCE BASED QUESTIONS

I. Kusum Ltd. offered 22,000 equity shares of ₹100 each to the public at a premium of ₹20 per share. The amount per share was payable as ₹30 on application; ₹50 (including premium) on allotment ; and the balance on first and final call. 20,000 shares were subscribed by the public. All calls were made. A shareholder holding 1,000 shares failed to pay the first and final call money. His shares were forfeited.

1. Subscribed capital will be:

- | | |
|----------------|----------------|
| (a) ₹19,00,000 | (b) ₹20,60,000 |
| (c) ₹20,00,000 | (b) ₹19,60,000 |

2. Balance of securities Premium Reserve shown in balance sheet will be-

- | | |
|---------------|---------------|
| (a) ₹4,00,000 | (b) ₹4,40,000 |
| (c) ₹3,80,000 | (b) ₹4,20,000 |

3. Amount of forfeited shares shown in balance sheet will be-

- | | |
|---------------|---------------|
| (a) ₹1,20,000 | (b) ₹80,000 |
| (c) ₹60,000 | (b) ₹1,60,000 |

4. Issued Capital will be-

- | | |
|----------------|----------------|
| (a) ₹24,00,000 | (b) ₹22,00,000 |
| (c) ₹19,60,000 | (b) ₹20,00,000 |

II. Kairav Ltd. issued 4000 equity shares of ₹10 each at par payable as under:

On application ₹3 ;

On allotment ₹2;

On first call ₹4; and

On final call ₹1 per share

Applications were received for 13,000 shares. Application for 5,000 shares were rejected and pro-rata allotment was made to the application for 8,000 shares. Excess application money is adjusted towards the amount due on allotment and calls. Raman, a shareholder, could not pay the final call on 300 shares. And these shares were forfeited subsequently. These shares were resissued at ₹11 per share.

On the basis of above information you are required to answer the following questions—

1. How much amount will be received in cash on the first call?

- (a) ₹8,000 (b) ₹16,000
(c) Nil (d) ₹12,000

2. What is the amount to be transferred to the capital reserve?

- (a) ₹3,000 (b) ₹2,700
(c) Nil (d) ₹300

III. Joy Ltd. was registered with an authorized capital of ₹6,00,000 divided into shares of ₹10 each. 18,000 shares were issued as fully paid up to the vendor for the purchase of building. 24000 shares were subscribed for by the public ₹5 per share were called up, payable ₹2 on application, ₹1 on allotment, ₹1 on first call and ₹1 on second call. The amount received in respect of these share were as follows:

On 18000 shares	–	The full amount called
On 3750 shares	–	₹4 per share
On 1500 shares	–	₹3 per share
On 750 shares	–	₹2 per share

1. What is the total Subscribed Capital of Joy Ltd?

- (a) ₹1,80,000 (b) ₹4,20,000
(c) ₹2,91,000 (d) ₹2,40,000

2. How much amount received on allotment of shares?

- (a) ₹23,750 (b) ₹22,000
(c) ₹23,250 (d) ₹24,000

IV. Jewels Ltd. was registered with an authorized capital of ₹10,00,000 divided into shares of ₹20 each. It offered 40,000 shares to the public for subscription at a premium of ₹10 per share. Applications were received for 37,000 shares and allotment was made to all applicants.

Amounts were payable as follows:

On Application	–	₹6
On Application	–	₹15 (incl. premium)
On Ist call	–	₹5
On IInd & final call	–	Balance

It forfeited 3000 shares of ₹20 each (₹16 called up) held by Mansi, for non-payment of allotment and the first call. Out of these 2,000 shares were reissued to Sudha as ₹16 called up for ₹14 per share.

1. Amount transferred to capital Reserve will be:
 - (a) ₹18000
 - (b) ₹8000
 - (c) ₹14000
 - (b) Nil
2. Balance of forfeited shares account will be:
 - (a) ₹18000
 - (b) ₹10000
 - (c) ₹6000
 - (b) ₹14000
3. Subscribed and Fully paid capital will be:
 - (a) ₹7,40,000
 - (b) ₹5,76,000
 - (c) ₹5,82,000
 - (b) Nil
4. Subscribed but not fully paid capital will be:
 - (a) ₹5,82,000
 - (b) ₹7,26,000
 - (c) ₹5,76,000
 - (b) ₹7,20,000

V. BALANCE SHEET (EXTRACT) of Sushil Ltd. As At 31-03-2025

I. Equity & Liabilities	Note No.	31-03-2024	31-03-2025
1. Shareholder's Funds			
(a) Share Capital	1	44,00,000	54,90,000
(b) Reserve & Surplus	2	2,00,000	3,60,000

Note No. 1 (for 31-03-2024)		
Share Capital		
1. Authorised Share Capital		80,00,000
8,00,000 equity shares @ 10 each		
2. Issued Share Capital		45,00,000
4,50,000 equity shares @ 10 each		
3. Subscribed Share Capital		
a. Subscribed & fully paid up		44,90,000
4,45,000 equity shares @ ₹10 each	44,50,000	
b. Subscribed but not fully paid up		
5000 equity shares ₹10 each	50,000	
Less 5000 shares @ ₹2	(10,000)	

Note No. 1 (for 31-03-2025)		
Share Capital		
1. Authorised Share Capital 8,00,000 equity shares @ 10 each		80,00,000
2. Issued Share Capital 5,50,000 equity shares @ 10 each		55,00,000
3. Subscribed Share Capital		
a. Subscribed & fully paid up 5,45,000 equity shares @ ₹10 each	54,50,000	54,90,000
b. Subscribed but not fully paid up 5000 equity shares ₹10 each	50,000	
Less 5000 shares @ ₹2	(10,000)	

Note No. 2- Reserve & Surplus		
	31-03-2024	31-03-2025
Capital Reserve	Nil	40,000
Securities Premium	2,00,000	3,20,000

During the year the company took over the business of Quipa Ltd. with Assets of ₹12,00,000/- and Liabilities of ₹ 7,30,000. Purchase consideration was paid in cash and by issue of equity shares at par. The entire transaction resulted in Capital reserve of ₹ 40,000.

- What is the total face value of Shares issued by the Company during the year 2023-24.
 - ₹10,00,000
 - ₹9,50,000
 - ₹6,00,000
 - ₹11,20,000
- Shares issued for cash during the year were issued at _____ . (assuming they were issued together)?
 - ₹10
 - ₹8
 - ₹12
 - ₹11.20
- On April 1, 2024, the company forfeited all the defaulting shares. What amount will appear in the Share Forfeiture account at the time of forfeiture?
 - ₹40,000
 - ₹50,000
 - ₹10,000
 - ₹60,000
- What will be the number of Issued shares, as on April 1, 2024, after the forfeiture of these shares?
 - 5,45,000 Shares
 - 5,50,000 Shares
 - 4,45,000 Shares
 - 4,05,000 Shares

5. If 2,0000 of the forfeited shares were issued at ₹14 per share, what will be the amount of securities premium and Capital reserve respectively as on April 1, 2024?
- (a) ₹3,20,000, ₹40,000
 (b) ₹3,28,000, ₹56,000
 (c) ₹3,28,000, ₹80,000
 (d) ₹3,20,000, ₹80,000
6. What will be the amount in the “Subscribed and Fully paid” after the reissue of these 2000 shares?
- (a) ₹54,50,000
 (b) ₹55,00,000
 (c) ₹54,70,000
 (d) ₹54,80,000

MATCH THE FOLLOWING QUESTIONS

1. (i) Shares issued by company to its employees or directors at a discount (a) ESOP
 (ii) Shares issued to promoters (b) Underwriting commission
 (iii) Shares issued to underwriters (c) Sweat Equity share
 (iv) option given to employees or directors to purchase shares at a future date (d) Incorporation cost
- (A) (i) c; (ii) d; (iii) b; (iv) a
 (B) (i) a; (ii) c; (iii) b; (iv) d
 (C) (i) a; (ii) d; (iii) b; (iv) c
 (D) (i) c; (ii) a; (iii) b; (iv) d
2. (i) Amount created out of capital profits (a) Calls in advance
 (ii) Amount that a company resolves not to call (b) Calls in arrear
 (iii) Amount not called up but paid by the shareholder (c) Capital Reserve
 (iv) Amount called but not paid by the shareholders (d) Reserve capital

Statement Solutions

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

Journal Entry Solutions

1. (b) 2. (c) 3. (d)

Case/Source Based Solution

- I.** 1. (d) 2. (a) 3. (b) 4. (c)

- II.** 1. (d) 2. (c)

- III.1.** (b) 2. (a)

- IV.1.** (c) 2. (b) 3. (d) 4. (a)

- V.** 1. (a) 2. (c) 3. (a) 4. (b) 5. (b) 6. (c)

Match the following Solution

1. (a) 2. (c) 3. (b)

CHAPTER 8

ISSUE OF DEBENTURES

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

ISSUE OF DEBENTURES	
Issue of Debentures for Cash	Just like shares, debentures may be issued either at par or at a premium or at discount. The accounting entries are same as in case of issue of shares.
Issue of Debentures for Consideration other than cash	<p>Issue of debentures to vendors as purchase consideration of assets/business purchased.</p> <p>On purchase of Asset</p> <p>Sundry Assets A/c Dr. To Vendor's A/c (purchase consideration)</p> <p><i>On issue of debentures at par</i></p> <p>Vendor's A/c Dr. To x% debentures A/c</p> <p><i>On issue of debentures at premium</i></p> <p>Vendor's A/c Dr. To x% debentures A/c To Securities Premium A/c</p> <p><i>On issue of debentures at discount</i></p> <p>Vendor's A/c Dr. Discount on issue of debenture A/c To x% debentures A/c</p> <p><i>On purchase of Business</i></p> <p>Sundry Assets A/c Dr. To Sundry Liabilities A/c To Vendor's A/c</p> <p>If purchase consideration > net assets;</p> <ul style="list-style-type: none"> • difference is debited to Goodwill • If purchase consideration < net assets; • difference is credited to Capital Reserve
Issue of Debentures as Collateral Security	<p>When the company issues debentures to lenders as an additional security in addition to the principal security, it is called issue of debentures as collateral security. No interest is paid on such debentures.</p> <p>First method</p> <p>No entry is made in the books of accounts since no liability is created. However, a note of this fact is given in the liability-side of Balance sheet.</p>

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

Issued at a discount and redeemable at a premium	<p><i>For receipt of application money</i></p> <p>Bank A/c Dr. To Debenture Application & Allotment A/c</p> <p><i>For allotment of debentures at a discount and redeemable at premium</i></p> <p>Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. (with dis. on issue and prem. on redemption) To x% Debentures A/c (nominal value of deb.) To Premium on Redemption of Debentures A/c</p>
Issued at a premium and redeemable at a premium	<p><i>For receipt of application money</i></p> <p>Bank A/c Dr. To Debenture Application & Allotment A/c</p> <p><i>For allotment of debentures at premium and redeemable at premium</i></p> <p>Debenture Application & Allotment A/c Dr. Loss on Issue of Debentures A/c (prem. on redem.) Dr. To x% Debentures A/c (nominal value of deb.) To Securities Premium A/c (prem. on issue) To Premium on Redemption of Debentures A/c</p>
Writing-off Discount or Loss on Issue of Debentures (AS 16)	<ul style="list-style-type: none"> • <i>Discount or loss on issue of debentures is to be written off in the year debentures are allotted from Securities Premium (if it exists) and then from Statement of Profit and Loss as Financial Cost.</i> <p>Securities Premium A/c Dr. Statement of Profit and Loss A/c Dr. To Discount or Loss on Issue of Debentures A/c</p>
Interest on debentures	<ul style="list-style-type: none"> • <i>It is calculated at a fixed rate on its face value and is to be paid even when company is suffering from loss because it is charge against profit.</i> <p><i>When interest is due</i></p> <p>Debenture Interest A/c Dr. To Debentureholders A/c</p>

	<p>For payment of interest to debentureholders</p> <p>Debentureholders A/c Dr.</p> <p style="padding-left: 40px;">To Bank A/c</p> <p>On transfer of Debenture Interest to Statement of Profit and Loss</p> <p>Statement of Profit and Loss A/c Dr.</p> <p style="padding-left: 40px;">To Debenture Interest A/c</p>
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Illustration 1. Rose Ltd. issued 10,000, 10% debenture of ₹100 each at a premium of 10%, payable as follows – ₹10 on application, ₹30 on allotment (including premium), ₹30 on first call and ₹40 on second & final call.

Public applied for 12,000 debentures. Applications for 1,000 debentures were rejected & the application money was refunded. Debentures were allotted to the remaining applicants on pro-rata basis. Pass necessary journal entries for the issue of debentures.

Sol.

Journal of Rose Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	<p>Bank A/c Dr.</p> <p style="padding-left: 40px;">To Debenture application A/c</p> <p>(Being the debenture application money received for 12,000 debenture ₹ 10 each)</p>		1,20,000	1,20,000
	<p>Debenture Application A/c Dr.</p> <p>To 10% Debentures A/c</p> <p>To Debenture Allotment A/c</p> <p>To Bank A/c</p> <p>(Being 10,000 debentures allotted)</p>		1,20,000	1,00,000 10,000 10,000
	<p>Debenture Allotment A/c Dr.</p> <p>To 10% Debenture A/c</p> <p>To Securities Premium A/c</p> <p>(Being the allotment money due on 10,000 debentures @ 20 + 10 each)</p>		3,00,000	2,00,000 1,00,000
	<p>Bank A/c Dr.</p> <p>To Debenture Allotment A/c</p> <p>(Being the allotment money received)</p>		3,00,000	3,00,000

Debenture First Call A/c To 10% Debenture A/c (Being the first call money due on 1,000 deb. @30 each)	Dr.		3,00,000	3,00,000
Bank A/c To Debenture First Call A/c (Being the first call money received)	Dr.		3,00,000	3,00,000
Debenture Second & Final Call A/c To 10% Debenture A/c (Being the second & final call money due on 1,000 deb. @ 40 each)	Dr.		4,00,000	4,00,000
Bank A/c To Debenture Second & Final Call A/c (Being the second & final call money received)	Dr.		4,00,000	4,00,000

Illustration 2. ABC Ltd. issued ₹5, 00,000 10% debenture of ₹100 each at 10% discount payable ₹30 on application and Balance on allotment. These debentures were to be redeemed at a premium of 5% after 5 year. All the debentures are subscribed for public.

Pass necessary journal entries for the issue of debentures.

Sol.

Journal of ABC Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Bank A/c To Debenture application A/c (Being the debenture application money receivable for 5,000 debenture ₹30 each)	Dr.	1,50,000	1,50,000
	Debenture Application A/c To 10% Debentures A/c (Being 5000 debentures allotted)	Dr.	1,50,000	1,50,000
	Debenture Allotment A/c Loss on issue of Debenture A/c To 10% Debenture A/c To Premium of redemption of Debentures A/c (Being the allotment money due on 5,000,10% Debenture issued at 10% discount and redeemable at 5% premium)	Dr. Dr.	3,00,000 75,000	3,50,000 25,000
	Bank A/c To Debenture Allotment A/c (Being the allotment money received)	Dr.	3,00,000	3,00,000

Illustration 3. Grapes Limited took over assets of ₹ 40,00,000 & liabilities of ₹ 6,50,000 of Ginny Limited. Grapes Ltd. issued 30,000, 8% debentures of ₹ 100 each at a 10% discount, to be redeemed at 5% premium along with cheque of ₹ 5,00,000. Pass necessary journal entries in the books of Grapes Ltd.

Sol. JOURNAL OF GRAPES LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Assets A/c Dr.		40,00,000	
	To Liabilities A/c			6,50,000
	To Ginny Ltd. A/c			32,00,000
	To Capital Reserve A/c			1,50,000
	(Being business taken over and capital reserve recorded)			
	Ginny Ltd. A/c Dr.		32,00,000	
	Loss on issue of debentures A/c Dr.		4,50,000	
	To 8% Debenture A/c			30,00,000
	To Premium redemption of Debenture			1,50,000
	To Bank A/c			5,00,000
	(Being purchase consideration discharged)			

Illustration 4. Surya Ltd. took over assets of ₹20,00,000 & Liabilities of ₹7,60,000 of Anant Ltd. Surya Ltd. paid the purchase consideration by issuing 10,000, 9% Debentures of ₹100 each at a discount of 5% & accepting a bank draft of ₹2,00,000 payable after 3 months.

Pass necessary journal entries in the books of Surya Ltd. Also, Surya Ltd. writes off all capital losses in the first year itself. Also, Prepare Discount on Issue of Debentures A/c.

Sol.

Journal of Surya Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(i)	Sundry Assets A/c Dr. To Sundry Liabilities A/c To Anant Ltd. To Capital Reserve A/c (Being Purchase of assets & liabilities recorded).		20,00,000	7,60,000 11,50,000 90,000
(ii)	Anant Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c To Bills Payable A/c (Being Issue of 6,000 debentures at 5% discount & ₹2,00,000 draft payable after 3 months. recorded)		11,50,000 50,000	10,00,000 2,00,000
(iii)	Capital Reserve A/c Dr. To Discount on Issue of Debentures A/c (Being Discount on Issue of Debentures written off).		50,000	50,000

Dr.

Discount on Issue of Debentures A/c

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To 9% Debentures A/c	50,000		By Capital Reserve A/c	50,000
		50,000			50,000

Illustration 5. Neeraj Ltd. took over business of Ajay Enterprises on 01/04/2021. The details of the agreement regarding assets & liabilities to be taken over are:

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

It was decided to pay for purchase consideration as 7,00,000 through Cheque & balance by issue of 2,00,000, 9% Debentures of ₹20 each at a premium of 25%. Pass necessary journal entries

Sol.

Journal of Neeraj Ltd

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(i)	Building A/c Plant & Machinery A/c Stock A/c Trade Receivables A/c Goodwill A/c To Creditors A/c To Outstanding Expenses A/c To Ajay Enterprises (Purchase of Assets & liabilities)	Dr. Dr. Dr. Dr. Dr.	35,00,000 8,00,000 4,00,000 4,00,000 10,00,000	3,00,000 1,00,000 57,00,000
(ii)	Ajay Enterprises To Bank A/c To 9% Debentures A/c To Securities Premium A/c (Issue of 2,00,000 9% debentures @ 20 + 5 each)	Dr. Dr.	57,00,000	7,00,000 40,00,000 10,00,000

Illustration 6. Vedesh Ltd. purchased a running business of Vibhu Enterprises for a sum of ₹12,00,000. Vedesh Ltd. paid ₹60,000 by drawing a promissory note in favour of Vibhu Enterprises., ₹1,90,000 through bank draft and balance by issue of 8% debentures of ₹100 each at a discount of 5%. The assets and liabilities of Vibhu Enterprises consisted of Fixed Assets valued at ₹17,30,000 and Trade Payables at ₹3,20,000. You are required to pass necessary journal entries in the books of Vedesh Ltd.

Sol.

Journal of Vedesh Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(i)	Fixed Assets A/c To Trade Payables A/c To Vibhu Enterprises To Capital Reserve A/c (Purchase of assets & liabilities).	Dr.	17,30,000	3,20,000 12,00,000 2,10,000
(ii)	Vibhu Enterprises Discount on Issue of Debentures A/c To Bills Payable A/c To Bank A/c To 8% Debentures A/c (Issue of bank draft, acceptance of bill & issue of 8% debentures in settlement of purchase consideration).	Dr. Dr.	12,00,000 50,000	60,000 1,90,000 10,00,000

No. of Debentures issued = ₹9,50,000 / ₹95 = 10,000

Illustration 7. Zee Ltd. purchased machinery from King Ltd. Zee Ltd. paid King Ltd. as following:

- (i) By issuing 5000, 12% debentures of ₹100 each at a premium of 30%.
- (ii) Balance by giving a promissory note of ₹50,000 payable after two month.

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

Sol.

Journal of Zee Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Machinery A/c To King Ltd. (Being the machinery purchased from king Ltd.)	Dr.	2,03,000	2,03,000
	King Ltd To 12% Debentures A/c To Securities Premium A/c (Being 5,000 12% debentures issued@ 100 + 30 each).	Dr.	6,50,000	5,00,000 1,50,000
	King Ltd. To Bill Payable A/c (Debentures issued to Vendors at a discount of 10%)	Dr.	50,000	50,000

Calculation of Purchase Consideration

- (i) 5,000 12% debentures @ 130 = ₹6,50,000
 - (ii) Promissory Note = ₹ 50,000
- ₹7,00,000

Illustration 8. Pass Journal entries to record the following transaction:

- (i) 120 , 8% debentures of ₹1000 each are issued at 5% discount & repayable at par.
- (ii) 150, 7% debentures of ₹1000 each are issued at 5% discount & repayable at premium of 10%.
- (iii) 700 , 9% debentures of ₹1000 each are issued at 5% premium & repayable at premium of 10%.

Sol.(i)

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Bank A/c To Debenture Application & Allotment A/c (Being the debenture application money received)	Dr.	1,14,000	1,14,000

	Debenture Application & Allotment A/c	Dr.	1,14,000	
	Discount on Issue of Debentures A/c	Dr.	6,000	
	To 8% Debentures A/c			1,20,000
	(Being debentures application money transferred to debentures A/c)			

Sol: (ii)

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	1,42,500	
	To Debenture Application & Allotment A/c			1,42,500
	(Being the debenture application money received)			
	Debenture Application and Allotment A/c	Dr.	1,42,500	
	Loss on Issue of Debentures of A/c	Dr.	22,500	
	To 7% Debenture A/c			1,50,000
	To Premium on redemption of Debentures A/c			15,000
	(Being debentures application money transferred to debentures A/c)			

Sol: (iii)

Journal

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

Illustration 9. Give necessary journal entries assuming that company write off all its capital losses in the year in which it occurs-

Vinod Ltd. took over running business with assets of ₹6,00,000 and liabilities of ₹60,000 from Fukrey Ltd for the purchase consideration of ₹ 5,70,000. It paid the purchase consideration by issuing 8% debentures of ₹100 each at 5% discount, repayable after 5 years at a premium of 10%.

Sol.

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Assets A/c	Dr.	6,00,000	
	Goodwill A/c	Dr.	30,000	
	To Liabilities A/c			60,000
	To Fukrey Ltd.			5,70,000
	(Being Purchase of assets & Liabilities)			

	Fukrey Ltd. Loss on Issue of Debentures A/c To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being 8% debentures of ₹100 each at 5% discount, repayable at a premium of 10% issued as purchase consideration)	Dr. Dr.	5,70,000 90,000	6,00,000 60,000
	Statement of P&L A/c To Loss on Issue of Debentures A/c (Being discount on issue of debentures written off)	Dr.	90,000	90,000

No. of Debentures issued = ₹ 5,70,000/ ₹ 95 = 6,000

Illustration 10. Raghuveer Ltd. issued ₹ 10,000, 8% debentures of ₹ 100 each at a premium of 10 % on 1st April 2022. It purchased fixed assets of the value of ₹ 2,50,000 and took over current liabilities of ₹ 40,000 and issued 8% debentures at a premium of 5% to the vendor. On the same date it took loan from the Bank for ₹ 1,00,000 and issued 8% debentures as collateral security

Pass necessary Journal entries in the books of Raghuveer Ltd. & Prepare the extract of balance sheet on 31/03/2023. Ignore Interest.

Sol.

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1st April 2022	Bank A/c To Debentures Application & Allotment A/c (Application money received for 10,000, 8% debentures @ 110 each)	Dr.	11,00,000	11,00,000
1st April 2022	Debentures Application & Allotment To 8% Debentures A/c To Securities Premium A/c (Application money transferred to Debentures & Securities Premium A/c)	Dr.	11,00,000	10,00,000 1,00,000
1st April 2022	Fixed Assets A/c To Current Liabilities A/c To Vendor's A/c (Purchase of Assets & Liabilities)	Dr.	2,50,000	40,000 2,10,000
1st April 2022	Vendor's A/c To 8% Debentures A/c To Securities Premium A/c (Issue of 2,000 debentures of ₹100 each at 5% premium i.e. 2,10,000/105 = 2,000 deb)	Dr.	2,10,000	2,00,000 10,000

1st April 2022	Bank A/c To Bank Loan A/c (Loan taken, secured by issue of ₹1,00,000 deb)	Dr.	1,00,000	1,00,000
1st April 2022	8% Debentures Suspense A/c To 8% Debentures A/c (Issue of debentures as collateral security)	Dr.	1,00,000	1,00,000

Balance Sheet Extract as at 31/03/2023

Particulars	Note No.	Current yr (₹)
I. Equity & Liabilities :		
<i>Shareholder's Funds:</i>		
Reserve & Surplus	1	1,10,000
<i>Non – Current Liabilities:</i>		
Long term borrowings	2	13,00,000
<i>Current Liabilities:</i>	3	<u>40,000</u>
II. Assets		
<i>Non - Current Assets</i>		
Fixed Assets	4	<u>2,50,000</u>

Illustration 11. S. Singh Limited obtained a loan of ₹ 5,00,000 from State Bank of India @ 10 % Interest. The company issued ₹ 7, 50,000, 10 % debentures of ₹ 100/- each, in favour of State Bank of India as collateral security. Pass necessary journal entries for the above transactions:

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

Also show, how the Debentures & Bank Loan will appear in the Company's Balance Sheet as at 31st March 2023.

Sol. Journal

(i)

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

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

Balance Sheet Extract as at 31/03/2022

Particulars	Note No.	Amount (₹)
I. Equity & Liabilities :		
<i>Non – Current Liabilities:</i>		
Long term borrowings	1	5,00,000

Notes to Accounts:

Particulars	Details	Amount (₹)
I. Long term borrowings		
Loan from SBI		5,00,000
7,500 ,10% Debentures of ₹100 each	7,50,000	—
Less: Debenture Suspense A/c	<u>(7,50,000)</u>	5,00,000

Sol. (ii)

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

Balance Sheet Extract as at 31/03/2023

Particulars	Note No.	Amount (₹)
II. Equity & Liabilities :		
<i>Non – Current Liabilities:</i>		
Long term borrowings	1	5,00,000

Notes to Accounts:

Particulars	Details	Amount (₹)
II. Long term borrowings		
Loan from SBI		5,00,000
(Secured by issue of 7,500 debentures of ₹100 each as collateral security)		

Illustration 12. On 1.04.2022, B.G. Ltd. issued 2,000, 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 2 years. According to the terms of issue, interest on debentures is payable half yearly on 30th September and 31st March. Pass necessary journal entries for the year ended 31/03/2023.

Sol. Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1st April 2022	Bank A/c Dr. To Debentures Application & Allotment A/c (Application money received for 2,000, 9% debentures @ 94 each).		1,88,000	1,88,000
1st April 2022	Debentures Application & Allotment Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Issue of debentures at 6% discount redeemable at 5% premium).		1,88,000 22,000	2,00,000 10,000
30 th Sep. 2022	Interest on Debentures A/c Dr. To Debenture holder's A/c (Half yearly interest due on debentures)		9,000	9,000
30 th Sep. 2022	Debenture holder's A/c Dr. To Bank A/c (Payment of Interest)		9,000	9,000
31 st Mar. 2023	Interest on Debentures A/c Dr. To Debenture holder's A/c (Half yearly interest due on debentures)		9,000	9,000
31 st Mar. 2023	Debenture holder's A/c Dr. To Bank A/c (Payment of Interest)		9,000	9,000
31 st Mar. 2023	Statement of Profit & Loss A/c Dr. To Loss of Issue of Debentures A/c To Interest on Debentures A/c (Loss on Issue & Interest transferred to Statement of P/L)		40,000	22,000 18,000

Illustration 13. X Ltd. issued ₹10,00,00, 8% debentures at as discount of 10 % on 1st April 2022, redeemable in 4 equal annual instalments starting from 31st March 2023.

Pass necessary Journal entries for issue of Debentures & to Write off Discount on issue of debentures if-

- (a) There is no Securities Premium Balance

(b) The Securities Premium A/c shows a balance of 30,000.

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

Sol.

Journal of X Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1st April 2022	Bank A/c Dr. To Debentures Application & Allotment A/c (Application for ₹10 lakh, 8% debentures @ 10% discounts received).		9,00,000	9,00,000
1st April 2022	Debentures Application & Allotment Discount on Issue of Debentures A/c Dr. To 8% Debentures A/c (Application money transferred to Debentures A/c)		9,00,000 1,00,000	10,00,000
Case (a) There is no Securities Premium Balance				
31 March 2023	Statement of Profit & Loss A/c Dr. To Discount on Issue of Debentures A/c (Being discount on Issue of debentures written off)		1,00,000	1,00,000
Case (b) The Securities Premium A/c Shows a balance of 1 30,000				
31 March 2023	Securities Premium A/c Dr. Statement of Profit & Loss A/c Dr. To Discount on Issue of Debentures A/c (Being discount on issue of Debentures written off)		30,000 70,000	1,00,000
Case (c) The Securities Premium Ac/ Shows a balance of ₹ 1, 50,000				
31 March 2023	Securities Premium A/c Dr. To Discount on Issue of Debentures A/c (Being discount on issue of Debentures written off)		1,00,000	1,00,000

Illustration 14. On April 1, 2022 Z Ltd. issued, 10,000, 8% Debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year.

Give journal entries for the issue of debentures and writing off loss on issue of debentures. Also, Prepare Loss on Issue of Debentures A/c

Sol.

Journal of Z Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2022 April 01	Bank A/c To Debenture Application and Allotment A/c (Being application money received on 20,000 8% debentures @ 105 each).		21,00,000	21,00,000
01 April 2022	Debentures Application & Allotment Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c To Bank A/c (Application money transferred to Debentures & Securities Premium A/c & balance refund- ed).		21,00,000 1,00,000	10,00,000 50,000 1,00,000 10,50,000
2023 Mar- 31	Securities Premium A/c Dr. Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written off)		50,000 50,000	1,00,000

Dr.

Loss on Issue of Debentures A/c

Cr.

Date	Particulars	₹	Date	Particulars	₹
1st Apr. 2022	To Premium on Redemption of Debentures A/c	1,00,000	31st Mar. 2023	By Securities Premium A/c By Statement of P&L A/c	50,000 50,000
		1,00,000			1,00,000

Illustration 15. Yogadatra Ltd. (pharmaceutical company) appointed marketing expert, Mr. Kartikay as the CEO of the company, with a target to penetrate their roots in the rural regions. Mr. kartikay discussed the ways and means to achieve target of the company with financial, production and marketing departmental heads and asked the finance manager to prepare the budget. After reviewing the suggestions given by all the departmental heads, the finance manager proposed requirement of an additional fund of ₹52,50,000.

Yogadatra Ltd. is a zero-debt company. To avail the benefits of financial leverage, the finance manager proposed to include debt in the capital structure. After deliberations, on 1st April, 2022, the board of directors had decided to issue 6% Debentures of ₹100 each to the public at a premium of 5%, redeemable after 5 years at ₹ 110 per share.

You are required to answer the following questions:

- (i) Calculate the number of debentures to be issued to raise additional funds.
- (ii) Pass Journal entry for the allotment of debentures.
- (iii) Pass Journal entry to write off loss on issue of debentures.
- (iv) Calculate the amount of annual fixed obligation associated with debentures.
- (v) Prepare loss on Issues of Debentures Account.

Sol. (i) Number of debentures to be issued = ₹ 52,50,00/ ₹105 = 50,000

(ii) Journal of Yogadatra Ltd.

Date	Particulars	LF	Dr. ()	Cr. ()
1st Apr. 2022	Debentures Application & Allotment A/c Loss on Issue of Debentures A/c To 6% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Being allotment of debentures made)	Dr. Dr.	52,50,000 5,00,000	50,00,000 2,50,000 5,00,000

Sol: (iii) Journal of Yogadatra Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
31st Mar. 2023	Securities Premium A/c Statement of Profit & Loss A/c To Loss on Issue of Debentures A/c (Being Loss on issue of debentures A/c written off)	Dr. Dr.	2,50,000 2,50,000	5,00,000

(iv) Interest on 6% Debentures = ₹ 50,00,000 × 6% ₹ 3,00,000

Sol: (v) Dr. Loss on issue of debentures A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1 st April 2022	To Premium on Redemption of Debentures A/c	5,00,000	31 th Mar. 2021	By Sec. Prem. A/c By Statement of P& L A/c	2,50,000 2,50,000
		5,00,000			5,00,000

Illustration 16. Mohan & Co. is a leading pharmaceutical company dealing with variety of medications for patients. They believe in rigorous R&D before going ahead with processing of the cure for any disease. When the pandemic hit in 2020, they also started their research for vaccination development & mass production but for this purpose huge investment is needed. So, the directors decided to issue, 10,000, 11% Debentures of ₹100 each at a premium of 10% on 1st April 2020. It purchased Sundry

Assets of the value of ₹2,50,000 & took over the liabilities of ₹60,000 & issued 11% Debentures of ₹100 each at a discount of 5% to the vendor.

Answer the following questions on the basis of above information:

- How much amount is received from issue of debentures for cash?
- State the amount credited to Securities Premium Account.
- How many debentures are issued to the vendors against the purchase of Sundry Assets?
- State the amount debited to "Discount on issue of 11% Debentures".
- Pass the necessary journal entry to write off the Discount on Issue of Debentures Account?

Sol.

- ₹11,00,000 is received from issue of debentures for cash
(10,000 11% debentures @ ₹110 each)
- ₹1,00,000 is credited to Securities Premium Account
(10,000 11% debentures @ ₹10 each)
- 2,000 debentures are issued to the vendors against the purchase of Sundry Assets, i.e. ₹1,90,000 / ₹95
- ₹ 10,000 is debited to Discount on issue of 11% Debentures A/c
(2,000 debentures @ ₹ 5 each)

(e) **Journal**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Securities Premium A/c Dr.		10,000	
	To Discount on Issue of Debentures A/c (Being Discount on issue of debentures A/c written off out of securities premium A/c)			10,000

Illustration 17. Surat Textiles Ltd. was in need of additional funds of ₹38,00,000. On 1st October 2022, it decided to raise this amount by the issue of 6% debentures of ₹100 each to the public at a discount of 5%, redeemable after 6 years at a premium of 8%. Company closes its books on 31st March every year.

You are required to-

- Pass journal entry for the allotment of debentures.
- Pass journal entries for payment of interest on debentures.
- Pass journal entry for closing the interest on debentures account.
- Pass journal entry to write off "Loss on Issue of Debentures Account". You are informed that company has a balance of ₹ 2,50,000 in its Securities Premium.

Solu (i)**Journal of Surat Textiles Ltd.**

Date	Particulars	LF	Dr. ()	Cr. ()
1st Oct. 2022	Debentures Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 6% Debentures A/c To Premium on Redemption of Debentures A/c ((Being allotment of 40,000 debentures made))		38,00,000 5,20,000	40,00,000 3,20,000

Sol: (ii)**Journal of Surat Textiles Ltd.**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
31st Mar. 2023	Debentures Interest A/c Dr. To Debenture holders A/c (Interest due on debentures for half year)		1,20,000	1,20,000
31st Mar. 2023	Debenture holders A/c Dr. To Bank A/c (Payment of Interest)		1,20,000	1,20,000

Sol: (iii)**Journal of Surat Textiles Ltd.**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
31st Mar. 2023	Statement of Profit & Loss A/c Dr. To Debentures Interest A/c (Debentures Interest transferred to Statement of Profit & Loss A/c)		1,20,000	1,20,000

Sol: (iv)**Journal of Surat Textiles Ltd.**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
31st Mar. 2023	Securities Premium A/c Dr. Statement of Profit & Loss A/c Dr. To Loss on Issue of Debentures A/c (Being Loss on issue of debentures A/c written off)		2,50,000 2,70,000	5,20,000

PRACTICE QUESTIONS

Que. 1) X Ltd. invited application for issuing 1000, 9% debentures of ₹100 each at a discount of 6%. Applications for 1,200 debentures were received. Pro-rata allotment was made to all the applicants. Pass necessary journal entries for the issue of debenture assuming that the whole amount was payable with application.

Que. 2) Zed Ltd. issued 2,00,000, 8% debentures of ₹ 100 each at a discount of 6% redeemable at a premium of 10% after 5 years. The amount was payable as follows: On application – ₹ 50 per debenture and On allotment – balance Record the necessary entries for the issue of debentures in the books of Zed Ltd.

Que. 3) On 1st April, 2022, Bright Ltd. issued ₹ 4,00,000, 6% Debentures of ₹100 each at a discount of 5%, redeemable after three years.

The amount per debenture was payable as follows :

On Application - ₹ 80 per debenture

On Allotment - Balance

The debentures were fully subscribed and all money was duly received. Pass necessary journal entries for issue of debentures.

Que. 4) BGP Ltd. invited applications for issuing 15,000, 11% debentures of ₹ 100 each at a premium of ₹ 50 per debenture. The full amount was payable on application. Applications were received for 25,000 debentures. Applications for 5,000 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants on pro-rata basis. Pass the necessary journal entries for the above transactions in the books of BGP Ltd.

Que. 5) On 1st April, 2022, Sakshi Ltd. issued 1,000, 11% Debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after three years. Pass the necessary journal entries for the issue of debentures in the books of Sakshi Ltd.

Que. 6) B Ltd. purchased assets of the book value ₹4, 00,000 and took over the liability of ₹ 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at ₹3,80,000, be paid by issuing 8% debentures Pass necessary journal entries if debentures are issued at 10% discount & balance is paid in cash.

(Hint: Goodwill- ₹ 30,000; No of Deb = 4,222; Bank ₹ 20)

Que. 7) Deepak Ltd purchased furniture of ₹2,20,000 from M/s Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a bill of exchange & for the balance the company issued 9% debentures of ₹100 each at a premium of 10% in favour of Furniture Mart. Pass necessary journal entries in the books of Deepak Ltd. for the above transactions

(Hint: Bills Payable- ₹ 1,10,000: Securities Premium – ₹10,000)

Que 8) Disha Ltd. took over assets of ₹ 8,00,000 and liabilities of ₹ 3,00,000 from Kriti Ltd. for a purchase consideration of ₹ 6,00,000. The payment was made by issue of 9% Debentures of ₹100 each at 20% premium Pass the necessary journal entries for the above transactions in the books of Disha Ltd.

(Hint: Goodwill= ₹1,00,000, No. of Deb= 5,000: Securities premium = ₹1,00,000)

Que 9) Vayee Ltd. purchased the following assets of EX. Ltd.: Land and Building of ₹60,00,000 at ₹84,00,000; Plant and Machinery of ₹ 40,00,000 at ₹ 36,00,000. The purchase consideration was ₹1,10,00,000. Payment was made by accepting a Bill of Exchange in favour of EX. Ltd. of ₹ 20,00,000 and remaining by issue of 8% debentures of ₹100 each at a premium of 20%. Record the necessary journal entries for the above transactions in the books of Vayee Ltd.

(Hint: Capital Reserve- ₹10,00,000; No. of Deb. 75,000, Securities premium- ₹15,00,000)

Que. 10) Pass the necessary journal entries for the issue of debentures for the following transactions:

- (a) Anand Ltd. issued 800, 9% Debentures of ₹500 each at a premium of 20%, to the vendors for machinery purchased from them costing ₹4,80,000.
- (b) Dawar Ltd. issued 5,000, 7% Debentures of ₹200 each at a premium of 5%, redeemable at a premium of 10%.
- (c) Novelty Ltd. issued 1,000, 8% Debentures of ₹100 each at a discount of 5%, redeemable at a premium of 10%

Que. 11) Pass journal entries

- (a) Mayur Ltd., issued 5,000, 12% Debentures of ₹100 each. The debentures are issued at a discount @ 10% and redeemable at premium @ 5%.
- (b) A Ltd issued 6,000, 12% debentures of ₹100 each. The debentures are issued to a supplier of machine costing ₹5,50,000.
- (c) J Ltd., took a loan of ₹5,30,000 the Bank of India for which the company placed with the bank, debenture ₹6,00,000 as collateral security.

(Hint: (a) Premium on red. Of deb. - ₹25000, Loss on issue of deb. - ₹50000

(b) Discount on issue of deb. - ₹50000

(c) Bank Loan - ₹5,30,000; Deb. Suspense A/c- ₹6,00,000)

Que. 12) Youth Ltd. took a loan of ₹15,00,000 from State Bank of India against the security of tangible assets. In addition to principal security, it issued 10,000 11% debentures of ₹100 each as collateral security. Pass necessary journal entries for the above transactions, if the company decided to record the issue of 11% debentures as collateral security and show the presentation in the Balance Sheet of Youth Ltd.

Que. 13) R Ltd. issued 1,000, 16% Debentures of ₹100 each on 1st January 2022 Interest on these debentures is paid half yearly, ie, on 30th June and 31st December. Pass the necessary journal entry for the period.

(Hint: Interest on debentures- ₹25000; Statement of P&L A/c debited by - ₹50000)

Que 14) On 1-4-2022 ABC Ltd. issued 750, 11% debentures of ₹ 100 each at a discount of 5% redeemable at a premium of 10% after three years, interest on debentures is payable on 30th September and 31st march. ABC Ltd closes its books on 31st march every year. Pass necessary entries for the issue of debenture and the payment of interest for the year ended 31st March 2023.

Que. 15) Agam Ltd issued 40,000 9% debentures of ₹ 100 each on April 1, 2022 at a discount of 10%, redeemable at a premium of 10%. Assuming that the interest was paid half yearly on September 30 and March 31, give journal entries relating to debenture interest for the half year ended March 31, 2023.

Que 16) A Ltd issued 10,000, 8% Debentures of ₹100 each at par on 1st April 2022 redeemable at a premium of 5 % after 3 year. Pass necessary journal entries for issue of

debentures & to write off loss on Issue of Debentures if

- (a) There is no balance in Securities Premium A/c
- (b) The Securities Premium A/c Showed a balance of ₹10,000.
- (c) The Securities Premium A/c Showed a balance of ₹80,000.

MCQs

1. At the time of issue of debentures, debentures account is:
 - A) Credited by the amount Received
 - B) Credited by the issue price of the debentures
 - C) Credited by nominal value of the debenture
 - D) none of the above
2. Return on debenture is called:
 - A) Interest
 - B) Dividend
 - C) A & B both
 - D) None of the above
3. Perpetual Debenture is the other name of:
 - A) Convertible debentures
 - B) Irredeemable debenture
 - C) Naked debenture
 - D) None of the above
4. In case of debenture of ₹ 10,000 are issued at par but redeemable at a premium of 10%, the premium payable is debited to :
 - A) Debenture suspense account
 - B) Premium on redemption of debentures
 - C) Loss on issue of debentures
 - D) A & B both
5. Debenture holder account are:
 - (A) Personal
 - (B) Real
 - (C) Nominal
 - (D) None of the above
6. X Ltd has purchased the building and debentures are issued at discount. Which account will be debited for discount:
 - A) Discount on issue of Debentures
 - B) Loss on issue of debenture
 - C) Both of A & B
 - D) None of the above

7. Debentures are shown in the balance sheet of the company under the head of;
- A) Non-current liabilities B) Current liability
 C) Share capital D) None of the these
8. Discount or loss on issue of debenture to be written off after 12 months from the date of balance sheet or after the period of operating cycle is shown as:
- A) Other current assets B) Other noncurrent assets
 C) Other long term liability D) Other current liabilities
9. ABC Ltd Purchase a machinery worth ₹1,98,000. The payment made by issue of debenture of ₹ 100 each at 10% Discount. In this case no. of debenture will be:
- A) 1100 B) 2200
 C) 3300 D) 4400
10. Which of the following do not have voting right in the company?
- A) Debenture holders B) Shareholders
 C) Both A & B D) None of these
11. When 100 debenture issued at 5% discount ₹100 each but redeemable at premium of 8%. How much amount will be credited as premium on redemption of debentures account:
- A) ₹5000 B) ₹4000
 C) ₹8000 D) ₹6000
12. A Ltd took over Assets of ₹ 5,00,000 and liability of ₹ 50,000 from B Ltd in the agreed consideration of ₹ 4,80,000 and Issued Debentures of ₹100 each at the premium of ₹ 20. Number of Debenture issued are:
- A) 48,000 B) 40,000
 C) 4,000 D) 4,800
13. A company issued 1000 7% Debentures of ₹ 100 at 5% Discount and repayable at 10% Premium. What will be the amount of Loss on issue of Debentures?
- (a) ₹ 10,000 B) ₹ 20,000
 (c) ₹ 15,000 D) ₹ 30,000.
14. A Company issued 1000 7% Debentures of ₹ 100 each at 5% Premium and repayable at 10% Premium. What will be the amount of Loss on issue of Debentures:
- A) ₹ 5,000 B) ₹ 10,000
 C) ₹ 15,000 D) ₹ 20,000

ASSERTION-REASONING QUESTIONS

1. **Assertion (A):** Issue of debenture doesn't result in dilution of control of equity shareholders.

Reason (R): Debenture holders have voting rights.

- A) Both (A) and (R) are true and (R) is the correct explanation of (A).
B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
C) (A) is true, but (R) is false.
D) Both (A) and (R) are false.

2. **Assertion (A):** Debentures saves income tax.

Reason (R): Interest on debentures is a tax deductible expenditure.

- A) Both (A) and (R) are true and (R) is the correct explanation of (A).
B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
C) (A) is true, but (R) is false.
D) Both (A) and (R) are false.

3. **Assertion (A):** Interest on Debentures is payable to Debentureholder by the company whether the company earns profits or incur losses.

Reason (R): Interest on Debentures is an expense.

- A) Both (A) and (R) are true and (R) is the correct explanation of (A).
B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
C) (A) is true, but (R) is false.
D) Both (A) and (R) are false.

4. **Assertion (A):** Discount/Loss issue of Debentures is written off in the year debentures are allotted.

Reason (R): Discount/Loss on issue of Debentures is written off from Securities Premium and Statement of Profit and Loss as finance cost in the year debentures are allotted.

- A) Both (A) and (R) are true and (R) is the correct explanation of (A).
B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
C) (A) is true, but (R) is false.
D) Both (A) and (R) are false.

5. **Assertion (A):** Mohan has shown ₹5,00,000, 10% debentures redeemable on 31st October 2023 under the head 'Current Liabilities' as Current Maturities of Long Term debts in Balance sheet as at 31st March, 2023.

Reason (R): Debentures becoming due for redemption within 12 months from the date of Balance sheet are shown as Current Maturities of Long Term Debts under the main head 'current liabilities'.

- A) Both (A) and (R) are true and (R) is the correct explanation of (A).
- B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- C) (A) is true, but (R) is false.
- D) Both (A) and (R) are false.

6. **Assertion (A) :** Irredeemable debentures are also known as perpetual debentures.

Reason (R) : The company does not give any undertaking for the repayment of money borrowed by issuing such debentures. They are repayable on the winding up of the company or on the expiry of a long period.

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A)
- (C) (A) is true, but (R) is false
- (D) Both (A) and (R) are false

STATEMENT QUESTIONS

1. **Statement I:** Premium on issue of debentures is a capital gain for the company.

Statement II: Loss on issue of debentures is a revenue loss.

- A) Both Statements are correct
- B) Both Statements are incorrect
- C) Statement I is correct and statement II is incorrect.
- D) Statement I is incorrect and statement II is correct.

2. **Statement I:** Interest is paid by company on Debentures issued as collateral security.

Statement II: Interest on debentures issued as collateral security is paid on nominal value of debentures.

- A) Both Statements are correct
- B) Both Statements are incorrect
- C) Statement I is correct and statement II is incorrect.
- D) Statement I is incorrect and statement II is correct.

3. **Statement I:** X Ltd. has outstanding 15,000, 8% debentures of ₹100 each which were issued at 10% discount. Interest payable will be ₹1,08,000 being 8% of ₹13,50,000.
Statement II: X Ltd. will pay interest on debentures of ₹1,20,000 being 8% of ₹15,00,000 because interest is paid on the nominal value of debentures.
 A) Both Statements are correct
 B) Both Statements are incorrect
 C) Statement I is correct and statement II is incorrect.
 D) Statement I is incorrect and statement II is correct.
4. **Statement I:** As per terms of issue, debenture may be redeemed at par, at premium or at a discount.
Statement II: Premium on redemption of debentures is shown under Security Premium in Balance Sheet.
 A) Both Statements are correct
 B) Both Statements are incorrect
 C) Statement I is correct and statement II is incorrect.
 D) Statement I is incorrect and statement II is correct.
5. **Statement I:** Excess of Net Asset over purchase consideration at the time of purchase of business is credited to Capital Reserve.
Statement II: Excess of purchase consideration over Net Assets at the time of purchase of business is debited to Goodwill account.
 A) Both Statements are correct
 B) Both Statements are incorrect
 C) Statement I is correct and statement II is incorrect.
 D) Statement I is incorrect and statement II is correct.

CASE/SOURCE BASED QUESTIONS

Answer the Question no. 1, 2 and 3 from the following case:

- I. Sita Travels Ltd. purchased Plant and Machinery of ₹10,00,000 at ₹8,00,000 and Land & Building of ₹58,00,000 at 72,00,000 from Batra Travels Ltd. It Paid ₹20,00,000 in cash and for the balance issued 10% debentures of ₹10 each at a premium of 20%, redeemable at a premium of 10% after 4 years.

Following is an extract of their Journal—

Date	Particulars	LF	Dr. Amt (₹)	Cr. Amt (₹)
31 th Mar. 2023	Batra travels Ltd. Loss on issue of Debentures A/c To Bank A/c To 10% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (For payment of purchase consideration)		3	20,00,000 1 2 —

1. The amount to be reflected in blank (1) will be–

A) ₹40,00,000	B) ₹48,00,000
C) ₹50,00,000	D) ₹60,00,000
2. The amount to be reflected in blank (2) will be–

A) ₹10,00,000	B) ₹12,00,000
C) ₹8,00,000	D) ₹8,60,000
3. The amount to be reflected in blank (3) will be

A) ₹4,00,000	B) ₹5,00,000
C) ₹15,00,000	D) ₹13,40,000

II. Answer the following questions after reading this case :

On 1st April 2022 X Ltd. purchased assets worth ₹30,00,000 and also took over liabilities of ₹2,50,000 from Y Ltd for a purchase consideration of ₹26,00,000.

X Ltd. paid the purchase consideration by–

- (i) Issuing 10,000, 9% debentures of ₹100 each at a premium of 20%.
- (ii) Issuing 14,000, 12% debentures of ₹100 each at par.

On the same date, it took a loan of ₹6,00,000 from State Bank of India for which the company placed 10% debentures for ₹8,00,000 as collateral security with the bank.

Following is the extract of Balance sheet as at 31st Mar 2023.

I. Equity and Liabilities:	Note No.	(₹)
Non-current liabilities		
Long-term Borrowing	1	4
Notes to Accounts:		

Particulars	(₹)	(₹)
1. Long-term Borrowing:		
10,000, 9% Debentures	1	
14,000, 27% Debentures	14,00,000	
10% Debentures	–	
Less Debentures suspense A/c	2	3
Bank loan (on collateral security)		–
		–

1. The amount to be reflected in blank (1) will be–

A) ₹10,00,000	B) ₹10,90,000
C) ₹12,90,000	D) ₹12,00,000
2. The amount to be reflected in blank (2) will be–

A) ₹6,80,000	B) ₹8,00,000
C) ₹6,00,000	D) ₹8,60,000
3. The amount to be reflected in blank (3) will be–

A) ₹22,00,000	B) ₹28,00,000
C) ₹26,00,000	D) ₹24,00,000
4. The amount to be reflected in blank (4) will be–

A) ₹32,00,000	B) ₹30,00,000
C) ₹34,00,000	D) ₹36,00,000

MATCH THE FOLLOWING

1. (i) Debentures that are not given any security (a) Redeemable Debentures
 (ii) Debentures transferable by mere delivery (b) Registered Debentures
 (iii) Debentures redeemable either in lumpsum or instalments (c) Bearer Debentures
 (iv) Debentures not freely transferable (d) Naked Debentures
 (A) (i) b; (ii) c; (iii) a; (iv) d (B) (i) d; (ii) c; (iii) a; (iv) b
 (C) (i) b; (ii) d; (iii) a; (iv) c (D) (i) c; (ii) d; (iii) a; (iv) b
2. (i) Debenture Application A/c (a) Personal Account
 (ii) Loss on issue of Debentures A/c (b) Real Account
 (iii) Goodwill A/c (c) Nominal Account
 (iv) Premium on Redemption of Debentures A/c
 (v) Capital Reserve A/c
 (A) (i) b; (ii) a; (iii) a; (iv) c; (v) b
 (B) (i) a; (ii) c; (iii) a; (iv) c; (v) b
 (C) (i) a; (ii) c; (iii) b; (iv) a; (v) c
 (D) (i) b; (ii) a; (iii) b; (iv) a; (v) c

JOURNAL ENTRY BASED QUESTIONS

1. What journal entry will be passed when 10% debentures of ₹1,00,000 are issued as collateral security against a loan of ₹1,50,000.

(A)	Bank A/c To 10% Debentures A/c	Dr.	1,50,000	1,50,000
(B)	Debenture Suspense A/c To Bank A/c	Dr.	1,00,000	1,00,000
(C)	Debenture Suspense A/c To 10% Debentures A/c	Dr.	1,00,000	1,00,000
(D)	Bank A/c To Debenture Suspense A/c	Dr.	1,50,000	1,50,000

2. What journal entry will be passed for transfer of application money to Debentures Account, when 2,000, 12% debentures are issued for ₹100 each at a discount of 2%, redeemable at a premium of 5%.

(A)	Bank A/c Loss on Redemption A/c To 12% Debentures A/c To Premium on Redemption A/c	Dr. Dr.	1,96,000 14,000	2,00,000 10,000
(B)	Debenture Application and Allotment A/c Loss on issue of debentures A/c To 12% Debentures A/c To Securities Premium A/c	Dr. Dr.	2,00,000 10,000	2,00,000 10,000
(C)	Debenture Application and Allotment A/c Loss on Redemption A/c To 12% Debentures A/c To Premium on Redemption A/c	Dr. Dr.	2,00,000 14,000	2,00,000 14,000
(D)	Debenture Application and Allotment A/c Loss on issue of debentures A/c To 12% Debentures A/c To Premium on Redemption A/c	Dr. Dr.	1,96,000 14,000	2,00,000 10,000

3. What journal entry will be passed to write off loss on issue of Debentures (with the given information) if

Loss on issue of Debentures – ₹1,00,000

Premium on redemption of debentures – ₹1,00,000

Securities Premium – ₹30,000

Statement of Profits & loss (Cr.) ₹90,000

(A)	Premium on Redemption of Debentures A/c To Loss on issue of Debentures A/c	Dr.	1,00,000	1,00,000
(B)	Securities Premium A/c Statement of Profit and Loss A/c To loss on issue of Debentures A/c	Dr. Dr.	30,000 70,000	1,00,000
(C)	Statement of Profit and Loss A/c To Loss on issue of Debentures A/c	Dr.	1,00,000	1,00,000
(D)	Statement of Profit and loss A/c Securities premium A/c To Loss on issue of Debentures A/c	Dr. Dr.	90,000 10,000	1,00,000

ANSWER

MCQ

- | | | |
|---------|---------|---------|
| 1. (C) | 2. (A) | 3. (B) |
| 4. (B) | 5. (A) | 6. (A) |
| 7. (A) | 8. (C) | 9. (B) |
| 10. (A) | 11. (C) | 12. (A) |
| 13. (C) | 14. (B) | |

Assertion-Reasoning Solution

- | | | |
|--------|--------|--------|
| 1. (C) | 2. (A) | 3. (A) |
| 4. (B) | 5. (A) | 6. (A) |

Statement Solutions

- | | | |
|--------|--------|--------|
| 1. (C) | 2. (B) | 3. (D) |
| 4. (B) | 5. (A) | |

Case/Source Based Solution

- | | | |
|-------------------|--------|--------------------|
| I. 1. (C) | 2. (A) | 3. (B) |
| II. 1. (D) | 2. (B) | 3. (C) 4. (A) |

Match the following Solution

- | | |
|--------|--------|
| 1. (B) | 2. (C) |
|--------|--------|

Journal Entry Solution

- | | | |
|--------|--------|--------|
| 1. (C) | 2. (D) | 3. (B) |
|--------|--------|--------|

PART-B

CHAPTER-1

FINANCIAL STATEMENTS OF A COMPANY

Financial Statement

Financial Statements are the end products of accounting process and are prepared at the end of the accounting period **to reveal the financial position** of the enterprise at a particular date and **the result of its business operations during an accounting period**.

As per Section 2(40) of the Companies Act, 2013 Financial Statements include :

1. Balance Sheet or Position Statement
2. Statement of Profit and Loss or Income Statement
3. Note to Accounts.
4. Cash Flow Statement.

Balance Sheet : It is a statement of assets, liabilities and Equities of a business and it is prepared to show the financial position of the company at a particular date.

A balance sheet of a company is prepared as per the format prescribed in Part I of Schedule III of the Companies Act, 2013.

The Schedule III prescribes only the vertical format for presentation of financial statements. Thus, a company will now not have an option to use horizontal format for the presentation of financial statements.

Important contents of Balance Sheet

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of resources from the enterprise embodying economic benefits.

Equity is the residual interest in the assets of the enterprise after deducting all its liabilities.

Part-I - Form of Balance Sheet

(₹ in-----)

Particulars	Note No	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4

Particulars	Note No	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			

I. ASSETS		
(i) Non-current assets		
(a) Property plant and equipment and Intangible Assets		
(i) Property, Plant and equipment		
(ii) Intangible assets		
(iii) Capital work-in- progress		
(iv) Intangible assets under development		
(b) Non-current investments		
(c) Deferred tax assets (Net)		
(d) Long-term loans and advances		
(e) other non-current assets		
(2) Current Assets		
(a) current investments		
(b) Inventories		
(c) Trade receivables		
(d) Cash and cash equivalents		
(e) Short term loans and advances		
(f) other current assets		
TOTAL		

Illustration 1: C Ltd. has an opening credit balance of ₹ 2, 50,000 in Securities Premium Reserve and also debit balance of ₹ 5,00,000 in Surplus i.e., Balance in statement of Profit and Loss in Reserves and Surplus. During the year ended 31st march, 2023, it incurred a loss of ₹ 3,00,000. Prepare Notes to Account on Reserve and Surplus showing the amount to be shown in Balance Sheet.

Solution:

Notes to Accounts

Particulars	₹
Reserve and Surplus	
(a) Securities Premium Reserve	2,50,000
(b) Surplus i.e., Balance in statement of Profit & Loss	
Opening Balance (5,00,000)	(8,00,000)
Add- Loss for the year <u>(3,00,000)</u>	<u>(5,50,000)</u>

₹ (5,50,000) will be shown against Reserve and Surplus under shareholders' funds in the Balance Sheet.

Statement of Profit and Loss

Statement of Profit and Loss: It is a statement prepared to show the result of business operations during an accounting period.

It shows the operating performance of a company during the accounting period.

A Statement of Profit & Loss of a Company is prepared as per the format prescribed in Part II of Schedule III of the Companies Act, 2013.

PART II - FORM OF STATEMENT OF PROFIT AND LOSS

Statement of Profit & Loss

For the year ended

(` in)

Particulars	Note No.	Figures for the current reporting period	Figures for the Previous reporting period
I. Revenue from operations	
II. Other Income	
III. Total Revenue (I+II)	
IV. Expenses:			
• Cost of Material consumed			
• Purchases of Stock-in-Trade			
• Changes in Inventories of Finished Goods, work-in-progress and stock-in-trade			
• Employees Benefit Expenses			
• Finance Cost			
• Depreciation & Amortisation Expenses		
• Other Expenses	
Total Expenses		
V. Profit before Tax (III—IV)	
VI. Less: Tax	
VII. Profit after Tax (V—VI)		(.....)	(.....)
	

BALANCE SHEET				
(Companies Act 2013 Schedule III Part 1)				
B/s Heading	Major Heading	Sub Heading	Sub Sub Heading	Treatment if any
Equity and Liabilities	1. Shareholders Fund	a. Share Capital	• Authorised Capital	
			• Issued Capital	
			• Subscribed Capital	
			• Calls in Arrear	In Note to Accounts on share capital under subscribed capital as deduction
			• Share Forfeited Account	In note to Accounts on share capital under subscribed capital as addition
Equity and Liabilities	1. Shareholders Fund	b. Reserves and Surplus	<ul style="list-style-type: none"> • Capital Reserve • Securities Premium • Debenture Redemption Reserve • Capital Redemption Reserve • General Reserve • Sinking fund • Revaluation Reserve • Shares Options Outsanding A/c • Surplus i.e. Balance in statement of profit loss • Other reserves (to specify the nature and purpose of each Reserve) <p><i>Note: -</i></p> <ul style="list-style-type: none"> • <i>This Surplus has to be after transfer to Reserves and Proposed dividend.</i> • <i>Surplus can be a Negative figure.</i> 	

Equity and Liabilities	1. Shareholders Fund	c. Money Received Against Share Warrants	Share Warrants are issued to promoters for preferential issue. This instrument gives the holder the right to acquire equity shares. Money is already allocated at the time of issue of warrants.	
Equity and Liabilities	2. Share Application Money Pending Allotment			
Equity and Liabilities	3. Non-Current Liabilities	a. Long Term Borrowing	<ul style="list-style-type: none"> • Debentures • Bonds • Loans from banks • Loan from other parties including term loans • Deposits (Public Deposits, Fixed Deposits) Other loans and advances (nature to be specified) <i>Note: -</i> 1. They should be classified as secured and unsecured 2. Borrowing which is due for	

			payment within 12 months is to be treated as Other Current Liabilities
Equity and Liabilities	3. Non-Current Liabilities	b. Deferred Tax Liabilities	
Equity and Liabilities	3. Non-Current Liabilities	c. Other Long Term Liabilities	<ul style="list-style-type: none"> • Trade Payables if settled after (12 months) • Premium Payable on Redemption of Debentures • Premium Payable on Redemption of Preference Share
Equity and Liabilities	3. Non-Current Liabilities	d. Long Term Provisions	<ul style="list-style-type: none"> • Provision for employees retirement benefits. i.e. amount of earned leave etc. • Provision for Warranty Claims • Provision for Gratuity
Equity and Liabilities	4. Current Liabilities	a. Short Term Borrowings	<ul style="list-style-type: none"> • Loans from bank • Loans from other parties • Deposits (Public Deposits, Fixed Deposits) • Loan repayable on demand • Bank overdraft and Cash credit
Equity and Liabilities	4. Current Liabilities	b. Trade Payable	<ul style="list-style-type: none"> • Creditors • Bills payables
Equity and Liabilities	4. Current Liabilities	c. Other Current Liabilities	<ul style="list-style-type: none"> • Current maturities of long term loans • Interest accrued but not due on borrowings • Interest accrued and due on borrowings • Income received in Advance • Unpaid dividend / Unclaimed dividend • Unpaid matured deposit and interest accrued there on • Unpaid matured debentures and interest accrued thereon • Outstanding expenses • Calls in advance • Excess Application money due for refund and Interest accrued thereon

Equity and Liabilities	4. Current Liabilities	d. Short Term Provisions	<ul style="list-style-type: none"> • Provision for tax • Provision for employees benefits • Provision for doubtful debts • Provision for discount on debtors • Provision for expenses other provision
As-sets	1. Non-current Assets	a. Property, plant & equipment and Intangible Assets (i) Property plant and Equipment	<ul style="list-style-type: none"> • Land • Building machinery • Plant and • Vehicles • Office equipment • Furniture and fixture • Live stock • Computers • Office Equipment
As-sets	1. Non-Current Assets	a. Property plant and Equipment (ii) Intangible Assets	<ul style="list-style-type: none"> • Goodwill • Brands/trademarks • Copyrights & patents • Computer software • Mastheads and Publishing titles (name of newspapers/ magazines printed at the top of first page) • Mining rights • Recipes, formulae, model, designs • Licenses and franchise • Intellectual Property Rights
As-sets	1. Non-Current Assets	a. Property, plant & equipment and Intangible Assets (iii) Capital Work-in-Pro-gress	Construction of assets in progress E.g. construction of (fixed) tangible building

As-sets	1. Non-Current Assets	a. Property, plant & equipment and Intangible Assets (iv) Intangible Assets under-development patents, intellectual property rights etc. under development	
As-sets	1. Non-Current Assets	b. Non-Current Investments	<ul style="list-style-type: none"> • Investment in property • Investment in equity instruments • Investment in preference shares • Investment in govt. securities • Investment in debentures/ bonds • Investment in mutual funds • Investments in Partnership firms <p>Note: -Fixed deposit in banks.</p> <ul style="list-style-type: none"> • They should be classified as Trade Investment&Non-Trade Investment • Trade investment -Investment in shares and debentures for promoting its own business <p>E.g. a company invests in other company which is supplying raw material to it, so as to ensure a continuous supply.</p>
Assets	1. Non-Current Assets	c. Deferred Tax Assets (Net)	
Assets	1. Non-Current Assets	d. Long Term Loans and Advances	<ul style="list-style-type: none"> • Capital advance, (advances for acquiring fixed assets) tangible and intangible • Long term loans to employees. • Long term loans to suppliers.

Assets	1. Non-Current Assets	e. Other Non-Cur-rent Assets	<ul style="list-style-type: none"> • Long term trade receivables • Preliminary expenses, Underwriting Commission, which are to be amortized after a period of 12 months • Security deposits • Insurance claim receivable
Assets	2. Current Assets	a. Current Investments	<ul style="list-style-type: none"> • Investment in equity instruments • Investment in preference shares • Investment in govt, securities • Investment in debentures / bonds • Investment in mutual funds • Investments in Partnership firms.
Assets	2. Current Assets	b. Inventories	<ul style="list-style-type: none"> • Inventory of raw material • Inventory of work in progress • Inventory of finished goods • Stock in trade (goods acquired for trading) • Stores and spares • Loose tools
Assets	2. Current Assets	c. Trade Receivables	<ul style="list-style-type: none"> • Debtors • Bills receivable.
Assets	2. Current Assets	d. Cash and Cash Equivalent	<ul style="list-style-type: none"> • Cash • Bank balance • Cheques and drafts in hand • Bank deposits
Assets	2. Current Assets	e. Short Term Loans and Advances	<ul style="list-style-type: none"> • Loans and advances related to parties to be realised within 12 months.
Assets	2. Current Assets	f. Other Current Assets	<ul style="list-style-type: none"> • Prepaid expenses • Advance taxes • Interest accrued on investments • Preliminary expenses, Underwriting Commission, which are to be amortized within a period of 12 months

Contingent Liabilities		<p>Contingent Liabilities are those liabilities which are not actual liabilities but may become so on happening of certain events. Examples are following:</p> <ul style="list-style-type: none"> • Claim against the company not acknowledged as debts • Guarantees • Bills discounted from bank
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Capital Commitments		<p>Capital commitments are agreements to perform a particular activity at a certain time in the future under certain circumstances.</p> <p>Examples are followings:</p> <ul style="list-style-type: none"> • Estimated amounts of contract remaining to be executed on capital account and not provided for • Uncalled liability on investment in partly paid shares. • Arrears of dividend on cumulative preference share <p>Example 1. Estimated amount of contract remaining to be executed on capital account and not provided for:</p> <ul style="list-style-type: none"> • A project of ₹ 100 crore to construct a bridge time is 60% complete & 40% remaining If 40% is completed on time the company will get entire ₹ 100 crore and thereby make a profit. (Because ₹ 100 crore which is the contract price includes profit). <p>But if the project is not completed on time penalties rmay be imposed and the company may not be able <u>to make profit out of the project.</u></p>
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**DISCLOSURE OF IMPORTANT ITEMS IN THE COMPANY'S
BALANCE SHEET AS PER SCHEDULE III**

S. No.	Items	Main Head	Sub-head
1.	Debentures	Non-current Liabilities	Long-term Borrowings
2.	Public Deposits	Non-current Liabilities	Long-term Borrowings
3.	Securities Premium	Shareholders' Funds	Reserves and Surplus
4.	Capital Reserve	Shareholders' Funds	Reserves and Surplus
5.	Forfeited Shares Account	Shareholders' Funds	Subscribed Capital (Shown by way of addition)
6.	Interest Accrued and due on Debentures	Current Liabilities	Other Current Liabilities
7.	Interest Accrued but not due on Debentures	Current Liabilities	Other Current Liabilities
8.	Bills Payable	Current Liabilities	Trade Payables
9.	Advances Received from Customers	Current Liabilities	Other Current Liabilities
10.	Sundry Creditors	Current Liabilities	Trade Payables
11.	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
12.	Calls-in-Arrears	Shareholders' Funds	Subscribed Capital (shown by way of deduction)
13.	Calls-in-Advance and Interest	Current Liabilities	Other Current Liabilities
14.	Interest Accrued but not due on Unsecured Loans	Current Liabilities	Other Current Liabilities
15.	Debentures Redemption Reserve	Shareholders' Funds	Reserves and Surplus
16.	Capital Redemption Reserve	Shareholders' Funds	Reserves and Surplus
17.	Advance from Customers (Long-term)	Non-current Liabilities	Other Non-current Liabilities
18.	Trade Payables	Current Liabilities	Trade Payables
19.	provision for Tax	Current Liabilities	Short-term Provisions
20.	Surplus, i.e. Balance in Statement of profit and Loss (Dr.)	Shareholders' Funds	Reserves and Surplus (As negative amount)
21.	Surplus, i.e. Balance in statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus
22.	Mortgage Loan	Non-current Liabilities	Long-term Borrowings

23.	Patents	Non-current Assets	Property, plant and equipment and Intangible Assets—Intangible Assets
24.	Investment	Non-current Assets	Non-current Investments
25.	General Reserve	Shareholders' Funds	Reserves and Surplus
26.	Bills Receivable	Current Assets	Trade Receivables
27.	Borrowings Repayable after 3yrs.	Non-current Liabilities	Long-term Borrowings
28.	Loose Tools	Current Assets	Inventories
29.	current Maturities of Long-term debt	Current Liabilities	Other Current Liabilities
30.	Premium on Redemption of Debentures	Non-current Liabilities	Other Non-current Liabilities
31.	Balances with Banks	Current Assets	Cash and Cash Equivalents
32.	Tax Reserve	Shareholders' Funds	Reserves and surplus
33.	Stores and Spares	Current Assets	Inventories
34.	Mining Rights	Non-current Assets	Property, plant and equipment and Intangible Assets- Intangible Assets
35.	Encashment of Employees Earned Leave Payable on Retirement	Non-current Liabilities	Long-term Provisions
36.	Subsidy Reserve	Shareholders' Funds	Reserves and Surplus
37.	Copyrights	Non-current Assets	Property, plant and equipment and Intangible Assets- Intangible Assets
38.	Accrued Incomes	Current Assets	Other Current Assets
39.	Provision for Employees Benefits	Non-Current Liabilities	Long-term Provisions
40.	Unpaid/unclaimed Dividend	Current Liabilities	Other Current Liabilities
41.	Short-term Loans	Current Liabilities	Short-term Borrowings
42.	Long-term Loans	Non-Current Liabilities	Long-term Borrowings
43.	Share Options Outstanding Account	Shareholders' Funds	Reserves and Surplus
44.	Computers	Non-current Assets	Property, plant and equipment and Intangible Assets— Tangible Assets
45.	Goodwill	Non-current Assets	Property, plant and equipment and Intangible Assets— Intangible Assets

46.	Sundry Debtors	Current Assets	Trade Receivables
47.	Long-term Investments	Non-Current Assets	Non-current Investment
48.	Prepaid Insurance	Current Assets	Other Current Assets
49.	Building	Non-current Assets	Property, plant and equipment and Intangible Assets— Tangible Assets
50.	General Reserve	Shareholders' Funds	Reserves and Surplus
51.	Bonds	Non-current Liabilities	Long-term Borrowings
52.	Loans repayable on demand	Current Liabilities	Short-term Borrowings
53.	Income received in advance	Current Liabilities	Other Current liabilities
54.	Office Equipments	Non-current Assets	Property, plant and equipment and Intangible Assets— Tangible Assets
55.	Trademarks	Non-current Assets	Property plant & equipment and Intangible Assets intangible Assets
56.	Advance Tax	Current Assets	Other Current Assets
57.	Bank Overdraft	Current Liabilities	Short-term Borrowings
58.	Cheques/Drafts in Hand	Current Assets	Cash and Cash Equivalent
59.	Stock-in-Trade	Current Assets	Inventories
60.	Long-term Provisions	Non-current Liabilities	Long-term Provisions
61.	Stock of Finished Goods	Current Assets	Inventories
62.	Computer software	Non-current Assets	Property, plant and equipment and Intangible Assets—Intangible Assets
63.	Work-in-Progress (Building)	Non-current Assets	Property, plant and equipment and Intangible Assets—Capital Work-in-Progress
64.	Intellectual Property Rights under Development	Non-current Assets	Property, plant and equipment and Intangible Assets—Intangible Assets under Development
65.	Provision for Expenses	Current Liabilities	Short-term Provisions
66.	Capital Advances	Non-current Assets	Long-term Loans and Advances
67.	Designs	Non-current Assets	Property, plant and equipment and Intangible Assets—Intangible Assets
68.	Shares in Companies	Non-current Assets	Non-current Investments

CONTENTS OF STATEMENT OF PROFIT AND LOSS

S.No.	Item/Heads	Meaning	Examples/Sub heads
1.	Revenue from operation	Revenue earned by the company from its operating activities.	<ul style="list-style-type: none"> • Revenue from sale of products or service. • Revenue from sale of scrap.
2.	Other income	Income earned by the company from its non-operating activities.	<ul style="list-style-type: none"> • Interest income • Dividend income • Profit from sale of investment or fixed assets • Bad debts recovered • Excess provision written back • Rental income etc.
3.	Cost of material consumed	Cost of raw material and other material used in manufacturing of goods.	<p>COMC = opening inventory of raw material + net purchases of raw materials - closing stock of raw materials</p> <p>Note : inventory of work in progress, finished goods and stock in trade are not considered.</p>
4.	Purchase of stock-in-trade	Goods purchased for reselling without any further processing.	
5.	Changes in inventories of finished goods, work-in-progress and stock-in-trade	Difference between opening and closing inventories	Change in inventory = opening inventories - closing inventories
6.	Employees benefits expenses	All expenses incurred by the company on its employees.	<p>Direct expenses:</p> <ul style="list-style-type: none"> • Wages; • Bonus • Leave encashment; • Salaries • Staff welfare expenses • Contribution to employees provident fund and other funds
7.	Finance cost	Cost incurred by the company on borrowings.	<ul style="list-style-type: none"> • Interest paid on term loan from bank • Interest paid on overdraft and cash credit limit from bank • Interest paid on debentures, bonds public deposits • Discount or loss on issue of debentures written off • Premium payable on redemption of debentures written off • Loan processing fees • Guarantee charges • Commitment charges etc. <p>Note : Service charges not included like bank charges.</p>
8.	Depreciation and amortization expenses	Depreciation is the cost of tangible assets while amortization is the cost of intangible assets written off their useful life.	<ul style="list-style-type: none"> • Depreciation of plant and machinery, building, furniture etc. • Amortization of patents, trademarks, copyrights, computer software etc.
9.	Other expenses	Expenses that are not shown any of above mentioned heads are shown here.	<ul style="list-style-type: none"> • Carriage inwards/outwards • Audit fees; • Insurance charges • Rates and taxes; • Bank charges • Advertisement expenses • Administrative expenses • Selling and distribution expenses • Power and electricity charges • Repair of fixed assets • Rent; • Telephone expenses • Sundry expenses etc.

Financial Statement Analysis

1. Which of the following is not a part of finance cost (in statement of profit and loss)?
 - A) Loss on issue of debentures
 - B) Bank charges
 - C) Interest paid
 - D) Interest paid on public deposits
2. As per schedule III, part I of companies Act, 2013, share forfeited Account will be presented under which of the following head/sub-head, in the balance sheet of a company?
 - A) Current liabilities
 - B) Reserves and surplus
 - C) Shareholder's funds
 - D) Long-term Borrowings
3. Financial Analysis becomes useless because it:
 - A) Measures liquidity
 - B) ignores qualitative aspect
 - C) Measures profitability
 - D) Measures efficiency
4. Which of the following are tools of financial statement Analysis?
 - (i) Ratio Analysis
 - (ii) Comparative and common size statements
 - (iii) Cash flow statement
 - A) (i)
 - B) (i), (ii)
 - C) (i), (ii) and (iii)
 - D) (ii) and (iii)
5. Debentures redeemable within 12 months from the date of balance sheet is shown under what head/head in the balance sheet of a company?
 - A) Long-term borrowings
 - B) Reserves and surplus
 - C) Short-term provisions
 - D) other current liabilities
6. Purchase of goods for resale is shown in the statement of profit and loss under:
 - A) cost of materials consumed
 - B) purchase of stock-in-trade
 - C) finance cost
 - D) change in inventories

12. **Statement I:** Calls-in-Arrear is shown under the head current liabilities's sub-head other current liabilities.

Statement II: Reserve capital is shown under the head shareholders fund and sub-head 'Reserves and surplus'.

- A) Both statements are incorrect
- B) Both Statements are correct
- C) Statement I is correct and statement II is incorrect
- D) Statement I is incorrect and statement II is correct

Assertion And Reason

- A) Both A and R are correct and R is the correct explanation A.
- B) Both A and R are correct, but R is not the correct explanation
- C) A is correct but R is incorrect
- D) A is incorrect but R is correct

13. **Assertion (A):** Financial statements Analysis determiners efficiency of the management.

Reason (R): Financial statement Analysis helps in inter-firm and intra firm comparison.

14. **Assertion (A):** Balance sheet and statement of profits and loss show the line items and details there of are given in the notes to accounts.

Reason (R): The companies Act, 2013 has prescribed so for an easy understanding of the financial statements.

15. **Assertion (A):** Term loan from bank shown under the head non-current liabilities and subhead 'long-term borrowing'

Reason (R): Term loan from bank is payable 12 months after the balance sheet date.

Cased Based MCQs

16. Read the following information and answer the following questions:

X Ltd has the following liabilities

Share capital ₹20,00,000 9% debentures ₹10,00,000

- (ii) Under what sub-head, intangible assets will be shown?
- A) Non-current investment
 - B) Non-current Assets
 - C) Intangible Assets
 - D) Current Assets
- (iii) Under what sub-head, security deposit will be shown?
- A) long-term loans & advances
 - B) other non-currents assets
 - C) non-current investment
 - D) Short-term loans & advances
- (iv) What is the total amount of current assets?
- | | |
|---------------|---------------|
| A) ₹18,00,000 | B) ₹17,00,000 |
| C) ₹19,00,000 | D) ₹20,00,000 |

CHAPTER – 2

ACCOUNTING RATIOS

Points to Remember:

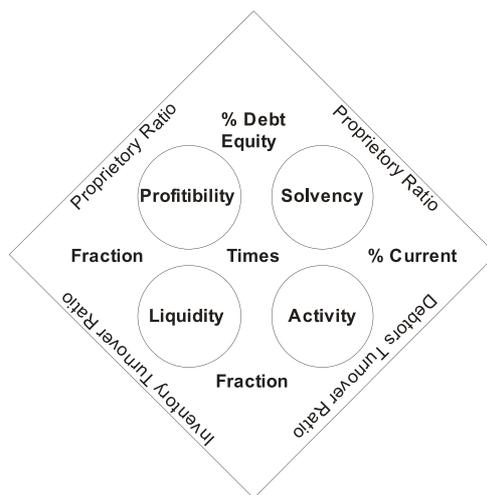
1. Loose tools and stores & spares will be excluded from inventories while calculating. Current ratio and inventories Turnover ratio.
2. Provision for doubtful debt will be deducted from Trade receivables for calculating current and liquid ratios. But it will not be deducted while calculating trade Receivables turnover ratio.
3. Non-trade Investment will be excluded from shareholder's funds and Capital employed and Total Assets for calculating solvency and Profitability ratios, and their corresponding income (i.e., interest on Non-trade Investment) will be excluded from Net Profit.
4. Operating cost and operating expenses are separate concept hence shouldn't inter change.

Accounting Ratio: It is an arithmetical relationship between two accounting variables.

Ratio Analysis: It is a technique of analysis of financial statements to conduct a quantitative analysis of information in a company's financial statements.

"Ratio analysis is a study of relationship among various financial factors in a business."

-Myers



RATIO ANALYSIS

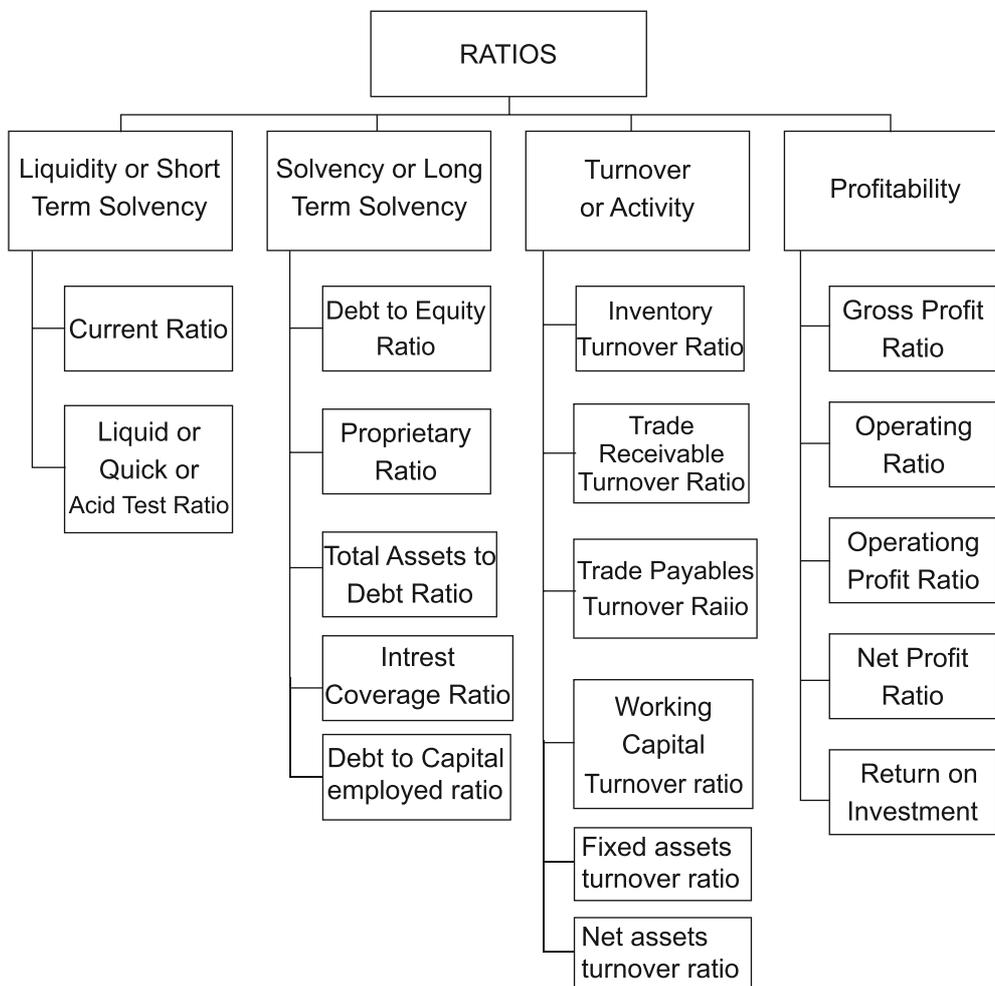
Expression of ratios: Ratios are expressed in following four ways:

Pure Ratio Like 2:1. All liquidity and solvency ratios are expressed in pure form.

Percentage e.g. 15%. All profitability ratios are presented in percentage form.

Times Like 4 times. All turnover ratios and Interest Coverage Ratio are presented in this form.

Classification or Types of Ratios:



Liquidity Ratios

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Liquid or Quick or Acid Test Ratio

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets/Quick Assets}}{\text{Current Liabilities}}$$

Supporting Formulae

1. Current Assets =
 - Current Investments (also known as Marketable Securities or Short-term investment)
 - + Inventories (except Loose Tools & Stores and Spares)
 - + Trade Receivables (Debtors and B.R.) Net after provision for bad debts.
 - + Cash and Cash Equivalents (Cash and Bank Balances, Cheques/drafts in hand etc.)
 - + Short Term Loans and Advances
 - + Other Current Assets (Prepaid Expenses Accrued Income & Advance Tax)
2. Current Liabilities =
 - Short Term Borrowings (Bank Overdraft and Cash Credit)
 - + Trade Payables (Creditors and B.P)
 - + Other Current Liabilities (O/s Expenses, Income Received in Advance, Unpaid or unclaimed Dividend, interest accrued on borrowing, calls in Advance, current maturities of long term debts).
 - + Short Term Provisions (Provision for Tax)
3. Liquid Assets = Current Assets
 - Inventory (closing)
 - Other Current assets (Prepaid Expenses, Accrued Income & Advance Tax)
4. Working Capital = Current Assets - Current Liabilities
5. Total Assets = Non-Current Assets + Current Assets
6. Total Liabilities = Non-Current Liabilities + Current Liabilities

7. Non-Current Assets = Fixed Assets (tangible and intangible)
+ Non-Current Investments
+ Long Term Loans & Advances (Capital Advances, Security Deposits)
8. Non-Current Liabilities = Long Term Loans (Debentures, Bank Loans, Bonds)
+ Long Term Provisions (Provision for employee benefit & Warranties)
9. Capital Employed = Shareholders' Fund
+ Borrowed Fund (Non-Current Liabilities)
10. Capital Employed = Total Assets - Current Liabilities
= Non-Current Assets + Working Capital
11. Shareholders' Fund = Share Capital
+ Reserves and Surplus
- Non-Current Non-Trade Investments
- Interest on Non-Current Non-trade investment

Shareholders Fund = Total Assets - Non Current Liabilities - Current liabilities

Note: Non-current trade investments will be included for capital purpose.

Non-current investment will remain Non-current trade investment in absence of any other information.

Solvency Ratios

- Debt - Equity Ratio

$$\text{Debt - Equity Ratio} = \frac{\text{Debt (Non Current Liabilities)}}{\text{Equity (Shareholders Fund)}}$$

- Proprietary Ratio

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Fund}}{\text{Total Assets}}$$

- Total Asset to Debt Ratio

$$\text{Total Asset to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt (Non Current Liabilities)}}$$

- Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{Profit BEFORE Interest, Tax and Dividend}}{\text{Interest on Long Term Loans}}$$

$$\text{Debt to capital employed ratio} = \frac{\text{long term debt}}{\text{capital employed}}$$

Activity or Turnover Ratios

• Working Capital Turnover Ratio

$$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operation} / \text{cost of Revenue from operation}}{\text{Working Capital}}$$

$$\text{Fixed assets turnover ratio} = \frac{\text{Revenue from Operation}}{\text{Fixed assets (Net)}}$$

• Inventory Turnover Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operation}}{\text{Average Inventory}}$$

• Receivable Turnover Ratio

$$\text{Trade Receivable Turnover Ratio} = \frac{\text{Net Credit Revenue from Operation}}{\text{Average trade receivables (Average Debt ors+Average BR.)}}$$

$$\text{Trade Receivable Turnover Ratio} = \frac{12 \text{ months or } 365 \text{ days or } 52 \text{ weeks}}{\text{Average Collection Period}}$$

• Payable Turnover Ratio

$$\text{Trade Payables Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average trade payables (Average Creditors + Average B.P.)}}$$

$$\text{Trade Payables Turnover Ratio} = \frac{12 \text{ months or } 365 \text{ days or } 52 \text{ weeks}}{\text{Average Payment Period}}$$

Supporting Formulae

a) Revenue from Operation (Net Sales) = Total Revenue from Operations—
Return of Revenue from Operations

b) Total Revenue from Operations = Cash Revenue from Operations
+ Credit Revenue from Operation

c) Net Credit Revenue from Operations = Credit Revenue from Operations
- Return of Revenue from Operation

d) Cost Of Revenue From Operations (COGS) = Opening Inventory
+ Net Purchases + Direct Expenses
- Closing Inventory

e) Cost Of Revenue From Operations (COGS) = Revenue From Operations
- Gross Profit

f) Cost Of Revenue From Operations (COGS) = Revenue From Operations
+ Gross loss

$$\text{Net assets or capital employed turnover ratio} = \frac{\text{Revenue from operations}}{\text{Capital Employed}}$$

f) Cost Of Revenue From Operation (COGS) = Cost of Raw Material Consumed
 + Purchases of Stock in Trade
 + Change in Inventory of Finished Goods, WIP, Stock in Trade
 + Direct Expenses

g) Average Inventory = $\frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

h) Average Debtors = $\frac{\text{Opening Debtors} + \text{Closing Debtors}}{2}$

i) Average B.R. = $\frac{\text{Opening B.R.} + \text{Closing B.R.}}{2}$

j) Average Creditors = $\frac{\text{Opening Creditors} + \text{Closing Creditors}}{2}$

k) Average B.P. = $\frac{\text{Opening B.P.} + \text{Closing B.P.}}{2}$

l) Average Receivable = Average Debtors + Average B.R.

m) Average Payable = Average Creditors + Average B.P.

In absence of Information
• Debtors = Opening Debtors = Closing Debtors = Average Debtors
• B.R. = Opening B.R. = Closing B.R. = Average B.R.
• Creditors = Opening Creditors = Closing Creditors = Average Creditors
• B.P. = Opening B.P. = Closing B.P. = Average B.P.

Profitability Ratio

Gross Profit Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

Net Profit Ratio

$$\text{Net Profit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Revenue from Operations}} \times 100$$

Operating Ratio or Operating Cost Ratio

$$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$$

Operating Profit Ratio

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100$$

Return on Investment or Return on Capital employed

$$\text{ROI} = \frac{\text{Net Profit BEFORE Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Supporting Formulae

- Net Profit = Gross Profit + Indirect Incomes - Indirect Expenses
= Gross profit + Non-Operating Income – (Operating Expenses + Non-Operating Expenses)
= Gross profit + Non-Operating Incomes – Operating Expenses - Non Operating Expenses
= Gross profit – Operating Expenses + Non-Operating Incomes - Non Operating Expenses
= (Gross profit – Operating Expenses) + Non-Operating Incomes, - Non Operating Expenses
- Net Profit = Operating Profit + Non-Operating Incomes - Non Operating Expenses
- Indirect Expenses = Operating Expenses + Non-Operating Expenses
- Non-Operating expenses
- Example Interest Paid on loans (finance cost)
- Operating Expenses = Office and Administrative Expenses
+ Selling and Distribution Expenses + General Expenses
+ Depreciation
- Operating Expenses = Employee Benefit Expenses + Other Operating Expenses
- Indirect Incomes (also known Non-Operating Incomes)
Example: Interest Received on Investment, dividend, rental income
- Operating Cost = Cost of Revenue from Operation + Operating Expenses
- Operating Profit = Gross Profit - Operating Expenses
= Revenue from Operation - Cost of Revenue from operations- Operating Expenses
= Revenue from Operation - (Cost of Revenue from operations+ Operating Expenses)
- Operating Profit = Revenue from Operation-Operating Cost
- Operating Profit = Net Profit - Non Operating Incomes + Non-Operating Expenses

RATIO ANALYSIS

Illustration-1

A firm had current Liabilities of 60,000. After the payment of current liabilities of ₹20,000 current ratio was 3.25:1. Determine current Assets & current ratio before the payment was made.

Sol. Let the current Assets after payment be x

$$\text{current Ratio} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

$$\frac{3.25}{1} = \frac{x}{60,000 - 20,000}$$

$$3.25 \times 40,000 = x$$

$$x = 1,30,000$$

Hence, Current Asset after payment = 1,30,000

$$\boxed{\text{Current Asset before payment}} = 1,30,000 + 20,000$$
$$= \boxed{\text{₹1,50,000}}$$

$$\text{Current ratio} = \frac{\text{CA before payment}}{\text{CL before payment}}$$

(Before payment)

$$= \frac{1,50,000}{60,000}$$

$$\text{CR} = \frac{2.5}{1}$$

Illustration 2: From the following information, calculate working capital turnover ratio

	₹
Cost of Revenue from operations	6,00,000
Gross profit ratio	25%
Land & Building	2,50,000
(Accumulated Depreciation 50,000)	

Premises	1,50,000
Furniture	2,00,000
Patents	1,00,000
Equity share capital	4,00,000
Pref. Share capital	2,00,000
Securities premium Reserve	2,00,000
9% Debenture	2,00,000

Sol. Working capital turnover ratio = $\frac{\text{Revenue from operations}}{\text{Working capital}}$

When sales is ₹ 100, Gross profit = ₹ 25

Cost of Revenue from operation = 100 – 25 = 75

$$\begin{aligned} \text{When cost is 6,00,000, Revenue from operation} &= 6,00,000 \times \frac{100}{75} \\ &= 8,00,000 \end{aligned}$$

Working capital = Capital employed – Fixed Assets

Capital employed = Eq. Share capital + Pref. Share capital
+ SPR + 9 % Deb.

$$\begin{aligned} \text{(Lia. side approach)} \quad &4,00,000 + 2,00,000 + 2,00,000 + 2,00,000 \\ &= ₹ 10,00,000 \end{aligned}$$

Fixed Asset = L & B (Net) + Premises + Furniture + Patents

$$\begin{aligned} &2,00,000 + 1,50,000 + 2,00,000 + 1,00,000 \\ &= ₹ 6,50,000 \end{aligned}$$

Working capital = 10,00,000 – 6,50,00

$$= ₹ 3,50,000$$

$$\text{Working capital turnover ratio} = \frac{8,00,000}{3,50,000} = 2.28 \text{ times}$$

Illustrations 3. Deb equity ratio is 0.8:1. State giving reason which of the following transaction would improve, reduce or not change the debt-equity ratio.

- (a) Issue of bonus shares
 - (b) Conversation of debenture into equity shares
 - (c) Purchase of machinery by taking long-term loan
 - (d) Issue of preference shares for cash
 - (e) Sale of furniture (Book value ₹ 1,00,000) at ₹ 1,30,000
- Sol. (a) **No Change** Only equity will increase and decrease by same amount.
 (b) **Reduce** Debt will decrease and equity will increase
 (c) **Improve** Debt will increase but equity will remain unchanged.
 (d) **Reduce** Equity will increase but debt will remain unchanged.
 (e) **Reduce** Equity will increase by profit margin and debt will remain unchanged.

Illustration - 4 Calculate current ratio & Quick ratio

	₹		₹
Total Assets	15,00,000	Long term Borrowings	4,00,000
Fixed Assets	5,00,000	Long term provision	2,00,000
Non- current investment	1,00,000	Inventories	1,70,000
Long term Loans Advances	1,00,000	Prepaid Expenses	30,000
		Total Debt	10,00,000

$$\text{Sol. Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\begin{aligned} \text{Current Assets} &= \text{Total Assets} - \text{Non current Assets} \\ &= \text{Total Assets} - (\text{Fixed Asset} + \text{Non Current} \\ &\quad \text{Inv.} + \text{Long term Loans \& Adv.}) \\ &= 1500,000 - (500\ 000 + 10\ 0000 + 100000) \end{aligned}$$

CA = Rs 800,000

$$\text{Current Liabilities} = \text{Total debt} - \text{Non - current liabilities}$$

$$= \text{Total Debt} - (\text{Long term Borrowings} + \text{Long term provisions})$$

$$= 10,00,000 - (400,000 + 200,000)$$

$$\boxed{\text{CL} = ₹ 4,00,000}$$

$$\boxed{\text{Current Ratio}} = \frac{₹8,00,000}{₹ 4,00,000} = \boxed{2:1}$$

$$\boxed{\text{Quick ratio}} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹6,00,000}{₹4,00,000} = \boxed{1.5 : 1}$$

$$\boxed{\text{Quick Assets}} = \text{Current Assets} - \text{inventories} - \text{prepaid expenses}$$

$$= ₹ 8,00,000 - ₹170,000 - ₹30,000$$

$$\boxed{\text{QA} = ₹600,000}$$

Illustration 5: Trade Receivable turnover ratio is 4 times state giving reason, which of the following transactions will increase, decrease or no change the ratio:

- Bad debt ₹ 4000
- Discount allowed ₹ 6,000
- Revenue from operation return ₹ 5,000
- Collection from trade Receivable ₹ 6,000
- Bill Receivables ₹ 10,000 drawn

Sol.

Transactions	Effector Ratio	Reason
(a)	Reduce	Bad debts will reduce closing debtors which will result in decrease in T/R turnover ratio.
(b)	Reduce	Discount allowed will reduce closing debtors which will result in decrease in T/R turnover ratio.
(c)	Improve	Both Revenue from operation & closing trade receivable will decrease by same amount resulting in increase in T/R turnover ratio.

(d)	Reduce	Closing trade receivable will decrease resulting in decrease of T/R turnover ratio.
(e)	No change	Trade receivable will remain unchanged. Hence T/R turnover ratio.

Illustration 6. Calculate (i) Operating ratio; (ii) Inventory turnover ratio

Cash revenue from operation ₹ 10,00,000

Credit revenue from operation 120% of cash revenue from operation

Operating expenses- 10% of total revenue from operation

Rate of gross profit- 40%

Opening inventory- ₹ 1,50,000

Closing inventory- ₹ 20,000 more than opening inventory

Solution. Operating ratio

$$= \frac{\text{Cost of revenue from operation} + \text{operating expenses}}{\text{Revenue from operation}} \times 100$$

$$\text{Credit revenue from operation} = \frac{120}{100} \times 10,00,000 = ₹ 12,00,000$$

$$\text{Total revenue from operation} = 12,00,000 + 10,00,000 = ₹ 22,00,000$$

$$\text{Operating expenses} = 10\% \text{ of } ₹ 22,00,000 = ₹ 2,20,000$$

$$\text{Gross profit} = 40\% \text{ of } 22,00,000 = ₹ 8,80,000$$

$$\text{Cost of revenue from operation} = ₹ 22,00,000 - ₹ 8,80,000 = ₹ 13,20,000$$

$$\text{Operating ratio} = \frac{13,20,000 + ₹ 2,20,000}{22,00,000} \times 100 = 70\%$$

$$(ii) \text{ Inventory turnover ratio} = \frac{\text{Cost of revenue from operation}}{\text{Average inventory}}$$

(iii) Average inventory

$$\text{Closing inventory} = \text{Opening inventory} + ₹ 20,000$$

$$= 1,50,000 + 20,000 = ₹ 1,70,000$$

$$\text{Average inventory} = \frac{1,50,000 + 1,70,000}{2}$$

$$= ₹ 1,60,000$$

$$= \frac{13,20,000}{1,60,000} = 8.25 \text{ times}$$

Illustration 7:

The Following particulars are extracted from the Balance Sheet of XYZ Ltd. as at 31st Mar 2019 :-

Particulars	Rs Amount
Equity share capital	2,00,000
10% preference share capital	1,80,000
capital reserve	40,000
profit & loss balance	1,00,000
12% Debentures	50,000
10% Mortgage loan	1,50,000
Current Liabilities	4,20,000
Current Assets	300,000

calculate the following ratio:

(a) Debt - Equity Ratio

(b) Proprietary ratio

(c) Interest coverage ratio when Net profit after tax ₹ 50,400 & rate of Income tax was 40%

$$\text{Sol. (a) DEBT - EQUITY RATIO} = \frac{\text{Debt}}{\text{Equity}}$$

$$\begin{aligned} \text{Debt (long - term)} &= \text{Debentures} + \text{Mortgage loan} \\ &= ₹ 50,000 + 1,50,000 \\ &= 200,000 \end{aligned}$$

$$\begin{aligned} \text{Equity / Share holder's Funds} &= \text{Eq share cap} + \text{pref. share cap} + \\ &\quad \text{cap. Reserve} + \text{p\& L balance} \\ &= 200,000 + 180,000 + 40,000 \\ &\quad + 100,000 \\ &= ₹ 520,000 \end{aligned}$$

$$\text{Debt - Equity Ratio} = \frac{₹ 200,000}{₹ 520,000} = \frac{0.38}{1}$$

$$\begin{aligned} \text{(b) Proprietary Ratio} &= \frac{\text{Shareholder's funds}}{\text{Total Assets}} \\ &= \frac{5,20,000}{11,40,000} = 0.4561 \end{aligned}$$

$$\begin{aligned} \text{Total Assets} &= \text{Eq. Sh. Capital} + \text{Prof. Sh. Cap.} + \text{Cap. Res.} + \text{P\&L Bal.} + 12\% \text{ Deb.} + \\ &\quad 10\% \text{ mortgage loan} + \text{C.L.} = 2,00,000 + 1,80,000 + 40,000 + 1,00,000 \\ &\quad + 50,000 + 1,50,000 + 4,20,000 = 11,40,000 \end{aligned}$$

$$\text{(c) Interest Coverage Ratio} = \frac{\text{Net profit before interest \& tax}}{\text{Int. on Long term Loans}}$$

$$\begin{aligned} \text{Interest on Long term Loans} &= 12\% \text{ int. on Deb. of Rs } 50,000 \\ &\quad + 10\% \text{ Int. on mortgage loan of Rs } 150,000 \end{aligned}$$

$$= \frac{(12 \times 50,000)}{100} + \frac{(10 \times 150,000)}{100}$$

$$= 6000 + 15000 = \text{Rs } 21000$$

Let net profit before tax = Rs 100

Tax = Rs 40

Net profit after tax = Rs 60

Net profit after Tax is Rs 60 when net profit before Tax = 100

Net profit after tax is Rs 50,400 Then net profit before Tax = $100 \times \frac{50,400}{60}$
Rs = 84000

Net profit before tax = Rs 84000

Net Profit before int. & tax = Rs 84000 + 21000
= Rs 10,5000

Interest Coverage Ratio = $\frac{\text{Rs } 105000}{\text{Rs } 21000} = 5 \text{ times}$

Illustration - 8

Calculate Total Assets to Debt Ratio from foll. inf. -

Capital Employed	16,20,000	Equity share capital	8,00,000
Current Liabilities	180,000	8% Debentures	3,00,000
Fixed Asset (Gross)	9,50,000		
Accumulated Depreciation	1,50,000	Surplus (i.e., balance in	20,000
Non - Current Investment	700,000	Statement of P&L - Dr.)	
Trade Receivables	2,50,000	Cash & Cash Equivalents	50,000
		Capital Reserve	2,40,000

Sol. Total Asset to debt Ratio = $\frac{\text{Total Assets}}{\text{Debt}}$

Total Assets = Non - Current Assets + Current Assets

= [Fixed asset (Gross) + [Trade Receivable
(-) Accumulated Depreciation + cash & cash eq.]
+ Non - current - Investment]

= [9,50,000 - 1,50,000 + 7,00,000] + [250,000 + 50,000]
= 15,00,000 + 3,00,000

Total assets = Rs 18,00,000

Capital Employed = Share holder's fund + long term debts

16,20,000 = 10,20,000 + long term debts

Long term debts = 16,20,000 – 10,20,000

$$= \boxed{\text{₹6,00,000}}$$

Shareholders' funds = Equity share cap. + Cap. reserve (–) surplus i.e. balance in statement of P&C

= 8,00,000 + 2,40,000 – 20,000

= ₹10,20,000

$$\text{Total Assets to Debt Ratio} = \frac{\text{₹18,00,000}}{\text{₹6,00,000}} = 3:1$$

Illustration 9 A: Calculate Net Assets turnover ratio and return on investment ratio from the following information

Equity share capital ₹35,00,000; capital Reserve ₹5,00,000; securities premium reverse ₹10,00,000; statement of profit & loss (Dr.) ₹15,00,000; 7% preference share capital ₹25,00,000; 8% Bond ₹20,00,000; 10% loan ₹10,00,000; profit after tax ₹12,00,000; tax rate 40%; cost of revenue from operations ₹1,00,00,000; Gross profit 20% on sales

Solution: Net Assets turnover Ratio = $\frac{\text{Revenue form operations}}{\text{Capital employed}}$

Revenue from operations = COGS + G.P

Gross profit 20% on sales = 25% on cost

$$\text{Gross profit} = \frac{25}{100} \times ₹1,00,00,000 = ₹25,00,000$$

$$= ₹1,25,00,000$$

Capital Employed = Eq. share cap + 7% pro. sh. Cap + Cap Reserve + (Liability side Approach) sec. pre. – statement of P&L + 8% Bond + 10% Loan

= 35,00,000 + 25,00,000 + 5,00,000 + 10,00,000 – 15,00,000 + 20,00,000 + 10,00,000

= ₹90,00,000

$$\text{Net Assets Turnover ratio} = \frac{1,25,00,000}{90,00,000} = 1.38 \text{ times}$$

$$\text{Return on Investment} = \frac{\text{Profit before tax and interest}}{\text{Capital Employed}}$$

$$\begin{aligned}\text{Profit before tax} &= \frac{\text{Profit after tax}}{1-\text{Tax rate}} \\ &= \frac{12,00,000}{1-0.40} \\ &= ₹20,00,000\end{aligned}$$

$$\begin{aligned}\text{Profit before tax and interest} &= \text{Profit before tax} + \text{Int on Bond} + \text{int on loan} \\ &= 20,00,000 + 1,60,000 + 1,00,000 \\ &= ₹22,60,000\end{aligned}$$

$$\begin{aligned}\text{ROI} &= \frac{22,60,000}{90,00,000} \times 100 \\ &= 25.11\%\end{aligned}$$

Illustration 9 B: From the following information, Calculate fixed Assets turnover ratio

Land & Building	₹4,00,000
Plant and Machinery	₹3,00,000
Furniture & Fixture	₹2,00,000
Branding	₹1,00,000
Closing inventory	₹7,50,000
Inventory turnover ratio	4 times
Gross profit	25% on sales

$$\text{Sol. Fixed Assets turnover ratio} = \frac{\text{Revenue from operations}}{\text{Net fixed Assets}}$$

$$\text{Revenue from operations} = \text{COGS} + \text{G.P.}$$

$$\text{Closing inventory} = \text{Average inventory}$$

$$\text{inventory turnover ratio} = \frac{\text{COGS}}{\text{Average inventory}}$$

$$4 = \frac{\text{COGS}}{7,50,000}$$

$$\text{COGS} = ₹30,00,000$$

Gross profit = 25% on sales = $33\frac{1}{3}\%$ or $\frac{1}{3}$ on cost

Gross profit = $\frac{1}{3} \times 30,00,000 = ₹10,00,000$

Revenue from operations = $30,00,000 + 10,00,000$
= ₹40,00,000

Net fixed assets = L& B + Plant and machinery + furniture & fixture + Branding
= $4,00,000 + 3,00,000 + 2,00,000 + 1,00,000$
= ₹10,00,000

Fixed assets turnover ratio = $\frac{40,00,000}{10,00,000} = 4$ times

Illustration 10: Calculate gross profit ratio

Cash sales 25% of revenue from operations

Average inventory ₹1,60,000; inventory turnover ratio 8 times

Average trade receivables ₹2,00,000

Trade receivables turnover ratio 6 times

Sol. Gross profit ratio = $\frac{\text{Gross profit}}{\text{Revenue from operation}} \times 100$
 $= \frac{₹3,20,000}{₹16,00,000} \times 100 = 20\%$

Cost of revenue from operations

Inventory turnover ratio = $\frac{\text{Cost of revenue from operations}}{\text{Average inventory}}$

$$8 = \frac{\text{COGS}}{₹1,60,000}$$

Cost of revenue from operations = $1,60,000 \times 8 = ₹12,80,000$

Credit revenue from operations –

Trade receivable turnover ratio = $\frac{\text{Net credit revenue from operations}}{\text{Average trade receivables}}$

$$6 = \frac{\text{Net cr. sales}}{\text{Rs } 2,00,000}$$

$$\text{Net cr. sales} = 6 \times \text{Rs } 2,00,000$$

$$= \boxed{\text{Rs } 12,00,000}$$

If Cash sales = 25% net sales

Then Credit sales = 75% of net sales

$$\text{Rs } 12,00,000 = 75\% \text{ Net sales}$$

$$\text{Net sales} = \text{Rs } \frac{12,00,000}{75\%} = \boxed{16,00,000}$$

$$\begin{aligned} \text{Gross profit} &= [\text{Revenue from operations}] - [\text{Cost of revenue from} \\ &\quad (\text{Net sales}) \qquad \qquad \qquad \text{Operations (COGS)}] \\ &= \text{Rs } 16,00,000 - \text{Rs } 12,80,000 \\ &= \text{Rs } 3,20,000 \end{aligned}$$

Illustration -11

calculate Operating ratio from the following

Operating cost	Rs 6,80,000	
Operating expenses	Rs 80,000	
Purchase of stock in trade		Rs 6,06,000
change in inventories of stock in trade		Rs(15,000)
Employes benefits Expenses		Rs 9,000
Selling & Distribution Expenses		Rs 58,000
Loss on sale of fixed Asset		Rs 12,000
Gross profit Ratio		- 25%

Administrative Expenses ₹ 22,000

$$\begin{aligned}\text{Sol. Operating Ratio} &= \frac{\text{Cost of revenue from operations} + \text{Operating Expenses}}{\text{Revenue from operation}} \times 100 \\ &= \frac{\text{Rs } 6,00,000 + \text{Rs } 80,000}{\text{Rs } 8,00,000} \times 100 = 85\%\end{aligned}$$

$$\begin{aligned}\text{Cost of revenue from Operation} &= \text{operating cost} - \text{operating expenses} \\ &= \text{Rs } 6,80,000 - \text{Rs } 80,000 \\ &= \text{Rs } 6,00,000\end{aligned}$$

$$\begin{aligned}\text{Cost of revenue from operation} &= \text{Purchase of stock in Trade} + \\ &\quad \text{Change in inventories} + \\ &\quad \text{Employee Benefit Expenses} \\ &= \text{Rs } 6,06,000 - \text{Rs } 15,000 + \text{Rs } 9,000 \\ &= \text{Rs } 6,00,000\end{aligned}$$

Operating Expenses = Given Rs 80,000

$$\begin{aligned}\text{Otherwise Operating Exp.} &= \text{Administrative Expenses} + \text{selling \& Distribution Expenses} \\ &= \text{Rs } 22,000 + \text{Rs } 58,000 \\ &= \text{Rs } 80,000\end{aligned}$$

(a) Cost of Revenue from operations -

Let Revenue from Operations be rs 100

and If Gross profit = ₹ 25

Then, Cost of revenue fom operation = Rs 75

If cost of revenue from operation is Rs 75 Revenue fom operations Rs 100

If cost of revenue from operations is Rs 6,00,000

$$\begin{aligned}\text{Then revenue from Operations} &= \text{Rs } 6,00,000 \times \frac{100}{\text{Rs } 75} \\ &= 8,00,000\end{aligned}$$

Illustration -12

Revenue from operation ₹ 8,00,000

Gross profit ratio 25%

Operating ratio 90%

Non - Operating Expenses Rs 4000

Non - Operating income Rs 44000

calculate Net profit ratio:

$$\begin{aligned}\text{Sol. Net profit ratio} &= \frac{\text{Net Profit after tax and interest}}{\text{Revenue from operations}} \times 100 \\ &= \frac{\text{Rs } 1,20,000}{\text{Rs } 8,00,000} \times 100 = 15\%\end{aligned}$$

Calculation of Net profit

$$\begin{aligned}\text{Operating profit ratio} &= 100\% - \text{Operating Ratio} \\ &= 100\% - 90\% \\ &= 10\%\end{aligned}$$

$$\text{Operating profit Ratio} = \frac{\text{Operating profit} \times 100}{\text{Revenue from Operations}}$$

$$10 = \frac{\text{operating Profit}}{8,00,000} \times 100$$

$$\text{Operating profit} = \frac{\text{Rs } 8,00,000 \times 10}{100} = 80,000$$

Net profit = Operating profit + Non operating Income - Non - Operating Expenses

$$= \text{Rs } 80,000 + \text{Rs } 44,000 - \text{Rs } 4000$$
$$\text{Rs } 1,20,000$$

Illustration 13. Cash sales ₹ 60,000; Credit sales $66\frac{2}{3}\%$ of total sales; Adjusted purchase ₹ 1,20,000; closing inventory ₹ 10,000; wages ₹ 10,000; selling and distribution exp. ₹ 10,000; office expenses ₹ 25,000; interest received ₹ 20,000; dividend received ₹ 10,000; loss on sale of machinery ₹ 5000.

Calculate net profit ratio.

$$\text{Sol. Net profit ratio} = \frac{\text{Net profit after tax}}{\text{Revenue from operation}} \times 100$$

Total revenue from operations = 100 percent

$$\text{Cash revenue from operations} = 100 - 66\frac{2}{3} = 33\frac{1}{3}\% \text{ or } \frac{1}{3} \text{ of total revenue}$$

$$\text{Cash revenue from operations} = \frac{1}{3} \text{ of total revenue from operation}$$

$$\text{Total revenue from operations} = 60,000 \times 3 = ₹ 1,80,000$$

$$\begin{aligned}\text{Gross profit} &= \text{Total revenue from operation} - \text{Adjusted purchase} - \text{Wages} \\ &= 1,80,000 - 1,20,000 - 10,000 = ₹ 50,000\end{aligned}$$

Net profit = Gross profit - office Exp. - selling and dist. exp. - loss on sale of machinery + dividend received + interest received

$$= 50,000 - 25,000 - 10,000 - 5,000 + 10,000 + 20,000 = ₹ 40,000$$

$$\text{Net profit ratio} = \frac{40,000}{1,80,000} \times 100 = 22.22\%$$

Illustration 14: Calculate operating profit ratio:

	₹
Credit Revenue from operation	3,00,000
Wages	10,000
Cash Revenue from operation	1/4 of total Revenue from operation
Adjusted purchase	2,40,000
Finance cost	8,000
Discount Received	5,000
Selling & distribution expenses	30,000
Loss on fixed assets	20,000
Carriage outward	6,000

Sol. Operating profit ratio = $\frac{\text{Operating profit}}{\text{Revenue from operation}} \times 100$

Let total revenue from operation be ₹ x

credit revenue from operation = $x - \frac{1}{4}x$

$$= \frac{3}{4}x$$

$$\frac{3}{4}x = 3,00,000$$

$$x = 3,00,000 \times \frac{4}{3} = ₹ 4,00,000$$

$$\begin{aligned} \text{Gross profit} &= \text{Revenue from operation} \\ &\quad - \text{cost of Revenue from operation} \\ &= 4,00,000 - (2,40,000 + 10,000) \\ &= ₹ 1,50,000 \end{aligned}$$

$$\begin{aligned} \text{Operating profit} &= \text{Gross profit} - \text{operating exp.} \\ &\quad + \text{operating income} \\ &= 1,50,000 - 30,000 - 6,000 + 5,000 \\ &= 1,19,000 \end{aligned}$$

$$\text{Operating profit ratio} = \frac{1,19,000}{4,00,000} \times 100 = 29.75\%$$

Illustration 15: Calculate debt to capital employed ratio from the following

information:

₹		₹	
Equity Share Capital	50,00,000	Plant & Machinery	30,00,000
6% pref. Share Capital	20,00,000	Land & Building	25,00,000
General Revenue	10,00,000	Furniture & Fixture	10,00,000
Debenture Red. Reserve	10,00,000	Non-current investment fund	10,00,000
Statements of P&L A/c (Dr.)	10,00,00	Long term Loans and Advances	10,00,000
7% Debenture (Non-convertible)	20,00,000		
Bank Loan	9,00,000	Inventory	20,00,000
Trade payable	5,00,000	Debtors	13,00,000
Creditors	4,00,000	Trade Receivables	10,00,000
Outstanding exp.	1,00,000		

Sol.

$$\begin{aligned} \text{Debt to capital employed} &= \frac{\text{Long term Debt}}{\text{Capital employed (or Net Assets)}} \\ \text{Capital employed} &= \text{Eq. Sh. Capital} + \text{Pref. Sh. Capital} \\ &\quad + \text{Gen. Res.} + \text{Deb. Red. Res} \\ &\quad - \text{Statement of P \& L} + 7\% \text{ Deb.} + \text{Bank Loan} \\ \text{or} \\ \text{Net Assets} &= \text{Total Assets (Net)} - \text{current liabilities} \\ &\quad \text{or fixed assets} + \text{working capital} \\ &= 50,00,000 + 20,00,000 + 10,00,000 \\ &\quad + 10,00,000 - 10,00,00 + 20,00,000 \\ &\quad + 9,00,000 = 1,18,00,000 \\ &= 128,00,000 - 10,00,000 = 1,18,00,000 \\ &= 30,00,000 + 25,00,000 + 10,00,000 \\ &\quad + 10,00,000 + 10,00,000 + 20,00,000 \\ &\quad + 13,00,000 + 10,00,000 - 5,00,000 \\ &\quad - 4,00,000 - 1,00,000 \\ &= 85,00,000 + 33,00,000 (43,00,000 - 10,00,000) \\ &= 1,18,00,000 \\ \text{Long term Debt} &= 7\% \text{ Debenture} + \text{Bank Loan} \\ &= 20,00,000 + 9,00,000 = 29,00,000 \\ \text{Debt to capital employed} &= \frac{29,00,000}{1,18,00,000} = 0.24 : 1 \end{aligned}$$

Illustration 16: Calculate net assets turnover ratio from the following information

credit revenue from operation ₹ 40,00,000

Cash revenue from operation – 50% of credit revenue from operation

Revenue from operation (return) ₹ 2,00,000

Share Capital	₹ 15,00,000	Property, plant, equipment and Intangible Assets	₹
General Reserve	₹ 5,00,000	(a) Tangible	15,00,000
Statement of P& L	₹ 5,00,000	(b) Intangible	5,00,000
Loan from SBI	₹ 5,00,000	Non-current Invest.	10,00,000
8% Debenture	₹ 5,00,000	Inventory	4,00,000
Trade payable	₹ 4,00,000	Debtors	4,00,000
Outstanding exp.	₹ 1,00,000	Trade Receivables	2,00,000

Sol

$$\text{Net Assets turnover ratio} = \frac{\text{Net Revenue from operation}}{\text{Capital employed (or Net Asset)}}$$

$$\text{Credit revenue from operations} = ₹ 40,00,000$$

$$\begin{aligned}\text{Cash revenue from operations} &= \frac{50}{100} \times 40,00,000 \\ &= ₹ 20,00,000\end{aligned}$$

$$\begin{aligned}\text{Revenue from operations} &= 40,00,000 + 20,00,000 - 2,00,000 \\ &= ₹ 58,00,000\end{aligned}$$

$$\begin{aligned}\text{Capital employed} &= \text{Sh. Capital} + \text{G/R} + \text{St. of P\& L A/c} \\ &\quad + \text{Loan} + \text{Deb.}\end{aligned}$$

or

Property, plant, equipment and intangible assets + working capital

$$\text{Net Assets} = \text{Total Assets (Net)} - \text{Current Liabilities}$$

$$= 15,00,000 + 5,00,000 + 5,00,000$$

$$+ 5,00,000 + 5,00,000$$

$$= 35,00,000 ₹$$

$$= 15,00,000 + 5,00,000 + 10,00,000$$

$$+ 4,00,000 + 4,00,000 + 2,00,000$$

$$- 4,00,000 - 1,00,000$$

$$= ₹ 35,00,000$$

$$\text{Net Assets turnover ratio} = \frac{58,00,000}{35,00,000} = 1.65 \text{ times}$$

Practice Questions

Q.1 Tick (3) the appropriate answer.

- The ____ may indicate that the resources of the business are being effectively managed.
 - profitability ratio
 - Turn over ratio
 - solvency ratio
 - liquidity ratio
- What will be the operating profit ratio, if operating ratio is 85.38%
 - 13.62%
 - 14.62%
 - 15.28%
 - 16.62%
- The area of interest for a long term lender while analysing financial position of a business will be
 - Liquidity ratio
 - profitability ratio
 - solvency ratio
 - turnover ratio
- If opening inventory ₹ 38,500; closing inventory ₹ 41,500; revenue from operation ₹ 2,40,000; gross profit 20% on cost, inventory turn over ratio will be
 - 3 times
 - 4 times
 - 5 times
 - 6 times
- If revenue from operation is ₹ 1,80,000 and gross profit ratio is 45%. If there is decrease in interest on investment. Then net profit ratio will
 - improve
 - decline
 - no change
 - None of these
- Liquid ratio of a company 1.6 : 1. Which of the following will result in decrease of this ratio
 - Bill Receivable drawn on Debtors
 - Purchase of goods on credit
 - Sale of goods for cash
 - Bill payable accepted for one month
- Net profit after tax and interest ₹ 1,00,000; current assets ₹ 4,00,000 current liability. ₹ 2,00,000; Tax rate @ 50%; Total assets ₹ 10,00,000 and 10% debenture ₹ 4,00,000. Calculate return on investment.
 - 25%
 - 30%
 - 35%
 - 40%

8. This may indicate that the firm is experiencing stock out and cost sales.
- Average payment period
 - inventory turnover ratio
 - average collection period
 - quick ratio
9. Proprietary ratio of a company will be:
Equity Share Capital ₹3,00,000; Debenture ₹1,00,000; Trade payable ₹10,000; Creditors ₹20,000; Statement of Profit & Loss (Dr.) ₹30,000; Bank Loan ₹1,40,000
- 75%
 - 50%
 - 70%
 - 82%
10. If share capital ₹5,00,000; Reserve and surplus ₹1,00,000 long-term borrowing ₹8,00,000; long term provision ₹2,00,000 non-trade investment ₹1,50,000 compute capital employed
- ₹15,00,000
 - ₹14,00,000
 - ₹16,00,000
 - ₹14,50,000
11. (a) Match the following
- | | |
|------------------------------------|-------------------------|
| (i) Debt to capital employed ratio | (a) Activity ratio |
| (ii) Current ratio | (b) Profitability ratio |
| (iii) operating ratio | (c) Solvency ratio |
| (iv) fixed assets turnover ratio | (d) liquidity ratio |
- (b) Opening inventory ₹3,00,000. Closing inventory ₹2,00,000; Purchase ₹9,00,000 carriage inward ₹2,00,000 gross profit 20% on sales; selling and distribution exp. ₹50,000. On the basis of above information match the following:
- | | |
|------------------------------|---------------|
| (i) inventory turnover ratio | (a) 20% |
| (ii) gross profit ratio | (b) 4.8 times |
| (iii) operating ratio | (c) 83% |
12. (a) Statement I: If debt-equity ratio exceeds 2:1, it implies risky financial position.
Statement II: Debt equity ratio determines capital structure of a company.

- (b) Statement I: Return on investment ratio increases for purchase of machinery by issue of equity shares.
Statement II: Redemption of debenture reduces return on investment ratio.
- (a) Both statements are correct
(b) Both statements are incorrect
(c) Statement I is correct and statement II is incorrect
(d) Statement I is incorrect and statement II is correct
13. Net profit after interest and tax ₹ 1,00,000; current assets ₹ 4,00,000 current liabilities ₹ 2,00,000; Tax rate @ 20%; fixed assets ₹ 6,00,000; 10% long term debt ₹ 4,00,000.
Calculate return on investment.
[Hint- Capital employed = Fixed Assets + Current Assets
– Current Liabilities]
NPBT = NPAT & Int/1 – tax rate
14. Equity share capital 12,00,000
General Reserve 5,00,000
Debenture Redemption Reserve 1,00,000
Surplus i.e. Balance in statement of P&L A/c (Dr.) 2,00,000
Proprietary ratio 0.2 : 1
Calculate total Assets
15. Calculate current ratio -
Working capital - ₹ 150,000
Total Liabilities other than shareholder's funds - Rs 3,85,000
Long term debt - ₹ 2,85,00
16. Working capital ₹ 36000
Current ratio 2.8: 1
Inventory Rs 16000
Calculate current Assets, current Liabilities & Quick ratio
(Hint = WC = CA-CL
Quick Assets = Current Asset - Inventory)

17. Calculate working capital turnover ratio from the following information

Revenue from operations	₹ 1200,000
Current Assets	₹ 500,000
Total Assets	₹ 10,00,000
Non - current Liabilities	₹ 4,00,000
Shareholder's funds	₹ 4,00,000

(Hint - Current Assets = Total Assets - Non-CL - Shareholder's fund)

18. Calculate Trade payables Turnover ratio -

op, sundry Creditors	₹ 80,000	Closing sundry creditors	₹ 90,000
op, Bill Payable	₹ 10,000	CL Bill payable	₹ 20,000
purchase	₹ 10,00,000	cash purchase	₹ 3,28,000
purchase returns	₹ 72,000		

Hint - Net cr. purchase = purchase - PR - cash purchase

19. Calculate inventory turnover ratio from the foll inf-

Net sales	₹ 40,000
Average inventory	₹ 5500
Gross loss on sales is 10%	

(Hint: Cost of revenue from operation = Net sales + Gross loss)

20. Calculate gross profit ratio

	₹
Cash revenue from operation	3,00,000
Purchase : Cash	2,00,000
Credit	4,00,000
Carriage inwards	6,000
Salaries	80,000
Decrease in inventory	80,000
Return outwards	20,000
Wages	50,000

Ratio of cash revenue from operation to credit revenue from operation 1 : 5.

(Hint : COGs = Purchase + Decrease in inventory + direct expenses)

21. Operating ratio is 70% state giving reason, which of the following transaction will (a) increase (b) decrease (c) no change
- Revenue from operation return (sales return) ₹ 10,000
 - Goods costing ₹ 5000 withdrawn for personal use
 - Loss on sale of building ₹ 10,000
 - Purchase return ₹ 5,000
 - Selling and distribution exp. 10,000
22. Calculate trade receivable turnover ratio & average collection period from the following particulars as on 31st March 2022, assuming 365 working days in a year:

	₹
Total Revenue from operation	10,00,000
Revenue from operation (return)	10,000
Discount Allowed	825
Provision for Bad Debt	1630
Debtors on 31.3.21	65,000
Debtors on 31.3.22	75,000
Bills Receivables 31.3.21	45,000
Bills Receivables 31.3.22	65,000

23. Calculate proprietary ratio from the following, Long terms Debt ₹ 32,00,000 Working Capital ₹ 4,00,000 Current Assets ₹ 20,00,000 shareholder's fund 18,00,000 Reserves & surplus ₹ 2,00,000
(Hint - Total Assets = shareholder's funds + Long term Debt + Current Liab.)

24. Calculate Total Asset to Debt Ratio -
- | | |
|---------------------------|-----------|
| Fixed Aset (Gross) | 10,00,000 |
| Accumulated Depreciation | 500,000 |
| Non - current investment | 1,50,000 |
| Long term loans & Advance | 1,00,000 |
| Current Assets | 4,50,000 |
| Total Debt | 75,000 |
| Sundry Creditors | 25,000 |
| Expenses Payable | 25,000 |
| Bill payable | 25,000 |
| Short term bank loan | 50,000 |

25. A company has loan of ₹ 20,00,000 as part of its capital Employed. The interest payable on loan is 15% & the Rol of the company is 25% The rate of income Tax is 40%. What is the gain to the shareholders due to the loan raised by the company?

(Net Gain = Net profit before int. & Tax - Interest - Tax)

26. Calculate (a) Gross profit ratio (b) Net profit ratio (c) Current ratio (d) Inventory turn over ratio (e) operating ratio

		₹	
Revenue from operation	28,25,000	Cost of revenue from operation	19,20,000
Operating expenses	2,50,000	Net worth	15,00,000
Current liabilities	7,00,000	Fixed assets	16,00,000
Average inventory	8,00,000	long term borrowing	9,00,000

27. Net profit after interest and tax ₹ 1,00,000; Current assets ₹ 4,00,000
Current liabilities ₹ 2,00,000; Tax rate @ 20%; fixed assets ₹ 6,00,000;
10% long term debt ₹ 4,00,000

Calculate return on investment.

Hint- Capital employed = Fixed assets + Current assets - Current liabilities

Net profit before tax = $\frac{\text{Net profit after tax and interest}}{1 - \text{Tax rate}}$

Assertion and Reason

Directions: In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (B) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (C) Assertion (A) is true, but Reason (R) is false
- (D) Assertion (A) is false, but Reason (R) is true

1. **Assertion (A):** The standard ratio of liquid ratios is 1 : 1.
Reason (R): A company should have sufficient liquid assets to meet its current liabilities.
2. **Assertion (A):** A low total assets to debt ratio indicates risky financial position.
Reason (R): A low total assets to debt ratio implies the use of higher debts in financing the assets of the business.
3. **Assertion (A):** Proprietary ratio measures the long-term solvency of the business.
Reason (R): Higher proprietary ratio implies financial stability of the business.
4. **Assertion (A):** If operation ratio is 80% sale of goods of ₹1,00,000 on credit will not change the ratio.
Reason (R): Sale of goods on credit will not affect operating cost.
5. **Assertion (A):** Increasing the value of closing inventory decrease profit.
Reason (R): Increasing the value of closing inventory reduces cost of revenue from operation.

Cash Based MCQ

Read the following information & answer the following questions. Inventory ₹ 2,00,000; Debtors ₹ 3,00,000; Prepaid expenses ₹ 1,00,000; Cash ₹ 2,00,000; Bank ₹ 1,00,000; Revenue from operation (Net) ₹ 24,00,000; Trade payable ₹ 2,00,000; Bills payable ₹ 1,00,000.

1. **What is the current ratio?**

(a) 2 : 1	(b) 2.5 : 1
(c) 3 : 1	(d) 4 : 1
2. **What is liquid ratio?**

(a) 2 : 1	(b) 3 : 1
(c) 1 : 1	(d) 2.5 : 1
3. **What is working capital?**

(a) ₹ 5,00,000	(b) ₹ 7,00,000
(c) ₹ 8,00,000	(d) ₹ 6,00,000
4. **What is working capital turnover ratio?**

(a) 2 times	(b) 3 times
(c) 4 times	(d) 5 times

Read the hypothetical data of swaraj ltd and answer the following questions:

Revenue from operation ₹14,00,000; operating expenses 50,000; cost of revenue from operations ₹8,00,000; inventory turnover ratio 8 times; current assets ₹25,00,000; current liabilities ₹1,00,000; shareholder's funds ₹5,00,000; securities premium ₹50,000; total debt ₹3,00,000

1. What is quick ration?

- (a) 2.5 : 1 (b) 1 : 1
(c) 1.5 : 1 (d) 2 : 1

2. What is debt equity ratio?

- (a) 0.5 : 1 (b) 0.4 : 1
(c) 0.6 : 1 (d) 2 : 1

3. What is average inventory?

- (a) ₹ 2,00,000 (b) ₹ 3,00,000
(c) ₹ 4,00,000 (d) ₹ 1,00,000

4. What is operating ratio?

- (a) 93.33% (b) 95.33%
(c) 94.33% (d) 96%

POINT TO REMEMBER

Calculation of Gross profit-

Gross profit on cost = Gross profit on sales

- 20% on cost or $\frac{1}{5}$ on cost = 16.66% on sales or $\frac{1}{6}$ on sales
- 25% on cost of $\frac{1}{4}$ on cost = 20% on sales or $\frac{1}{5}$ on sales
- $33\frac{1}{3}\%$ on cost of $\frac{1}{3}$ on cost = 25% on sales or $\frac{1}{4}$ on sales
- 50% on cost of $\frac{1}{2}$ on cost = $33\frac{1}{3}\%$ on sales or $\frac{1}{3}$ on sales

Note: When we go from cost to sales, add numerator to denominator.

Ex. $\frac{1}{5}$ on cost or 20% = $\frac{1}{1+5} = \frac{1}{6}$ on sales or 16.66%

Similarly when we go from sales to cost, subtract numerator from denominator.

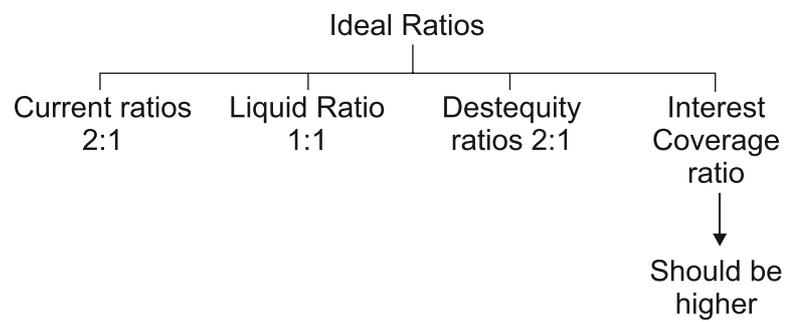
Ex. $\frac{1}{4}$ on sales or 25% = $\frac{1}{4-1} = \frac{1}{3}$ or $33\frac{1}{3}$ on cost

Note: While calculating ROI, profit after interest and tax is given and tax rate is given then

$$\text{Profit before tax} = \frac{\text{Profit after interest and tax}}{100 - \text{tax rate}\%}$$

Ex. If tax rate is 40%, then $\frac{\text{PAT}}{100 - 40} = \frac{\text{PAT}}{60\%}$

Note-:



CHAPTER-3

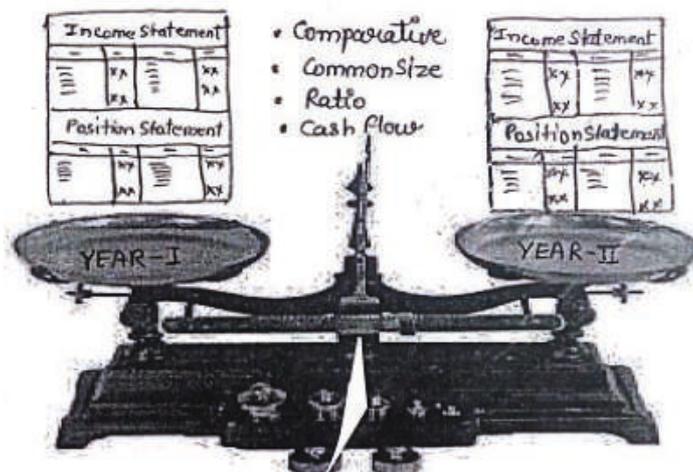
TOOLS FOR FINANCIAL STATEMENT ANALYSIS

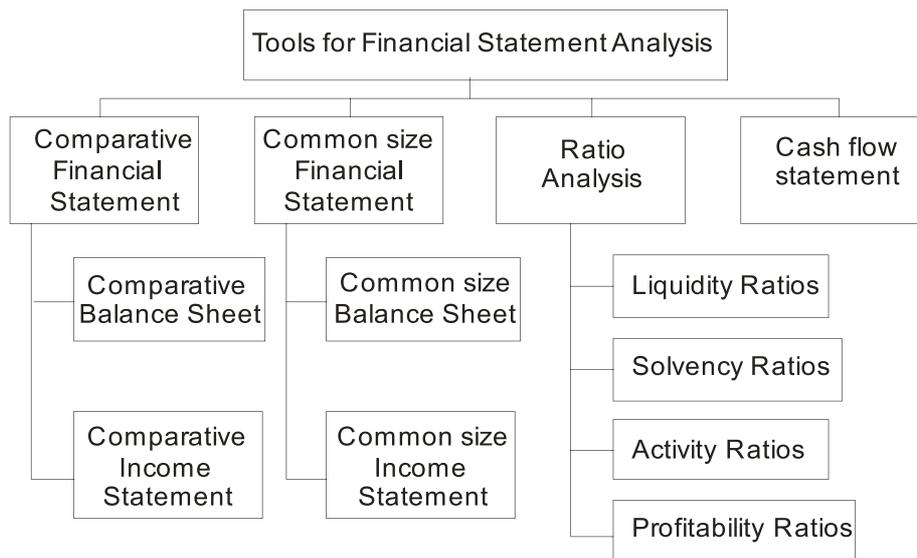
Points to remember :

1. In comparative statement deviation for current year to previous year is always divided by previous year amount.
2. In common size statement of Profit & Loss take revenue from operation as common base not the total revenue.
3. In common size Balance Sheet take Balance Sheet total amount either total assets or total liabilities as common base.

The various tools used for analysis of financial statements are:

- **Comparative Statement: Financial Statements of two years are compared** and changes in absolute terms and in percentage terms are calculated. It is a form of Horizontal Analysis.
- **Common Size Statement: Figures of Financial Statements are converted** in to percentage with respect to some common base.
- **Ratio Analysis:** It is a technique of study of relationship between various items in the Financial Statements.
- **Cash Flow Statement:** It is a statement that shows the inflow and outflow of cash and cash equivalents during a particular period which helps in finding out the causes of changes in cash position between the two balance sheet dates.





Comparative Financial Statements

It is a tool for financial Analysis that shows changes in each item of the financial statement in absolute amount and in percentage, taking the amounts of the preceding accounting period as the base.

Types of Comparative Statement:

1. Comparative Balance Sheet; and
 2. Comparative Statement of Profit and Loss.
1. **Comparative Balance Sheet:** It shows the increases and decreases in various items of assets, equity and liabilities in absolute term and in percentage term by taking the corresponding figures in the previous year's balance sheet as a base.

Format for a Comparative Balance Sheet as per CBSE Circular No. 43 dated 2, July 2013

Comparative Balance Sheet ofLtd.

As at 31st March 2018-2019

Particulars	2018 ₹	2019 ₹	Absolute Change ₹	Percentage Change ₹
Shareholders' funds :-				
Share Capital				
Reserve and Surplus				
Non-Current Liabilities				
Long term Borrowings				
Other long term liabilities				
Long term provisions				
Current liabilities				
Short term Borrowings				
Trade payables				
Other current liabilities	Total			
Short term provision				
ASSETS:				
Non-current Assets				
Property, plant and equipment and intangible assets				
Non-current investments				
Long term Loans and Advances				
Current Assets				
Current investments				
Inventories				
Trade receivables				
Cash and cash equivalents				
Short term loans and advances				
Other current assets	Total			

Absolute change = Current year figure – Previous year figure

$$\% \text{ change} = \frac{\text{Related absolute change}}{\text{Related figures of Previous year}} \times 100$$

Illustration 1: from the following balance sheet of XYZ its as at 31st March 2023 and 2022. Prepare a comparative Balance sheet

Particulars	Note No.	31-3-2023	31-3-2022
I. Equity & Liabilities:			
Shareholder's funds			
(a) Share Capital		20,00,000	10,00,000
(b) Reserves & Surplus		4,00,000	6,00,000
Non-current Liabilities		16,00,000	10,00,000
Long term borrowings			
Current liabilities		8,00,000	4,00,000
Trade payables			
Total		48,00,000	30,00,000
II. Assets:			
Non-current Assets			
Property, plant and equipment & intangible assets			
i. Property, plant & equipment			16,00,000
ii. Intangible Assets		28,00,000	4,00,000
		6,00,000	
Current Assets			
(a) Inventories		10,00,000	8,00,000
(b) Cash & Cash equivalents		4,00,000	2,00,000
Total		48,00,000	30,00,000

Solution:

Comparative Balance Sheet of XYZ Ltd.

As at 31st March 2022 & 2023

Particulars	Note No.	31-3-2022	31-3-2023	Absolute change OR	% Change OR
		I	II	II - I = III	$\frac{III}{I} \times 100$
Equity & Liabilities:					
(1) Shareholder's funds					
(a) Share Capital		10,00,000	20,00,000	10,00,000	100%
(b) Reserves & Surplus		6,00,000	4,00,000	(2,00,000)	(33.33%)
(2) Non-current Liabilities					
Long term borrowings		10,00,000	16,00,000	6,00,000	60%
(3) Current liabilities					
Trade payables		4,00,000	8,00,000	4,00,000	100%
Total		30,00,000	48,00,000	18,00,000	60%

Assets:					
(1) Non-current Assets					
Property, plant and equipment & intangible assets	16,00,000	28,00,000	12,00,000		75%
(i) Tangible Assets	4,00,000	6,00,000	2,00,000		50%
(ii) Intangible Assets					
(2) Current Assets	8,00,000	10,00,000	2,00,000		25%
(a) Inventories	2,00,000	4,00,000	2,00,000		100%
(b) Cash & Cash equivalents	30,00,000	48,00,000	18,00,000		60%
Total					

Steps for Capital Calculations:

1. Absolute amount of share capital for 31-3-2022 = 10,00,000

& for 31-3-2023 = 20,00,000

Absolute change in share capital = current year figure - Previous year figure

$$= 20,00,000 - 10,00,000 = ₹10,00,000$$

$$\% \text{ change} = \frac{\text{absolute change}}{\text{Previous year figure}} \times 100$$

$$= \frac{10,00,000}{10,00,000} \times 100 = 100\%$$

2. For Reserves & Surplus = $\frac{2,00,000}{6,00,000} \times 100 = 33.33\%$

Here absolute change is in negative figure

% change will also be in bracket indicating -ve%

3. So on _____

COMPARATIVE STATEMENT OF PROFIT AND LOSS/COMPARATIVE INCOME STATEMENT

Comparative Income Statement: It shows the increases and decreases in various items of income Statement in absolute amount and in percentage amount by taking the corresponding figures in the previous year's Income Statement as a base.

Format for a Comparative statement of Profit & Loss as per CBSE Cr. No.43 dated 2 July 2013

Comparative Statement of Profit and Loss

For the year ended on 31 March, 2022 and 2023

Particulars	2022 ₹	2023 ₹	Absolute Change ₹	Percentage Change %
I. Revenue from Operations				
II. Add: Other Income				
III. Total Revenue I + II				
IV. Expenses:				
a. Cost of Material Consumed				
b. Purchases of Stock-in-Trade				
c. Changes in inventories of Finished Goods, work-in-progress and Stock-in-Trade				
d. Employees benefit expenses				
e. Finance costs				
f. Depreciation				
g. Other expenses				
Total Expenses				
V. Profit before tax (III-IV)				
Less: Income Tax				
VI. Profit after tax				

Importance of Comparative Financial Statement

- To make the data simple and more understandable
- To indicate the trend with respect to the previous year.
- To compare the firm's performance with the performance of other firm in the same business.

Illustration 2. From the following information of 'Anjali' Ltd. Prepare comparative statement of profit & loss

Particulars	Note No.	31st March 2023 (₹)	31st March 2022 (₹)
Revenue from operation		20,00,000	16,00,000
Employee Benefit Expenses		10,00,000	8,00,000
Depreciation & Amortisation		25,000	20,000
Expenses other expenses		75,000	1,80,000

Income Tax @ 30%

Solution.

Comparative statement of Profit and Loss For the year ended 31st March, 2022 and 2023

Particulats	Note No.	31-3-2023 (₹)	31-3-2023 (₹)	Absolute change (₹) ↑ Or ↓	% change (%) ↑ Or ↓
		I	II	III-II-I	IV = $\frac{III}{I} \times 100$
A. Revenue from operations		16,00,000	20,00,000	4,00,000	25%
B. Expenses					
(i) Employee Benefit Expenses		8,00,000	10,00,000	2,00,000	25%
(ii) Depreciation & Amortisation Expenses		20,000	25,000	5,000	25%
(iii) Other Expenses		1,80,000	75,000	(1,05,000)	58.33%
Total Expenses		10,00,000	11,00,000	1,00,000	10%
C. Profit before tax (A - B)		6,00,000	9,00,000	3,00,000	50%
D. Less: Tax@30%		1,80,000	2,70,000	90,000	50%
E. Profit after Tax (C - D)		4,20,000	6,30,000	2,10,000	50%

Common Size Financial Statement 100% statements

Common Size Financial Statements are the statements in which amounts of the various items of financial statements are converted into percentages to a common base.

Types of Common Size Statements:

1. Common Size Balance Sheet; and
2. Common Size Statement of Profit and Loss.

Common Size Balance Sheet: It is a statement in which every item of assets, equity and liabilities is expressed as a percentage to the total of all assets or to the total of Equity and Liabilities.

Total Assets or Total Equity & Liabilities are taken as Common base

Format for a Common Size Balance Sheet:

As per CBSE Cr. No. 43 dated 2 July 2013

Common Size Balance Sheet of.....Ltd.

As at 31st March 2022 and 2023

Particulars	Absolute Amounts		Percentage of Balance Sheet Total	
	2022 ₹	2023 ₹	2022 %	2023 %
EQUITY AND LIABILITIES:				
Shareholder's Funds				
Share Capital				
Reserve and Surplus				
Non-Current Liabilities				
Long term Borrowings				
Other long term liabilities				
Long term provisions				
Current liabilities				
Short term Borrowings				
Trade pay ables				
Other current liabilities				
Short term provision				
Total			100	100
ASSETS:				
Non-current Assets				
Property, plant and equipment & Intangible Auids				
Non-current investments				
Long term Loan & Advances Current Assets				
Current investments				
Inventories				
Trade receivables				
Cash and cash equivalents				
Short term Loan and advances				
Other current assets				
Total			100	100

Common Size Income Statement or Statement of Profit & Loss: It is a statement in which every item of Statement of Profit and Loss is expressed as a percentage to the amount of Revenue from Operations.

Sales (Revenue from operations) is taken as base

Format for a Common Size Statement of Profit and Loss

As per CBSE Cr. No. 43 dated 2 July 2013

Common Size Statement of Profit and Loss For the years ended on 31st March, 2022 and 2023

Particulars	Absolute Amounts		Percentage of Revenue from operation (Net Sales)	
	2022 (₹)	2023 (₹)	2022 %	2023 %
I. Revenue from operations			100	100
II. Add: Other Income				
III. Total Revenue (I+II)				
IV. Expenses:				
a. Cost of Material Consumed				
b. Purchases of Stock in Trade				
c. Changes in inventories of Finished Goods, work in progress and Stock-in-Trade				
d. Employees benefit expenses				
e. Finance costs				
f. Depreciation				
g. Other expenses				
Total Expenses				
V. Profit before tax (III-IV)				
Less: Income Tax				
VI. Profit after tax				

Illustration 3: Prepare a 'Common Size Balance Sheet' on the basis of the information given in the Balance Sheet of Z Ltd. as at 31st March 2023.

Particulars	Note No.	31-3-16
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital		6,00,000
(b) Reserve and Surplus		1,00,000
2. Non-Current Liabilities		
(a) Long term borrowings		2,50,000
3. Current Liabilities		
(a) Trade Payable		50,000
Total		10,00,000
II. ASSETS		
1. Non-Current Assets		
(a) Property, Plant and Equipment and intangible Assets		
(i) Property, Plant and Equipment		6,50,000
(b) Non-Current Investments		1,50,000
2. Current Assets		
(a) Inventories		70,000
(b) Trade Receivables		50,000
(c) Cash and cash equivalents		80,000
Total		10,00,000

Solution:**Common Size Balance Sheet of Z Ltd.**As at 31st March, 2016

Particulars	Note No.	Absolute Amount (₹)	Percentage of Balance Sheet Total
EQUITY AND LIABILITIES:			
1. Shareholders' Funds			
(a) Share Capital		6,00,000	60%
(b) Reserve and Surplus		1,00,000	10%
2. Non-Current Liabilities			
(a) Long term Borrowings		2,50,000	25%
3. Current liabilities			
(a) Trade payable		50,000	5%
Total		10,00,000	100%
ASSETS:			
1. Non-current Assets			
(a) Fixed Assets			
i. Tangible Assets		6,50,000	65%
(b) Non-current investments		1,50,000	15%
2. Current Assets			
(a) Inventories		70,000	7%
(b) Trade receivables		50,000	5%
(c) Cash and cash equivalents		80,000	8%
Total		10,00,000	100%

Step for calculation:

1. Absolute Amount of share capital = ₹ 6,00,000% of Balance Sheet Total =

$$\frac{6,00,000}{10,00,000} \times 100 = 60\%$$

2. For Reserves & Surplus $\frac{1,00,000}{10,00,000} \times 100 = 10\%$

3. Similarly, for tangible Assets $\frac{6,50,000}{10,00,000} \times 100 = 65\%$
& so on.....

Illustration 4. From the following information for the years ended on 31 March 2022 and 2023, prepare a 'Comparative Statement of Profit & Loss' for Beta Ltd.

Particulars	Note No.	2022-2023	2021-2022
Revenue from operations		7,00,000	5,00,000
Expenses		4,50,000	3,75,000
Others Incomes		75,000	1,00,000

Rate of Income Tax was 50%

Solution:

Comparative Statement of Profit and Loss of Beta Ltd for the years ended 31st March, 2015 and 2016

Particulars	Note No.	2021-22	2022-23	Absolute change	Change in %
Revenue from operations		5,00,000	7,00,000	2,00,000	40%
Add: Other Income		1,00,000	75,000	(25,000)	(25%)
Total Revenue		6,00,000	7,75,000	1,75,000	29.17%
Less: Expenses		3,75,000	4,50,000	75,000	20%
Profit before tax		2,25,000	3,25,000	1,00,000	44.44%
Less: tax@ 50%		1,12,500	1,62,500	50,000	44.44%
Profit after tax		1,12,500	1,62,500	50,000	44.44%

Illustration 5. Prepare a comparative income statement and common size statement of profit and loss from the following information.

Particulars	31 st March, 2022	31 st March, 2023
Revenue from operation (% of cost of material consumed)	125%	140%
Cost of material consumed	2,40,000	2,50,000
Other expenses (% of revenue from operation)	10%	12%
Other income	15,000	20,000
Tax rate	30%	30%

Solution: Common Size statement of Profit and Loss of for the years ended on 31st March 2015 and 2016

Particulars	Amounts		Percentage of Revenue from operation (Net Sales)	
	31 st March 2022(₹)	31 st March 2023(₹)	31 st March 2022 %	31 st March 2023 %
I. Revenue from operations	3,00,000	3,50,000	100.00	100.00
II. Add: Other Income	15,000	20,000	5.00	5.71
III. Total Revenue (I+II)	3,15,000	3,70,000	105.00	105.71
IV. Expenses:				
a) Cost of Material Consumed	2,40,000	2,50,000	80.00	71.43
b) Other expenses	30,000	42,000	10.00	12.00
Total Expenses	2,70,000	2,92,000	90.00	83.43
V. Profit before tax (III-IV)	45,000	78,000	15.00	22.28
Less: Income Tax	(13,500)	(23,400)	(4.50)	(6.69)
VI. Profit after tax	31,500	54,600	10.50	15.6

COMPARATIVE INCOME STATEMENT

For the years ended on 31st March 2015 and 2016

Particulars	Absolute	Amount	Absolute Change	Percentage Change
	31 st March 2022(₹)	31 st March 2023(₹)	(₹)	%
I. Revenue from operations	3,00,000	3,50,000	50,000	16.67
II. Add: Other Income	15,000	20,000	5,000	33.33
III. Total Revenue (I+II)	3,15,000	3,70,000	55,000	17.46
IV. Expenses:				
a. Cost of Material Consumed	2,40,000	2,50,000	10,000	4.16
b. Other expenses	30,000	42,000	12,000	40.00
Total Expenses	2,70,000	2,92,000	22,000	8.15
V. Profit before tax (III-IV)	45,000	78,000	33,000	73.33
Less: Income Tax	(13,500)	(23,400)	(9,900)	(73.33)
VI. Profit after tax	31,500	54,600	23,100	73.33

Illustration6: Fill in the missing information in the following comparative statement of profit and loss.

Comparative Statement of Profit and Loss for the year ended 31st March 2014 and 2023.

Particulars	Note No.	2021-22 (₹)	2022-23 (₹)	Absolute Change (₹)	Percentage Change %
I. Revenue from operations		-----	-----	-----	-----
II. Add: Other Income		25,000	-----	65,000	-----
III. Total Revenue (I+II)		-----	-----	-----	-----
IV. Expenses:					
a. Cost of Material Consumed		-----	6,00,000	2,00,000	-----
b. Other expenses		---	-----	-----	60%
Total Expenses		25,000	-----	-----	-----
V. Profit before tax (III-IV)		-----	-----	-----	-----
Less: IncomeTax @ 30%		-----	-----	-----	-----
VI. Profit after tax		60,000	75,000	-----	-----
		-----	-----	-----	-----

Solution

Comparative Statement of Profit and Loss

For the year ended 31st March 2022 and 2023

Particulars	Note No.	2021-22 (₹)	2022-23 (₹)	Absolute Change (₹)	Percentage Change %
I. Revenue from operations		6,00,000	8,00,000	2,00,000	33.33%
II. Add: Other Income		25,000	90,000	65,000	260%
III. Total Revenue I+II		6,25,000	8,90,000	2,65,000	42.4%
IV. Expenses:					
a. Cost of Material Consumed		4,00,000	6,00,000	2,00,000	50%
b. Other expenses		25,000	40,000	15,000	60%
Total Expenses		4,25,000	6,40,000	2,15,000	50.59%
c. Profit before tax (III-IV)		2,00,000	2,50,000	50,000	25%
Less: IncomeTax @ 30%		60,000	75,000	15,000	25%
d. Profit after tax		1,40,000	1,75,000	35,000	25%

Illustration7: From the following statement of profit and loss of the Sakshi Ltd. for the year ended 31st March. 2023, Prepare comparative statement of Profit & Loss.

Statement of Profit & Loss
For the year Indeed 31st March 2023

Particulars	31st March, 2021-22	31st March, 2022-23
Revenue from operation	50,00,000	80,00,000
Expenses:		
a. Employee benefit expenses were 5% of Revenue form operation		13,60,000
b. Other Expenses Rate of Tax @35%	11,80,000	

Solution:

Comparative Statement of Profit and Loss
For the year ended 31st March 2022 and 2023

Particulars	2021-22	2022-23	Absolute Change (₹)	Percentage Change (₹)
(i) Revenue from operation	50,00,000	80,00,000	30,00,000	60
Expenses:				
(a) Employee benefits Exp.	2,50,000	4,00,000	1,50,000	60
(b) Other expenses	11,80,000	13,60,000	1,80,000	15.25
(ii) Total Expenses:	14,30,000	17,60,000	3,30,000	23.08
(iii) Profit before tax (I-II)	35,70,000	62,40,000	26,70,000	74.79
(iv) Less: Taxes@ 35%	12,49,500	21,84,000	9,34,500	74.79
(v) Profit after tax (III-IV)	23,20,500	40,56,000	17,35,500	74.79

Things to Remember

- Why do we use tools for financial Analysis?
Financial statements are not ready to use/understand to the users. Therefore, we required tools to analyse them to be easily understandable by all the users.
- What are the toos for financial Analysis?
Comparative financial statements, common size financial statement Ratio Analysis, cash flow statement
- List any two purposes of comparative statements?

1. To make the information simple & easily understandable.

2. To show the trend of changes.

1. Prepare a comparative statement of profit & loss from the following information

Particulars	31-3-23	31-3-22
Revenue from operation	200% of Raw material consumed	175% of Raw material consumed
Cost of raw material consumed other expenses	₹10,00,000	₹6,00,000
Rate of income Tax @ 50%	5% of revenue form operations	5% of revenue from operations

2. Form the following balance sheets of X Ltd. prepare a common size balance sheet

Particulars	Note No.	31-3-23	31-3-22
I. Equity And Liabilities			
(1) Shareholder's funds		16,00,000	8,00,000
(2) Non-current liabilities		10,00,000	4,00,000
(3) Current liabilities		6,00,000	4,00,000
Total		32,00,000	16,00,000
II. Assets			
(1) Non Current Assets property plant and equipment			
(i) Property, plant & equipment		12,00,000	6,00,000
(ii) Intangible Assets		4,00,000	2,00,000
Non-current investment		4,00,000	2,00,000
(2) current assets		12,00,000	6,00,000
Total		32,00,000	16,00,000

MCQs

3. A company's current assets increased from ₹5,00,000 to ₹8,00,000. What is the percentage of change?
(A) 40% (B) 50%
(C) 60% (D) 70%
4. Interest on Bond (Cr.) is
(A) Indirect income (B) Direct expenses
(C) Office expenses (D) Operating expenses
5. Profit after tax ₹3,00,000 & tax rate @ 40%; then profit before tax is
(A) ₹6,00,000 (B) ₹5,00,000
(C) ₹5,50,000 (D) ₹4,50,000
6. In which type of statement revenue from operations is taken as base?
(A) Profits & loss comparative statement
(B) Balance sheet comparative statement
(C) Profit & loss common-size statement
(D) Balance sheet common size statement
7. Revenue from operations ₹10,00,000; cost of material consumed 70% of Revenue from operation; other expenses 30% of cost of material consumed other expenses will be:
(A) ₹1,80,000 (B) ₹2,00,000
(C) ₹2,10,000 (D) ₹2,05,000
8. In comparative statements change in different items is presented in the form of—
(A) Absolute value
(B) Percentages
(C) Both Absolute & percentages
(D) None of of the above
9. Which of the following is not a tool for Analysis of financial statements?
(A) Trend Analysis (B) Balance sheet
(C) Ratio Analysis (D) Cash flow statement

10. In which type of statement, total of assets/equity & liabilities is taken as bare

- (A) Profit & loss comparative statement
- (B) Profit & loss common size statement
- (C) Balance-sheet common size statement
- (D) Balance-sheet comparative statement

11. (A) Both statements are correct

- (B) Both statement are incorrect
- (C) Statement I is correct and statement II is incorrect
- (D) Statement I is incorrect and statement II is correct

(i) Statement I: Common-size balance sheet is the vertical analysis of balance-sheet

Statement II: In common-size balance sheet statement, fixed assets (Property, plant & equipment) are taken as base.

(ii) Statement I: Profit & loss comparative statement is the Horizontal Analysis of revenue and expenses.

Statement II: Horizontal analysis is also known as dynamic analysis

12. Match Questions

Column A

Column A

- | | |
|---|---|
| (i) Comparative profit & loss statement | (a) Absolute & percentage changes are recorded |
| (ii) Common-size balance sheet statement | (b) Revenue from operations taken as base |
| (iii) Common-size profit & loss statement | (c) Assets/Equity & liabilities total taken as base |

13. Assertion–Reason Questions

- (A) Both (A) and (R) are correct and (R) is the correct reason of (A).
- (B) Both (A) and (R) are correct but (R) is not the correct reason of (A).
- (C) (A) is correct but (R) is incorrect
- (D) (A) is incorrect but (R) is correct

1. Assertion (A): Comparative statements takes into consideration both qualitative and quantitative financial information.
Reason (R): Comparative statements helps in inter firm and Intra -firm comparison.
2. Assertion (A): Common-size statements are prepared in the form of percentages.
Reason (R): Common-size statements are analysis of historical records i.e., analysis of past financial statements
3. Assertion (A): Comparative statements are also known as Horizontal analysis.
Reason (R): Comparative statements show increasing & decreasing trend in absolute and percentage form between various inter-related financial information.
4. Assertion (A): In Common-size balance sheet statement, total of assets is assumed to be base
Reason (R): Common-size balance sheet help in fore costing future trends.

Care/Based MCQs

Zebron Ltd. has provided the following information for the accounting year 2022-23

Revenue from operation ₹40,00,000; other income 5% of revenue from operation; cost of material consumed 50% of revenue from operation; purchase of stock-in-trade 20% of revenue from operation; Employee-benefit expenses 20% of cost of material consumed; tax rate@ 40%.

1. What is cost of cost of material consumed?
(A) ₹15,00,000 (B) ₹20,00,000
(C) ₹25,00,000 (D) ₹30,000
2. What is cost of employee benefit expenses?
(A) ₹3,00,000 (B) ₹4,00,000
(C) ₹5,00,000 (D) ₹6,00,000

3. What is the amount of total expenses?
(A) ₹30,00,000 (B) ₹32,00,000
(C) ₹31,00,000 (D) ₹33,00,000
4. What is the amount of profit after tax?
(A) ₹4,00,000 (B) ₹5,00,000
(C) ₹6,00,000 (D) ₹7,00,000

Read the following hypothetical information and answer the following questions

Apsare Ltd. Provided the following information about common-size balance sheet property, Plant & equipment ₹40,00,000; intangible assets ₹5,00,000; non-currents investments ₹10,00,000; long-term loans & advances ₹5,00,000; cash at bank ₹4,00,000 ; inventory ₹3,00,000; trade receivable ₹3,00,000

1. While preparing common-size balance-sheet what should be taken as base?
(A) Total liabilities and Total Assets
(B) Total assets
(C) Total fixed assets
(D) Total current assets
2. What is the percentage of property, plant & equipment to base?
(A) 57% (B) 58%
(C) 56% (D) 54%
3. What is the percentage of current assets to base?
(A) 13% (B) 14%
(C) 15% (D) 16%
4. At the end, what should be total of percentage column?
(A) 98 (B) 99
(C) 100 (D) 102

CHAPTER-4

CASH FLOW STATEMENT

Points to Remember:

1. First decide the nature of enterprise it is financial or Non-Financial.
2. For Calculating depreciation, check the Balance Sheet to find out that values of assets are given at net value (i.e., written down value) or at Gross Block (Shown Accumulated dep. A/c also). There after attempt question according to the instructions.
3. Current Investment or marketable securities is a part of Cash and Cash equivalent as per As-3 (revised.) if both are given separately than marketable securities will be consider as cash equivalent and remaining current Investment will be considered in Investing activities.
4. Bank overdraft and cash credit will be considered as financial activity rather than working capital changes in operating activities.
5. If main item belongs to a particular activity, then its sub-component also belongs to same activity. Ex. Bank overdraft is finance activity, then interest on bank overdraft is also finance activity.
6. Type of adjustment to be considered
 - (a) Tax paid/provided during the year
 - (b) Fixed assets having book value of ₹ (accumulated dep. ₹ ____) was sold at a loss/profit of ₹ ____
 - (c) Interim dividend/proposed dividend of ₹ ____ paid during the year.
 - (d) Additional debenture were issued/redeemed on ____.

Intangible assets like patents, goodwill etc. if they are decreasing/written off, it is to be added while calculating cash flow from operation activities, if it is increasing, it is considered investing (outflow activity)

Meaning: It is a statement that shows flow (Inflow or outflow) of cash and cash equivalents during a given period of time.

As per Accounting Standard-3 (Revised) the changes resulting in the flow of cash & cash equivalent arises on account of three types of activities i.e.,

- (1) Cash flow from Operating Activities.
- (2) Cash flow from Investing Activities.
- (3) Cash flow from Financing Activities.

Cash: Cash comprises cash in hand and demand deposits with bank.

Cash equivalents: Cash equivalents are short-term, highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value e.g. short-term investment. Generally, these investments have a maturity period of less than three months.

Some examples of cash equivalent: Short-term deposits, marketable securities, treasury bills, commercial papers, money market funds, investment in preference shares if redeemable within three months provided that there is no risk of the failure of the company.

Some types of transaction which are considered movement between cash and cash equivalents are given below:

1. Cash deposited into bank.
2. Cash withdrawn from bank.
3. Sale of cash equivalent securities (e.g. Sale of short-term investment, sale of commercial papers)
4. Purchases of cash equivalent securities (e.g. Purchase of short-term investment, Purchases of Treasury bills).

Note 1: The above types of transactions are part of cash and cash equivalents, so these are included in opening and closing cash and cash equivalent only. So these types of transaction should not be included in cash flow from different activities like operating, investing, financing activities.

Note 2: A,B,C may have negative balance as well indicating cash used in operating, investing & financing activities respectively.

Objectives of Cash Flow Statement

1. To ascertain how much cash or cash equivalents have been generated or used in different activities i.e., operating/investing/financing activity.

2. To ascertain the net changes in cash and cash equivalents.
3. To assess the causes of difference between actual cash & cash equivalent and related net earnings/income.
4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.
5. To help in short-term financial planning.
6. To ascertain the liquidity of enterprises.

Limitations of Cash Flow Statement

1. Non cash transactions are not taken into consideration like shares or debentures issued to vendors, depreciation charged during the year.
2. It is a statement related with past data.
3. It is not used for judging the profitability of enterprise.
4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included.

Computation of Cash flows from different activities.

- (1) Cash flow from operating activities : Operating activities are the main revenue generating activities of the enterprises. It also includes all those transactions which are not included in investing and financing activities.

Indirect Method of calculating the cash flow from Operating Activities : Under this method Net Profit before Tax and Extra-ordinary Item is the starting point for further calculations.

- (A) Calculation of Net Profit before Tax and Extra-ordinary Items:

Difference between closing balance and opening balance of Balance in Statement of Profit & Loss A/c (In absence of this balance, difference of Reserve and surplus is taken as initial point.)

- Add: 1. Dividend (proposed dividend of previous year paid) paid during the year
2. Interim Dividend paid during the year
3. Profit Transferred to Reserve
- (If reserve of current year increased from previous year)

4. Provision for Taxation made during the year
5. Extra Ordinary Item. If any Debited to Statement of Profit & Loss
Less: 1. Refund of Tax credited to Statement of P&L (.....)
2. Extraordinary-item if any credited to Statement of P&L (.....)
3. Reserves transferred back to statement of Profit and Loss (.....)
Net Profit before Tax and Extra-ordinary items
.....

* Extraordinary items: These items are not related to normal business operation.

FORMAT: CASH FLOW FROM OPERATING ACTIVITIES

	₹
I. Cash Flow from Operating Activities	
(A) Net Profit before Tax and Extraordinary Items (as per Working Note)	—
Adjustment for Non-cash and Non-operating Items:	
(B) Add: Items to be Added	
— Depreciation	
— Goodwill, Patents and Trademarks Amortised	
— Interest on Bank Overdraft/Cash Credit	
— Interest on Borrowings (Short-term and Long-term) and Debentures	
— Writing off Underwriting Commission/Share Issue Expenses	
— Loss on Sale of Fixed Assets	
— Increase in Provision for Doubtful Debts*	—
(C) Less: Items to be Deducted	
— Interest Income (.....)	
— Dividend Income (.....)	

— Rental Income	(.....)	
— Gain (Profit) on sale of Fixed Assets	(.....)	
— Decrease in Provision for Doubtful Debts*	(.....)	(-)
(D) Operating Profit before Working Capital Changes (A + B - C)		-
(E) Add: Decrease in Current Assets and Increase in Current Liabilities		
— Decrease in Inventories (Stock)	....
— Decrease in Trade receivables (Debtors/Bills Receivable)	....
— Decrease in Accrued Incomes	....
— Decrease in Prepaid Expenses	....
— Increase in Trade Payables (Creditors/Bills Payable)	....
— Increase in Outstanding Expenses	....
— Increase in Advance Incomes	....	-
(F) Less: Increase in Current Assets and Decrease in Current Liabilities		
— Increase in Inventories (Stock)	(.....)	
— Increase in Trade Rceivables (Debtors/Bills Receivable)	(.....)	
— Increase in Accrued Incomes	(.....)	
— Increase in Prepaid Expenses	(.....)	
— Decrease in Trade Payables (Creditors/Bills Payable)	(.....)	
— Decrease in Outstanding Expenses	(.....)	
— Decrease in Advance Incomes	(.....)	(-)
(G) Cash Generated from Operations (D + E-F)		-
(H) Less: Income Tax Paid (Net of Tax Refund)		(.....)

(I) Cash Flow before Extraordinary Items Less Extraordinary Items (+/-)	(-)
(U) Cash flow from (or used in) operating Activities	-

Cash Flow Statement

Illustration 1: From the following, calculate cash flow from operating activities.

Particulars	31.3.2025 (₹)	31.3.24 (₹)
Surplus (i.e. Balance in the statements of Profit & Loss)	69,000	84,000
Outstanding Salary	15,000	18,000
Prepaid Insurance	9,000	6,000
Patent	40,000	50,000
Inventory	14,000	6,000
Cash at Bank	10,000	13,000
Machinery	82,000	56,000
Provision for tax	35,000	30,000
General Reserve	44,000	34,000

Adjustments:

- (i) A piece of machinery costing ₹ 50,000 on which depreciation of ₹ 20,000 had been charged was sold for ₹ 10,000. Depreciation charged during the year was ₹ 10,000.
- (ii) Income tax paid during the year ₹ 23,000.
- (iii) Dividend paid during the year was ₹ 36,000.

Solution:

Dr.		Provision for tax A/c		Cr.	
Particulars	₹	Particulars	₹		
To Bank (tax paid)	23,000	By Balance b/d		30,000	
To Balance c/d	35,000	By statement of P&L A/c (Provision made during the year) (B/F)		28,000	
	58,000			58,000	

(W.N.I.)**Calculation of net profit before tax and extraordinary item**

Difference of surplus (i.e.) Balance in P&L A/c	(15,000)
Add: Provision for tax	28,000
Transfer to Reserve	10,000
Dividend paid	36,000
	<u>59,000</u>

Cash flow from operating activities for the year ended 31st March, 2025

Particulars	₹	₹
Net profit before tax and extra-ordinary items (W.N.I)		59,000
Add: Adjustment for non-cash and non-operating items		
Dep. on Machinery	10,000	
Loss on sale of machinery (50,000 – 20,000 – 10,000)	20,000	
Patent written off (50,000 – 40,000)	10,000	40,000
Operating profit before working capital changes		99,000
Less: Increase in current Assets & decrease in current Liabilities		
Outstanding Salary	3,000	
Prepaid Insurance	3,000	

Inventory	8,000	14,000
Cash flow from operating activities before tax		85,000
Less: Tax paid		23,000
Net cash flow from operating activities		62,000

2. Cash Flow from Investing Activities

Investing activities are those activities which are related to the acquisition (buying) and disposal (selling) of fixed assets and investment (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutual funds.

Inflows of Cash: (Plus items)	Outflows of Cash (minus items)
1. Cash Received from sale of Fixed Assets.	1. Cash paid for purchase of fixed assets.
2. Cash Received from sale of Investment, Excluding Marketable Securities	2. Cash paid for purchase of investment. Excluding Marketable Securities
3. Cash Received from sale of intangible Assets like Patents.	3. Cash paid for purchase of intangible Fixed assets like goodwill, patents and copy rights.
4. Interest Received,	
5. Dividend Received,	
6. Rent Received	

For the calculation of sale or purchase of fixed assets and investment, the following accounts are prepared:

1. Fixed Assets Account
 2. Investment Account
- Fixed Assets Account: Fixed assets accounts may be prepared by two methods:
- (a) At written down value method (when provision for depreciation account/ accumulated depreciation account is not maintained):

Fixed Assets Account (at written down value).

Dr.

Cr.

Date	Particulars		Date	Particulars	
	To Balance b/d	.....		By BankA/c	.....
	To BankA/c (Additional Purchase)	.....		(Sale of investment)	
	To Profit on sale of fixed assets A/c	.....		By Loss on sale of fixed assets	.....
				By Depreciation charged during the year A/c	.....
				By Balance c/d	.....
	

- (b) Fixed Assets (at cost); When provision for depreciation account or accumulated depreciation account has been separately maintained. In this method two separate accounts named Fixed Assets Account and Provision for Depreciation account are maintained

Fixed Assets Account (at original cost)

Dr.

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	.....		By BankA/c	.....
	To Bank A/c (Additional Purchase)	.....		(Sale of investment)	
	To Profit on sale of fixed assets A/c	.....		By Provision for Depreciation A/c (Dep. on fixed assets sold)	.....
				By Loss on sale of fixed assets A/c	.....
				By Balance c/d	.....
	

Provision for Depreciation Account

Dr.

Cr.

Date	Particulars		Date	Particulars	
	To Fixed Assets A/c (Total Depreciation provide till the date of sale on Fixed assets sold)	.....		By Balance b/d	.....
	To balance c/d	.....		By Statement of Profit & Loss (Depreciation charged on fixed assets during the current year including the part sold)	.....
	

Preparation of Investment Account:

Dr.

Investment Account

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	.....		By Bank A/c	.....
	To Bank A/c(Additional Purchase)	.....		(Sale of investment)	.....
	To Profit on sale of investment A/c	.....		By Loss on sale of Investment A/c	.....
		.....		By balance c/d	.....

Illustration2. From the following information calculate cash flow from investing activities:

Particulars	31-03-2025 (₹)	31-03-2024 (₹)
Machinery (at Cost)	5,00,000	5,50,000
Accumulated Depreciation	1,00,000	1,20,000
Patents	2,00,000	1,20,000
Goodwill	1,50,000	1,00,000
Investment	2,50,000	5,00,000

Additional Information

- (i) During the year, a machine costing ₹50,000 with its accumulated depreciation of ₹ 25,000 was sold for ₹ 20,000.
- (ii) Patents were written off to the extent of ₹60,000 and some patents were sold at a profit of ₹10,000.
- (iii) 40% of the investments held in the beginning of the year were sold at 10% Profit.
- (iv) Interest received on investment ₹ 25,500.
- (v) Dividend received on investment ₹ 8,500.
- (vi) Rent received ₹ 5,000.

Solution:**Cash Flow from Investing Activities**

Particulars	₹
Proceeds from sale of machinery	20,000
Proceeds from sale of investment	1,10,000
Proceeds from sale of Patents	30,000
Cash paid for purchase of machinery	(1,00,000)
Cash paid for purchase of Investment	(3,50,000)
Interest Received	25,500
Dividend Received	8,500
Rent Received	5,000
Net Cash Used in Investing Activities	(2,51,000)

Working Notes:

Investment Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	2,50,000		By Bank A/c	1,10,000
	To Profit on sale of Investment A/c	10,000		(Sale of investment)	
	To Bank A/c B/F (Additional Purchase)	3,50,000		By balance c/d	5,00,000
		6,10,000			6,10,000

Dr. Machinery Account (at original cost) Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	5,00,000		By Bank A/c	20,000
	To Bank A/c (additional Purchase) (B/F)	1,00,000		(Sale of Machinery)	
				By Provision for Depreciation A/c (Dep. on Machinery sold)	25,000
				By Loss on sale of Machinery Ac	5,000
				By balance c/d	5,50,000
		6,00,000			6,00,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Machinery A/c (Total Depreciation on Machinery sold)	25,000		By Balance b/d	1,00,000
	To Balance c/d	1,20,000		By Statement of Profit & Loss (Depreciation charged on machinery during the current year) (B/F)	45,000
		1,45,000			1,45,000

Dr.			Cr.		
Patents			Patents		
Date	Particulars		Date	Particulars	
	To Balance b/d	2,00,000		By Bank A/c	30,000
	To Profit on sale of patents A/c	10,000		(B/F - Sale of Patents)	
				By Statement of Profit & Loss (Written off)	60,000
				By balance c/d	1,20,000
		2,10,000			2,10,000

3. Cash Flow from Financing Activities

Financing activities are those activities that result in the change in size and composition of the share capital (equity and preference) and borrowed fund of the business enterprises. Generally cost related to these funds are also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference share capital.

Inflows of Cash: (Plus items)	Outflows of Cash (minus items)
1. Proceeds from Issue of equity shares capital.	1. Amount paid for repayment of long-term loan.
2. Proceeds from Issue of preference share capital.	2. Redemption of Preference share capital in cash.
3. Proceeds from taking long-term loan and issue of debentures.	3. Redemption of Debenture in cash.
4. Proceeds from Bank Overdraft and Cash credit.	4. Buy back of Equity shares (Extra-Ordinary Item)
	5. Payment of Bank Overdraft and Cash Credits.
	6. Interest paid on long term loan and debentures
	7. Final Dividend paid.
	8. Interim dividend paid.
	9. Dividend paid on Preference Shares.

Illustration 3. From the following information, calculate the net cash flow from Financing Activities.

Particulars	31-3-2024 (₹)	31-3-2025 (₹)
Equity Share Capital	10,00,000	16,00,000
9% Debentures	1,50,000	1,00,000
Dividend Payable	—	50,000
10% Preference Share Capital	2,00,000	3,00,000

Additional Information

- Interest paid on Debentures ₹ 12,500.
- During the year 2022-2023, company issued bonus shares to equity shareholders in the ratio of 2:1 by capitalizing reserve.
- The interim dividend of ₹ 75,000 has been paid during the year.
- 9% Debentures were redeemed at 5% premium.
- Proposed equity dividend for the years ended 31/3/2024 and 31/3/2025 ended ₹ 3,00,000 and ₹ 150,000 respectively.

Solution:

Cash Flow from Financing Activities

Particulars	₹
Proceeds from Issue of Equity Share Capital	1,00,000
Proceeds from Issue of 10% Preference Share Capital	1,00,000
Cash paid for Redemption of 9% Debentures (50,000 × 105%)	(52,500)
Interest paid on Debentures	(12,500)
Interim Dividend paid	(75,000)
Final Dividend paid (3,00,000-50,000)	(2,50,000)
Net Cash Used in Financing Activities	(1,90,000)

Note:

1. Bonus shares worth ₹ 5, 00,000 issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity.
2. As per the provisions of As-4, dividend proposed by the Directors of the company for the current year Rs. 1,50,000 will be shown in the notes to accounts as contingent liability. Dividend of the previous year of Rs. 3,00,000 has been declared and approved in the annual general meeting of shareholders for current year will be shown as appropriation of profits of current year so will be added to determine the net profit before dividend, taxes and extraordinary item and as an outflow from the firm under the financing activity.
3. Previous year proposed dividend- unpaid dividend = final dividend paid during the current year is cash used in financing activities.

Financing Business Enterprise Transaction Treatment in Cash Flow Statement

Financing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house, banks. These enterprises purchases and sale of securities as their stock, so it is treated as operating activities and interest received, dividend received and interest paid are considered as routine business activities and included in their operating activities.

Illustration 4: Prepare cash flow statement on the basis of information given in the Balance Sheet of Relga Ltd, as at 31st March, 31-3-22 & 31 March 31-3-23

Particulars	Note no.	31.3.24	31.3.25
I. EQUITY AND LIABILITIES			
1. Shareholder's funds			
(a) Share capital	1	2,00,000	2,50,000
(b) Reserve and Surplus		50,000	70,000
2. Non-current Liabilities Long term Borrowing	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
Total		4,35,000	5,80,000

II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant & equipment & intangible assets			
(i) Tangible	5	1,50,000	2,00,000
(ii) Intangible	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
Total		4,35,000	5,80,000

Note to Accounts

Note no.	Particulars	31.3.2024	31.3.2025
1.	Reserve & Surplus	50,000	70,000
2.	Long term Borrowing 12% Debentures	1,00,000	80,000
3.	Trade payable creditors	40,000	60,000
	Bills payable	20,000	1,00,000
		60,000	1,60,000
4.	Other current liabilities outstanding exp.	25,000	20,000
5.	Tangible Fixed Assets (Machinery)	2,00,000	2,60,000
	Less: Provision for Depreciation	50,000	60,000
		1,50,000	2,00,000
6.	Intangible Fixed Assets (Goodwill)	10,000	2,000

Adjustment: 1. During the year a piece of machinery with a book value of ₹ 40,000, provision for Depreciation on it ₹ 10,000 was sold at a loss of 50% on book value.

2. Debentures were redeemed on 31st March, 2025

Sol.

Dr.		Machinery A/c		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	2,00,000	By Bank A/c	15,000		
To Bank A/c (B/F)	1,00,000	By P&L A/c (Loss)	15,000		
		By provision for Dep.	10,000		
		By Balance c/d	2,60,000		
	3,00,000				3,00,000

Dr.		Provision for Dep. A/c		Cr.	
Particulars	₹	Particulars	₹		
To Machinery A/c	10,000	By Balance b/d	50,000		
To Balance c/d	60,000	By Statement of profit & Loss (Dep.)	20,000		
	70,000				70,000

Cash flow statement for the year ended 31st March, 2025

Particulars	₹	₹
Profit Before tax & extraordinary items (70,000 – 50,000)	20,000	
Adjustment for non-cash & non-operating items		
Loss on sale of Machinery	15,000	
Dep. on Machinery	20,000	
Goodwill written off	8,000	
Interest on Deb.	12,000	

Operating profit before working capital changes	75,000	
Changes in working capital		
Increase in creditors	20,000	
Increase in Bills payable	80,000	
Decrease in o/s exp.	(5,000)	
Increase in inventories	(20,000)	
Increase in trade receivables	(20,000)	
I net cash flow from operating activities		1,30,000
Investing activities		
Sale of Machinery	15,000	
Purchase of Machinery	(1,00,000)	
Loans Advanced	(30,000)	
II Net cash used in investing activities		(1,15,000)
Financing activities		
Issue of share	50,000	
Debentures Redeemed	(20,000)	
Interest on Debentures	(12,000)	
III net cash flow from financing activities		18,000
Net cash in flow during the year (I + II + III)		33,000
IV cash & cash equivalent in the beginning		65,000
V cash & cash equivalent at the end		98,000

**Prepare cash flow statement from the
balance sheet as at 31st March, 2025**

Illustration 5.

Particulars	Note no.	2025 ₹	2024 ₹
1. Equity and liabilities			
(i) Shareholders' fund		4,00,000	4,00,000
Share capital			
Reserve and surplus	1	2,20,000	1,20,000
2. Non-current liabilities			
Long-term borrowing	2	4,80,000	3,80,000
3. Current liabilities			
(a) Short-term borrowing	3	60,000	40,000
(b) Trade payable		1,40,000	80,000
(c) Short-term provisions	4	1,00,000	80,000
		14,00,000	11,00,000
II Assets			
1. Non-current assets			
Property, Plant & equipment and intangible Assets			
(i) Property, Plant & Equipment	5	8,60,000	7,40,000
(ii) Intangible assets	6	20,000	30,000
2. Current Assets			
(i) Inventories		2,00,000	1,10,000
(ii) Trade Receivables		1,80,000	1,00,000
(iii) Cash and cash equivalent		1,10,000	80,000
(iv) Other current assets	7	30,000	40,000
		14,00,000	11,00,000

Notes to Accounts

Particulars	2025	2024
1. Reserve and surplus		
General reserve	70,000	40,000
Balance in statement of profit & loss	1,50,000	80,000
Total	2,20,000	1,20,000
2. Long term borrowing		
10% debenture	3,00,000	2,00,000
Mortgage loan	1,80,000	1,80,000
Total	4,80,000	3,80,000
3. Short-term borrowing		
Bank overdraft	44,000	20,000
Cash credit	16,000	20,000
Total	60,000	40,000
4. Short-term provision	1,00,000	80,000
Provision for tax		
5. Fixed assets- Tangible	2,80,000	5,20,000
Land and building	5,80,000	2,20,000
Machinery	8,60,000	7,40,000
Total	8,60,000	7,40,000
6. Fixed assets- Intangible	20,000	30,000
Branding		
7. Other current assets Accrued income	30,000	40,000

Additional Information:

- (i) Gain on sale of land and building ₹40,000
- (ii) Depreciation on machinery @10% p.a. on last year balance
- (iii) Interest paid ₹50,000.

Solution: Net profit before tax and extraordinary items:

	₹
Net profit (1,50,000 – 80,000)	70,000
Add: General Reserve (70,000 – 40,000)	30,000
Provision for tax	1,00,000
Net Profit before tax & extraordinary items	2,00,000

Land & Building A/C

Dr.

CR.

Particulars	₹	Particular	₹
To Balance b/d	5,20,000	By bank A/c (Sale) (Bal. figure)	2,80,000
To statement of profit & loss (Gain)	40,000	By balance c/d	2,80,000
	5,60,000		5,60,000

Machinery A/C

Particulars	₹	Particular	₹
To Balance b/d	2,20,000	By Dep.	22,000
To bank (bal. figure)	3,82,000	By balance dd	5,80,000
	6,02,000		6,02,000

Cash flow statement for the year ended 31st March, 2025

Particular	Details	Amount
	₹	₹
(A) Cash flow from operating activities		
Net profit before tax and extra ordinary items		2,00,000
Adjustment for non-cash and non-operating items		
Add: Depreciation	22,000	
Branding written off	10,000	
Interest paid	50,000	

Less: Gain on sale of land and building	(40,000)	
Operating profit before working capital charges		2,42,000
Add: Increase in current liabilities		
Trade payable	60,000	
Accrued income	10,000	
Less: Increase in current assets		
Inventory	(90,000)	
Trade Receivables	(80,000)	(1,00,000)
		1,42,000
Less: tax paid		(80,000)
Net cash flow from operating activities		62,000
(B) Cash flow from investing activities		
sale of land and building	2,80,000	
Purchase of machinery	(3,82,000)	
Net cash used in investing activities	(1,02,000)	(1,02,000)
(C) Cash flow financing activities		
Proceeds from bank overdraft	24,000	
Proceeds from debenture	1,00,000	
Payment of cash credit	(4,000)	
Interest paid	(50,000)	
Net cash flow from financing activities	70,000	70,000
(D) Net increase in cash and cash equivalent (A+B+C)		30,000
(E) Cash and cash equivalent (opening balance)		80,000
(F) Cash and cash equivalent (closing balance)		1,10,000

Illustration 6: From the following information, complete the Cash flow Statement of RK Ltd.

**Cash flow Statement
For the year ended on 31-3-2025**

Particulars		
A. Cash flow from operating Activities:		
Net profit before tax and Extraordinary items	.....
Adjustment for Non-cash and non operating items:		
Depreciation	.....
Loss on sale of Machinery	.....
Operating profit before working capital changes	.....
Adjustment for changes in working Capital:		
Decrease in Trade Payables		
Increase in Inventory	(8,000)	
Cash generated from operations before tax & extraordinary items	(.....)	
Less: Income tax paid	50,000	
Net cash flow from operating activities:	(.....)	.....
B Cash flow from Investing Activities:		
Purchase of Machinery		
Sale of Machinery	(.....)	
Net cash flow from Investing Activities	.....	.....
C .Cash flow from Financing Activities:		
Proceeds from Issue of Shares		
Net cash flow from Financing Activities	.....	.....
(A+B+C)net Increase in cash & Cash Equivalents during the year		.....
Add: Cash & cash equivalents at the beginning of the period		.....
Cash & cash equivalents at the end of the period		.....

Notes toAccount

Particulars	31-3-2025 (₹)	31-3-2024 (₹)
Note 1. Reserve & Surplus		
General Reserve	55,000	40,000
Balance in Statement of Profit & Loss	70,000	50,000
	1,25,000	90,000
Note 2. Cash and Cash equivalents Cash at Bank	52,000	37,000
	52,000	37,000
Note 3. Short term Provisions	25,000	20,000
Provision forTaxation	25,000	20,000

Additional Information:

1. Depreciation charges on Building for the year 2022-23 was 10,000.
2. During the year 2022-23, machinery of ₹1,38,000 was purchased.
3. A part of machinery costing 20,000 with accumulated depreciation of 6,500 was sold for ₹ 8,500.
4. Income tax paid during the year 2022-23 was ₹ 18,000.

Solution:

**Cash flow Statement
For the year ended on 31-3-2025**

Particulars	₹	₹
B. Cash flow from operating Activities:		
Net profit before tax and Extraordinary items	58,000	
Adjustment for Non-cash and non-operating items:		
Depreciation	10,000	
Loss on sale of Machinery	5,000	
Operating profit before working capital changes	73,000	
Adjustment for charges in working Capital:		
Decrease in Trade Payables	(8,000)	
Increase in Inventory	(15,000)	
Cash generated from operations before tax & extraordinary items	50,000	
Less: Income tax paid	(18,000)	
Net cash flow from operating activities:		32,000
B Cash flow from Investing Activities:		
Purchase of Machinery	(1,38,000)	
Sale of Machinery	8,500	
Net cash flow from Investing Activities:		(1,29,500)
C .Cash flow from Financing Activities:		
Proceeds from Issue of Shares	1,12,500	
Net cash flow from Financing Activities		1,12,500
(A+B+C)net Increase in cash & Cash Equivalents during the year		15,000
Add: Cash & cash equivalents at the beginning of the period		37,000
Cash & cash equivalents at the end of the period		52,000

Working Notes

Calculation of Net Profit before tax and extraordinary items:

	₹
Difference in Balance in Statement of P&L (70,000-50,000)	20,000
Add: Transfer to General Reserve	15,000
Provision for Taxation	<u>23,000</u>
	<u>58,000</u>

2. Provision for taxation account

Dr.

CR.

Particulars	₹	Particular	₹
To Bank a/c (tax paid)	18,000	By balance b/d	20,000
To Balance c/d	25,000	By statement of P&L (balancing figure) (Provision made during the year)	23,000
	43,000		43,000

Note: 1. There is no need to prepare machinery A/c as both purchase and Sale value are given in the question.

2. Proceeds from issue of shares have been calculated by moving backwards from the figure of net increase in cash and cash equivalent i.e.,

i.e. $15,000 = ₹32,000 + (1,29,500) + \text{cash flow from financing activity.}$

Illustration 7: Prepare cash flow statement from the following information.

Balance sheet × Ltd.

Particulars	Note no.	31.3.25	31.3.24
I. EQUITY AND LIABILITIES			
1. Shareholder's funds			
(a) Share capital		3,20,000	2,40,000
(b) Reserve & Surplus	1	1,36,000	1,24,000
2. Non-current liabilities Long-term Borrowing	2	2,00,000	1,20,000
3. Current liabilities			
(a) Trade payable		88,000	68,000
(b) Other current liabilities short-term provision	3	12,000	8,000
		7,56,000	5,60,000
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant & equipment & Intangible assets			
(i) Property, Plant & equipment	4	3,36,000	2,64,000
(ii) Intangible Assets	5	56,000	80,000

(b) Non-Current Investment	6	64,000	24,000
2. Current Assets			
(a) Inventories		40,000	32,000
(c) Trade Receivable		1,56,000	64,000
(c) Cash & cash equivalent		1,04,000	96,000
Total		7,56,000	5,60,000

Note to Accounts

Note no.	Particulars	31.3.25	31.3.24
1.	Reserve & Surplus		
	Balance in statement of P&L A/c (Surplus)	56,000	52,000
	General Reserve	80,000	72,000
		1,36,000	1,24,000
2.	Long term Borrowing 12% Debentures	2,00,000	1,20,000
3.	Short term provision Provision for tax	12,000	8,000
4.	Tangible Assets Machinery	3,36,000	2,64,000
5.	Intangible Assets patents	56,000	80,000
6.	Non-current Investment 10% Govt. Bonds	64,000	24,000

Additional Information

- Investment costing ₹ 24,000 were sold for ₹ 16,000.
- Dep. on Machinery ₹ 48,000.
- Tax paid ₹ 4,800.
- Debenture were issued and investments were purchased & sold on March 31st, 2022.

Dr.		10% Govt. Bonds A/c		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	24,000	By Bank A/c	16,000		
To Bank A/c (Purchase)	64,000	By loss on sale	8,000		
		By balance c/d	64,000		
	88,000				88,000

Dr.		Machinery A/c		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	2,64,000	By Dep. A/c	48,000		
To Bank A/c (Purchase) (B/F)	1,20,000	By Balance c/d	3,36,000		
	3,84,000				3,84,000

Dr.		Provision taxation A/c		Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c	4,800	By Balance b/d	8,000		
To Balance c/d	12,000	By statement of P&L A/c (B/F)	8,800		
	16,800				16,800

Cash flow statement for year ended 31st March, 2025

Particulars	₹	₹
Cash flow from operating activities		
Net profit before tax & extraordinary items (W.N.)	20,800	
Adjustment for non-cash & non-operating items		
Add: Depreciation	48,000	
Patents	24,000	
Loss on sale of investment	8,000	
Int on 12% Debentures	14,400	
Less: Interest on 10% Govt. Bonds	(24,00)	
	1,12,800	
Operating profit before working capital changes		
Less: Increase in inventories	(8,000)	
Increase in trade receivable	(92,000)	
Add: Increase in trade payable	20,000	
operating profit before tax	32,800	
Less: tax paid	4,800	
I. Net cash flow from operating Activities		28,000

Cash flow from Investing activities		
Proceeds from sale of investment	16,000	
Interest on investment	2,400	
Purchase of investment	(64,000)	
Purchase of Machinery	(1,20,000)	
II. Net cash used in investing activities		(1,65,600)
Cash flow from financing activities		
Issue of share capital	80,000	
Issue of Debenture	80,000	
Interest on Debenture	(14,400)	
III. Net cash flow from financing activities		1,45,600
IV. Net increase in cash & cash equivalent (I + II + III)		8,000
V. Cash & cash equivalent in the beginning		96,000
VI. Cash & cash equivalent at the end		1,04,000

W.N. Net profit before tax & extraordinary item:	₹
Profit for the year (56,000 – 52,000)	4,000
Add: transfer to Reserve (80,000 – 72,000)	8,000
Add: provision for tax	8,800
	<u>20,800</u>

Illustration 8: Following was the Balance of vasudha Ltd. on 31st March 2025.

Particulars	Note No.	31-3-2025 (₹)	31-3-2024 (₹)
Equity & Liabilities			
(1) Shareholders Funds			
(a) Share Capital		20,00,000	15,00,000
(b) Reserves and Surplus	1	50,00,000	3,00,000
(2) Non-current Liabilities			
Long term borrowings		3,00,000	2,00,000
(3) Current Liabilities			
(a) Trade payables		1,50,000	2,00,000

(b) Short term provisions	2	70,000	60,000
Total		30,20,000	22,60,000

Assets			
(1) Non-Current Assets			
(a) Property, Plant & equipment & intangible assets			
(i) Property, Plant & equipment	3	19,00,000	15,00,000
(ii) Intangible assets	4	4,70,000	2,70,000
(2) Current Assets			
(a) Inventories		2,50,000	1,60,000
(b) Trade Receivables		2,10,000	2,10,000
(c) Cash and Cash Equivalents		1,90,000	1,20,000
Total		30,20,000	22,60,000

Notes to Accounts :

S. No.	Particulars	As on 31-3-2025 (₹)	As on 31-3-2024 (₹)
1.	Reserve and Surplus		
	Surplus (Balance in Statement of Profit and Loss)	5,00,000	3,00,000
2.	Short term provisions		
	Provision for tax	70,000	60,000
3.	Tangible Assets		
	Machinery	27,00,000	21,00,000
	Accumulated Depreciation	(8,00,000)	(6,00,000)
4.	Intangible Assets		
	Goodwill	4,70,000	2,70,000

(Prepare a Cash Flow Statement after taking into account the following adjustment)

During the year a piece of machinery costing ₹ 30,000 on which accumulated depreciation was ₹ 6,000, was sold for ₹ 20,000.

**Cash Flow Statement of Vasudha Ltd.
For the year ended 31st March, 2025 As per As-3 (Revised)**

Particulars	Details (₹)	Amt (₹)
<u>Cash Flows from Operating Activities:</u>		
Net Profit before tax & extraordinary items	2,00,000	
Add: Provision for Tax	70,000	
<u>Add: Non cash and non-operating charges</u>		
Depreciation on machinery	2,06,000	
Loss on sale of machinery	4,000	
Operating profit before working capital changes	4,80,000	
<u>Less: Increase in Current Assets</u>		
Increase in inventories	(90,000)	
<u>Less: Decrease in Current Liabilities</u>		
Decrease in trade payables	(50,000)	
Operating profit after working capital changes	3,40,000	
Less: Tax Paid	(60,000)	
Cash generated from Operating Activities		2,80,000
<u>Cash flows from Investing Activities :</u>		
Purchase of Machinery	(6,30,000)	
Sale of machinery	20,000	
Purchase of Goodwill	(2,00,000)	
Cash used in investing activities		(8,10,000)
<u>Cash flows from Financing Activities :</u>		
Issue of share capital	5,00,000	
Money raised from long term borrowings	1,00,000	

Cash from financing activities	6,00,000
Net increase in cash & cash equivalents:	70,000
<u>Add: Opening balance of cash & cash equivalents:</u>	<u>1,20,000</u>
Closing Balance of cash & cash equivalents:	<u>1,90,000</u>

Machinery A/c

Dr.

Cr.

Particulars		Particulars	
Balance b/d	21,00,000	Bank A/c	20,000
Cash/Bank A/c	6,30,000	Accumulated Dep. A/c	6,000
		Statement of P/L	4,000
		Balance c/d	27,00,000
	<u>27,30,000</u>		<u>27,30,000</u>

Dr.

Accumulated Dep. A/c

Cr.

Particulars		Particulars	
Machinery A/c	6,000	balance b/d	6,00,000
balance c/d	8,00,000	statement of P/L	2,06,000
	<u>8,06,000</u>		<u>8,06,000</u>

Illustration 9. From the following Balance Sheet of B.C.R. prepare Cash Flow Statement:

BALANCE SHEET OF B.C.R. LTD. as at 31 st March, 2025

Particulars	Note No.	31st March, 2025 (Rs.)	31 March 2024(Rs.)
EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		7,00,000	5,00,000.

(b) Reserve end Surplus: Surplus, i.e., Balance in statement of Profit & Loss		3,50,000	2,00,000
2. Non-Current Liabilities			
Bank Loan		50,000	1,00,000
3. Current Liabilities			
(a) Trade Payables (Creditors)		52,000	55,000
(b) Short-term Provisions	1	50,000	30,000
Total		12,02,000	8,85,000

II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant & equipment & intangible assets.			
(i) Tangible Assets: Equipment			
		5,00,000	5,00,000
(ii) Intangible Assets: Patents			
		95,000	1,00,000
(b) Non-current Investments			
		1,00,000	—
2. Current Assets			
(a) Inventories (Stock)			
		1,30,000	55,000
(b) Trade Receivables (Debtors)			
		1,47,000	80,000
(c) Cash and Cash Equivalents:			
Bank		2,30,000	1,50,000
Total		12,02,000	8,85,000

Note to Accounts

Particulars	31st March, 2025 (₹)	31st March 2024 (₹)
1. Short-term Provisions Provision for Tax	50,000	30,000

Additional Information:

- Proposed dividend for the year ended 31st March, 2024: ₹ 70,000 was declared and paid in the year ended 31st March, 2025.
- During the year Equipment costing ₹ 1,00,000 was purchased. Loss on sale of Equipment amounted to ₹ 12,000. ₹ 18,000 depreciation was charged on Equipment.

CASH FLOW STATEMENT for the year ended 21st March, 2025

Particulars	₹	₹
(a) Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (WN 1)	2,70,000	
Add: Non-cash and Non-operating Expenses:		
Depreciation on Equipment	18,000	
Patents amortised	5,000	
Loss on sale of Equipment	12,000	
Operating Profit before Working Capital Changes	3,05,000	
Adjustment for Change in Current Assets and Current Liabilities:		
Trade Receivables (Debtors)	(67,000)	
Inventories (Stock)	(75,000)	
Trade Payables (Creditors)	(3,000)	
Cash Generated from Operations	1,60,000	
Less: Tax Paid	30,000	
Cash Flow from Operating Activities		1,30,000
(b) Cash Flow from Investing Activities		
Proceeds from Sale of Equipment (WN 2)	70,000	
Equipment Purchased	(1,00,000)	
Investment Purchased	(1,00,000)	
Cash Used in Investing Activities		(1,30,000)
(c) Cash Flow from Financing Activities		
Cash-Proceeds from Issue of Equity Shares	2,00,000	
Repayment of Bank Loan	(50,000)	
Dividend Paid	(70,000)	
Cash Flow from Financing Activities		80,000
Net Increase in Cash and Cash Equivalents (A + B + C)		80,000
Add: Opening Balance of Cash and Cash Equivalents		1,50,000
(d) Closing Balance of Cash and Cash Equivalents		2,30,000

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items: ₹

Balance as per Statement of Profit and Loss	1,50,000
Add: Provision for Tax (current year)	50,000
Dividend paid during 2017-18	70,000
Net Profit before Tax and Extraordinary Items	<u>2,70,000</u>

2. Calculation of amount of Sale of Equipment:

Equipment Account

Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Depreciation A/c	18,000
To Bank A/c	1,00,000	By Bank A/c (Sale)—Balancing Figure	70,000
		By Loss on Sale of Equipment A/c (Statement of Profit and Loss)	12,000
		By Balance c/d	5,00,000
	<u>6,00,000</u>		<u>6,00,000</u>

Illustration 10: Following are the Balance Sheet of z Ltds.

Particulars	Note no.	31.3.25	31.3.24
I. EQUITY AND LIABILITIES			
1. Shareholder's funds:			
(a) Share capital	1	4,50,000	4,50,000
(b) Reserve & Surplus	2	4,78,000	3,56,000
2. Non-Current Liabilities Long-term Borrowing	3	1,70,000	—
3. Current Liabilities			
(a) Trade Payable		1,09,000	2,03,000
(b) Short-term Provision	4	35,000	40,000
Total		12,42,000	10,49,000
II. ASSETS			
1. Non-Current Assets Property, Plant & equipment & intangible assets.			
(a) Property, Plant & equipment	5	3,20,000	4,00,000

(b) Intangible Assets	6	60,000	50,000
2. Current Assets			
(a) Current Investments		70,000	78,000
(b) Inventory		1,70,000	2,15,000
(c) Trade Receivables		4,55,000	2,10,000
(d) Cash at Bank		1,67,000	96,000
Total		12,42,000	10,49,000

Note s to Accounts

Note no.	Particulars	31.3.25	31.3.24
1.	Share capital		
	Equity share capital	2,50,000	2,50,000
	10% Preference share capital	2,00,000	2,00,000
		4,50,000	4,50,000
2.	Reserve & Surplus		
	Retained Earning	4,78,000	3,56,000
3.	Long-term Borrowing		
	9% Debenture	1,70,000	—
4.	Short-term Provision		
	Provision for taxation	35,000	40,000
5.	Tangible Assets		
	Land	1,40,000	2,50,000
	Plant & Machinery	1,80,000	1,50,000
		3,20,000	4,00,000
6.	Intangible Assets		
	Goodwill	60,000	50,000

Additional Information

1. Loss on sale of land ₹ 40,000
2. Interim dividend on equity shares paid @ 10%
3. Debenture were issued at the beginning of the year.
4. Tax paid ₹ 30,000 during the year.

Solution:

Dr.		Provision for taxation A/c		Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c	30,000	By Balance b/d	40,000		
To Balance c/d	35,000	By Statement of P&L A/c	25,000		
	65,000		65,000		

Dr.		Land A/c		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	2,50,000	By Loss on sale	40,000		
		By Bank (sale) (B/F)	70,000		
		By Balance c/d	1,40,000		
	2,50,000		2,50,000		

W.N.I Net profit before tax & extraordinary items: ₹

Difference in the surplus i.e. Balance in

statement of P&L A/c (47,8000 – 3,56,000)	1,22,000
Add: Provision for tax	25,000
10% Pref. Dividend	20,000
Equity Dividend	25,000
	<u>1,92,000</u>

Cash flow statement for the year ended 31st March, 2025

Particulars	₹	₹
A. Cash flow operating activities		
Net profit before tax & extraordinary item (W.N.I.)	1,92,000	
Adjustment for non-cash non operating items		
Add: Loss on sale of land	40,000	
Interest on debenture	15,300	
	2,47,300	
Operating profit before working capital changes		
Add: Decrease in Current Assets Inventory	45,000	
	2,92,300	

Less: Increase in Current Assets & decrease in Current Liabilities		
Trade Receivable	2,45,000	
Trade Payables	94,000	(3,39,000)
		(46,700)
Less: Tax paid		(30,000)
Net cash used in operating activities		(76,700)
B. Cash flow from Investing Activities		
Purchase of plant & Machinery (1,50,000 – 1,80,000)		(30,000)
Purchase of Goodwill		(10,000)
Sale of Land		70,000
Net cash flow from Investing Activities		30,000
C. Cash flow from financing activities		
Issue of Debenture		1,70,000
Interest on Debenture		(15,300)
Preference share dividend		(20,000)
Equity share dividend		(25,000)
Net cash flow from financing activities		1,09,700
D. Net increase in cash & cash equivalent (A + B + C)		63,000
E. Cash & cash equivalent in the beginning		
Current Investment	78,000	
Cash at Bank	96,000	1,74,000
F. Cash & cash equivalent at the end (1,67,000 + 70,000)		2,37,000

Illustration 11: From the Balance Sheet of T Ltd. & additional information as at 31st March, 2025. Prepare a cash from statement.

Balance Sheet as at 31st March, 2025

Particular	Note no.	31.3.25	31.3.24
I. EQUITY AND LIABILITIES			
1. Shareholder's funds			

(a) Share capital		28,00,000	21,00,000
(b) Reserve & Surplus	1	6,00,000	5,00,000
2. Non-current Liabilities Long-term Borrowing	2	8,00,000	5,00,000
3. Current Liabilities			
(a) Trade payable		1,50,000	1,00,000
(b) Short-term provision	3	76,000	56,000
Total		44,26,000	32,56,000
II. ASSETS			
1. Non-current Assets Property, Plant & equipment & intangible assets			
(a) Property, Plant & equipment (Machinery)		27,00,000	20,00,000
(b) Intangible Assets		8,00,000	7,00,000
2. Current Assets			
(a) Current Investment		89,000	78,000
(b) Inventories		8,00,000	4,00,000
(c) Cash & cash equivalent		37,000	78,000
Total		44,26,000	32,56,000

Notes to Accounts

Note no.	Particulars	31.3.22 (₹)	31.3.21(₹)
1.	Reserves and Surplus		
	Surplus i.e. Balance in the statement of P&L	6,00,000	4,85,000
	Security Premium	—	15,000
		6,00,000	5,00,000
2.	Long-term Borrowing 8% Debenture	8,00,000	5,00,000
3.	Short-term Provision		
	Provision for tax	76,000	56,000

Additional Information:

1. Machinery was purchased by issue of additional shares.
2. Debenture were issued @ 5% Discount on Jan 1, 2025.

Sol.

W.N.I Net profit before tax & extraordinary item	₹	
Surplus i.e. Balance in the statement of P&L		
(6,00,000 – 48,5000)		1,15,000
Add: Provision for tax		76,000
		<u>1,91,000</u>

Cash flow statement for the year ended 31st March, 2025

Particulars	₹	₹
A. Cash flow from operating activities		
Net profit before tax & extraordinary item	1,91,000	
Adjustment for non-cash, non-operating item		
Add: Interest on Debenture	46,000	
	2,37,000	
Operating profit before working capital changes		
Add: Increase in current liabilities Trade payable	50,000	
Less: Increase in current Assets Inventories	4,00,000	
Operating Loss before tax	(1,13,000)	
Less: Tax paid	(56,000)	
Net cash used in operating activities	(1,69,000)	(1,69,000)
B. Cash flow from Investing Activities Purchase of Intangible Assets	(1,00,000)	
Net cash used in Investing Activities	(1,00,000)	(1,00,000)
C. Cash flow from financing Activities		
Proceeds from issue of Debenture	2,85,000	
Interest on Debenture	(46,000)	
Net cash flow financing activities	2,39,000	2,39,000

D. Net decrease in cash & cash equivalent (A + B + C)		(30,000)
E. Cash and cash equivalent in the beginning (78,000 + 78,000)		1,56,000
F. Cash & cash equivalent at the end (89,000 + 37,000)		1,26,000

Note: Discount on issue of denature was written off against securities premium.

PRACTICE QUESTIONS

Q.1 From the following Balance sheets of zeal Ltd. Prepare cash flow statement.

Particular	Note No.	31.3.2025 ₹	31.3.2024 ₹
I. Equity and Liabilities			
(1) Share holder's fund			
(a) Share capital		6,60,000	6,00,000
(b) Reserve and surplus		50,000	60,000
(2) Non-current liabilities			
Long-term borrowing		50,000	80,000
(3) Current liabilities			
(a) Short term borrowing	1	10,000	-
(b) Trade payable		1,94,000	2,48,000
(c) Short term provision	2	60,000	48,000
		10,24,000	10,36,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant & equipment & intangible assets			
(i) Property, Plant & equipment		5,20,000	4,00,000
(ii) Intangible assets	3	15,000	1,20,000
(b) Non-current investment		1,28,000	1,00,000
(2) Current assets			
(a) Inventories		1,25,000	1,40,000
(b) Trade receivables		1,96,000	2,60,000
(c) Cash and cash equivalent		40,000	16,000
		10,24,000	10,36,000

Notes to Accounts

	Particular	31.3.2025 ₹	31.3.24 ₹
1.	Short-term borrowing		
	Bank overdraft	10,000	—
2.	Short term provision:		
	Provision for tax	60,000	48,000
3.	Intangible assets:		
	Goodwill	15,000	1,00,000
	Patents	15,000	20,000

Additional information:

- (i) Machinery whose original cost was ₹1,00,000 (accumulated depreciation thereon ₹64,000) was sold for ₹20,000.
 - (ii) Depreciation on machinery charged during the year ₹50,000
 - (iii) Non-current investments costing ₹40,000 were sold for ₹64,000 during the year.
 - (iv) Interest paid on long-term borrowing ₹6,000.
- Sol. Cash from operating activities ₹1,80,000
cash used in investing activities ₹1,90,000
Cash from financing activities ₹34,000

Q.2 For each of the following transaction, calculate the resulting cash flow and state the nature of cash flow i.e. operating, investing and financing

- (a) Paid ₹4,50,000 to acquire shares in Infosys Ltd. and receive a dividend of ₹30,000 after acquisition.
- (b) Acquired machinery for ₹3,00,000 paying 30% down payment and executing a bond for the balance payable.
- (c) A machine with a book value of ₹50,000 provision for dep. on it ₹10,000 sold at a loss 20% on book value.
- (d) The patents of Roxy Ltd. increased from ₹4,00,000 to ₹6,50,000 in 2020-21.

- (e) 10% Debenture- ₹2,00,000 in 2019-20.
10% Debenture- ₹2,50,000 in 2020-21
- (f) Y LTD. purchased a machinery of ₹50,00,000 in instalments under hire purchase system, paid ₹5,00,000 towards Principal payment and ₹50,000 towards interest.

Solution:

- (a) Cash used in investing activity ₹4,20,000
 (b) ₹90,000 cash used in investing
 (c) Cash from investing activity ₹40,000
 (d) Cash used in investing activity ₹2,50,000
 (e) Cash flow from financing activity ₹30,000
 (f) Cash used investing activity ₹5,00,000
 Cash used in financing activity ₹50,000

Q. 3 P Ltd. Earned a profit of ₹ 2,50,000 after charging the following items.

S.No.	Particulars	(₹)
1.	Depreciation on Fixed Tangible Assets (Machinery)	20,000
2.	Loss on Sale of Fixed Tangible Assets (Furniture)	2,000
3.	Writing off Goodwill	9,000
4.	Provision for Doubtful Debts	2500
5.	Provision for Taxation	35,000
6.	Transfer to General Reserve	15,000
7.	Gain on sale of Fixed Tangible Assets (Machinery)	8,000

The following information about Assets and Liabilities is given

Particulars	31.3.2025 (₹)	31.3.2024 (₹)
Trade Receivable (All Good)	62,000	50,000
Trade Payables	55,000	45,000
Inventory	8,000	12,000
Income Received in Advance	—	8,000
Outstanding Expenses	3,000	6,000
Prepaid Expenses	5,000	—

Q4. Calculate cash flow from investing & financing activities

Particulars	31.3.25	31.3.24
Machinery	1,40,000	1,20,000
Patents	3,00,000	1,00,000
8% Long term investment	1,80,000	80,000
Investment in shares of Y Ltd.	1,00,000	1,00,000
Share capital	14,00,000	10,00,000
Share Issue Expenses	30,000	40,000
Land	50,00,000	50,00,000
8% Bank loan	4,00,000	4,00,000

Additional Information:

- A machinery costing ₹ 50,000 (dep. provided thereon being ₹ 20,000) was sold for ₹ 5,000. Depreciation charged during the year ₹ 10,000.
- Y its. paid dividend @ 20% on its shares
- A plot of land purchased for investment purpose & let out for commercial use on which rent received ₹ 40,000.
- On March 31, 2022, 8% investment were purchased for ₹ 2,00,000 & some investment were sold at a profit of ₹ 10,000.

Q5. (A) Match the following

Column A

- Cash with drawn from bank
- Issue of debenture at discount
- Purchase of goodwill

(B) Column A

- Payment of dividend by financial company

Column B

- Inflow of cash
- Outflow of cash
- No flow of cash

Column B

- Investing activity

- (ii) Receipt of dividend by financial company (b) Financing activity
- (iii) Receipt of dividend by manufacturing company (c) operating activity
- (iv) Sale of short-term investment (d) cash and cash equivalents

Q6. Answer the following questions

- (A) Both statements are correct
 - (B) Both statements are incorrect
 - (C) Statement I is correct & statement II is incorrect
 - (D) Statement I is incorrect and statement II is correct
- (A) Statement I: Receipt of dividend by a mutual fund company is an investing activity.
Statement II: Premium on Redemption of preference shares is inflow of cash
- (B) Statement I: Issue of bonus shares results in out flow of cash
Statement II: Increase in inventory results in outflow of cash.
- (C) Statement I: Payment of salary, bonus & wages is an operating activity.
Statement II: Acquisition of machinery by issue of debenture at discount is investing activity.

MCQs

Q7. Which of the following is cash flow from operating activity

- (a) Purchase of machinery
- (b) Issue of Bonus shares
- (c) Interest paid on term deposit by bank
- (d) sale of building at a loss

Q8. Which of the following is not a cash outflow

- (a) increases in creditors
- (b) increase in debtors
- (c) increase in stock
- (d) increase in prepaid expenses

- Q9.** Purchase of fixed assets on long-term deferred payment would result in
- (a) inflow of cash
 - (b) outflow of cash
 - (c) no flow of cash
 - (d) none of the above
- Q10.** Cash flow operations is equal to
- (a) Cash in hand
 - (b) Bank Balance
 - (c) Bank deposit with 100 days of maturity
 - (d) Both A and B
- Q11.** Cash from operations is equal to
- (a) Net profit increase in current assets
 - (b) Net profit decrease in current liabilities
 - (c) operating profit + adjustment of current assets & current liabilities
 - (d) All of the above
- Q12.** Aakash Ltd, a manufacturing company, purchased machinery for ₹30,00,000 paid salaries ₹40,000, received commission ₹20,000, issued shares ₹4,00,000 charged depreciation @ 10% on machinery during the year. It earned a profit of ₹3,00,000 for the current year. Cash flow from operating activities for the company.
- (a) ₹2,70,000
 - (b) ₹3,00,000
 - (c) ₹3,30,000
 - (d) ₹3,60,000

Q13. Balance Extract as at 31st March 2023

Particulars	31-3-2025 (₹)	31-3-2024 (₹)
Machinery	6,00,000	5,00,000
Less: Accumulated depreciation	2,00,000	1,50,000
	4,00,000	3,50,000

During the year a machinery costing ₹30,000 (Accumulated dep. ₹20,000 thereon) was sold at 10% profit.

- (a) Inflow of ₹1,21,000
- (b) Outflow of ₹1,30,000
- (c) Outflow of ₹1,15,000
- (d) Outflow of ₹1,19,000

Q14. Assertion & Reasoning based questions:

- (a) Both (A) and (R) are correct and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are correct but (R) is not correct explanation of (A).
- (c) (A) is correct but (R) is incorrect.
- (d) (A) is incorrect but (R) is correct.

1. Assertion (A): Cash flow statement is an analytical tool to determine the inflow & outflow of cash & cash equivalent during a financial year under appropriate heads:

Reason (R): Cash flow statement is prepared to show inflow and outflow under operating investing & financing activities.

2. Assertion (A): Sale of marketable securities will be classified as cash in flow under financing activity.

Reason (R): Marketable securities are considered as cash & cash equivalent. Hence they do not affect cash flows.

3. Assertion (A): Interest received by a financing company is investing activity.

Reason (R): Interest paid on redeemed debentures is considered as financing activity in case of manufacturing company.

4. Assertion (A): Amortization of intangible assets results in no flow of cash.

Reason (R): Increase in the value of intangible assets is considered as investing activity.

Case/Based MCQs

A Ltd. has provided the following information:

Particulars	31.3.25	31.3.24
9% Debenture	1,50,000	1,00,000
Fixed Assets (Net)	2,10,000	3,00,000
Equity share	4,20,000	5,00,000
Preference share	1,00,000	1,30,000
Investment	2,00,000	1,00,000
Marketable securities	30,000	30,000
Bank overdraft	40,000	70,000

Additional Information:

- (a) Fixed assets book value ₹ 70,000 was sold for ₹ 50,000.
- (b) Interest received ₹ 7,000.
- (c) Debenture issued at the end of financial year
1. While preparing cash flow statement, under what head will Bank overdraft will be recorded?
- (a) Investing
- (b) Operating
- (c) Financing
- (d) Cash & cash equivalent

2. While preparing cash flow statement, under what head will marketable securities be recorded?
 - (a) Investing
 - (b) Operating
 - (c) Financing
 - (d) Cash & cash equivalent

3. What is the amount of net cash flow/used in operating activities if net loss for the year ₹ 1,20,000?
 - (a) ₹ 64,000 inflow
 - (b) ₹ 64,000 outflow
 - (c) ₹ 78,000 inflow
 - (d) ₹ 78,00 outflow

4. What is the amount of net cash flow/used from investing activities?
 - (a) ₹ 89,000 inflow
 - (b) ₹ 99,000 outflow
 - (c) ₹ 78,000 inflow
 - (d) ₹ 1,00,000 outflow

Read the following hypothetical information & answer the following information.

Particulars	31.3.25	31.3.24
Surplus i.e. Balance in statement of profit & loss	4,00,000	3,00,000
Bills Receivables	1,50,000	1,20,000
Accumulated Depreciation	2,80,000	1,90,000
Bills payables	90,000	1,20,000
Outstanding expenses	50,000	26,000

Series ZYWX1

Set - 1



प्रश्न-पत्र कोड
Q.P. Code 67/5/1

अनुक्रमांक
Roll No.

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परीक्षार्थी प्रश्न-पत्र कोड को उत्तर-पुस्तिका के मुख-पृष्ठ पर अवश्य लिखें।

Candidates must write the Q.P. Code on the title page of the answer-book.

- कृपया जाँच कर लें कि इस प्रश्न-पत्र में मुद्रित पृष्ठ 31 हैं।
- कृपया जाँच कर लें कि इस प्रश्न-पत्र में 34 प्रश्न हैं।
- प्रश्न-पत्र में दाहिने हाथ की ओर दिए गए प्रश्न-पत्र कोड को परीक्षार्थी उत्तर-पुस्तिका के मुख-पृष्ठ पर लिखें।
- कृपया प्रश्न का उत्तर लिखना शुरू करने से पहले, उत्तर-पुस्तिका में प्रश्न का क्रमांक अवश्य लिखें।
- इस प्रश्न-पत्र को पढ़ने के लिए 15 मिनट का समय दिया गया है। प्रश्न-पत्र का वितरण पूर्वाह्न में 10.15 बजे किया जाएगा। 10.15 बजे से 10.30 बजे तक परीक्षार्थी केवल प्रश्न-पत्र को पढ़ेंगे और इस अवधि के दौरान वे उत्तर-पुस्तिका पर कोई उत्तर नहीं लिखेंगे।
- Please check that this question paper contains 31 printed pages.
- Please check that this question paper contains 34 questions.
- Q.P. Code given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
- Please write down the serial number of the question in the answer-book before attempting it.
- 15 minute time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the candidates will read the question paper only and will not write any answer on the answer-book during this period.



लेखाशास्त्र
ACCOUNTANCY



निर्धारित समय : 3 घण्टे
Time allowed : 3 hours

अधिकतम अंक : 80
Maximum Marks : 80

Read the following instructions carefully and follow them :

- (i) *This question paper contains 34 questions. All questions are compulsory.*
- (ii) *This question paper is divided into two Parts : **Part – A** and **Part – B**.*
- (iii) ***Part – A** is compulsory for all candidates.*
- (iv) ***Part – B** has two options. Candidates must attempt only one of the given options.*

Option-I : Analysis of Financial Statements

Option-II : Computerised Accounting

- (v) *Questions number 1 to 16 (Part-A) and Questions number 27 to 30 (Part-B) are multiple choice questions. Each question carries 1 mark.*
- (vi) *Questions number 17 to 20 (Part-A) and Questions number 31 and 32 (Part-B) are Short answer type questions. Each question carries 3 marks.*
- (vii) *Questions number 21, 22 (Part-A) and Question number 33 (Part-B) are Long answer type-I questions. Each question carries 4 marks.*
- (viii) *Questions number 23 to 26 (Part-A) and Question number 34 (Part-B) are Long answer type-II questions. Each question carries 6 marks.*
- (ix) *There is no overall choice. However, an internal choice has been provided in few questions in each of the parts.*

PART – A

(Accounting for Partnership Firms and Companies)

1. Sara and Tara were partners in a firm. Their capitals as on 1st April, 2023 were ₹ 6,00,000 and ₹ 4,00,000 respectively. On 1st October, 2023, Tara withdrew ₹ 1,00,000 for personal use. According to the partnership deed, interest on capital was allowed @ 8% p.a.
The amount of interest allowed on Tara's capital for the year ended 31st March, 2024 was :
- (A) ₹ 28,000 (B) ₹ 30,000
(C) ₹ 48,000 (D) ₹ 32,000
2. **Assertion (A)** : Each partner carrying on the business of the firm is the principal as well as the agent for all the other partners of the firm.
Reason (R) : There exists a relationship of mutual agency between all the partners.
Choose the correct option from the following :
- (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is correct, but Reason (R) is incorrect.
(D) Assertion (A) is incorrect, but Reason (R) is correct.
3. (a) VL Ltd. offered for public subscription 90,000 equity shares of ₹ 10 each at a premium of 10%. The entire amount was payable on application. Applications were received for 1,00,000 shares and allotment was made to all the applicants on pro-rata basis. The amount received on application was _____.
- (A) ₹ 10,00,000 (B) ₹ 9,00,000
(C) ₹ 9,90,000 (D) ₹ 11,00,000
- OR**
- (b) VX Ltd. issued 30,000, 8% debentures of ₹ 100 each at a discount of 10% redeemable at a certain rate of premium. On issue of these debentures, 'Loss on issue of debentures account' was debited with ₹ 4,50,000. The amount of premium on redemption of debentures was _____.
- (A) ₹ 3,00,000 (B) ₹ 1,50,000
(C) ₹ 30,000 (D) ₹ 4,50,000

4. (a) Kartik, Inder and Lalit were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. With effect from 1st April, 2024, they decided to share profits and losses in the ratio of 2 : 3 : 4. For this purpose, the goodwill of the firm was valued at ₹ 1,80,000.
The necessary journal entry to show the effect of the above will be :

	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
(A)	Lalit's Capital A/c Dr. To Kartik's Capital A/c	40,000	40,000
(B)	Kartik's Capital A/c Dr. To Lalit's Capital A/c	40,000	40,000
(C)	Lalit's Capital A/c Dr. To Kartik's Capital A/c	1,80,000	1,80,000
(D)	Kartik's Capital A/c Dr. To Lalit's Capital A/c	1,80,000	1,80,000

1

OR

- (b) Nidhi, Pranav and Ishu were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 1. With effect from 1st April, 2024, they decided to share profits and losses in the ratio of 4 : 1 : 5. On that date, there was a debit balance of ₹ 4,00,000 in the Profit and Loss Account. The necessary journal entry to show the effect of the above will be :

	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
(A)	Ishu's Capital A/c Dr. To Nidhi's Capital A/c To Pranav's Capital A/c	1,60,000	40,000 1,20,000
(B)	Profit & Loss A/c Dr. To Nidhi's Capital A/c To Pranav's Capital A/c To Ishu's Capital A/c	4,00,000	2,00,000 1,60,000 40,000
(C)	Nidhi's Capital A/c Dr. Pranav's Capital A/c Dr. Ishu's Capital A/c Dr. To Profit & Loss A/c	2,00,000 1,60,000 40,000	4,00,000
(D)	Nidhi's Capital A/c Dr. Pranav's Capital A/c Dr. To Ishu's Capital A/c	40,000 1,20,000	1,60,000

1

5. Moksh and Pran were partners in a firm sharing profits and losses in the ratio of 1 : 2. Their capitals were ₹ 5,00,000 and ₹ 3,00,000 respectively. They admitted Tushar as a new partner on 1st April, 2024 for 1/4th share in future profits. Tushar brought ₹ 4,00,000 as his share of capital. The goodwill of the firm on Tushar's admission will be :
- (A) ₹ 16,00,000 (B) ₹ 4,00,000
(C) ₹ 8,00,000 (D) ₹ 12,00,000 1
6. Money received in advance from the shareholders before it is actually called up by the directors is :
- (A) credited to calls in advance account.
(B) debited to calls in advance account.
(C) credited to calls account.
(D) debited to calls in arrears account. 1
7. (a) Debentures in respect of which all details including names, addresses and particulars of holding of the debenture holders are entered in a register kept by the company are called :
- (A) Bearer debentures (B) Redeemable debentures
(C) Registered debentures (D) Secured debentures 1
- OR**
- (b) That portion of the called up capital which has been actually received from the shareholders is known as :
- (A) Paid up capital (B) Called up capital
(C) Uncalled capital (D) Reserve capital 1
8. (a) Misha, Sarita and Isha were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. With effect from 1st April 2024, they decided that they will share profits and losses equally. The gain or sacrifice by the partners due to change in profit sharing ratio will be :
- (A) Misha's sacrifice 1/6, Isha's gain 1/6
(B) Misha's gain 1/6, Isha's sacrifice 1/6
(C) Misha's sacrifice 1/6, Sarita's gain 1/3, Isha's sacrifice 1/6
(D) Misha's sacrifice 1/3, Isha's gain 1/3 1

OR

- (b) Sia, Tisha and Aryan were partners sharing profits and losses in the ratio of 4 : 7 : 1. The firm closes its books on 31st March every year. Tisha died on 1st July, 2024. Sia and Aryan will acquire Tisha's share in which of the following ratio ?
- (A) 1 : 1 (B) 4 : 1
(C) 4 : 7 (D) 7 : 1 1
9. Anuj and Kartik were partners in a firm sharing profits and losses in the ratio of 5 : 4. Anuj withdrew ₹ 20,000 in the beginning of every alternate month starting from 1st April, 2023 during the year ended 31st March, 2024. Interest on Anuj's drawings @ 6% p.a. for the year ended 31st March, 2024 will be :
- (A) ₹ 8,400 (B) ₹ 1,200
(C) ₹ 4,200 (D) ₹ 3,600 1
10. (a) Vishesh, Manik and Amit were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 1. Amit retired on 31st March, 2024. Vishesh and Manik acquired Amit's share in the ratio of 2 : 3. The new profit sharing ratio between Vishesh and Manik after Amit's retirement will be :
- (A) 5 : 4 (B) 2 : 3
(C) 1 : 1 (D) 27 : 23 1
- OR**
- (b) Varsha, Aryan and Nimit were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Varsha retired and surrendered 1/3rd of her share in favour of Aryan and the remaining share in favour of Nimit. The new profit sharing ratio between Aryan and Nimit will be :
- (A) 2 : 1 (B) 8 : 7
(C) 1 : 2 (D) 1 : 1 1
11. When the partners' capitals are fixed, the drawings made by a partner are recorded on the :
- (A) Debit side of Partner's Capital Account.
(B) Credit side of Partner's Capital Account.
(C) Debit side of Partner's Current Account.
(D) Credit side of Partner's Current Account. 1
12. 4,000 shares of ₹ 10 each were forfeited for non-payment of second and final call money of ₹ 2 per share. The minimum amount that the company must collect at the time of reissue of these shares will be :
- (A) ₹ 8,000 (B) ₹ 32,000
(C) ₹ 40,000 (D) ₹ 48,000 1

13. On 1st April 2023, Veebee Ltd. issued 20,000, 13% debentures of ₹ 100 each at a discount of 10% redeemable at a premium of 5% after 4 years. Total amount of interest on debentures for the year ending 31st March, 2024 will be :
- (A) ₹ 2,00,000 (B) ₹ 2,60,000
(C) ₹ 1,00,000 (D) ₹ 3,00,000 1
14. Arushi, Vivaan and Mitali were partners in a firm. On 31st March 2024, the firm was dissolved. On that date the firm had debtors of ₹ 60,000 and provision for doubtful debts of ₹ 3,000 were existing in the books. Debtors of ₹ 8,000 proved bad and full amount was realised from the remaining debtors. The amount realised from debtors was :
- (A) ₹ 60,000 (B) ₹ 55,000
(C) ₹ 52,000 (D) ₹ 49,000 1
15. Ashmit, Veena and Rohan were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Veena retired on 31st March, 2024. The capital accounts of Ashmit, Veena and Rohan showed a credit balance of ₹ 2,00,000, ₹ 1,80,000 and ₹ 1,20,000 respectively after making all adjustments relating to revaluation, goodwill, reserves etc. Veena was paid in cash brought in by Ashmit and Rohan in such a way that their capitals were in proportion to their new profit sharing ratio. The new capitals of Ashmit and Rohan will be :
- (A) Ashmit ₹ 3,75,000 and Rohan ₹ 1,25,000
(B) Ashmit ₹ 2,00,000 and Rohan ₹ 1,20,000
(C) Ashmit ₹ 2,50,000 and Rohan ₹ 2,50,000
(D) Ashmit ₹ 3,00,000 and Rohan ₹ 2,00,000 1
16. Nita, Vidur and Mita were partners in a firm sharing profits and losses in the ratio of 3 : 4 : 1. On 1st April 2024, they decided to admit Samir as a new partner. The new profit sharing ratio between Nita, Vidur, Mita and Samir will now be 1 : 1 : 1 : 1. The balance sheet of Nita, Vidur and Mita before Samir's admission showed machinery at ₹ 6,00,000. On the date of admission, it was found that the machinery is overvalued by 20%. The value of machinery shown in the new Balance Sheet after Samir's admission will be :
- (A) ₹ 7,50,000 (B) ₹ 4,80,000
(C) ₹ 7,20,000 (D) ₹ 5,00,000 1

17. Zaina, Yash and Kiran were partners in a firm sharing profits and losses in the ratio 2 : 2 : 1. Zaina died on 1st July, 2024. As per the partnership deed, Zaina's share of profit or loss till the date of her death was to be calculated on the basis of sales.
Sales for the year ended 31st March, 2024 amounted to ₹ 4,00,000 and that from 1st April to 30th June, 2024 was ₹ 1,50,000. The profit for the year ending 31st March, 2024 was calculated as ₹ 1,00,000. The books of accounts are closed on 31st March every year.
Calculate Zaina's share of profit in the firm till the date of her death and pass necessary journal entry for the same. 3
18. (a) The firm of Amish, Nitish and Misha, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for some years. Misha wanted that she should get equal share in the profits with Amish and Nitish and she further wished that the change in the profit sharing ratio should come into effect retrospectively for the last three years. Amish and Nitish had agreement for this.
The profits for the last three years were :
2021 – 22 ₹ 1,15,000
2022 – 23 ₹ 1,24,000
2023 – 24 ₹ 2,11,000
Show adjustment of profits by means of a single adjustment journal entry. Show your working clearly. 3
- OR**
- (b) Vidhi, Manas and Ansh were partners sharing profits and losses in the ratio of 2 : 3 : 5. Ansh was given a guarantee that his share of profits in any given year would not be less than ₹ 1,20,000. Deficiency, if any, would be borne by Vidhi and Manas equally. Profits for the year ended 31st March, 2024 amounted to ₹ 2,00,000.
Pass necessary journal entries in the books of the firm for division of profits. 3
19. (a) Delight Ltd. purchased assets worth ₹ 4,00,000 and took over liabilities of ₹ 70,000 of Marvel Ltd. for a purchase consideration of ₹ 3,60,000. Delight Ltd. paid the purchase consideration by issuing 11% debentures of ₹ 100 each at a premium of 20%.
Pass necessary journal entries in the books of Delight Ltd. 3
- OR**
- (b) Prime Ltd. took over assets of ₹ 6,00,000 and liabilities of ₹ 1,00,000 of Rabi Ltd. for a purchase consideration of ₹ 3,60,000. Prime Ltd. issued 10% debentures of ₹ 100 each at a discount of 10% in full satisfaction of purchase consideration.
Pass necessary journal entries in the books of Prime Ltd. 3

20. The capital of the firm of Rajat and Karan is ₹ 15,00,000 and the market rate of interest is 12%. Annual salary of Rajat and Karan is ₹ 20,000 and ₹ 30,000 respectively. The profits for the last three years were ₹ 2,40,000, ₹ 2,80,000 and ₹ 3,20,000.
Goodwill of the firm is to be valued on the basis of two years purchase of last three years' average super profits. Calculate the goodwill of the firm. 3

21. Pass necessary journal entries for issue of debentures for the following transactions : 4

(i) Kiero Ltd. issued 80,000, 9% debentures of ₹ 100 each at par, redeemable at a premium of 10%.

(ii) Naro Ltd. issued 50,000, 10% debentures of ₹ 100 each at a premium of 5%, redeemable at a premium of 10%.

22. Raja, Bharat and Vedika were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2024 was as follows :

Balance Sheet of Raja, Bharat and Vedika as on 31st March, 2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	80,000	Bank	15,000
General Reserve	50,000	Stock	70,000
Capitals :		Debtors	85,000
Raja 1,10,000		Furniture	1,20,000
Bharat 1,00,000		Machinery	1,40,000
Vedika 90,000	3,00,000		
	4,30,000		4,30,000

Vedika died on 31st July, 2024. According to the partnership deed, her legal representatives are entitled to the following :

- (i) Balance in her capital account
- (ii) Interest on capital @ 8% p.a.
- (iii) Her share in the profit upto the date of death to be calculated on the basis of last year's profit. Vedika's share of profit was ₹ 3,000.
- (iv) Her share of goodwill calculated on the basis of two years purchase of average profits of last three years. The average profit of last three years was ₹ 40,000. Vedika's drawings upto the date of death were ₹ 12,000.

Prepare Vedika's Capital Account to be rendered to her executors. 4

23. PL Ltd. was registered with an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The company offered to the public for subscription 90,000 equity shares.

Applications were received for 82,000 equity shares and shares were allotted to all the applicants. All money due was received with the exception of first and final call money of ₹ 2 per share on 2,000 shares allotted to Atishay. His shares were forfeited.

Answer the following questions :

- (i) The amount of 'Calls in Arrears' disclosed in 'Notes to Accounts' will be :
- (A) ₹ 4,000 (B) ₹ 16,000
(C) Nil (D) ₹ 20,000
- (ii) The number of shares of PL Ltd. after forfeiture will be :
- (A) 98,000 (B) 88,000
(C) 82,000 (D) 80,000
- (iii) In the 'Notes to Accounts', the amount disclosed under 'Share Forfeiture Account' will be :
- (A) ₹ 16,000 (B) ₹ 4,000
(C) ₹ 20,000 (D) Nil
- (iv) In the 'Notes to Accounts', the amount disclosed under 'Issued Capital' will be :
- (A) ₹ 10,00,000 (B) ₹ 9,00,000
(C) ₹ 8,20,000 (D) ₹ 8,00,000
- (v) Balance in 'Share Forfeiture Account' will be shown in 'Notes to Accounts' in the balance sheet of PL Ltd. under :
- (A) Authorised capital
(B) Issued capital
(C) Subscribed capital
(D) Will not be shown in 'Notes to Accounts'
- (vi) The amount of 'Share Capital' disclosed in the balance sheet of PL Ltd. will be :
- (A) ₹ 8,00,000 (B) ₹ 8,16,000
(C) ₹ 9,16,000 (D) ₹ 7,90,000

6

24. Pass the necessary journal entries for the following transactions on the dissolution of a partnership firm of Vibha and Ajit after various assets (other than cash) and external liabilities have been transferred to Realisation Account :

- (i) Creditors worth ₹ 46,000 accepted ₹ 9,000 cash and furniture of ₹ 32,000 in full settlement of their claim.
- (ii) The firm had stock of ₹ 20,000. Ajit took over 40% of the stock at a discount of 10% while the remaining stock was sold for ₹ 18,000.

- (iii) Vibha was appointed to look after dissolution work for which she was allowed a remuneration of ₹ 16,000. Vibha agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 15,000 were paid by Vibha.
- (iv) Ajit's loan of ₹ 45,000 was settled at ₹ 42,000.
- (v) A machine which was not recorded in the books was taken over by Vibha at ₹ 23,000, whereas its expected value was ₹ 28,000.
- (vi) The firm had a debit balance of ₹ 20,000 in the Profit and Loss Account on the date of dissolution.

6

25. (a) Altima Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 4 per share. The amount was payable as follows :

On application and allotment – ₹ 7 per share (including premium ₹ 1)

On first and final call – Balance

Applications were received for 2,40,000 shares. Applications for 30,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Excess money received on application and allotment was returned. Manvi, who was allotted 4,000 shares failed to pay the first and final call money. Her shares were forfeited. All the forfeited shares were reissued at ₹ 4 per share fully paid up.

Pass necessary journal entries in the books of Altima Ltd.

6

OR

- (b) Pass necessary journal entries for forfeiture and reissue of forfeited shares in the following cases :
 - (i) Macil Ltd. forfeited 3,000 shares of ₹ 100 each issued at 20% premium for the non-payment of allotment money of ₹ 30 per share and first call of ₹ 40 per share (including premium ₹ 10). The second and final call of ₹ 30 per share (including premium ₹ 10) was not yet called. Out of these, 2,000 shares were reissued at ₹ 80 per share paid up for ₹ 90 per share.
 - (ii) Avian Ltd. forfeited 10,000 shares of ₹ 10 each on which the first call of ₹ 4 per share was not received and the second and final call of ₹ 1 per share was not yet called. Out of these, 4,000 shares were reissued to Ajay as fully paid up for ₹ 9 per share.

6

26. (a) Aryan and Adya were partners in a firm sharing profits and losses in the ratio of 3 : 1. Their Balance Sheet on 31st March, 2024 was as follows :

Balance sheet of Aryan and Adya as at 31st March, 2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Machinery	3,90,000
Aryan 3,20,000		Furniture	80,000
Adya <u>2,40,000</u>	5,60,000	Debtors 90,000	
Workmen's		Less : provision for	
Compensation Reserve	20,000	doubtful debts <u>1,000</u>	89,000
Bank loan	60,000	Stock	77,000
Creditors	48,000	Cash	32,000
		Profit & Loss Account	20,000
	6,88,000		6,88,000

Dev was admitted into the firm on 1st April, 2024 for 1/5th share in the profits of the firm on the following terms :

- (i) Dev will bring capital proportionate to his share in the profits of the firm.
 - (ii) Goodwill of the firm was valued at ₹ 2,00,000 and Dev will bring his share of goodwill premium in cash.
 - (iii) Machinery was revalued at ₹ 4,50,000.
 - (iv) A provision for doubtful debts was to be created at 5% on debtors.
 - (v) A liability of ₹ 3,500 included in creditors was not likely to arise.
- Prepare Revaluation Account and Partners' Capital Accounts on Dev's admission.

6

OR

- (b) Ashish, Vinit and Reema were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet on 31st March, 2024 was as follows :

Balance sheet of Ashish, Vinit and Reema as at 31st March, 2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Patents	80,000
Ashish 2,00,000		Furniture	3,00,000
Vinit 2,00,000		Stock	1,70,000
Reema <u>1,00,000</u>	5,00,000	Debtors 80,000	
General Reserve	50,000	Less : provision for	
Bills Payable	80,000	doubtful debts <u>8,000</u>	72,000
Creditors	40,000	Cash	48,000
	6,70,000		6,70,000

- (i) Goodwill of the firm was valued at ₹ 60,000 and the same was adjusted into the capital accounts of Ashish and Reema who will share profits in future in the ratio of 3 : 2.
- (ii) Value of stock was to be reduced by ₹ 10,000.
- (iii) Patents are found undervalued by 20%.
- (iv) Vinit was paid ₹ 20,000 immediately on retirement and the balance was transferred to his loan account carrying interest @ 8% p.a.

Pass necessary journal entries on Vinit's retirement.

6

PART – B

OPTION I

(Analysis of Financial Statements)

27. (a) The tool of analysis of financial statements which indicates the trend and direction of financial position and operating results is _____.
- (A) Comparative Statements (B) Common Size Statements
(C) Cash Flow Analysis (D) Ratio Analysis

1

OR

- (b) Ratios that are calculated for measuring the efficiency of operations of the business based on effective utilization of resources are known as _____.
- (A) Profitability ratios (B) Solvency ratios
(C) Turnover ratios (D) Liquidity ratios
28. The Debt Equity Ratio of Manak Enterprises is 2.5 : 1. Which of the following transaction will result in increase in this ratio ?
- (A) Purchase of goods on credit ₹ 2,00,000.
(B) Payment to creditors ₹ 3,00,000.
(C) Issue of debentures ₹ 6,00,000.
(D) Sale of furniture of the book value of ₹ 4,00,000 at a profit of 10%.
29. (a) Which of the following are operating activities for the purpose of preparing cash flow statement ?
- (i) Cash payments to suppliers for goods and services.
(ii) Dividend received from investments in other enterprises.
(iii) Cash receipts from royalties, fees, commissions and other revenues.
(iv) Cash repayments of amounts borrowed.
- (A) (i), (ii) and (iii) (B) (i) and (iii)
(C) (i), (iii) and (iv) (D) (iii) and (iv)

1

1

1

OR

(b) Which of the following statements is incorrect?

- (A) Payment of dividend and interest will result in cash outflow from financing activities.
- (B) Payment of employee benefit expenses will result in cash outflows from operating activities.
- (C) Receipt of interest and dividend will result in cash inflow from financing activities.
- (D) Operating activities are the principal revenue generating activities of the enterprise.

1

30. **Statement – I** : Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Statement – II : Cash payments to acquire fixed assets including intangibles and capitalised research and development results in cash outflow from investing activities.

Choose the correct option from the following :

- (A) Both the Statements are true.
- (B) Both the Statements are false.
- (C) Only Statement I is true.
- (D) Only Statement II is true.

1

31. Classify the following items under major heads and sub-heads (if any) in the Balance Sheet of the company as per Schedule-III, Part-I of the Companies Act, 2013 :
- (i) Computer software
 - (ii) Outstanding salary
 - (iii) Work in progress
32. From the following information of CN Ltd., prepare a common size Statement of Profit and Loss for the years ended 31st March, 2023 and 31st March 2024 :

3

Particulars	2023-24 (₹)	2022-23 (₹)
Revenue from operations	40,00,000	20,00,000
Purchase of stock-in-trade	8,00,000	4,00,000
Other expenses	4,00,000	2,00,000
Tax @ 50%		

3

33. (a) Calculate opening and closing Trade Payables from the following information :
 Total purchases ₹ 15,00,000;
 Cash purchases are 25% of credit purchases;
 Trade payables turnover ratio is 4 times;
 Closing trade payables are two times of opening trade payables. 4

OR

- (b) From the following information, calculate 'Return on Investment' :
 Shareholders Funds ₹ 16,00,000
 10% Debentures ₹ 8,00,000
 Current Liabilities ₹ 2,00,000
 Current Assets ₹ 5,00,000
 Non-Current Assets ₹ 21,00,000
 Net profit after tax was ₹ 3,00,000 and the tax amounted to ₹ 1,00,000. 4

34. (a) From the following information, calculate Cash Flows from Investing Activities :

Particulars	31-3-2024 (₹)	31-3-2023 (₹)
Machinery (at cost)	3,80,000	3,00,000
Accumulated Depreciation	62,000	45,000

Additional Information :

A machine costing ₹ 50,000 on which accumulated depreciation was ₹ 20,000 was sold at a profit of 10%.

- (b) From the following information, calculate Cash flows from Financing Activities :

Particulars	31-3-2024 (₹)	31-3-2023 (₹)
Equity Share Capital	12,00,000	8,00,000
11% Debentures	3,00,000	4,00,000
Securities Premium	1,40,000	1,00,000

Additional Information :

Interest paid on debentures amounted to ₹ 40,000. 6

PART – B

OPTION – II

(Computerised Accounting)

27. (a) Which of the following is not an advantage of Computerised Accounting System ?
 (A) Timely generation of reports in desired format.
 (B) Unprogrammed and un-specific reports cannot be generated.
 (C) Economy in processing of accounting data.
 (D) Efficient record keeping. 1

OR

- (b) The need for codification is for :
- (A) easy processing of data and keeping the records.
 (B) generation of mnemonic codes.
 (C) to secure accounting reports.
 (D) the encryption of data. 1
28. To see all the available shape styles, which of the following button is to be clicked ?
- (A) More (B) Custom
 (C) Chart root (D) Picture 1
29. (a) To safeguard assets and optimise the use of resources of a business :
- (A) shield and secure its assets only.
 (B) try to earn sufficient profits only.
 (C) keep internal checks and controls.
 (D) ensure accuracy in accounting records only. 1
- OR**
- (b) Which of the following item is not included in Account group-loans (liabilities) in the Account group of Balance Sheet ?
- (A) Bank overdraft (B) Sundry creditors
 (C) Unsecured loans (D) Secured loans 1
30. Which of the following is an adjustment voucher normally used for non-cash transaction ?
- (A) Payment voucher (B) Receipt voucher
 (C) Contra voucher (D) Journal voucher 1
31. What is meant by 'Data', 'Information' and 'Transaction' ? 3
32. List six features of an Accounting Software. 3
33. (a) Each and every data from Notepad file can be saved as an Excel data file. This provides a lead that Excel worksheet consists of four types of data in cell. Name and state these data types. 4
- OR**
- (b) What is meant by 'Data Validation' ? What is facilitated by 'Error Alert Tab' ? 4
34. 'Different chart elements can be formatted and edited as per requirement.' State various options available to a user, when he/she wants to change 'shape style'. 6

-

MARKING SCHEME ACCOUNTANCY (055) EXPECTED ANSWERS / VALUE POINTS																		
SECTION A																		
67 /1 /1																		
1	<p>Q. Sara and Tara were partners....</p> <p>Ans. (D) ₹32,000</p>	1 mark																
2	<p>Q. Assertion (A): Each partner carrying....</p> <p>Ans. (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).</p>	1 mark																
3	<p>Q. (a) VL Ltd. offered for public subscription...</p> <p>Ans. (D) ₹11,00,000</p> <p style="text-align: center;">OR</p> <p>Q. (b) VX Ltd. issued 30,000, 8% Debentures...</p> <p>Ans. (B) ₹1,50,000</p>	1 mark OR 1 mark																
4	<p>Q. (a) Kartik, Inder and Lalit were partners....</p> <p>Ans. (A)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 60%;">Particulars</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 15%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">(A)</td> <td>Lalit's Capital A/c Dr. To Kartik's Capital A/c</td> <td style="text-align: center;">40,000</td> <td style="text-align: center;">40,000</td> </tr> </tbody> </table> <p style="text-align: center;">OR</p> <p>Q. (b) Nidhi, Pranav and Ishu were partners....</p> <p>Ans. (C)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 60%;">Particulars</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 15%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">(C)</td> <td>Nidhi's Capital A/c Dr. Pranav's Capital A/c Dr. Ishu's Capital A/c Dr. To Profit & Loss A/c</td> <td style="text-align: center;">2,00,000 1,60,000 40,000</td> <td style="text-align: center;">4,00,000</td> </tr> </tbody> </table>		Particulars	Dr. Amount (₹)	Cr. Amount (₹)	(A)	Lalit's Capital A/c Dr. To Kartik's Capital A/c	40,000	40,000		Particulars	Dr. Amount (₹)	Cr. Amount (₹)	(C)	Nidhi's Capital A/c Dr. Pranav's Capital A/c Dr. Ishu's Capital A/c Dr. To Profit & Loss A/c	2,00,000 1,60,000 40,000	4,00,000	1 mark OR 1 mark
	Particulars	Dr. Amount (₹)	Cr. Amount (₹)															
(A)	Lalit's Capital A/c Dr. To Kartik's Capital A/c	40,000	40,000															
	Particulars	Dr. Amount (₹)	Cr. Amount (₹)															
(C)	Nidhi's Capital A/c Dr. Pranav's Capital A/c Dr. Ishu's Capital A/c Dr. To Profit & Loss A/c	2,00,000 1,60,000 40,000	4,00,000															

5	<p>Q. Moksh and Pran were partners in a firm...</p> <p>Ans. (B) ₹4,00,000</p>	1 mark
6	<p>Q. Money received in advance from the shareholders...</p> <p>Ans. (A) Credited to calls in advance account</p>	1 mark
7	<p>Q. (a) Debentures in respect of which all details....</p> <p>Ans. (C) Registered debentures</p> <p style="text-align: center;">OR</p> <p>(b) That portion of the called up.....</p> <p>Ans. (A) Paid up capital</p>	1 mark OR 1 mark
8	<p>Q. Misha, Sarita and Isha were partners</p> <p>Ans. (A) Misha's sacrifice 1/6, Isha's gain 1/6</p> <p style="text-align: center;">OR</p> <p>Q. (b) Sia, Tisha and Aryan were partners sharing...</p> <p>Ans. (B) 4:1</p>	1 mark OR 1 mark
9	<p>Q. Anuj and Kartik were partners in a firm...</p> <p>Ans.(C) ₹4,200</p>	1 mark
10	<p>Q. (a) Vishesh, Manik and Amit were partners...</p> <p>Ans. (D) 27:23</p> <p style="text-align: center;">OR</p> <p>Q. (b) Varsha, Aryan and Nimit.....</p> <p>Ans. (B) 8:7</p>	1 mark OR 1 mark
11	<p>Q. When the Partners' capitals are fixed...</p> <p>Ans. (C) Debit side of Partner's Current Account.</p>	1 mark
12	<p>Q. 4,000 shares of ₹10 each were forfeited...</p> <p>Ans. (A) ₹8,000</p>	1 mark
13	<p>Q. On 1st April 2023, Veebee Ltd. issued 20,000, 13% debentures...</p> <p>Ans. (B) ₹2,60,000</p>	1 mark

14	<p>Q. Arushi, Vivaan and Mitali were partners..</p> <p>Ans. (C) ₹52,000</p>	1 mark										
15	<p>Q. Ashmit, Veena and Rohan were partners in a firm...</p> <p>Ans.(A) Ashmit ₹3,75,000 and Rohan ₹1,25,000</p>	1 mark										
16	<p>Q. Nita, Vidur and Mita were partners in a firm...</p> <p>Ans. (D) ₹5,00,000</p>	1 mark										
17	<p>Q. Zaina, Yash and Kiran were partners in a firm..</p> <p>Ans.</p> <p style="text-align: center;">Books of Zaina, Yash and Kiran Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 50%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 15%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td>2024 July 1</td> <td>Profit and Loss Suspense A/c Dr. To Zaina's Capital A/c (Zaina's share of profit transferred to her capital account)</td> <td></td> <td style="text-align: center;">15,000</td> <td style="text-align: center;">15,000</td> </tr> </tbody> </table> <p>Calculation of Firm's profits till Zaina's death:</p> <p>If sale is ₹4,00,000, the profit = ₹1,00,000</p> <p>If sale is ₹1,50,000, the profit = $\frac{₹1,00,000}{₹4,00,000} \times ₹1,50,000$</p> <p style="text-align: center;">= ₹37,500</p> <p>Calculation of Zaina's share of profit till death = ₹37,500 x 2/5</p> <p style="text-align: center;">= ₹15,000</p> <p><i>(If an examinee has shown correct calculation in any other form, full credit is to be given)</i></p>	Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)	2024 July 1	Profit and Loss Suspense A/c Dr. To Zaina's Capital A/c (Zaina's share of profit transferred to her capital account)		15,000	15,000	<p>1 ½</p> <p>+</p> <p>1 ½</p> <p>=</p> <p>3 marks</p>
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)								
2024 July 1	Profit and Loss Suspense A/c Dr. To Zaina's Capital A/c (Zaina's share of profit transferred to her capital account)		15,000	15,000								
18	<p>Q. (a) The firm of Amish, Nitish and Misha...</p> <p>Ans.</p> <p style="text-align: center;">Books of Amish, Nitish and Misha Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 50%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 15%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td></td> <td>Amish's Capital A/c Dr. Nitish's Capital A/c Dr. To Misha's Capital A/c (Adjustment of profit for the last three years on account of change in profit sharing ratio)</td> <td></td> <td style="text-align: center;">30,000 30,000</td> <td style="text-align: center;">60,000</td> </tr> </tbody> </table>	Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)		Amish's Capital A/c Dr. Nitish's Capital A/c Dr. To Misha's Capital A/c (Adjustment of profit for the last three years on account of change in profit sharing ratio)		30,000 30,000	60,000	1½
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)								
	Amish's Capital A/c Dr. Nitish's Capital A/c Dr. To Misha's Capital A/c (Adjustment of profit for the last three years on account of change in profit sharing ratio)		30,000 30,000	60,000								

Adjustment Table				
Partners	Dr. Profits (₹) 2:2:1	Cr. Profits (₹) 1:1:1	Ner Effect	
			Dr. (₹)	Cr. (₹)
Amish	1,80,000	1,50,000	30,000	
Nitish	1,80,000	1,50,000	30,000	
Misha	90,000	1,50,000		60,000
	4,50,000	4,50,000	60,000	60,000

(If an examinee has shown the correct working in any other form, full credit should be given)

OR

Q. (b) Vidhi, Manas and Ansh were partners sharing...

Ans.

**Books of Vidhi, Manas and Ansh
Journal**

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
2024 Mar.31	Profit & Loss Appropriation A/c Dr. To Vidhi's Capital A/c To Manas's Capital A/c To Ansh's Capital A/c (Profit distributed among the partners in their profit sharing ratio)		2,00,000	40,000 60,000 1,00,000
"	Vidhi's Capital A/c Dr. Manas's Capital A/c Dr. To Ansh's Capital A/c (Deficiency for Ansh borne by Vidhi and Manas equally)		10,000 10,000	20,000

Alternate Answer:

**Books of Vidhi, Manas and Ansh
Journal**

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
2024 Mar.31	Profit & Loss Appropriation A/c Dr. To Vidhi's Capital A/c To Manas's Capital A/c To Ansh's Capital A/c (Profit distributed among the partners in their profit sharing ratio with guaranteed amount to Ansh)		2,00,000	30,000 50,000 1,20,000

1½
=
3
marks

OR

1½
+
1½
=
3
marks

Alternate Answer:

3 marks

19	<p>Q. (a) Delight Ltd. purchased assets worth... Ans.</p> <p style="text-align: center;">Books of Delight Ltd. Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 50%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 15%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td></td> <td>Assets A/c Dr.</td> <td></td> <td style="text-align: right;">4,00,000</td> <td></td> </tr> <tr> <td></td> <td>Goodwill A/c Dr.</td> <td></td> <td style="text-align: right;">30,000</td> <td></td> </tr> <tr> <td></td> <td>To Liabilities A/c</td> <td></td> <td></td> <td style="text-align: right;">70,000</td> </tr> <tr> <td></td> <td>To Marvel Ltd.</td> <td></td> <td></td> <td style="text-align: right;">3,60,000</td> </tr> <tr> <td></td> <td>(Assets and liabilities of Marvel Ltd. taken over)</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Marvel Ltd. Dr.</td> <td></td> <td style="text-align: right;">3,60,000</td> <td></td> </tr> <tr> <td></td> <td>To 11% Debentures A/c</td> <td></td> <td></td> <td style="text-align: right;">3,00,000</td> </tr> <tr> <td></td> <td>To Securities Premium A/c</td> <td></td> <td></td> <td style="text-align: right;">60,000</td> </tr> <tr> <td></td> <td>(Issue of 3,000 debentures at a premium of 20%)</td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p style="text-align: center;">OR</p> <p>Q. (b) Prime Ltd. took over assets of ₹6,00,000... Ans.</p> <p style="text-align: center;">Books of Prime Ltd. Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 50%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 15%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td></td> <td>Assets A/c Dr.</td> <td></td> <td style="text-align: right;">6,00,000</td> <td></td> </tr> <tr> <td></td> <td>To Liabilities A/c</td> <td></td> <td></td> <td style="text-align: right;">1,00,000</td> </tr> <tr> <td></td> <td>To Rabi Ltd.</td> <td></td> <td></td> <td style="text-align: right;">3,60,000</td> </tr> <tr> <td></td> <td>To Capital Reserve A/c</td> <td></td> <td></td> <td style="text-align: right;">1,40,000</td> </tr> <tr> <td></td> <td>(Assets and liabilities of Rabi Ltd. taken over)</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Rabi Ltd. Dr.</td> <td></td> <td style="text-align: right;">3,60,000</td> <td></td> </tr> <tr> <td></td> <td>Discount on issue of debentures A/c Dr.</td> <td></td> <td style="text-align: right;">40,000</td> <td></td> </tr> <tr> <td></td> <td>To 10% Debentures A/c</td> <td></td> <td></td> <td style="text-align: right;">4,00,000</td> </tr> <tr> <td></td> <td>(Issue of 4,000 debentures at a discount of 10%)</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)		Assets A/c Dr.		4,00,000			Goodwill A/c Dr.		30,000			To Liabilities A/c			70,000		To Marvel Ltd.			3,60,000		(Assets and liabilities of Marvel Ltd. taken over)					Marvel Ltd. Dr.		3,60,000			To 11% Debentures A/c			3,00,000		To Securities Premium A/c			60,000		(Issue of 3,000 debentures at a premium of 20%)				Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)		Assets A/c Dr.		6,00,000			To Liabilities A/c			1,00,000		To Rabi Ltd.			3,60,000		To Capital Reserve A/c			1,40,000		(Assets and liabilities of Rabi Ltd. taken over)					Rabi Ltd. Dr.		3,60,000			Discount on issue of debentures A/c Dr.		40,000			To 10% Debentures A/c			4,00,000		(Issue of 4,000 debentures at a discount of 10%)					<p>1½ + 1½ = 3 Marks</p> <p>OR</p> <p>1½ + 1½ = 3 Marks</p>
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)																																																																																																			
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	Marvel Ltd. Dr.		3,60,000																																																																																																				
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	To Securities Premium A/c			60,000																																																																																																			
	(Issue of 3,000 debentures at a premium of 20%)																																																																																																						
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)																																																																																																			
	Assets A/c Dr.		6,00,000																																																																																																				
	To Liabilities A/c			1,00,000																																																																																																			
	To Rabi Ltd.			3,60,000																																																																																																			
	To Capital Reserve A/c			1,40,000																																																																																																			
	(Assets and liabilities of Rabi Ltd. taken over)																																																																																																						
	Rabi Ltd. Dr.		3,60,000																																																																																																				
	Discount on issue of debentures A/c Dr.		40,000																																																																																																				
	To 10% Debentures A/c			4,00,000																																																																																																			
	(Issue of 4,000 debentures at a discount of 10%)																																																																																																						
20	<p>Q. The capital of the firm of Rajat and Karan is... Ans. Goodwill= Super profit x Number of years' purchase</p> <p>Normal profit= Normal Rate of return/100 x Capital Employed = 12/100 x ₹15,00,000 = ₹1,80,000.....1/2</p> <p>Average profit= (₹2,40,000+ ₹2,80,000+ ₹3,20,000)/3 = ₹2,80,000</p> <p>Average profit less partners' salary= ₹2,80,000- ₹50,000 = ₹2,30,000.....1</p> <p>Average Super profit/ Super profit = Average profit - Normal profit = ₹2,30,000- ₹1,80,000 = ₹50,000.....1/2</p> <p>Goodwill= Super profit x Number of years' purchase = ₹50,000 x 2 = ₹1,00,000.....1</p>		<p>3 Marks</p>																																																																																																				

<p><u>Alternate answer:</u></p> <p>Interest on capital employed = $12/100 \times ₹15,00,000 = ₹1,80,000$</p> <p>Partners salary = ₹20,000 + ₹30,000 = ₹50,000</p> <p>Normal Profit = Interest on capital employed + Partners' salary = ₹1,80,000 + ₹50,000 = ₹2,30,000.... [1]</p> <p>Average profit = $(₹2,40,000 + ₹2,80,000 + ₹3,20,000)/3$ = ₹2,80,000..... [1/2]</p> <p>Average Super profit = Average profit - Normal profit = ₹2,80,000 - ₹2,30,000 = ₹50,000..... [1/2]</p> <p>Goodwill = Super profit x Number of years purchase = ₹50,000 x 2 = ₹1,00,000..... [1]</p>	<p><u>Alternate Answer</u></p> <p>3 marks</p>
---	---

21	<p>Q. Pass necessary journal entries.....</p> <p>Ans.</p> <p>(i)</p> <p style="text-align: center;">Books of Kiero Ltd. Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 45%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 25%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td></td> <td>Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)</td> <td></td> <td style="text-align: right;">80,00,000</td> <td style="text-align: right;">80,00,000</td> </tr> <tr> <td></td> <td>Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Debenture application money transferred to debentures and premium on redemption of debentures account)</td> <td></td> <td style="text-align: right;">80,00,000 8,00,000</td> <td style="text-align: right;">80,00,000 8,00,000</td> </tr> </tbody> </table> <p>(ii)</p> <p style="text-align: center;">Books of Naro Ltd. Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Date</th> <th style="width: 45%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 15%;">Dr. Amount (₹)</th> <th style="width: 25%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td></td> <td>Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)</td> <td></td> <td style="text-align: right;">52,50,000</td> <td style="text-align: right;">52,50,000</td> </tr> <tr> <td></td> <td>Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 10% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Debenture application money transferred to debentures and premium on redemption of debentures account)</td> <td></td> <td style="text-align: right;">52,50,000 5,00,000</td> <td style="text-align: right;">50,00,000 2,50,000 5,00,000</td> </tr> </tbody> </table>	Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)		Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)		80,00,000	80,00,000		Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Debenture application money transferred to debentures and premium on redemption of debentures account)		80,00,000 8,00,000	80,00,000 8,00,000	Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)		Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)		52,50,000	52,50,000		Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 10% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Debenture application money transferred to debentures and premium on redemption of debentures account)		52,50,000 5,00,000	50,00,000 2,50,000 5,00,000	<p>(1 x 2)</p> <p style="text-align: center;">+</p> <p>(1 x 2) = 4 marks</p>
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)																												
	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)		80,00,000	80,00,000																												
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Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)																												
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22	<p>Q. Raja, Bharat and Vedika were partners in...</p> <p>Ans.</p> <p style="text-align: center;">Books of Raja, Bharat and Vedika Vedika's Capital A/c</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%; text-align: left;">Dr.</th> <th style="width: 15%; text-align: center;">Amount (₹)</th> <th style="width: 30%; text-align: left;">Particulars</th> <th style="width: 15%; text-align: center;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td>To Drawings A/c</td> <td style="text-align: right;">12,000</td> <td>By Balance b/d</td> <td style="text-align: right;">90,000</td> </tr> <tr> <td>To Vedika's Executors A/c</td> <td style="text-align: right;">1,09,400</td> <td>By General Reserve A/c.</td> <td style="text-align: right;">10,000</td> </tr> <tr> <td></td> <td></td> <td>By Interest on Capital A/c</td> <td style="text-align: right;">2,400</td> </tr> <tr> <td></td> <td></td> <td>By P& L Suspense A/c</td> <td style="text-align: right;">3,000</td> </tr> <tr> <td></td> <td></td> <td>By Raja's Capital A/c</td> <td style="text-align: right;">8,000</td> </tr> <tr> <td></td> <td></td> <td>By Bharat's Capital A/c.</td> <td style="text-align: right;">8,000</td> </tr> <tr> <td></td> <td style="text-align: right;">1,21,400</td> <td></td> <td style="text-align: right;">1,21,400</td> </tr> </tbody> </table>	Dr.	Amount (₹)	Particulars	Cr. Amount (₹)	To Drawings A/c	12,000	By Balance b/d	90,000	To Vedika's Executors A/c	1,09,400	By General Reserve A/c.	10,000			By Interest on Capital A/c	2,400			By P& L Suspense A/c	3,000			By Raja's Capital A/c	8,000			By Bharat's Capital A/c.	8,000		1,21,400		1,21,400	<p>$\frac{1}{2} \times 8$</p> <p>=</p> <p>4</p> <p>marks</p>
Dr.	Amount (₹)	Particulars	Cr. Amount (₹)																															
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To Vedika's Executors A/c	1,09,400	By General Reserve A/c.	10,000																															
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	1,21,400		1,21,400																															
23	<p>Q. PL Ltd. was registered with</p> <p>Ans.</p> <p>(i) (C) Nil</p> <p>(ii) (D) 80,000</p> <p>(iii) (A) ₹16,000</p> <p>(iv) (B) ₹9,00,000</p> <p>(v) (C) Subscribed capital</p> <p>(vi) (B) ₹8,16,000</p>	<p>1 x 6</p> <p>=</p> <p>6</p> <p>marks</p>																																
24	<p>Q. Pass the necessary journal entries...</p> <p>Ans.</p> <p style="text-align: center;">Books of Vibha and Ajit Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 10%;">Date</th> <th style="width: 45%;">Particulars</th> <th style="width: 5%;">L.F.</th> <th style="width: 10%;">Dr. Amount (₹)</th> <th style="width: 10%;">Cr. Amount (₹)</th> </tr> </thead> <tbody> <tr> <td>(i)</td> <td></td> <td>Realisation A/c Dr. To Cash A/c (Creditors accepted cash and furniture in full settlement of their claim)</td> <td></td> <td style="text-align: right;">9,000</td> <td style="text-align: right;">9,000</td> </tr> <tr> <td>(ii)</td> <td></td> <td>Ajit Capital A/c Dr. Cash/ Bank A/c Dr. To Realisation A/c (40% of the stock was taken over by Ajit and the remaining stock sold for ₹18,000)</td> <td></td> <td style="text-align: right;">7,200 18,000</td> <td style="text-align: right;">25,200</td> </tr> </tbody> </table>		Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)	(i)		Realisation A/c Dr. To Cash A/c (Creditors accepted cash and furniture in full settlement of their claim)		9,000	9,000	(ii)		Ajit Capital A/c Dr. Cash/ Bank A/c Dr. To Realisation A/c (40% of the stock was taken over by Ajit and the remaining stock sold for ₹18,000)		7,200 18,000	25,200															
	Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)																													
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(iii)	Realisation A/c To Vibha's Capital A/c (Vibha was allowed a remuneration to look after dissolution work)	Dr.	16,000	16,000	1 x 6 = 6 marks	
(iv)	Ajit Loan A/c To Cash/ Bank A/c To Realisation A/c (Ajit's loan was settled)	Dr.	45,000	42,000 3,000		
(v)	Vibha's Capital A/c To Realisation A/c (Unrecorded machinery taken over by Vibha)	Dr.	23,000	23,000		
(vi)	Vibha's Capital A/c Ajit's Capital A/c To Profit and Loss A/c (Debit balance of Profit and Loss account debited to the partners' capital accounts)	Dr. Dr.	10,000 10,000	20,000		
25 Q. (a) Altima Ltd. invited applications for issuing...						1 x 6 = 6 marks
Ans.						
Books of Altima Ltd.						
Journal						
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)		
	Bank A/c To Equity Share Application and Allotment A/c (Application money received on 2,40,000 shares @₹7 per share, including premium ₹1)	Dr.	16,80,000	16,80,000		
	Equity Share Application and Allotment A/c To Equity Share Capital A/c To Securities Premium A/c To Bank A/c (Transfer of application money to share capital and excess application money refunded)	Dr.	16,80,000	12,00,000 2,00,000 2,80,000		
	Equity Share First and Final call A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due on share first and final call)	Dr.	14,00,000	8,00,000 6,00,000		
	Bank A/c To Equity Share First and Final call A/c (Amount received on share first and final call)	Dr.	13,72,000	13,72,000		
	or					
	Bank A/c Call in arrears A/c To Equity Share First and Final Call A/c (Amount received on share first and final call)	Dr. Dr.	13,72,000 28,000	14,00,000		
	Equity Share Capital A/c Securities Premium A/c To Share Forfeiture A/c To Equity Share First and Final Call/ Calls in Arrears A/c (4000 shares forfeited for non-payment of first and final call money)	Dr. Dr.	40,000 12,000	24,000 28,000		

	Bank A/c Share Forfeiture A/c To Equity Share capital A/c (Reissue of 4,000 shares at ₹4 per share fully paid)	Dr. Dr.	16,000 24,000	40,000	
OR					
Q. (b) Pass necessary journal entries for forfeiture and reissue...					
(i)					
Books of Macil Ltd.					
Journal					
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)	
	Share Capital A/c Securities Premium A/c To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c (3000 shares forfeited for non-payment of allotment and first call money)	Dr. Dr.	2,40,000 30,000	60,000 90,000 1,20,000	
or					
	Share Capital A/c Securities Premium A/c To Share Forfeiture A/c To Calls in Arrears A/c (3000 shares forfeited for non-payment of allotment and first call money)	Dr. Dr.	2,40,000 30,000	60,000 2,10,000	(1 x 3)
	Bank A/c To Share Capital A/c To Securities Premium A/c (Reissue of 2,000 shares @₹90 per share ₹80 paid up)	Dr.	1,80,000	1,60,000 20,000	
	Share Forfeiture A/c To Capital Reserve A/c (Balance in share forfeiture account transferred to capital reserve)	Dr.	40,000	40,000	
(ii)					
Books of Avian Ltd.					
Journal					
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)	
	Share Capital A/c To Share Forfeiture A/c To Share First Call/ Calls in Arrears A/c (10,000 shares forfeited for non-payment of first call money)	Dr.	90,000	50,000 40,000	(1 x 3)
	Bank A/c Share Forfeiture A/c To Share Capital A/c (Reissue of 4,000 shares @₹9 per share fully paid up)	Dr. Dr.	36,000 4,000	40,000	=
	Share Forfeiture A/c To Capital Reserve A/c (Balance in share forfeiture account transferred to capital reserve)	Dr.	16,000	16,000	6 marks

	<table border="1"> <tbody> <tr> <td>General Reserve A/c</td> <td>Dr.</td> <td>50,000</td> <td></td> </tr> <tr> <td>To Ashish's Capital A/c</td> <td></td> <td></td> <td>20,000</td> </tr> <tr> <td>To Vinit's Capital A/c</td> <td></td> <td></td> <td>20,000</td> </tr> <tr> <td>To Reema's Capital A/c</td> <td></td> <td></td> <td>10,000</td> </tr> <tr> <td colspan="4">(General Reserve credited to partners' capital accounts)</td> </tr> <tr> <td>Ashish's Capital A/c</td> <td>Dr.</td> <td>12,000</td> <td></td> </tr> <tr> <td>Reema's Capital A/c</td> <td>Dr.</td> <td>12,000</td> <td></td> </tr> <tr> <td>To Vinit's Capital A/c</td> <td></td> <td></td> <td>24,000</td> </tr> <tr> <td colspan="4">(Vinit's share of goodwill adjusted in the capital accounts of Ashish and Reema in the gaining ratio)</td> </tr> <tr> <td>Vinit's Capital A/c</td> <td>Dr.</td> <td>2,48,000</td> <td></td> </tr> <tr> <td>To Cash A/c</td> <td></td> <td></td> <td>20,000</td> </tr> <tr> <td>To Vinit's Loan A/c</td> <td></td> <td></td> <td>2,28,000</td> </tr> <tr> <td colspan="4">(Vinit was paid ₹20,000 on retirement, and the balance transferred to his loan account)</td> </tr> </tbody> </table>	General Reserve A/c	Dr.	50,000		To Ashish's Capital A/c			20,000	To Vinit's Capital A/c			20,000	To Reema's Capital A/c			10,000	(General Reserve credited to partners' capital accounts)				Ashish's Capital A/c	Dr.	12,000		Reema's Capital A/c	Dr.	12,000		To Vinit's Capital A/c			24,000	(Vinit's share of goodwill adjusted in the capital accounts of Ashish and Reema in the gaining ratio)				Vinit's Capital A/c	Dr.	2,48,000		To Cash A/c			20,000	To Vinit's Loan A/c			2,28,000	(Vinit was paid ₹20,000 on retirement, and the balance transferred to his loan account)				
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	PART B OPTION 1 (Analysis of Financial Statements)																																																					
27	<p>Q. (a) The tool of analysis of</p> <p>Ans. (A) Comparative statements</p> <p style="text-align: center;">OR</p> <p>Q. (b) Ratios that are calculated for measuring the efficiency...</p> <p>Ans. (C) Turnover ratios</p>	1 mark OR 1 mark																																																				
28	<p>Q. The Debt Equity Ratio of Manak Enterprises...</p> <p>Ans. (C) Issue of debentures ₹6,00,000</p>	1 mark																																																				
29	<p>Q. (a) Which of the following are operating activities...</p> <p>Ans. (B) (i) and (iii)</p> <p style="text-align: center;">OR</p> <p>Q. (b) Which of the following statements is incorrect?</p> <p>Ans. (C) Receipt from interest and dividend will result in cash inflow from financing activities</p>	1 mark OR 1 mark																																																				
30	<p>Q. Statement 1: Investing activities are the acquisition and disposal...</p> <p>Ans. (A) Both the Statements are true.</p>	1 mark																																																				

31	Q. Classify the following items under major heads... Ans. <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 25%;">Item</th> <th style="width: 25%;">Major head</th> <th style="width: 45%;">Sub-head</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">(i)</td> <td>Computer software</td> <td>Non-Current Assets</td> <td>Property, Plant and Equipment and Intangible Assets – Intangible Assets</td> </tr> <tr> <td style="text-align: center;">(ii)</td> <td>Outstanding salary</td> <td>Current Liabilities</td> <td>Other Current Liabilities</td> </tr> <tr> <td style="text-align: center;">(iii)</td> <td>Work in progress</td> <td>Current Assets</td> <td>Inventories</td> </tr> </tbody> </table>		Item	Major head	Sub-head	(i)	Computer software	Non-Current Assets	Property, Plant and Equipment and Intangible Assets – Intangible Assets	(ii)	Outstanding salary	Current Liabilities	Other Current Liabilities	(iii)	Work in progress	Current Assets	Inventories	$\frac{1}{2} \times 6$ = 3 marks																																										
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32	Q. From the following information of CN Ltd.... Ans. <p style="text-align: center;">Common Size Statement of Profit and Loss of CN Ltd. for the years ended 31st March, 2023 and 31st March, 2024</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="width: 30%;">Particulars</th> <th colspan="2" style="text-align: center;">Absolute Amounts</th> <th colspan="2" style="text-align: center;">Percentage of Revenue from operations</th> <th rowspan="2"></th> </tr> <tr> <th style="text-align: center;">2022-23 (₹)</th> <th style="text-align: center;">2023-24 (₹)</th> <th style="text-align: center;">2022-23 (%)</th> <th style="text-align: center;">2023-24 (%)</th> </tr> </thead> <tbody> <tr> <td>Revenue from Operations</td> <td style="text-align: right;">20,00,000</td> <td style="text-align: right;">40,00,000</td> <td style="text-align: center;">100</td> <td style="text-align: center;">100</td> <td style="text-align: center;">$\frac{1}{2}$</td> </tr> <tr> <td>Less Expenses:</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Purchase of stock in trade</td> <td style="text-align: right;">4,00,000</td> <td style="text-align: right;">8,00,000</td> <td style="text-align: center;">20</td> <td style="text-align: center;">20</td> <td style="text-align: center;">$\frac{1}{2}$</td> </tr> <tr> <td> Other expenses</td> <td style="text-align: right;">2,00,000</td> <td style="text-align: right;">4,00,000</td> <td style="text-align: center;">10</td> <td style="text-align: center;">10</td> <td style="text-align: center;">$\frac{1}{2}$</td> </tr> <tr> <td>Total expenses</td> <td style="text-align: right;">6,00,000</td> <td style="text-align: right;">12,00,000</td> <td style="text-align: center;">30</td> <td style="text-align: center;">30</td> <td></td> </tr> <tr> <td>Profit before tax</td> <td style="text-align: right;">14,00,000</td> <td style="text-align: right;">28,00,000</td> <td style="text-align: center;">70</td> <td style="text-align: center;">70</td> <td style="text-align: center;">$\frac{1}{2}$</td> </tr> <tr> <td>Less Tax @50%</td> <td style="text-align: right;">7,00,000</td> <td style="text-align: right;">14,00,000</td> <td style="text-align: center;">35</td> <td style="text-align: center;">35</td> <td style="text-align: center;">$\frac{1}{2}$</td> </tr> <tr> <td>Profit after tax</td> <td style="text-align: right;">7,00,000</td> <td style="text-align: right;">14,00,000</td> <td style="text-align: center;">35</td> <td style="text-align: center;">35</td> <td style="text-align: center;">$\frac{1}{2}$</td> </tr> </tbody> </table>	Particulars	Absolute Amounts		Percentage of Revenue from operations			2022-23 (₹)	2023-24 (₹)	2022-23 (%)	2023-24 (%)	Revenue from Operations	20,00,000	40,00,000	100	100	$\frac{1}{2}$	Less Expenses:						Purchase of stock in trade	4,00,000	8,00,000	20	20	$\frac{1}{2}$	Other expenses	2,00,000	4,00,000	10	10	$\frac{1}{2}$	Total expenses	6,00,000	12,00,000	30	30		Profit before tax	14,00,000	28,00,000	70	70	$\frac{1}{2}$	Less Tax @50%	7,00,000	14,00,000	35	35	$\frac{1}{2}$	Profit after tax	7,00,000	14,00,000	35	35	$\frac{1}{2}$	3 marks
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33	Q. (a) Calculate opening and closing Trade Payables.... Ans. Trade payables turnover ratio= Net Credit purchases/ Average Trade Payables..... $\boxed{1}$ Total purchases = Cash purchases+ Credit purchases $\Rightarrow ₹15,00,000 = \frac{1}{4}$ Credit purchases + Credit purchases $\Rightarrow ₹15,00,000 = \frac{5}{4}$ Credit Purchases \Rightarrow Credit Purchases ₹15,00,000 x $\frac{4}{5}$ \Rightarrow Credit purchases= ₹12,00,000..... $\boxed{1}$																																																											

<p>Trade payables turnover ratio= Net Credit purchases/ Average Trade Payables ⇒ $4 = \frac{₹12,00,000}{\text{Average Trade Payables}}$ ⇒ Average Trade Payables= ₹3,00,000</p> <p>Average Trade Payables= (Opening Trade Payables + Closing Trade Payables)/2 ⇒ $₹3,00,000 = \frac{\text{Opening Trade Payables} + 2 \text{ Opening Trade Payables}}{2}$ ⇒ Opening Trade Payables= ₹3,00,000 x 2/3 ⇒ Opening Trade Payables= ₹2,00,000.....[1]</p> <p>Closing Trade Payables= 2 x Opening Trade Payables ⇒ Closing Trade Payables= 2 x ₹2,00,000 ⇒ Closing Trade Payables= ₹4,00,000.....[1]</p>	4 Marks																												
OR																													
<p>Q. (b) From the following information.....</p> <p>Ans. Return on Investment= Profit before interest and tax/ Capital Employed x 100.....[1]</p> <p>Profit before Interest and Tax= Net profit after tax + Tax + Interest on Debentures ⇒ Profit before Interest and Tax= ₹3,00,000 + ₹1,00,000+ ₹80,000 ⇒ Profit before Interest and tax= ₹4,80,000.....[1]</p> <p>Capital employed= Shareholders Funds+ Debentures ⇒ Capital employed= ₹ 16,00,000 + ₹ 8,00,000 ⇒ Capital employed= ₹ 24,00,000.....[1]</p>	OR																												
<p style="text-align: center;">or</p> <p>Capital employed= Non-Current assets + Current Assets - Current Liabilities ⇒ Capital employed = ₹21,00,000 + ₹5,00,000 - ₹2,00,000 ⇒ Capital employed= ₹24,00,000</p> <p>Return on investment= (₹4,80,000/ ₹24,00,000) x 100 ⇒ Return on investment= 20%.....[1]</p>	4 marks																												
<p>34 Q. (a) From the following information...</p> <p>Ans.</p> <p style="text-align: center;">Calculation of Cash Flows from Investing Activities for the year ended 31st March 2024</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 60%;">Particulars</th> <th style="width: 20%;">(₹)</th> <th style="width: 20%;">(₹)</th> </tr> </thead> <tbody> <tr> <td>Purchase of Machinery</td> <td style="text-align: center;">(1,30,000)</td> <td></td> </tr> <tr> <td>Sale of Machinery</td> <td style="text-align: center;">33,000</td> <td></td> </tr> <tr> <td>Net Cash used in Investing Activities</td> <td></td> <td style="text-align: center;">(97,000)</td> </tr> </tbody> </table>	Particulars	(₹)	(₹)	Purchase of Machinery	(1,30,000)		Sale of Machinery	33,000		Net Cash used in Investing Activities		(97,000)	(1 x 3)																
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(Balancing figure)																													
	4,33,000		4,33,000																										

Dr.		Accumulated Depreciation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Machinery A/c	20,000	By Balance b/d	45,000		+
To Balance c/d	62,000	By Depreciation A/c	37,000		-
	<u>82,000</u>		<u>82,000</u>		
 (b) From the following information...					
Calculation of Cash Flows from Financing Activities					
for the year ended 31st March 2024					
Particulars		(₹)	(₹)		
Issue of Equity Shares (including premium of ₹40,000)		4,40,000			
Redemption of 11% Debentures		(1,00,000)			
Interest paid on debentures		(40,000)			
Net Cash flows from Financing Activities			3,00,000		
				(½ x 4)	
				=	
				6	
				marks	

