KENDRIYA VIDYALAYA SANGATHAN

REGIONAL OFFICE CHANDIGARH

तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन
Kendriya Vidyalaya Sangathan

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Content enrichment for High Achievement

Class XII

Accountancy

ACCOUNTING FOR NON-PROFIT MAKING ORGANIZATIONS

Non-profit organizations are organizations whose objective is not to make profits but to serve humanity. Examples of such organizations are schools, hospitals, charitable institutions, welfare societies clubs, public libraries, resident welfare association and sports-club. The funds raised by such organisations are credited to capital fund or general fund. Their main source of income is membership registration fees, subscription, donation, grant-in-aid,etc. These organizations provide services to their members and to the general public.Normally, these organisations do not undertake any business activity, and are managed by trustees who are fully accountable to their members and the society for the utilization of the funds raised for meeting the objectives of the organisation.These organizations prepare certain statements to ascertain the results in financial terms of their activities for a particular period, for example, annually.

The financial statements generally prepared by NPOs are Receipts and payment account; Income and expenditure account and balance sheet.

Characteristics of Not-For-Profit Organizations (NPOs)

The following are the salient features of not-for-profit organizations;

1. Such organisations are formed for providing service to a specific group or public at large such as education, health care, recreation, sports and so on without any consideration of caste, creed and colour. Its sole aim is to provide service either free of cost or at nominal cost, and not to earn profit.
2. These are organised as charitable trusts/societies and subscribers to such organisation are called members.
3. Their affairs are usually managed by a managing/executive committee elected by its members.
4. The main sources of income of such organisations are: (i) subscriptions from members, (ii) donations, (iii) legacies, (iv) grant-in-aid, (v) income from investments, etc.
5. The funds raised by such organisations through various sources are credited to capital fund or general fund.
6. The surplus generated in the form of excess of income over expenditure is not distributed amongst the members. It is simply added in the capital fund.
7. The Not-for-Profit Organisations earn their reputation on the basis of their contributions to the welfare of the society rather than on the customers' or owners' satisfaction.
8. The accounting information provided by such organisations is meant for the present and potential contributors and to meet the statutory requirement.
9. The objective of such organizations is not to make profit but to provide service to its members and to the society in general

10. They also prepare their accounts following the same accounting principles and systems that are followed by business for profit organizations that are run with an objective to earn profits.

Accounting Records of Not-for-Profit Organisations

Normally such organisations are not engaged in any trading or business activities. The main sources of their income are subscriptions from members, donations, financial assistance from government and income from investments. Most of their transactions are in cash or through the bank. Theseinstitutions are required by law to keep proper accounting records and keep proper control over the utilization of their funds. This is why they usually keep a cash book in which all receipts and payments are duly recorded. They also maintain a ledger containing the accounts of all incomes, expenses, assets and liabilities which facilitates the preparation of financial statements at the end of the accounting period. In addition, they are required to maintain a stock register to keep complete record of all fixed assets and the consumables. They do not maintain any capital account. Instead they maintain capital fund which is also called general fund that goes on accumulating due to surpluses generated, life membership fee, donation, legacies, etc. received from year to year. In fact, a proper system of accounting is desirable to avoid or minimise the chances of misappropriations or embezzlement of the funds contributed by the members and other donors.

The types of financial statements that are generally prepared by not-for-profit organizations are;

1. Receipts and payment account
2. Income and expenditure account
3. Statement of affairs (balance sheet)

The receipts and payment account is the summary of cash and bank transactions which helps in the preparation of income and expenditure account and the balance sheet.Income and expenditure account is similar to profit and loss account.

Receipts and Payment Account

Like any other organizations,NPOs maintain cash book to record cash transactions on day to day basis. But at the end of the year they prepare a summary of cash transactions based on the cash-book. This summary is prepared in the form of an account. It is called Receipts and Payments account. All cash receipts and payments are recorded in this account whether these belong to current year or next year or previous year. All receipts and payments are recorded in this account whether these are of revenue nature or capital nature. As it is an account so it has the debit side and the credit side. All receipts are recorded on its debit side while all payments are shown on the credit side. This account begins with opening cash or/and bank balance. Closing balance of this account is cash in hand and or cash at bank/overdraft. Items in this account are recorded under suitable heads.

The following are the main features of Receipts and Payments Account:

1. It is prepared at the end of the year taking items from the cash book.
2. It is the summary of all cash transactions of a year put under various heads.
3. It records all cash transactions which occurred during the year concerned irrespective of the period they relate to i.e. previous/current/next year.
4. It records cash transactions both of revenue nature and capital nature.
5. Like any other account it begins with opening balance and ends with closing balance.

Items of Receipts and Payment Account

1. Subscription

It is a regular payment made by the members to the organisation. It is generally contributed annually. It is one of the main sources of income. It appears on the debit side i.e. Receipts side of the Receipts and Payments Account. Apart from amount for current year, it may include amount pertaining to previous year or advance payment for next years.

2. Membership Registration Fees, Entrance fees or Admission fees

Whenever a person is admitted as a member of the organisation certain amount is charged from him/her to give him/her admission. This is called Membership Registration Fees, Entrance Fee or Admission Fee. It is an item of income and is shown on the debit side of the Receipts and Payments Account.

3. Fellow membership fees

Fellow Membership, if granted to a person who have contributed immensely or have recorded great impart in development of the society, special fee is charged from him/her, this is called Fellow Membership fees. It is charged annually per Fellow. It is a capital receipt for the organization.

4. Life Patron membership fees

Life Patron Membership, if granted to a person for the whole life, special fee is charged from him/her, this is called Life Patron Membership fees. It is charged once in the life time of a member. It is a capital receipt for the organisation.

5. Endowment fund

It is a fund which provides permanent means of support for the organisation. Any contribution towards this fund is an item of capital receipt.

6. Donation

Donation is the amount received from some person, fellows, members, firm, company or any other body by way of gift. It is also an important item of receipt. It can be of two types:

(a) Specific donation: It is a donation received for a specific purpose. Examples of such donations are: donation for completion, donation for library, donation for building, etc.

(b) General donation: It is a donation which is received not for some specific purpose. It can be of two types:

(i) General donation of big amount

(ii) General donation of small amount

6. Legacy

It is the amount which is received by organizations as per the will of a deceased person. It is treated as a capital receipt.

7. Sale of Book of Proceeding/ Journals and periodicals

Book of Proceeding/ Journals or periodicals is sold and fetches some money. It is a source of revenue. It is taken to the debit of Receipts and Payments account.

8. Sale of used newspapers

Old newspapers used are sold and fetches some money. It is a source of revenue. It is taken to the debit of Receipts and Payments account.

9. Purchase of fixed assets

Assets such as building, Laboratory equipment, furniture, books etc. are purchased for the society. These are items of capital expenditure. These are shown on the credit side i.e. the payment side of Receipts and Payments Account.

10. Payment of honorarium

This is another item of payment. This is an amount paid to persons who are not the employees of the society but who are part of the Executives of the organization. Remuneration paid to them is called honorarium. This is a payment of revenue nature.

Differences between Non-Profits and Profit Organization are;

1. **Owners.**

   There is no owner for NPOs, while the owners of the profit organizations are the shareholders.

2. **Primary Mission.**

   The primary mission of any NPO is to provide services needed by the society while the profit organizations primary objective is to earnprofits for the shareholders.

3. **Secondary Mission.**

   The secondary mission of any NPOs is to ensure that revenues are greater than expenses so that the services provided can be maintained or expanded, while profit organizations secondary mission is to provide services or sell goods, in order to make profit.

4. **Tax status.**

   NPOs are exempted from taxes while profit organizations pay tax on profit generated during the accounting year.

5. **Source of Income.**

   The sources of income of the NPOs include, grants, membership dues, contributions, fundraising events, sales of journal or periodicand program fees and so on. While profit organizations source of income is from the issues of shares, sales of goods and services and so on.

REVENUES, GAINS, OTHER SUPPORT, AND RELEASES FROM DONOR RESTRICTIONS.

Revenues generated for NPOs are from;

- Contributions
- membership dues
- program fees
- fundraising events
- grants
- investment income
- gain on sale of investments

Practice

1. Subscriptions received by the health club during the year 2013 were as under:

	Rs.	total
2012	3,000	
2013	96,000	
2014	2,000	1,01,000 Rs.

Subscriptions Outstanding as on 31.12.12 5,000

Subscriptions Outstanding as on 31.12.13 Rs.12,000

Subscriptions received in advance in 2012 for 2013 Rs.5,000

Calculate the amount of subscriptions to be shown on the income side of Income and Expenditure A/c.

2. During the year 2013, subscriptions received by a sports club were Rs. 80,000. These included Rs. 3,000 for the year 2010 and Rs.6,000 for the year 2014. On December 31, 2012 the amount of subscriptions due but not received was Rs.12,000. Calculate the amount of subscriptions to be shown in Income and Expenditure Account as income from subscription.

3. Subscriptions received during the year ended December 31, 2013 by Royal Club were as under: Rs.

2012	Rs.3,000
2013	Rs.93,000
2014	Rs.2,000
	Rs.98,000

The club has 500 members each paying @ Rs.200 as annual subscription. Subscriptions outstanding as on December 31, 2012 are Rs. 6,000. Calculate the amount of subscriptions to be shown as income in the Income and Expenditure Account for the year ended December 31, 2013 and show the relevant data in the Balance Sheet as on date.

4.. From the following Receipts and Payments Account of Friends Club for the year ended 31st March 2018, Prepare Income and Expenditure Account for the year ended31st March 2018…… 6.

Receipts	Amt.(Rs.)	Payments	Amt.(Rs.)
To Bal b/d	1,41,300	By Rent and Taxes	86,100
To Entrance Fees	55,200	By Salaries	1,09,000
To Subscriptions	2,20,000	By Electricity charges	6,200
To Donations	1,06,100	By General Expenses	12,500
To Interest on investment	4,100	By Books	31,200
To Surplus from cultural program	8,200	By office expenses	45,000

		By Investments	1,40,000
		By Balance c/d	
		Cash at Bank	61,900
		Cash in Hand	43,000
	5,34,900		5,34,900

Additional Information:-

In the beginning of the year, the club had books of Rs. 3, 00,000 and Furniture of Rs.58, 000.

- Subscriptions in Arrears on 1st April, 2017 were Rs.6, 000 and 7,000 on 31st March 2018.
- Rs.18, 000 was due by way of Rent in the beginning as well as at the end of the year.
- Write off Rs. 5,000 from furniture and Rs. 30,000 from books.

Not for Profit Making Organisation(One Mark Questions)

Q. 1. Receipts and Payments Account generally shows

(A) A Debit balance

(B) A Credit balance

(C) Surplus or Deficit

(C) Capital Fund

Q. 2. Income and Expenditure Account records transactions of:

(A) Revenue nature only

(B) Capital nature only

(C) Both revenue and capital nature

(D) Income of only revenue nature and expenditure of revenue and capital nature

Q. 3. Income and Expenditure Account reveals:

(A) Surplus or Deficiency

(C) Net Profit

(B) Cash in Hand

(D) Capital Account

Q. 4. The amount of Subscription received from members' by a Non-profit organisation is shown in which of the following?

(A) Debit side of Income and Expenditure Account

(B) Credit side of Income and Expenditure Account

(C) Liability side of Balance Sheet

(D) Assets side of Balance Sheet

Q. 5. Donation received for a special purpose:

(A) Should be credited to Income and Expenditure Account

(B) Should be credited to separate account and shown in the Balance Sheet

(C) Should be shown on the assets side

(D) Should not be recorded at all.

Q. 6. Subscription received by a school for organising annual function is treated as:

(A) Capital Receipt (.e. Liability)

(B) Revenue Receipt (i.e., Income)

(C) Asset

(D) Earned Income

Q. 7. The amount of Entrance Fees' received by a Non-profit organisation (if it is received regularly) is shown in which of the following?

(A) Liability side of Balance Sheet

(B) Assets side of Balance Sheet

(C) Debit side of Income and Expenditure Account

(D) Credit side of Income and Expenditure Account

Q.8. Out of following items, which one is shown in the Receipts and Payment Account?

(A) Outstanding Salary

(B) Depreciation

(C) Accrued Subscription

(D) Life Membership Fees

Q. 9. Not-for-profit organisations prepare:

(A) Trading Account

(B) Trading & Profit and Loss Account

(C) Income and Expenditure Account

(D) All of the above

Q. 10. The Receipts and Payments Account is a summary of

(A) Debit and Credit balance of Ledger Accounts

(B) Cash Receipts and Payments

(C) Expenses and Incomes

(D) Assets and Liabilities

Q. 11. Receipts and Payments Account is a

(A) Personal Account

(B) Real Account

(C) Nominal Account

(D) Real and Nominal Account, both

Q. 12. Income and Expenditure Account is a

(A) Personal Account

(B) Real Account

(C) Nominal Account

(D) Real and Nominal Account, both

Q. 13. Credit side balance in Income & Expenditure Account reveals:

(A) Excess of cash receipts over payments

(B) Excess of cash payments over receipts

(C) Excess of expenditure over income

(D) Excess of income over expenditure

Q. 14. Source of income for a not-for-profit organisation is:

(A) Subscription from Members

(B) Donation

(C) Entrance Fees

(D) All of the above

0.15. Which of the following represent capital receipt?

(A) Life Membership Subscription

(B) Donation

(C) Subscription

(D) Interest on Investments

Q. 16. Amount received from sale of grass by a club should be treated as:

(A) Capital Receipt

(B) Revenue Receipt

(C) Asset

(D) Earned Income

0.17. The amount received for sale of old sports materials by

organisation is shown in which of the following?

(A) Debit side of Income and Expenditure Account

(B) Liability side of Balance Sheet

(C) Credit side of Income and Expenditure Account

(D) Assets side of Balance Sheet

Q.18. If there is a 'Match Fund', then match expenses and incomes are transferred to:

(A) Income and Expenditure A/c

(B) Assets side of Balance Sheet

(C) Liabilities side of Balance Sheet

(D) Both Income and Expenditure A/c and to Balance Sheet

Q. 19. Subscription received in advance during the current year is:

(A) an income

(B) an asset

(C) a liability

(D) none of these

0.20. Subscription received in cash during the year amounted to Rs.40,000 subscription outstanding at the end of previous year was Rs.1,500 and outstanding at the end of current year was Rs.2,000 Subscription received in advance for next year was Rs.800. The amount credited to Income & Expenditure Account will be

(A) Rs.38,700

(B) Rs.39,700

(C) Rs.40,300

(D) Rs.41,300

Q. 21. Subscription received in cash during the year amounted to Rs.5,00,000; subscription outstanding at the end of previous year was Rs.20,000 and outstanding at the end of current year was Rs.25,000. Subscription received in advance for next year was Rs.8,000 and received in advance during previous year was Rs.7,000. The amount credited to Income & Expenditure Account will be:

(A) Rs.5,04,000

(B) Rs.5,06,000

(C)Rs. 4,96,000

(D) Rs.4,94,000

Q. 22. Subscription received in cash during the year amounted to Rs.60,000; subscription received in advance for next year was Rs.3,000 and received in advance during previous year was Rs.2,000. Subscription in arrears at the end of current year was Rs.5,400. The amount credited to Income & Expenditure Account will be

(A) Rs.53,600

(B) Rs.66,400

(C) Rs.35,600

(D) Rs.64,400

Q.23. Subscription received in cash during the year amounted to Rs.2,30,000; subscription received in advance for next year was Rs.10,000 and received in advance during previous year was 8,000. Subscription in arrears at the end of previous year was Rs.18,000 and subscription in arrears at the end of current year was 12,000. The amount credited to Income & Expenditure Account will be:

(A) Rs.2,96,000

(B) Rs.3,04,000

(C) Rs.2,92,000

(D) Rs.3,08,000

Q.24. What amount will be credited to the Income and Expenditure Account for the year ending 31st March, 2010 on the basis of the following information?

Outstanding Subscription

31-3-2009 Rs.10,000

31-3-2010 Rs.25,000

Advance Subscription

31-3-2009 Rs.3,000

31-3-2010 Rs.2,000

Subscription received during the year 2009-10 were Rs.400000

(A) Rs.384000

(B) Rs.416000

(C) Rs.386000

(D)Rs. 414000

Q.25 There are 200 members, each paying an annual subscription of 10 subscription received during the year Rs.1,95,000; subscriptions received advance at the beginning of the year Rs.23,000 and at the end of the year Rs.2,000 Amount shown in Income Expenditure Account will be

(A) Rs.2,00,000

(B) Rs.1,96,000

(C) Rs.1,94,000

(D) Rs.2,01,000

0.26. The opening balance of Prize Fund was Rs.32,800. During the year, donation received towards this fund amounted to Rs.15,400, amount spent on prizes Rs.12,300 and interest received on prize fund investment was Rs.4,000. The closing balance of Prize Fund will be

(A) Rs.56,500

(B) Rs.64,500

(C) Rs.39,900

(D) Rs.31,900

Q. 27. Salary paid in cash during the current year was Rs.80,000; outstanding salary at the end was Rs.4,000; Salary paid in advance last year pertaining to the current year was Rs.3,200; paid in advance during current year for next you was Rs.5000 The amount debited to Income and Expenditure Account will be

(A) Rs.85,800

(B) Rs.77,800

(C) Rs.82,200

(D) Rs.74,200

Q. 28. Salary paid in cash during the current year was Rs.30,000; Outstanding salary at the end of previous year was Rs.2,000 and outstanding salary at the end of current year was Rs.3,000. Salary paid in advance during current year for next year was Rs.2,600, the amount debited to Income and Expenditure Account will be

(A) Rs.33,600

(B) Rs.26,400

(C) Rs.31,600

(D) Rs.28,400

Q.29, Salary paid for the year ended 31st March, 2010 amounted to Rs.75,000. How much amount will be recorded in Income and Expenditure Account in the following case?

Outstanding Salary

31-3-2009. Rs.6,500

31-3-2010. Rs.6,000

Prepaid Salary

31-3-2009 Rs.1,200

31-3-2010 Rs.1,000

(A) Rs.75,700

(B) Rs.74,300

(C) Rs.75,300

(D) Rs.74,700

Q30. How much amount will be shown in Income and Expenditure Account in the following case?

	1-4-2009	31-3-2010
Creditors for Stationery	Rs. 8,000	Rs. 6,000
Stock of Stationery	Rs. 3,000	Rs. 3,200

During 2009-10 payment made for Stationery was Rs.60,000

(B) Rs.62,200

(D) Rs.58,200

(A) Rs.57,800

(C) Rs.61,800

Q31. How much amount will be shown in Income and Expenditure Account in the following case?

	31-3-2009	31-3-2010
Unpaid for Medicines	Rs.10,000	Rs.12,000
Stock of Medicines	Rs.8,000	Rs.13,000

Payment made for medicines during 2009-10 was Rs.2,50,000

(A) Rs.2,53,000

(C) Rs.2,57,000

(B) Rs.2,47,000

(D) Rs.2,43,000

0.32. If a General Donation of huge amount is received by a school that donation is treated as:

(A) Revenue Receipt (Income

(B) Capital Receipt (Liability)

(C) Assets

(D) Earned Income

Q.33. If a general donation of smaller amount is received by a school, that donation will be shown in :

(A) Liability Side

(B) Asset Side

(C) Debit side of Receipt and Payment A/c

(D) Credit side of Receipt and Payment A/c

Q.34. Out of the following items, which one is shown in the 'Receipts and Payments Account' of a not for profit organisation?

(A) Accrued subscription

(C) Depreciation

(B) Outstanding salary

(D) None of these

Q.35, Out of the following items, which is not shown in the 'Receipts and Payments A/c' of a not for profit organisation?

(A) Subscription received in advance

(B) Subscription due

(C) Last year subscription received

(D) All of the above

Q.36. Out of the following items, which is shown in the 'Receipts and Payments A/c' of a not for profit organisation?

(A) Subscription received in advance

(B) Last year subscription received

(C) Current year subscription received

(D) All of the above

ANSWER KEY

1.Rs.111000

2. Rs. 59000

3. Income and exp. –Rs. 1,00,000, Balance Sheet –assets 2012-3000,2013- 7000, liability-Rs.2000(Advance)

4 Excess of income over expenditure =Rs.1,00,800.

(ONE MARK QUESTION)

1. A
2. A
3. A
4. B
5. B
6. A
7. D
8. D
9. C
10. B
11. B
12. C
13. D
14. D
15. A
16. B
17. C
18. C
19. C
20. B
21. A
22. D
23. C
24. B

25. A
26. C
27. C
28. D
29. D
30. A
31. B
32. B
33. C
34. D
35. B
36. D

SUBJECT ENRICHMENT MATERIAL

CLASS XII

ACCOUNTING FOR PARTNERSHIP FIRMS – FUNDAMENTALS

Q.No	QUESTION	Marks
1.	In absence of partnership deed, deficiency arising on guaranteed share is met by other partners in which ratio?	1
2.	Interest on Partners' Loan is to be treated as – a) An appropriation out of profits b) A charge against profit b) Both (a) and (b) d) None of the above	1
3.	P and Q are partners in a firm. They are entitled to interest on their capitals but the net profit was not sufficient for this interest. The net profit will be distributed between partners in – a) Agreed Ratio b) Profit Sharing Ratio c) Capital Ratio d) Ratio of Interest on Capital	1
4.	X is a partner who used the stock of the firm worth Rs. 10,000 and suffered a loss of Rs. 2,000. He wants the firm to bear the loss. How much 'x' is liable to pay to the firm?	1
5.	What is the maximum number of partners that a partnership firm can have? Name the act that provides for maximum number of partners in a partnership firm.	1
6.	A partner who has invested more capital in the firm is entitled to get interest on the excess amount of capital. (True/ False)	1
7.	If all the partners agree, a minor may be admitted for the benefit of partnership. (True/False)	1
8.	--------------------------- is an extension of Profit & Loss Account.	1
9.	Under --------------------------------------- System, the balance of capital changes with every transaction of the partner with the firm.	1
10.	Ritesh and Hitesh are childhood friends. Ritesh is a consultant whereas Hitesh is an architect. They contributed equal amounts and purchased a building for Rs.2 crores. After a year, they sold it for Rs.3 crores and shared profits equally. Are they doing business in partnership? Give reason in support of your answer.	1
11.	Kajal, Neerav and Alisha are partners in a firm sharing profits in the ratio of 3 : 2 : 1.They decided to admit Venusan, their landlord as a partner in the firm. Venusan brought sufficient amount of capital and his share of goodwill premium. The accountant of the firm passed the entry of rent paid for the building to Venusan in 'Profit and Loss Appropriation Account'. Is he correct in doing so? Give reason in support of your answer.	1
12.	Differentiate between 'Profit and Loss Appropriation Account' and 'Profit and LossSuspense Account.'	1
13	In the absence of deed …………….salary will be given to partners.	1
14	Partners' Current Accounts are opened when their capital accounts are (1) Fixed (2) Fixed and Fluctuating both	1

	(3) Fluctuating (4) None of these	
15	The interest on capital accounts of partners under the fluctuating capital account method is credited to (1) Interest Account (2) Profit and Loss Account (3) Partners' Capital Accounts (4) None of these	1
16	In the absence of an agreement to the contrary, partners share profits and losses in the (1) Ratio of their capitals at the beginning of the year (2) Ratio of their capitals at the end of the year (3) Ratio of average capital (4) Equal ratio	1
17	Interest on partner's drawing under a fluctuating capital account is debited to (1) Partner's Capital Account (2) Profit and Loss Account (3) Drawing Account (4) None of the above	1
18	In case of limited liability partnership business , maximum number of partners are limited. (True/ False)	1
19	Partners are mutual …………of each other in partnership firm/business.	1
20	If any partner remains absent from business , share of profit will automatically reduce. (True/False)	1
21.	Sohan and Mohan are partners sharing profits and losses in the ratio of 2:3 with the capitals of Rs 5,00,000 and Rs 6,00,000 respectively. On 1st Jan 2006 Sohan and Mohan granted loans of Rs. 20,000 and Rs 10,000 respectively to the firm. Show the distribution of profit and losses for the year ended 31st March 2006 if the loss before interest for the year amounted to Rs 2,500.	3

22.	P and Q were partners in a firm sharing profits equally. Their fixed capitals were Rs.1, 00,000 and Rs.50, 000 respectively. The partnership deed provided for interest on capital at the rate of 10% per annum. For the year ended 31st march, 2016 the profits of the firm were distributed without providing interest on Capital. Pass necessary adjustment entry to rectify the error.	3
23.	Rajeev and Sanjeev were partners in a firm. Their partnership deed provided that the profits shall be divided as follows: First Rs.20,000 to Rajeev and the balance in the ratio of 4:1. The profits for the year ended 31st March, 2019 were Rs.60,000 which had been distributed equally among the partners. On 1.4.2018 their capitals were Rajeev Rs.90,000 and Sanjeev Rs.80,000. Interest on capital was to be provided @ 6% p.a. While preparing the profit and loss appropriation A/c interest on capital was omitted. Pass necessary rectifying entry for same. Show your workings clearly.	3
24.	Mudit and Uday are partners in a firm sharing profits in the ratio 2:3. Their capital accounts as on April 1, 2015 showed balances of Rs.70,000 and Rs.60,000 respectively. The drawings of Mudit and Uday during the year 2015-2016 were Rs.16,000 and Rs.12,000 respectively. Both the amounts were withdrawn on 1st January 2016. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March 2016. (a) Interest on capitals @ 6% p.a.; (b) Interest on drawings @ 6% p.a.; (c) Mudit was entitled to a commission of Rs.4,000 for the whole year. Showing you workings clearly, pass a rectifying entry in the books of the firm.	4
25.	On 1st April, 2014 a firm had assets of Rs.1,00,000 excluding stock of Rs. 20,000.Partners' capital accounts showed a balance of Rs. 60,000. The current liabilities were Rs.10,000 and the balance constituted the reserve. If the normal rate of return is 8%, theGoodwill' of the firm is valued at Rs.60,000 at four years of purchase of super profit,find the average profit of the firm.	4
26.	Asha and Aditi are partners in a firm sharing profits and losses in 3:2. They admit Venus as a new partner for 1/4th share in profits. At the time of admission , Goodwill is to be valued at two years' purchase of the average profits of last four years. The profits of last four years were – <table><tr><td>Year</td><td>Profits</td></tr><tr><td>2013-14</td><td>3,50,000</td></tr><tr><td>2014-15</td><td>4,75,000</td></tr><tr><td>2015-16</td><td>6,70,000</td></tr><tr><td>2016-17</td><td>7,45,000</td></tr><tr><td colspan="2">The following additional information is given- 1. To cover management cost an annual charge of Rs.56,250should be made for the purpose of valuation of goodwill.</td></tr></table>	4

	2. The Closing Stock for the yearended 31.03.17 was overvalued by Rs.15,000. Calculate Value of Goodwill of Firm at time of Venus's admission.	
27.	On April l, 2018, a firm had assets of Rs1, 00,000 excluding Stock of Rs 20,000. The current liabilities were Rs10, 000 and the balance constituted Partners' Capital Accounts. If the normal rate of return is 8%p.a., the Goodwill of the firm is valued at Rs 60,000 at four years purchase of super profit, find the actual profits of the firm.	4
28.	Shreya&Vivek were partners sharing profits in the ratio 3:2. The balances in capital & current accounts of Shreya and Vivek as on 01.04.2017 were Rs.3,00,000 and Rs.2,00,000 and Rs.1,00,000(Cr.) and Rs.28,000(Dr.) respectively. The partnership deed provided that Shreya was to be paid a salary of Rs.5, 000 p.m. and Vivek was to get a commission of Rs.30, 000 p.a. Interest on Capital was to be allowed @ 8% p.a. whereas Interest on Drawings were to be charged @ 6% p.a. The drawings of Shreya were Rs.3, 000 at the beginning of each quarter while Vivek withdrew Rs.30, 000 on 01.09.2017. Net profits before making the above adjustments were Rs.1, 20,000. Prepare Profit & Loss Appropriation A/c. and Partners Capitals and Current A/cs.	6
29.	X, Y and Z are partners in a firm sharing profits & losses in the ratio of 2 : 3 : 5. On April 1, 2016 their fixed capitals were Rs. 2, 00,000, Rs. 3,00,000 and Rs. 4,00,000 respectively. Their partnership deed provided for the following: (i) Interest on capital @ 9% per annum. (ii) Interest on Drawings @ 12% per annum. (iii) Interest on partners' loan @ 12% per annum. On July 1, 2016, X brought Rs. 1,00,000 as additional capital and Z withdrew Rs. 1,00,000 from his capital. During the year X,Y and ZwthdrewRs. 12,000, Rs. 18,000 and Rs. 24,000 respectively for their personal use. On January 1, 2017 the firm obtained a Loan of Rs. 1,50,000 from Y. The Net profit of the firm for the year ended March 31, 2017 after charging interest on Y's Loan was Rs.85, 000. Prepare Profit & Loss Appropriation Account and Partners Capital Account.	6

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

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

b) Salary to MuditRs. 18,000 p.a. and commission to UdayRs. 12,000

c) Mudit was allowed a commission of 6% of divisible profit after charging such commission.

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

6

31. Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3:2. Following was the Balance Sheet of the firm as on 31-3-2016.

Liabilities	Amt.(Rs.)	Assets	Amt.(Rs.)
Capitals Piya 80,000 Bina 40,000	 1,20,000	Sundry Assets	1,20,000
	1,20,000		1,20,000

The profits of Rs.30,000 for the year ended 31-3-2016 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to Piya @ Rs.1,000 per month. During the year Piya withdrew Rs.8,000 and Bina withdrew Rs.4,000.

Showing your working notes clearly, pass the necessary rectifying entry.

6

32. A,B,C are partners in a firm their capitals are Rs.30,000 , Rs.20,000 and Rs.10,000 respectively. According to the partnership deed, they were entitled to an interest on capital @5% p.a . In addition B was also entitled to draw a salary of Rs.500 p.m .C was entitled to a commission of 5% on the profit after charging the interest on capital, but before charging the salary payable to B . The net profit for the year were Rs.30,000, distributed in the ratio of their capital without providing for any of the above adjustment. The profit were to be in the ratio of 5:3:2 .

Pass the necessary adjustment entry.

6

33. From the following information, Calculate the value ofGoodwill of Ramesh andNaresh –

a) On basis of three years purchase of Average profits
b) On the basis of Capitalisation of Super Profits
c) On the basis of Capitalisation of Average Profits

Information –

- Average Capital Employed in the business = Rs.5,00,000
- Net Trading Result of the firm for last 3 years- Profit(2017)Rs.1,47,600; Loss(2018) – Rs.1,48,100; Profit(2019) – Rs.4,48,700
- Rate of return from the capital =10%

8

	• Remuneration to each partner for his service = Rs.500 p.m. • Assets (excluding goodwill) Rs. 7,54,762 Liabilities –Rs. 31,329 .	
34.	Sahil, Rishika and Venus were partners in a firm sharing profits and losses in the ratio of 3:3:4. Their partnership deed provided for the following: (i) Interest on capital @ 5% p.a. (ii) Interest on drawings @ 12% p.a. (iii) Interest on partners' loan @ 6% p.a. (iv) Sahil was allowed an annual salary of Rs.4,000; Rishika was allowed a commission of 10% of net profits as shown by Profit & Loss Account and Venus was guaranteed a profit of Rs.1,50,000 after making all the adjustments as provided in the partnership agreement. Their fixed capitals were Sahil : Rs.5,00,000; Rishika : Rs.8,00,000 and Venus : Rs.4,00,000. On 1st April, 2016 Rishika extended a loan of Rs.1,00,000 to the firm. The net profit of the firm for the year ended 31st March, 2017 before interest on Rishika's loan was Rs.3,06,000. Prepare Profit & Loss Appropriation Account of Sahil, Rishika and Venus for the year ended 31st March, 2017 and their Current Accounts assuming that Rishika withdrew Rs.5,000 at the end of each month, Sahil withdrew Rs.10,000 at the end of each quarter and Venus withdrew Rs.40,000 at the end of each half year.	8

ANSWER KEY -ACCOUNTING FOR PARTNERSHIP FIRMS – FUNDAMENTALS

HOTS QUESTIONS (ANSWER KEY)

1.	Equally	1
2.	A charge against profit (b)	1
3.	Ratio of Interest on Capital(d)	1
4.	Rs.10,000	1
5.	Maximum No. of Partners – 50 The Companies Act-2013	1
6.	False	1
7.	True	1
8.	Profit & Loss Appropriation Account.	1
9.	Fluctuating Capital System	1
10.	No , because it is a one time activity. In partnership there should be a **regularity** in dealings.	1
11	No, he is not correct. Reason: Because rent paid is a charge against profits so it should be debited to Profit & Loss Account.	1

<table>
<tr><td>12</td><td>Profit & Loss Appropriation A/c is prepared to distribute profit among partners according to the provisions of partnership deed or Partnership Act. Profit & Loss Suspense A/c is prepared to calculate profit for a particular time period before the end of the accounting year.</td><td>1</td></tr>
<tr><td>13</td><td>No</td><td>1</td></tr>
<tr><td>14</td><td>Fixed</td><td>1</td></tr>
<tr><td>15</td><td>Partners’ Capital Accounts</td><td>1</td></tr>
<tr><td>16</td><td>Equal ratio</td><td>1</td></tr>
<tr><td>17</td><td>Partner’s Capital Account</td><td>1</td></tr>
<tr><td>18</td><td>False</td><td>1</td></tr>
<tr><td>19</td><td>Agents</td><td>1</td></tr>
<tr><td>20</td><td>False</td><td>1</td></tr>
<tr><td>21.</td><td>Profit & Loss Account for the year ending 31st March 2006
<table>
<tr><th>Particulars</th><th>Amount</th><th>Particulars</th><th>Amount</th></tr>
<tr><td>To Loss before interest

To interest on Loan
Sohan 20000*6/100*3/12
Mohan 10000*6/100*3/12</td><td>2500

300
150</td><td>By Net Loss transferred
Sohan - 2950*2/5
Mohan- 2950*3/5</td><td>

1180
1770</td></tr>
<tr><td></td><td>2950</td><td></td><td>2950</td></tr>
</table>
Profit & Loss appropriation a/c should not be prepared as interest on loan is a charge against profits.</td><td>3</td></tr>
<tr><td>22.</td><td>Adjustment Entry –
Q’s Capital A/c---- Dr. 2,500
To P’s Capital A/c 2,500</td><td>3</td></tr>
<tr><td>23.</td><td>Sanjeev’s Capital A/c--- Dr. 19240
To Rajeev’s Capital A/c 19,240</td><td>3</td></tr>
<tr><td>24.</td><td>Adjusment Entry-
Uday’s Capital A/c---- Dr. 3,408
To Mudit’s Capital A/c 3,408</td><td>4</td></tr>
</table>

25.	Goodwill = Super profit X 4 years of purchase 60,000 = Super profit X 4 Super profit = 60,000 / 4 = R 15,000 Capital Employed = 1,00,000 + 20,000 = R 1,20,000 – 10,000 = R 1,10,000 Normal Profit = 1,10,000 X 8/100 = R 8,800 15,000 = Average Profit – 8,800 Average Profit = Rs. 23,800	4
26.	Average Profits = Rs.5,00,000 Goodwill = Rs.10,00,000	4
27.	Total Assets= Rs 1,20,000 Capital Employed = Total Assets – Current Liabilities Rs 1,20,000 - Rs 10,000 = Rs 1,10,000 Normal Profits = 8% of Rs 1,10,000 = Rs 8,800 Goodwill = Super Profits x No. of Years Purchase Rs 60,000 = Super Profits x4 Super Profits= Rs 15,000 Super Profits = Actual Average Profits – Normal Profits Rs 15,000 = Actual Average Profits - Rs 8,800 Actual Average Profits = Rs 15,000+ Rs8,800= Rs23,800	4
28.	Since Profits available (1,20,000+1500(Intt.onDrws) = Rs.1,21,500) are less than appropriations then it will be distributed in the ratio of 42:23 (84,000 : 46,000). Thus ,Shreya's Share = 1,21,500 X 42/65 = Rs.78,508 Vivek's Share = 1,21,500 X 23/65= Rs.42,992 Balance in Partners' Capital Account – Shreya – Rs.3,00,000 ; Vivek – Rs.2,00,000 Balance in partners' Current Account – Shreya – Rs.1,66,508 (Cr. Balance) ; Vivek – Rs.16,058 (Dr. Balance)	6

Amount due to partners-

Particulars	Shreya	Vivek
IOC	24,000	16,000
Salary	60,000	-----
Commission	----	30,000
TOTAL DUE	84,000	46,000

29. Net Divisible Profits- Rs. 7,240 — 6

X --1,448 ; Y-- 2,172 ; Z --3,620

Partners' Fixed Capital Account –Closing Balances – X- Rs.3,00,000 ; Y- Rs.3,00,000;Z- Rs.3,00,000

30. ADJUSTMENT TABLE — 6

Firm's		Particular's	Mudit's		Sudhir's		Uday's	
Dr	Cr		Dr	Cr	Dr	Cr	Dr	Cr
	1,00,000	Profits Given	60,000		20,000		20,000	
17,000		Interest on Capital		10,000		4,000		3,000
18,000		Salary		18,000				
15,000		Commission		3,000				12,000
50,000		Profit to be credited		30,000		10,000		10,000
1,00,000	1,00,000		**60,000**	**61,000**	**20,000**	**14,000**	**20,000**	**25,000**

Net effect 1000 6,000 5,000

RECTIFYING ENTRY

Sudhir's Current A/c- Dr. 6,000

To Mudit's Current A/c 1,000

To Uday's Current A/c 5,000

31. Opening Capital – PriyaRs. 70,000,Bina –Rs.32,000 — 6

Adjustment Entry- Bina's Capital A/c – Dr. 5,856

To Priya's Capital A/c 5,856

32.	A's Current A/c-Dr. 3,675 To B's Current A/c 2,895 To C's Current A/c 780	6
33	1) Average profits = 448200/3= Rs149400-(500*12*2) =137400 Goodwill=137400*3=Rs. 412200 2)Super Profits =137400-500000*10/100 Goodwill = 87400 Goodwill= Rs. 87400*100/10 Goodwill = Rs. 874000 3)Goodwill=Total Capitalized value – Net tangible assets Goodwill = (1,37,400 *100/10) – (7,54,762 –31,329) = 13,74,000 – 7,23,433 = Rs. 6,50,567	8
34.	Net Divisible Profits –Sahil-Rs.19,250; Rishika – Rs.19,250,Venus – Rs.1,50,000 Balance in Partners' Current A/cs –Sahil-Rs.6,450; Rishika– Rs.25,950; Venus – Rs.87,600	8

SUBJECT ENRICHMENT MATERIAL

CLASS XII

ADMISSION OF A PARTNER

S.No	QUESTIONS	MARKS
1	Ram and Shyam are partners sharing profit and loss in the ratio of 2:1.they takeDiwan as a partner for 1/5th share. The goodwill account appears in the books at its full value Rs15,000. Diwan is to pay proportionate amount as premium for goodwill which he pays to ram and Shyam privately. Pass journal entry to give effect to the above arrangement.	1
2	X and Y are partners sharing profit in the ratio of 3:1. Z is admitted as a partner for which he pays Rs 30,000 for Goodwill in cash .X,Y,Z decided to share the future profits in equal proportion. You are required to pass a single journal entry to give effect to the above arrangement.	1
3	At the time of admission of a partner, where will you transfer the balance of Investment Fluctuation Fund after meeting the loss on revaluation of Investment?	1
4	Jamuna, Ganga and Krishna are partners in a firm. Krishna retired from the firm. After making adjustments for reserves and revaluation of assets and liabilities, the balance in Krishna's Capital A/c was Rs.1,20,000. Jamuna and Ganga paid Rs.1,80,000 in full settelement to Krishna. Identify the item for which Jamuna and Ganga paid Rs. 60,000 more to Krishna.	1
5	Amit and Beena were partners in a firm sharing profits and losses in the ratio of 3 : 1. Chaman was admitted as a new partner for 1/6th share in the profits. Chaman acquired 2/5th of his share from Amit. How much share did Chaman acquire from Beena?	1
6	Why is it necessary to revalue assets and liabilities of a firm in case of admission of a partner?	1
7	K, N and A were partners in a firm sharing profits and losses in the ratio 3:2:1. At the time of admission of a partner, the goodwill of the firm was valued at Rs.4,00,000. The accountant of the firm passed the entry in the books of accounts and thereafter showed goodwill at Rs.4,00,000 as an asset in the Balance Sheet. Was he correct in doing so? Why?	1

8	Vinay and Naman are partners sharing profits in the ratio of 4:1. Their capitals were Rs.90,000 and Rs.70,000 respectively. They admitted Prateek for 1/3 share in profits. Prateek brought Rs.1,00,000 as his capital. Calculate the value of firm's goodwill.	1
9	Gupta and Sharma were partners in a firm. They wanted to admit two more members in the firm. List the categories of individuals other than minors who cannot be admitted by them.	1
10	A and B were partners in a firm sharing profits and losses in the ratio of 5:3. They admitted C as a new partner. The new profit sharing ratio between A, B and C was 3:2:3. A surrendered 2/5th of his share in favour of C. Calculate B's sacrifice	1
11	General reserve at the time of <u>admission of a partner</u> is transferred to 1) Revaluation Account 2) Old Partners' Capital Account 3) Capital Account of all partners, including new partner 4) None of the above	1
12	When the incoming partner brings in his share of the premium for goodwill in cash, it is adjusted by crediting to 1) Incoming Partner's Capital Account 2) A premium for Goodwill Account 3) Sacrificing Partners' Capital Account 4) None of the above	1
13	Z is admitted to a company for a 1/4th share in the profits for which he brings in Rs 10,000 towards premium for goodwill. It will be taken by the old partners in. 1) The old profit-sharing ratio 2) The new profit-sharing ratio 3) The sacrificing ratio 4) None of the above	1
14	Revaluation Account or Profit and Loss Adjustment Account is a. 1) Real Account 2) Nominal Account	1

	3) Personal Account 4) None of the above	
15	The balance in the investment fluctuation fund, after meeting the loss on revaluation of investments, at the time of admission of a partner will be transferred to 1) The old partners' capital account 2) The revaluation Account 3) The General Reserve 4) None of the above	1
16	If the incoming partner is to bring in premium for goodwill in cash also a balance exists in the goodwill account, then this goodwill account is written off among the old partners in. 1) The new profit-sharing ratio 2) The old profit-sharing ratio 3) The Sacrifice Ratio 4) None of the above	1
17	X and Y are partners sharing profits in the ratio of 2:1. They admit Z into the partnership for 1/4 the share in profits for which he brings in Rs 20,000 as his share of capital. Hence, the adjusted capital of the X and Y will be 1) Rs40,000 and Rs 20,000 respectively 2) Rs32,000 and Rs16,000 respectively 3) Rs 60,000 and Rs30,000 respectively 4) None of the above	1
18	A and B are partners sharing profits in the ratio of 3:3. Admitted C as a new partner giving him a 1/5th share of profits. This will be given by A and B 1) Equally 2) In the ratio of their profit 3) In the ratio of their capital 4) None of the above	1

19	When a partner brings cash for goodwill, the amount is credited to 1) The premium for goodwill account 2) Capital account of the new partner 3) Cash account 4) None of the above	1
20	A and B share profit and loss in the ratio of 2/3 and 1/3. Admit C as a partner giving him 1/4 share. The new profit-sharing ratio will be 1) 1/2, 1/4, 1/4 2) 1/3, 1/3, 1/4 3) 3/8, 3/8, 2/8 4) None of the above	1
21	Disha and Divya are partners in a firm sharing profits in the ratio of 3:2 respectively. The fixed capital of Disha and Divya isRs.4,80,000 and RS.3,00,000 respectively. On 1st April, 2019 they admitted Hina as a new partner for 1/5th share in the future profits. Hina brought Rs.3,00,000 as her capital. Calculate value of goodwill of the firm and record necessary journal entries on Hina's admission.	3
22	Karan and Varun were partners in a firm sharing profits and losses in the ratio of 1 : 2. Their fixed capitals were Rs. 2,00,000 and Rs. 3,00,000 respectively. On 1st April, 2019, Kishore was admitted as a new partner for 1/4th share in the profits. Kishore brought Rs. 2,00,000 for his capital which was to be kept fixed like the capitals of Karan and Varun. Kishore acquired his share of profit from Varun. Calculate goodwill of the firm on Kishore's admission and the new profit sharing ratio of Karan, Varun and Kishore. Also, pass necessary Journal Entry for the treatment of Goodwill on Kishore's admission considering that Kishore did not bring his share of goodwill premium in Cash.	3
23	X, Y and Z were partners in a firm sharing profits in the ratio of 3 : 2: 1. On 31st March, 2015, X retired and new profit sharing of Y and Z was decided as 2 : 1. M was admitted as a partner. Y and Z surrender ½ of their respective share in favour of M. Calculate Gaining Ratio, Sacrificing Ratio and New Ratio.	3

24 A & B are partners sharing profits & losses in the ratio of 2:1. On 01.04.2017 they decided to admit C into partnership for 1/5th share in profits. For this purpose, goodwill was valued at 80% of average annual profits of previous 4 years. The profits of last 4 years were: 31.03.2014: Rs.1,67,000; 31.03.2015: Rs.1,56,000; 31.03.2016: Rs.1,92,000 and 31.03.2017: Rs.(10,000). Calculate value of goodwill of firm and the amount of goodwill premium brought in by C on his admission. **4**

25 Ramesh, Mahesh and Suresh were partners in a firm sharing profits in the ratio of 3:3:2. Their respective fixed capitals were : Ramesh Rs.5,00,000; Mahesh Rs.4,00,000 and Suresh Rs.3,00,000. They admitted Govind as a new partner for 1/5th share in the profits. Govind brought Rs.4,00,000 as his capital and the necessary amount for goodwill premium. Their new profit sharing ratio will be 2:1:1:1. Calculate the value of goodwill of the firm, showing your workings clearly. Pass necessary journal entries for the above transactions on Govind's admission. **4**

26 Amit & Kartik are partners sharing profits & losses equally. They decided to admit Saurabh for an equal share in profits. Goodwill of firm was to be valued at 4 years' purchase of super profits. Balance Sheet of firm on Saurabh's admission was as follows: **4**

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Capitals : Amit : 90,000 Kartik : 50,000	1,40,000	Machinery	75,000
Reserve	20,000	Furniture	15,000
Loan	25,000	Stock	30,000
Sundry Creditors	5,000	Debtors	20,000
		Cash	50,000
	1,90,000		1,90,000

The normal rate of return is 12% per annum. Average profits of the firm for the last four years were Rs.30,000. Calculate Saurabh's share of goodwill.

27 On 31.03.2017, Balance Sheet of Abhir and Divya, who were sharing profits in ratio of 3:1 was as follows: **6**

Balance Sheet of Abhir&Divya as on 31st March, 2017

Liabilities	Amt.(Rs.)	Assets	Amt.(Rs.)
Creditors	2,20,000	Cash at Bank	1,40,000
Employees' Prov. Fund	1,00,000	Debtors : 6,50,000 (-)Prov. For Bad debts 50000	6,00,000
Investment Fluct. Fund	1,00,000	Investments (MV Rs.440000)	5,00,000
General Reserve	1,20,000	Stock	3,00,000
Capitals : Abhir : 6,00,000 Divya : 4,00,000	10,00,000		
	15,40,000		15,40,000

They decided to admit Vibhor on 1st April, 2017 for 1/5th share.

(1) Vibhor shall bring Rs.80,000 as his share of goodwill premium.
(2) Stock was overvalued by Rs.20,000.
(3) A debtor whose dues of Rs.5,000 were written off as bad debts, paid Rs.4,000 in full settlement.
(4) Two months salary @ Rs.6,000 per month was outstanding.
(5) Vibhor was to bring in capital to the extent of 1/5th of the total capital of the new firm.

Prepare Revaluation A/c., Partners' capital A/c.

---

28 Asha and Aditi are partners in a firm sharing profits and losses in the ratio of 3:2. They admit Raghav as a partner for 1/4th share in profits of firm. Raghav brings Rs.6,00,000 as his capital and his share of goodwill in cash. Goodwill of the firm is to be valued at two years' purchase of average profits of the last four years. **6**

The profits of the firm during the last four years are given below:

Year	Profits (Rs.)
2013-14	3,50,000
2014-15	4,75,000
2015-16	6,70,000
2016-17	7,45,000

The following additional information is given:

(i) To cover management cost an annual charge of Rs.56,250 should be made for the purpose of valuation of goodwill.
(ii) The closing stock for the year ended 31.3.2017 was overvalued by Rs.15,000.

Pass necessary journal entries on Raghav's admission showing the working notes clearly.

---

29 A and B are partners in a firm sharing profits and losses in the ratio of 7: 3. Their balance sheet as on 31 March 2009 was as follows: **8**

LIABILITIES	RS.	ASSETS	RS.
Capital a/c		Debtors 46,000	
A-50,000		Less: prov.- 2,000	44,000
B-40,000	90,000	Furniture	30,000
Bank overdraft	20,000	Stock	50,000
Reserves	10,000	Cash in hand	36,000
Creditors	40,000		
	1,60,000		1,60,000

On 1st April, 2009 C joins the firm as the third partner for 1/4th share of the future profits on the following terms and conditions:

(i) Goodwill is valued at Rs. 40,000 and C is to bring in the necessary amount in cash as premium for Goodwill.

(ii) 20% of the reserve is to remain as a provision against bad and doubtful debts.

(iii) Stock – in – Trade is to be reduced by 40% and furniture is to be reduced to 40%.

(iv) A is to pay off the bank overdraft.
(v) C is to introduce Rs. 30,000 as his share of capital to which amount other partners capitals shall have to be adjusted.
Prepare Revaluation Account, Partner's capital Accounts, and Balance Sheet of the new firm.

30 Raman and Rohit were partners in a firm sharing profits and losses in the ratio of 2:1. On 31.03.2018, their Balance Sheet was as follows: 8

Balance Sheet as on 31.03.2018

Liabilities	Amt.(Rs)	Assets	Amt.(Rs)
Capitals: Raman 1,40,000 Rohit 1,00,000	2,40,000	Debtors : 1,10,000 (-) Prov. For doubtful debts 7,000	1,03,000
Workmen Compensation Reserve	40,000	Plant & Machinery	1,75,000
Creditors	1,60,000	Furniture & Fixtures	65,000
		Stock	47,000
		Bank Balance	50,000
	4,40,000		4,40,000

On the above date, Saloni was admitted as a partner. Raman surrendered 2/5th of his share and Rohit surrendered 1/5th of his share in favour of Saloni. It was agreed that:

(1) Plant & Machinery will be reduced by Rs.35,000 and Furniture & Fixtures will be reduced to Rs.58,500.
(2) Provision for doubtful debts will be increased by Rs.3,000.
(3) A claim for Rs.16,000 for Workmen's Compensation was admitted.
(4) A liability of Rs.2,500 included in creditors is not likely to arise.
(5) Saloni will bring Rs.42,000 as her share of goodwill premium and proportionate capital.

Prepare Revaluation A/c., Partners' Capital Accounts and Balance Sheet of new firm.

31 8

Sanjana and Alok were partners in a firm sharing profits and losses in the ratio 3: 2. On 31st March, 2018 their Balance Sheet was as follows :

Balance Sheet of Sanjana and Alok on 31-3-2018

Liabilities	**Amount (Rs.)**	**Assets**
Creditors	60,000	Cash
Workmen's Compensation		Debtors 1,46,000

Fund	60,000	Less: Provision		
		for doubtful debts 2,000		1,44,000
Capitals :		Stock		1,50,000
Sanjana 5,00,000		Investments		2,60,000
Alok 4,00,000	9,00,000	Furniture		3,00,000
	10,20,000			**10,20,000**

On 1st April, 2018, they admitted Nidhi as a new partner for 1/4th share in the profits
on the following terms :

a. Goodwill of the firm was valued at Rs.4,00,000 and Nidhi brought the necessary amount in cash for her share of goodwill premium, half of which was withdrawn by the old partners.
b. Stock was to be increased by 20% and furniture was to be reduced to 90%.
c. Investments were to be valued at Rs.3,00,000. Alok took over investments at this value.
d. Nidhi brought Rs.3,00,000 as her capital and the capitals of Sanjana and Alok were adjusted in the new profit sharing ratio.
   Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of the reconstituted firm on Nidhi's admission.

32 Om, ram and Shanti were partners in a firm sharing profits in the ratio of 3:2:1. They donate 10% of their profits to education of poor girl child. On 1st April ,2014 their balance sheet was as follows: 8

Liabilities	Rs.	Assets	Rs
Capitals:		Land & building	3,64,000
Om 3,58,000		Plant and	2,95,000
Ram 3,00,000		machinery	2,33,000
Shanti 2,62,000	9,20,000	Furniture	38,000
General reserve	48,000	Bills receivables	90,000
Creditors	1,60,000	Sundry debtors	1,11,000
Bills payable	90,000	Stock	87,000
	12,18,000	Bank	12,18,000

On the above date hanuman was admitted on the following terms:

(i) He will bring Rs 1,00,000 for his capital and will get 1/10th share in the profits.
(ii) He will bring necessary cash for his share of goodwill premium. The goodwill of the firm was valued at Rs 3,00,000.
(iii) A liability of Rs 18,000 will be created against bills receivables discounted.
(iv) The value of stock and furniture will be reduced by 20 %.
(v) The value of land and building will be increased by 10%
(vi) Capital accounts of the partners will be adjusted on the basis of hanuman's capital in their profit sharing ratio by opening current accounts.

	Prepare revaluation A/c and partners' capital accounts.	

SUBJECT ENRICHMENT MATERIAL

ADMISSION OF A PARTNER

ANSWER KEY

Q. No	Answers	Marks
1	Debit ram's a/c Rs 10,000. shyam'sRs 5,000. and credit GW account Rs 15,000	1
2	Cash a/c DR Rs 30,000. Y a/c DR Rs.7,500. To X cap a/c 37,500	1
3	Transfer to the Old Partners' Capital Accounts in old ratio	1
4	Goodwill	1
5	Share of profit acquired by Chaman from Aman= 1/6 x 2/5= 2/30 Therefore, share of profit acquired by Chaman from Beena = 1/6-2/30= 3/30 or **1/10**	1
6	To find out gain/ loss on revaluation of assets and reassessment of liabilities and to distribute that gain/loss among the old partners in old ratio.	1
7	No, as only purchased goodwill can be shown in the Balance Sheet as per AS26	1
8	Rs.40,000	1
9	i) partners with unsound mind ii) insolvent partner	1
10	1/8	1
11	Account Old Partners' Capital	1
12	Sacrificing Partners' Capital Account	1
13	The sacrificing ratio	1
14	Nominal Account	1
15	The old partners' capital account	1
16	The old profit-sharing ratio	1
17	Rs 40,000 and Rs20,000 respectively	1
18	In the ratio of their profit	1
19	The premium for goodwill account	1
20	1/2, 1/4, 1/4	1
21	Bank A/c………………………3,00,000 To Hina's Capital A/c 3,00,000 Hina's Current A/c …………..84,000 To Disha's Current A/c 50,400 To Divya's Current A/c 33,600	3
22	Cash A/c………………..dr.2,00,000 To kishore's capital A/c 2,00,000 kishore's Current A/c …dr.25,000	3

	To Varun's Current A/c 25,000	
23	Gaining Ratio of Y = 2/6 Z= 1/6 Sacrificing Ratio of Y = 2/6 Z = 1/6 New Ratio = Y : Z : M = 2: 1 : 3	3
24	goodwill of the firm-101000, c's share-20200	4
25	Firm's Goodwill Rs.4,00,000, Govind's share Rs.80,000	4
26	Super Profit Rs.13,200; Goodwill of the firm Rs.52,800 Saurabh's share Rs.17600	4
27	loss on revaluation-28000, vibhors capital account -303000 , abhir-759000, divya-453000 and balance sheet-1847000	6
28	goodwill/firm-10,00,000 and Raghav's share; 2,50,000	6
29	; loss on revaluation-42000, capital accounts ; A-63000, B-27000, C-30000 and balance sheet – 1,60,000	8
30	Loss on Revaluation Rs.42,000 capital accounts ; Raman-161600, Rohit- 102400, saloni-132000 and balance sheet- 569500	8
31	(see below)	8

Revaluation A/c

Dr				Cr.
Particulars		**Amount (Rs.)**	**Particulars**	**Amount**
To Furniture		30,000	By Investments	40,000
To Profit transferred to :			Stock	30,000
Sanjana's Capital A/c	24,000			
Alok's Capital A/c	16,000	40,000		
		70,000		70,000

Partners Capital Accounts

Dr.							Cr.
Particulars	**Sanjana (Rs.)**	**Alok (Rs.)**	**Nidhi (Rs.)**	**Particular**	**Sanjana (Rs.)**	**Alok (Rs.)**	**Nidhi (Rs.)**
To Cash A/c	30,000	20,000	-	By Balance b/d	5,00,000	4,00,000	-
To Investments	-	3,00,000	-	By Cash A/c	-	-	3,00,000
To Cash A/c	50,000	-	-	By Premium for goodwill A/c	60,000	40,000	-
To Balance c/d	5,40,000	3,60,000	3,00,000	By Workmen's Compensation Reserve A/c	36,000	24,000	-
				By Revaluation A/c	24,000	16,000	-
				By Cash	-	2,00,000	
	6,20,000	6,80,000	3,00,000		6,20,000	6,80,000	3,00,000

Balance Sheet of the reconstituted firm as on 31st March 2018

Liabilities		**Amount (Rs.)**	**Assets**		**Amount (Rs.)**
Creditors		60,000	Cash at bank		6,66,000
Capitals :			Debtors	1,46,000	
Sanjana	5,40,000		Less Provision for doubtful debts	2,000	1,44,000
Alok	3,60,000		Stock		1,80,000
Nidhi	3,00,000	12,60,000	Furniture		2,70,000
		12,60,000			12,60,000

32	Loss on revaluation Rs 50,400, capital a/c: om Rs 4,50,000, Ram Rs 3,00,000, shanty Rs 1,50,000 and hanuman Rs 1,00,000, om current A/c Rs 78,200, Ram current A/c Rs. 9,200 (cr), shanti's current A/c Rs 1,16,600 (cr)	8

SUBJECT ENRICHMENT MATERIAL

CLASS XII

RETIREMENT AND DEATH OF A PARTNER

S.No.	QUESTIONS	MARKS
1	State True/ False. Give reason A, B and C are three partners in a firm. B retires from the firm. On the date of retirement, Stock was Rs.50,000. The partners decided to reduce stock to 90%. The entry for revaluing Stock would be: Stock A/c………………………….Dr. 5,000 To Revaluation A/c…………………………………5,000	1
2	Deo, Narain and Zaidi were partners sharing profits in the ratio of 2:2:1. Narain died on 31st, March, 2019. Profit earned by the firm for the year ended 31st, March, 2019 was Rs.72,000. Amount of profit that will be added to Narain's Capital will be: a) Rs.14,400 b) Rs.28,800 c) Rs.43,200 d) Rs.7,200	1
3	Can a retired or deceased partner's legal representative claim a share in the subsequent profits of the firm? Give reason	1
4	A, B, C are partners sharing profit and losses in the ratio of 4:3:1: B retires and gives his share of profit to A Rs. 3,600 and C Rs. 4,500. What is the Gaining sharing ratio of A and C? (a) 4:5 (b) 2:1 (c) 68:48 (d) 4: 1	1
5	If the retiring partner is not paid full amount due to him immediately on retirement, his balance is transferred to his : (a) Loan A/c (b) Capital A/c (c) Bank A/c (d) Suspense A/c	1

6	A ,B and C are partners sharing profits in the ratio 2:2:1. B retires from the firm .The capital account of A, B and C are Rs 60,000 Rs70,000 and Rs 50,000 respectively after adjustment of goodwill , reserved and revaluation . B was to paid in cash brought in by A and C in such a way that there capital are in proportion of new ratio . How much amount A and C must bring to pay B : A Rs 50,000 by A &Rs 20,000 by B B Rs 60,000 by A &Rs 10,000 by C C Rs35,000 by A and Rs 35,000 by B D Rs 40,000 by A and Rs 30,000 by B	1
7	At the of retirement of a partner Provision for bad and doubtful debts appears in in balance sheet and all Debtors become good at the time of retirement , then provision for bad & doubtful debts will be ______________ in revaluation account.	1
8	Mohan a partner died on 30th sep 2019 he withdraw Rs.4,000 per month in the beginning of every month. Rate of interest charged on drawings is 12% p.a. Amount of interest on drawing will be _________ if firm closes its account at the end of every year.	
9	Ram Mohan and Sohan are partner sharing profit in the ratio of 4:3:2 , Mohan died on 1st Oct 2019,new ratio will be 1:2 among Ram and Sohan , goodwill of the firm is valued at Rs. 6,00,000______________ amount will be transfer to Mohan capital A/c.	1
10	At the time of retirement of a partner there is a workmen compensation reserve Rs 25,000 and claim of it Rs 30,000.Rs 5,000 will be credited to Revaluation account (True/False)	1
11	Retiring partner is compensated for parting with the firm's future profits in favour of remaining partners. The remaining partners contribute to such compensation amount in A) Gaining Ratio B) Capital Ratio C) Sacrificing Ratio D) Profit-Sharing Ratio	1
12	A, B, and C are partners in 3:4:2. B wants to retire from the firm. The profit on revaluation on that date was Rs 36,000. The new ration of A and C is 5:3. Profit on revaluation will be distributed as A) A Rs 16,000, B Rs 12,000, C Rs8,000 B) A Rs12,000, B Rs16,000, C Rs8,000 C) A Rs 2,500, C Rs13,500 D) A Rs 23,625, C Rs12,375	1
13	A, B, and C share profits and losses of the company equally. B retires form business and his share is purchased by A and C in the of 2:3. New profits sharing ratio between A and C respectively would be A) 01:01 B) 02:02	1

	C) 07:08 D) 03:05	
14	P, Q, and R have been sharing profits in the ration of 8:5:3. P retires. Q takes 3/16th share from P and R take 5.16th share from P. New profit sharing ratio will be A) 01:01 B) 10:6 C) 9:7 D) 5:3	1
15	A, B, and C are equal partners. C retires. He surrenders 3/5th of his share in favour of A and 2/5th in favour of B. New ratio will be A) 3:2 B) 8:7 C) 7:8 D) 2:3	1
16	P, Q, and R are sharing profit and losses equally. R retires and the goodwill is appearing in the book at Rs30,000. Goodwill of the firm is valued at Rs 1,50,000. Calculate the net amount to be credited to R's capital A/c A) Rs 60,000 B) Rs50,000 C) Rs40,000 D) Rs10,000	1
17	A, B, and C are partners with profit sharing ratio 4:3:2. B retires and goodwill was valued Rs1,08,000. If A and C share profits in 5;3, find out the goodwill shared A and C in favour of B A) Rs 22,500 and Rs 13,500 B) Rs 16,500 and Rs19,500 C) Rs 67,500 and Rs 40,500 D) Rs 19,500 and Rs 16,500	1
18	A, B, and C are partners in a company sharing profit and loss in the ratio of 2:2:2. On March 31, 2018, C died. Accounts are closed on December 31st every year. The sale for the year 2017 was Rs6,00,000 and profits were Rs60,000. The sales for the period	1

	from Jan 1, 2018, to March 31, 2018, were Rs2,00,000. The share of the deceased partner in the current year's profits on the basis of sale is A) Rs20,000 B) Rs8,000 C) Rs3,000 D) Rs4,000	
19	A, B, and C were partners sharing profit and loss in the ratio of 2:2:1. Books are closed on 31st March every year. C dies on the 5th of November 2018. Under the partnership deed, the executors of the deceased partner are entitled to his profit to the date of death, calculated on the basis of last year's profit. Profit for the year ended 31st March 2018 was Rs2,40,000. C's share of profit will be A) Rs28,000 B) Rs32,000 C) Rs28,800 D) Rs48,000	1
20	Pass the journal entry entered at the time of retirement of a partner.	1
21	X, Y and Z were partners in a firm sharing profits in the ratio of 6:5:4 . Their capitals were X-Rs. 1,00,000; Y- Rs. 80,000 and C- Rs. 60,000 respectively. On 1st April 2018, Z retired from the firm and the new profit sharing ratio between X and Y was decided as 11:4. On Z's retirement, the goodwill of the firm was valued at Rs. 90,000. Showing yours calculations clearly , pass journal entry for the treatment of goodwill on Z's retirement.	3
22	State the need for treatment of Goodwill on retirement of a partner.	3
23	A, Band C are partners sharing profits and losses in the ratio of 2:2:1 and on the retirement of C, the various assets and liabilities are revalued as under: — Book Value (Rs.) — Revised value (Rs.) Building — 35,000 — 46,000 Stock — 15,000 — 13,000 Creditors — 50,000 — 49,000 Pass journal entries	3
24	Garima, Harish and Reena were partners in a firm sharing profits and losses equally. On 31st March, 2015, Harish died and the amount payable to his executors was Rs.90,000.	4

It was agreed between the remaining partners and Harish's executors that the executors will be paid in four equal yearly instalments along with interest @ 18% per annum starting from 31st March, 2015.

Prepare Harish's executor's account till it is finally closed.

25 Aman, Binu and Chaman were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31.03.2018 their Balance Sheet was as follows: **4**

Balance Sheet of Aman, Binu and Chaman as on 31.03.2018

Liabilities	Amt.(Rs.)	Assets	Amt.(Rs.)
Capitals: Aman 3,00,000 Binu 1,50,000 Chaman 1,00,000	5,50,000	Machinery	1,30,000
General Reserve	60,000	Stock	1,10,000
Creditors	1,10,000	Debtors	90,000
		Cash	89,000
		Buildings	2,20,000
		Patents	81,000
	7,20,000		7,20,000

Aman died on 1.10.2018. According to the partnership deed, in addition to deceased partner's capital, his executor is entitled to:

(i) Aman's share of goodwill will be Rs.1,87,500.

(ii) Patents will be valued at Rs.51,000, Machinery at Rs.1,10,000 and Building at Rs.2,70,000.

(iii) His share of profit in the year of death is calculated as Rs.37,500.

(iv) Interest on capital was to be provided @ 10% p.a.

Prepare Revaluation A/c. and Aman's Capital A/c. to be presented to his executor.

26 A, B and C were partners in a firm. A died on 31.3.2018 and the Balance Sheet of the firm on that date was as under : **6**

Liabilities	Amt.(Rs.)	Assets	Amt.Rs.)
Creditors	7,000	Cash at Bank	12,000
General Reserve	9,000	Debtors	32,000
Workmen Comp. Res.	10,000	Furniture	30,000
Profit & Loss A/c.	6,000	Plant	40,000
A's Capital	40,000	Patents	8,000
B's Capital	30,000		
C's Capital	20,000		
	1,22,000		1,22,000

On A's death it was found that patents were valueless, furniture was to be brought down to Rs.24,000, plant was to be reduced by Rs.10,000 and there was a liability of Rs.7,000 on account of workmen's compensation.

Pass the necessary journal entries for the above at the time of A's death

27 Meera, Sarthak and Rohit were partners sharing profits in the ratio of 2:2:1. On 31 March, 2018, their Balance Sheet was as follows : **6**

Liabilities	Amt.(Rs.)	Assets	Amt.(Rs.)

Sundry Creditors	3,00,000	Fixed Assets	7,00,000
Contingency Reserve	1,00,000	Stock	2,00,000
Meera's Capital	4,00,000	Debtors	1,50,000
Sarthak's Capital	3,50,000	Cash at Bank	3,50,000
Rohit's Capital	2,50,000		
	14,00,000		14,00,000

Sarthak died on 15th June, 2018. According to the partnership deed, his executors were entitled to:

(i) Balance in his Capital Account.

(ii) His share of goodwill will be calculated on the basis of thrice the average of the past 4 years' profits.

(iii) His share in profits up to the date of death on the basis of average profits of the last two years. The time period for which he survived in the year of death will be calculated in months.

(iv) Interest on capital @ 12% p.a. up to the date of his death.

The firm's profits for the last four years were :

2014 – 15 Rs.1,20,000, 2015 – 16 Rs.2,00,000, 2016 – 17 Rs.2,60,000 and 2017 – 18 Rs.2,20,000.

Sarthak's executors were paid the amount due immediately. Prepare Sarthak's Capital Account to be presented to his executors.

28 Virad, Vishad and Roma were partners in a firm sharing profits in the ratio of 5:3:2 respectively. On March 31,2015, their Balance Sheet was as under: 6

Balance Sheet
as at 31st March, 2015

Liabilities		Amount (Rs.)	Assets	Amount (R
Creditors		1,10,000	Building	2,00,000
Reserve Fund		60,000	Machinery	3,00,000
			Patents	
Capitals:			Stock	1,00,000
Virad	3,00,000		Debtors	80,000
Vishad	2,50,000		Cash	80,000
Roma	1,50,000	7,00,000		
Total		**8,70,000**	**Total**	**8,70,000**

	Virad died on October 1, 2015. It was agreed between his executors and the remaining partners that: a) Goodwill of the firm be valued at 2½ years' purchase of average profits for the last three years. The average profits were Rs 1, 50,000. b) Interest on capital be provided at 10% p.a. c) Profit for the year 2015-16 be taken as having accrued at the same rate as that of the previous year which was Rs 1, 50,000. d) Virad's executer will be paid 25% in cash and the balance will be transferred in his loan account which will be paid in four equal yearly instalments together with interest @ 10% p.a. e) The new profit sharing ratio between vishad and Roma will be as same as earlier and their capitals will be in their new profit sharing ratio. The capital adjustments will be done by opening current accounts. Prepare Virad's Capital Account to be presented to his Executors as on October 1, 2015.	
29	P, Q and R were partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 31.3.2018, Q retired from the firm. On the date of Q's retirement the Balance Sheet of the firm was as follows :	8

Liabilities	**Amount**	**Assets**	**Amount**
Creditors	27,000	Bank	27,600
General Reserves	12,000	Debtors 6000	
Outstanding Rent	2200	**Less** Provision for doubtful debts 400	5600
Provision for legal claims	6,000	Stock	9,000
Capitals :		Furniture	4,100
P 46,000		Premises	96,900
Q 30,000			
R 20,000	96,000		
	1,43,200		1,43,200

On Q's retirement it was agreed that :

- Premises will be appreciated by 2% and furniture will be appreciated by Rs. 1,700. Stock will be depreciated by 10%.
- 5% provision for doubtful debts was to be made on debtors and Rs. 7,200 for legal damages.
- Goodwill of the firm was valued at Rs. 24,000.
- Rs. 20,000 from Q's Capital Account will be transferred to his loan account and the balance will be paid to him by cheque

Pass necessary entries in above case

30 Mohan, Vinay and Nitya were partners in a firm sharing profits and losses in the proportion of ½, 1/3 and 1/6 respectively. On 31st March, 2018, their Balance Sheet was as follows : **8**

Balance Sheet of Mohan, Vinay and Nitya as at 31st March, 2018

Liabilities	Amt.(Rs.)	Assets	Amt.Rs.)
Sundry Creditors	48,000	Cash at Bank	31,000
Employees P. F.	1,70,,000	B/R	54,000
Contingency reserve	30,000	Land & Building	2,92,000
Mohan's Capital	1,20,000	Debtors 63,000 - Provision 2,000	61,000
Vinay's Capital	1,00,000	Plant and Machinery	1,20,000
Nitya's Capital	90,000		
	5,58,000		5,58,000

Mohan retired on the above date and it was agreed that :
(i) Plant and machinery will be depreciated by 5%.
(ii) An old computer previously written off was sold for Rs.4,000.
(iii) Bad debts amounting to Rs.3,000 will be written off and a provision of 5% on debtors for bad and doubtful debts will be maintained.
(iv) Goodwill of the firm was valued at Rs.1,80,000 and Mohan's share of the same was credited in his account by debiting Vinay's and Nitya's accounts.
(v) The capital of the new firm was to be fixed at Rs.90,000 and necessary adjustments were to be made by bringing in or paying off cash as the case may be.
(vi) Vinay and Nitya will share future profits in the ratio of 3:2.
Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm

31 Xavier, Yusuf and Zaman were partners in a firm sharing profits in the ratio of 4:3:2. On 1.4.2014 their balance sheet was as follows:

Liabilities	Rs	Assets	Rs
Sundry creditors Capitals:	41,400	Cash at bank Sundry debtors 30,450	33,000

Xavier 1,20,000 Yusuf 90,000 Zaman 60,000	2,70,000 3,11,400	Less: provision for bad debts1,050 -------------- Stock Plant & machinery Land and building	29,400 48,000 51,000 1,50,000 3,11,400

Yusuf had been suffering from ill health and thus gave notice of retirement from the firm. An agreement was, therefore entered into as on 1.4.2014, the terms of which were as follows:

(i) That land and building be appreciated by 10%
(ii) That stock be appreciated by 20%
(iii) The provision for bad debts is no longer necessary.
(iv) That goodwill of the firm be fixed at Rs.54,000. Yusuf's share of the same be adjusted into Xavier's and Zaman's capital accounts, who are going to share future profits in the ratio of 2:1.
(v) The entire capital of the newly constituted firm be readjusted by bringing in or paying necessary cash so that the future capitals of Xavier and zaman will be in their profit sharing ratio.

Prepare revaluation a/c and partners' capital accounts.

STUDY MATERIAL FOR BRIGHT STUDENTS

RETIREMENT AND DEATH OF A PARTNER

Q.No.	Answer	Marks
1	False, as Stock will be credited and Revaluation will be debited for the amount of loss.	1
2	b. Rs.28,800	1
3	Yes, As per Section 37 of Indian Partnership Act, 1932, if full /part amount of outgoing partner is still due, he can be given interest @ 6% or share of profits,(proportionate to the outstanding amount to total capital)	1
4	(a) 4:5	1
5	(a) Loan A/c	1
6	(B)	1
7	(credited)	1
8	[Rs.840]	1
9	[Rs.2,00,000]	1
10	(F)	1
11	A	1
12	B	1
13	C	1
14	A	1

<table>
<tr><td></td><td></td><td></td></tr>
<tr><td>15</td><td>B</td><td>1</td></tr>
<tr><td>16</td><td>C</td><td>1</td></tr>
<tr><td>17</td><td>D</td><td>1</td></tr>
<tr><td>18</td><td>D</td><td>1</td></tr>
<tr><td>19</td><td>C</td><td>1</td></tr>
<tr><td>20</td><td>Remaining Partner’s Capital A/cs Dr. (In gaining ratio)
To Retiring Partner’s Capital A/c (with his share of goodwill)</td><td>1</td></tr>
<tr><td>21</td><td>Journal
<table>
<tr><td>Date</td><td>Particulars</td><td></td><td>Debit amount</td><td>Credit amount</td></tr>
<tr><td>1.4.18</td><td>X’s Capital A/c (90,000*5/15)
To Y;s Capital A/c (90,000*1/15)
To Z’s Capital A/c (90,000*4/15)
(Being adjustment of goodwill on Z’s retirement)</td><td></td><td>30,000</td><td>6,000
24,000</td></tr>
</table>
Calculation of Gaining Ratio of X and Y
X’s Gain = X’s New share - X’s Old Share = 11/15 - 6/15 = 5/15
Y’s Gain= Y’s New share – Y’s Old share = 4/15 – 5/15 = (-) 1/15
(Y’s gain is in minus, it means he is not gaining but Sacrificing)
Thus, X is the only gaining partner. He will compensate both sacrificing partners Y and Z</td><td>3</td></tr>
<tr><td>22</td><td>Treatment of goodwill is required at the time of retirement of a partner to compensate the retiring partner for sacrificing his share of profit in favour of remaining partners in gaining ratio.</td><td>3</td></tr>
<tr><td>23</td><td>Journal
<table>
<tr><td>Date</td><td>Particulars</td><td>Dedit amount</td><td>Credit amount</td></tr>
<tr><td></td><td>Building A/c
Dr
Creditors A/c
Dr</td><td>11,000
1,000</td><td>

12,000</td></tr>
</table></td><td>3</td></tr>
</table>

		To Revaluation A/c (Being entry passed for inc. in the amount of building & Dec. in the amount of Creditors)	2,000	2,000	
		Revaluation A/c Dr To Stock A/c (Being dec. in the amount of stock recorded)	10,000	4,000 4,000 2,000	
		Revaluation A/c Dr To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being Profit on revaluation distributed in Old ratio)			
24	1st Installment 31.03.2015 Rs.22,500 IInd Installment 31.03.2016 Rs.22,500+12,150 IIIrd Installment 31.03.2017 Rs.22,500+8,100 IVth Installment 31.03.2018 Rs.22,500+4,050				4
25	No Profit , No Loss Balance b/d Rs. 3,00,000 ½ Mark Meera's Capital Rs.1,12,500 ½ Mark Rohit's Capital Rs.75,000 ½ Mark P & L Suspense A/c Rs.37,500 1 Mark Interest on Capital Rs.15,000 ½ Mark General Reserve Rs.30,000 ½ Mark Total amount due Rs.5,70,000				4
26	General Reserve…..Dr 9,000 To A's Capital 3,000 To B's Capital 3,000 To C's Capital 3,000 W.C Reserve…..Dr 10,000 To A's Capital 1,000 To B's Capital 1,000 To C's Capital 1,000 To Claim against WCR 7,000 P & L A/c…..Dr 6,000 To A's Capital 2,000				6

	To B's Capital 2,000 To C's Capital 2,000 Revaluation A/c……..Dr 24,000 To Patents 8,000 To Furniture 6,000 To Plant 10,000 A's Capital……..Dr 8,000 B's Capital……..Dr 8,000 C's Capital……..Dr 8,000 To Revaluation 24,000	
27	Balance b/d Rs. 3,50,000 ½ Mark Meera's Capital Rs.1,60,000 ½ Mark Rohit's Capital Rs.80,000 ½ Mark P & L Suspense A/c Rs.20,000 1 Mark Interest on Capital Rs.8,750 ½ Mark Contingency Reserve Rs.40,000 ½ Mark Amount due to Sarthak's Executors Rs.6,58,750	6
28	Balance b/d Rs. 3,00,000 Meera's Capital Rs.1,12,500 Rohit's Capital Rs.75,000 P & L Suspense A/c Rs.37,500 Interest on Capital Rs.15,000 General Reserve Rs.30,000 Total amount due Rs.5,70,000 Less cash paid 1,42,500 Amount due 4,27,500	6
29	Revaluation A/c………..Dr 2,100 To Stock 900 To Provision for legal charges 1,200 Furniture……………………………..Dr 1,700 Premises……………………………...Dr 1,938 Provision for doubtful debts…………Dr 100 To Revaluation A/c 3,738 Revaluation A/c…………………….Dr.1,638 To P's Capital…………………………… 819 To Q's Capital …………………………... 546 To R's Capital…………………………… 273 General Reserve…………………….Dr 12,000 To P's Capital…………………………… 6,000	8

	To Q's Capital …………………………... 4,000 To R's Capital…………………………… 2,000 P's Capital…………….Dr. 6,000 R's Capital…………….Dr 2,000 To Q's Capital A/c 8,000 Q's Capital………………Dr 20,000 To Q's Loan A/c 20,000 Q's Capital………………Dr 22,546 To Bank 22,546	
30	Loss on Revaluation Rs.6,000 Mohan,s Loan Rs.2,22,000 Vinay's Capital Rs.54,000 Nitya's Capital Rs.36,000 Bank Balance Rs.13,000 B/S Total Rs.5,30,000	8
31	Profit on revaluation Rs. 25,650, partners capital A/c: xavier's Rs. 1,19,400, Zaman's Rs. 59,700 and Yusuf's loan A/c Rs 1,16,550	

DISSOLUTION OF PARTNERSHIP

HOTS QUESTIONS

Q.No	QUESTION	M
1.	Provision for doubtful debts appearing in the books at the time of dissolution of firm is transferred to (a) Debtors Account (b) Bad Debts Accounts (c) Realisation Account (d) Partner's Capital Accounts	1
2.	Realisation expenses of Rs. 15,000 were paid by firm on behalf of Vikas, a partner. Which of the following journal entry will be passed? (a) Realisation A/c Dr. Rs. 15,000 To Cash Rs. 15,000 (b) Realisation A/c Dr. Rs. 15,000 To Vikas's Capital A/c Rs. 15,000 (c) Vikas's Capital A/c Dr. Rs. 15,000 To Cash/Bank A/c Rs. 15,000 (d) None of these	1
3.	Investments of Rs. 2,00,000 were not shown in the books. At the time of dissolution, one of the creditors took these investments in full settlement of his debt of Rs. 2,20,000. How much amount will be payable to the creditors? (a) Rs. 20,000 (b) Rs. 2,20,000 (c) Rs. 4,20,000 (d) NIL	1
4.	The firm paid realization expenses of Rs. 20,000 on behalf of Rahul, a partner with whom it was agreed at Rs. 50,000. Realisation expenses came to Rs. 70,000. Realisation Account will be debited by: (a) Rs. 20,000 (b) Rs. 70,000 (c) Rs. 50,000 (d) Rs. 1,40,000	1
5.	If the firm is dissolved, the partner's personal assets are first used for payment of: (a) Firm's Liability (b) Personal Liabilities	1

	(c) Any of (a) or (b) (d) None of these	
6.	What final payment to a partner on firm's dissolution will be made on the basis of following information. Debit balance of his capital account Rs. 7,000. Share of profit on realisation Rs. 21,500. Firm's asset taken by him for Rs. 8,500 (a) Rs. 15,500 (b) Rs. 14,500 (c) Rs. 6,000 (d) Rs. 30,000	1
7.	Goodwill Account appearing in the books on the dissolution date is closed by transferring it to……………………… side of the …………………… account.	1
8.	At the time of dissolution, there were Debtors Rs. 1,32,000, Provision for Doubtful Debts Rs. 12,000, Rs. 24,000 of the book debts proved bad. The Rs. . ……..……… realized from the debtors will be ……..……… in the Realisation Account.	1
9.	Varun and Arun are partners in a firm sharing profits and losses equally. On the date of dissolution of the partnership firm, Varun's wife's loan was Rs. 45,000, whereas Arun's loan was Rs. 65,000. Which loan will be paid first and why?	1
10.	Under which section, settlement of accounts under dissolution is made?	1
11.	Name some specific liabilities which are transferable to realization account but payment of these is not made on dissolution of firm.	1
12.	At the time of dissolution of a partnership firm, the book value of sundry assets transferred to Realisation Account was Rs. 4,00,000. 50% of these sundry assets were taken by partner M at 20% discount. 40% of the remaining assets were sold at a profit of 30% on cost. 5% of the balance was found obsolete and realised nothing. The remaining assets were taken over by a creditor in full settlement of this claim. Give necessary journal entries.	3
13.	Siyaram, a partner was to receive 3% of the value of assets realised and 15% the amount finally paid to partners. He has to bear realization expenses of Rs. 10,000. The assets realized Rs. 4,20,000 (including cash at Bank Rs. 20,000). Cash payment made to Sundry creditors Rs. 1,00,000. Pass necessary journal entry.	3
14.	Pass necessary journal entries on the dissolution of partnership firm in the following cases- (a) Expenses of dissolution Rs. 3,400 were paid by a partner, Vishal	4

	(b) Naveen, a partner, agreed to look after the dissolution work for which he was allowed a remuneration of Rs. 3,000. Naveen also agreed to bear the dissolution expenses. Actual expenses on dissolution Rs. 2,700 were paid by Naveen. (c) Vivek, a partner, was appointed to look after the dissolution work for a remuneration of Rs. 7,000. He agreed to bear the dissolution expenses. Actual dissolution expenses Rs. 6,500 were paid by Rishi, another partner, on behalf of Vivek. (d) Gaurav, a partner, was appointed to look after the work of dissolution for a commission of Rs. 12,500. He agreed to bear the dissolution expenses. Gaurav took over furniture of Rs. 12,500 as his commission . The furniture has already been transferred to realization account.	
15.	X and Y are partner sharing profits and losses equally. They decided to dissolve their firm. Give journal entries for settlements of creditors through assets in the following alternative cases: (i) A, a creditor (already transferred to Realisation Account) for Rs. 25,000 accepted furniture (already transferred to Realisation Account) at Rs. 36,000, in full settlement of his claim. (ii) B, a creditor (already transferred to Realisation Account) for Rs. 25,000 accepted furniture (already transferred to Realisation Account) at Rs. 20,000 in settlement of his claim. (iii)C, a creditor (already transferred to Realisation Account) for Rs. 30,000 agreed to take Machinery (already transferred to Realisation Account) at Rs. 48,000 (book value Rs. 50,000) in settlement of his claim. (iv)D, a creditor of Rs. 20,000(unrecorded in the books) already to accept computer (unrecorded in the books) at Rs. 15,000 plus Rs. 2,000 in full settlement of his claim.	4
16.	Adiraj and Karan were partners in a firm sharing profits and losses in the ration 3:2. On 31st March, 2018 the firm was dissolved. After the transfer of assets (other than cash in hand and at bank) and third party liabilities to the Realisation Account, the following information was provided: (i) Furniture of Rs. 70,000 was sold for Rs. 68,000 by auction and auctioneer's commission amounted to Rs. 2000	6

	(ii) Adiraj's loan amounting to Rs. 35,000 was paid. (iii) Out of the stock of Rs. 80,000 Karan took over 50% of the stock at a discount of 20% while the remaining stock was sold off at a profit of 30% of cost. (iv) A bill receivable of Rs. 3,000 under discount was dishonoured as the acceptor had become insolvent and hence the bill had to be met by the firm. (v) Profit and Loss Account showed a debit balance of Rs. 56,000. (vi) Realisation expenses amounted to Rs. 2,000 which were paid by Adiraj. Pass the necessary journal entries for the above transactions on the dissolution of the firm.	
17.	Arnab, Ragini and Dhrupad are partners sharing profits in the ration of 3:1:1. On 31st March, 2015, they decided to dissolve their firm. On that date their Balance Sheet was as under: Balance Sheet of Arnab, Ragini and Dhrupad as at 31st March, 2015	6

Liabilities	Rs.	Assets	Rs.
Creditors	60,000	Bank	50,000
Arnab's Brother's Loan	95,000	Debtors 1,70,000	
Dhrupad's Loan	1,00,000	Less: Provision for Bad Debts	
Investment Fluctuation Reserve	50,000	20,000	1,50,000
Capitals : Arnab 2,75,000		Stock	1,50,000
Ragini 2,00,000		Investments	2,50,000
Dhrupad 1,70,000	6,45,000	Building	3,00,000
		Profit and Loss	50,000
	9,50,000		9,50,000

The assets were realized and the liabilities were paid as under:

(i) Arnab agreed to pay his brother's loan

(ii) Investments realized 20% less.

(iii) Creditors were paid at 10% less.

(iv) Building was auctioned for Rs. 3,55,000. Commission on auction was Rs. 5,000

(v) 50% of the stock was taken over by Ragini at market price which was 20% less than the book value and the remaining was sold at market price

(vi) Dissolution expenses were Rs. 8,000, Rs. 3,000 were to be borne by the firm and the balance by Dhrupad. The expenses were paid by him.

Prepare Realisation Account, Bank, Account and Partners' Capital Accounts.

18.	Following is the Balance Sheet of Vinit and Yogesh as on 31st March, 2015.	8

Liabilities		Rs.	Assets		Rs.
Creditors		3,60,000	Bank		80,000
Mrs. Vinit's Loan		60,000	Stock		70,000
Yogesh' Loan		1,00,000	Investments		1,00,000
Investment Fluctuation Fund		30,000	Debtors	2,00,000	
Capitals : Vinit	2,00,000		Less: Provision for Doubtful		
Yogesh	1,00,000	3,00,000	Debts	20,000	1,80,000
			Fixed Assets		3,80,000
			Profit and Loss A/c		40,000
		8,50,000			8,50,000

The firm was dissolved on 31st March, 2015. The assets were realized and the liabilities were paid as under:

(a) Vinit promised to pay off Mrs. Vinit's Loan and took away stock at 20% discount.

(b) Yogesh took away 90% of the investments at 10%discount.

(c) Sunil, a debtor of Rs. 50,000 had to pay the amount due 3 months after the date of dissolution. He was allowed a discount of 5% for making payment immediately. The remaining debtors were collected in full.

(d) Creditors were paid Rs. 3,50,000 in full settlement of their claim.

(e) Fixed assets realized Rs 2,82,000 and reaming investment realized Rs. 7,500.

(f) There was an old furniture which has been written off completely from the books. Yogesh took away the same for Rs. 4,000.

(g) Realisation expenses Rs. 2,000 were paid by Vinit.

Prepare Realisation A/c, Bank A/c and Partner's Capital A/cs.

19. Srijan, Raman and Manan were partners in firm sharing profits and losses in the ration 2:2:1. On 31st March, 2017 their Balance Sheet was as follows: 8

Balance Sheet of Srijan, Raman and Manan at 31st March, 2017

Liabilities		Rs.	Assets	Rs.
Capital			Capital : Manan	10,000
Srijan	2,00,000		Plant	2,20,000
Rama	1,50,000	3,50,000	Investment	70,000
Creditors		75,000	Stock	50,000
Bills Payable		40,000	Debtors	60,000
Outstanding Salary		35,000	Bank	10,000
			Profit and Loss Account	80,000

	5,00,000		5,00,000

On the above date, they decided to dissolve the firm:

(i) Srijan was appointed to realize the assets and discharge the liabilities. Srijan was to receive 5% commission on sale of assets (except cash) and was to bear all expenses of realization.

(ii) Assets were realized as follows:

Plant 85,000

Stock 33,000

Debtors 47,000

(iii) Investments were realized at 95% of the book value.

(iv) The firm had to pay Rs. 7,500 for an outstanding repair bill not provided for earlier.

(v) A contingent liability in respect of bills receivable, discounted with the bank had also materialised and had to be discharges for Rs. 15,000.

(vi) Expenses of realization amounting to Rs. 3,000 paid by Srijan

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

20. Michael, Jackson and John were partners in a firm sharing profits in the ratio of 3:1:1. On 31st March, 2017, they decided to dissolve their firm. On the date their Balance Sheet was as follows: 8

Balance Sheet of Michael, Jackson and John

As at 31st March ,2017.

Liabilities	Rs.	Assets	Rs.
Creditors	11,500	Bank	6,000
Loan	3,500	Debtors 48,400	
Capitals:		Less : Provision for Doubtful	
Michael 50,000		Debts 2,400	46,000
Jackson 25,000		Stocks in Trade	16,000
John 14,000		Furniture	2,000
	89,000	Sundry Assets	34,000
	1,04,000		1,04,000

It was agreed that:

(a) Michael was to take over Furniture at Rs. 2,600 and Debtors amounting to Rs. 40,000 at Rs. 34,400; the Creditors of Rs. 10,000 to be paid by him at this figure.

	(b) Jackson was to take over all the stock in trade at Rs.14,000 and some of the Sundry Assets at Rs.28,800(being 10% less than book value). (c) John was to take over the remaining Sundry Assets at 90% of the book value and assumed the responsibility for the discharge of the loan. (d) The remaining Debtors were sold to a debt collecting agency for 50% of the book value. The expenses of dissolution Rs.600 were paid by John. Prepare Realisation Account , Bank Account , Partners' Capital Accounts.	

ANSWER KEY -- DISSOLUTION OF PARTNERSHIP

ANSWER KEY -HOTS QUESTIONS

Q.No	QUESTION	M
1.	Realisation Account (c)	1
2.	Vikas's Capital A/c--- Dr. Rs. 15,000 To Cash/Bank A/c Rs. 15,000 (c)	1
3.	NIL (d)	1
4.	(c) Rs. 50,000	1
5.	(b) Personal Liabilities	1
6.	(c) Rs. 6,000	1
7.	Debit , Realisation	1
8.	1,08,000 , credited	1
9.	Varun's wife's loan will be paid first as it is an outside liability.	1
10.	Sec 48 of the Partnership Act-1932	1
11.	Provision for Depreciation Investment Fluctuation Reserve	1
12.	Journal Entry- M's Capital A/c – Dr. 1,60,000 Bank A/c – Dr. 1,04,000 To Realisation A/c 2,64,000	3
13.	Realisation A/c --- Dr. 58,200 To Siyaram's Capital A/c 58,200 (4,20,000- (1,00,000+12000)= 3,08,000 X 15/100 = 46,200)	3

	Amount payable to SiyaRam = (Comm.)12000+46,200= 58,200	
14.	1.Realisation A/c – Dr. 3,400 To Vishal's Capital 3,400 2. .Realisation A/c – Dr. 3,000 To Naveen's Capital 3,000 3. a)Realisation A/c – Dr. 7,000 To Vivek's Capital 7,000 b)Vivek's Capital A/c – Dr. 6,500 To Rishi's Capital 6,500 4. a)Realisation A/c – Dr. 12,500 To Gaurav's Capital 3,400 b)Gaurav's Capital A/c – Dr. 12,500 To Realisation A/c 12,500 OR No Entry	4
15.	1. No Entry 2. .Realisation A/c – Dr. 5,000 To Cash A/c 5,000 (Furniture accepted by B for Rs.20,000 and Balance Rs.5,000 paid in cash) 3. Cash A/c – Dr. 18,000 To Realisation A/c 18,000 (Creditors of Rs.30,000 accepted Machinery for Rs.48,000 and Balance received in cash from him) 4. Realisation A/c – Dr. 2,000 To Cash 2,000 (Computer accepted in full settlement and Rs.2,000 paid in cash)	4
16.	1. Bank A/c – Dr. 66,000 To Realisation A/c 66,000 2. Adiraj's Loan A/c – Dr. 35,000 To Bank 35,000 3. Karan's Capital A/c – Dr. 32,000 To Realisation A/c 32,000	6

	Bank A/c – Dr.. 52,000 To Realisation A/c 52,000 4. Realisation A/c – Dr. 3,000 To Bank 3,000 5. Adiraj's Capital A/c –Dr.33,600 Karan's Capital A/c –Dr. 22,400 To Profit & Loss A/c 56,000 6. Realisation A/c - Dr. 2,000 To Adiraj's Capital A/c 2,000	
17.	Loss on realization – Rs.1,27,000 Final Payment to Arnab – Rs.2,63,800; Ragini-Rs.1,04,600; Dhrupad – Rs.1,37,600 Total of Bank Account- Rs.6,65,000	6
18.	Loss on realization – Rs.64,000 Final Payment to Vinit – Rs.1,54,000;Yogesh – Rs.37,000 (Bring in) Total of Bank Account- Rs.6,04,000	8
19.	Loss on realization – Rs.2,02,575 Final Payment to Srijan– Rs.98,545; Raman-Rs.36,970; Manan – Rs.66,515(Bring in) Total of Bank Account- Rs.3,08,015	8
20.	Loss on realization – Rs.12,800 Final Payment to Michael – Rs.15,320; Jackson- (Bring in) Rs. 20,360; John – Rs.13,740 Total of Bank Account- Rs.30,560	8

ISSUE OF SHARES FOR CASH (AT PREMIUM, AT PAR), CALLS IN ARREARS AND CALLS IN ADVANCE, BALANCE SHEET PRESENTATION

1 MARK QUESTIONS

1. According to Table F of Schedule I of the Companies Act, 2013 what is rate of interest on calls in arrears and calls in advance
   Ans . calls in arrears 10% , calls in advance 12%
2. Can securities premium can be used for distribution of dividend/ as working capital/purchase of fixed assets.
   Ans. No, it can be used as per sec. 52 of Companies Act, 2013
3. Is calls in advance is part of share capital
   Ans.No it is not part of share capital. No dividend is paid on calls in advance.
4. Identify the purpose of utilizing securities premium reserve that would maximize the return of shareholder
   Ans. Buy back of its own shares
5. A Ltd invited application for issuing 10000 equity shares of Rs. 10 each. The public applied for 8700 shares .Can the company proceed for allotment of shares?
   Ans. No because minimum subscription 90% (9000 shares) is not received.
6. Akshaj Ltd. in order to retain high calibre employees or to give them a feeling of belongingness, offered a choice to the whole time directors, officers and employees, the right to purchase or subscribe at a future date, the equity shares offered by the company at a pre-determined rate.State what type of plan Venus Ltd. has implemented here?
   Ans: ESOP
   3 or 4 marks questions
7. DN Ltd. issued 50,000 shares of Rs. 10 each At par payable as Rs.2 per share on a application, Rs.3 on allotment and Rs. 2 each on first and Rs. 3 final call. Applications were received for 70,000 shares. It was decided that

(a) refuse allotment to the applicants of 10,000 shares,

(b) allot 20,000 shares to Mohan who had applied for a similar number, and

(c) allot the remaining shares on a pro-rata basis.

Mohan failed to pay the allotment money and Sohan who belonged to category (c) and was allotted 3,000 shares, paid both the calls with allotment. Calculate the amount received on allotment.

Ans 150000-20000-60000+15000=85000/-

8. A Ltd. issued 1,00,000 equity shares of ₹ 10 each. The amount was payable as follows: On application : ₹ 3 per share, On allotment : ₹ 4 per share, On 1stand final call: balance. Applications

for 95,000 shares were received and shares were allotted to all the applicants. Sonam to whom 500 shares were allotted failed to pay allotment money and Gautam paid his entire amount due including the amount due on first and final call on the 750 shares allotted to him along with allotment. Calculate the amount received on allotment .

Ans: Rs. 380250

9. ABC Ltd. has an authorised capital of 2,00,000 equity shares of Rs. 10 each. The company offered to public for subscription 1,00,000 shares. Applications were received for 97,000 shares. The amount was payable as follows on application was Rs.2 per share, Rs. 4 was payable on each allotment and balance on first and final call. A shareholder holding 600 shares failed to pay the allotment money. His shares were forfeited. The company did not make the first and final call. Present the share capital in the balance sheet of the company as per Schedule III of the Companies Act, 2013. Also prepare notes to accounts.

   SHARE CAPITAL IN Balance sheet - 96400*6 = 578400+1200 =579600/-
10. XYZ Ltd. issued 5,000 equity shares of Rs.10 each at par payable. On application Rs.2 per share, on allotment Rs.3 per share, on first call Rs.3 per share and on second call Rs.2 per share. Mr X was allotted 40 shares. He failed to pay first call and final call and his shares were forfeited. Prepare an extract of Balance Sheet of XYZ Ltd. as per Revised Schedule VI Part –I of the Companies Act 2013disclosing Share Capital. Also prepare noteS to accounts for the same.
11. AB ltd. 40000 equity shares of Rs. 10 each at par payable as Rs.2.50 per share on a application, Rs.2 on allotment and Rs. 2.50 each on first and Rs. 3 final call all the shares allotted and amount received except Raman holding 800 shares paid final call money along with first call and Naresh holding 300 shares did not pay the first call in time. He paid the first call money along with final call.

    Calculate the amount received on first call

    Ans: Amt received on First Call Rs. 101650 (100000-750+2400)
12. T Ltd purchased a running business from B Ltd for a sum of Rs 48,00,000 payable by the issue of fully paid equity shares of Rs 20 each at a premium of 20%.The Assets and Liabilities consisted of the following :

Plant and Machinary	30,00,000
Stock	10,00,000.
Sundry Debtors	9,60000
Sundry Creditor	400,000

Pass journal entries in the books of T Ltd.

Ans – Goodwill RS 2,40,000; No of Shares issued 2,00,000. Premium on issue of shares Rs 8,00,000.

14.Y Ltd decided to issue 1000 shares of Rs 100 Each to the UTI as underwriting commission.

Pass Journal entries

Ans- Debit Underwriting commission account Rs 100000 and Credit UTI Rs 100000.

Debit UTI Rs 100000 Credit Share capital Rs 100000.

FORFEITURE AND REISSUE OF SHARES

Forfeiture means cancellation of shares due to non payment of due calls or allotement money.

Journal entries

When there is no securities premium reserve or securities premium reserve is received

Eq. Share Capital A/c Dr. (called up amt)

To **Share Forfeiture A/c** **(**Paid up amt excluding sec. premium)

To **Allotment A/c** or Call in Arrear A/c (amt not paid)

]

Bank A/c Dr. Issue price of share*no of shares reissued

Share forfeiture a/c Dr.

To Eq. Share Capital A/c Paid up value of shares

Sec premium is credited if issue price is more than paid up value of share

Share Forfeiture A/c Dr. (no of reissue issued share/ total forfeited shares)* share forfeited balance- share forfeited amount debited in above entry)

To Capital Reserve A/c

(Share forfeiture A/c transferred to Capital Reserve A/c)

When there is securities *premium reserve and* securities premium reserve is not received

Eq. Share Capital A/c Dr. (called up amt)

Securities premium reserve A/c Dr. (amt of sec. premium not received)

To **Share Forfeiture A/c** **(**Paid up amt excluding sec. premium)

To **Allotment A/c** or Call in Arrear A/c (amt not paid)

Bank A/c Dr. Issue price of share*no of shares reissued

Share forfeiture a/c Dr.

To Eq. Share Capital A/c Paid up value of shares

Sec premium is credited if issue price is more than paid up value of share

Share Forfeiture A/c Dr. (no of reissue issued share/ total forfeited shares)* share forfeited balance-share forfeited amount debited in above entry)

To Capital Reserve A/c

(Share forfeiture A/c transferred to Capital Reserve A/c)

SPECIAL POINT TO BE CONSIDEERED

Firstly underline called up amt to be debited share capital a/c amt paid is credited to share forfeiture A/c amt not paid is calls in arrears A/c Or call A/c or Share allottment A/c

Ignore Securities Premium A/c if Premium is Received **It is Debited When it is not received**

1 MARK QUESTION

EXAMPLE

1. .In which case a company can reissue the shares at discount?
   (i) Re-issue of forfeited Shares
   (ii) Issue of sweat equity shares
   (iii) Fresh issue of shares
   (iv) i and ii both ANS- i

2. 4000 Shares of Rs.20 on which Rs.14 has been called and Rs.10 has been paid,are forfeited out of these, 3000 shares are re-issued for Rs.18 as fully paid. What is the amount to be transferred to Capital Reserve Account?

   i)12000
   (ii)15000
   (iii)24000
   (iv)17000 ANS- iii

3. Is forfeited shares can be reissued at premium. To which account premium received on reissue shares is credited,

   Ans yes, securities premium reserve A/c

4. What is the maximum permissible discount at which forfeited shares can be reissued?

Ans: Balance available in share forfeited a/c related to forfeited shares

5. 500 shares of face value Rs, 10 issued at premium Rs. 2 Rs, 8 called up forfeited for non payment of first call Rs 2. Calculate amount of discount at which shares can be reissued.

   (a) Rs. 8 per share

(b) . Rs 10 per share.

(c) Rs. 2 per share

(d) Rs. 6per share Ans: d. (8-2)

6. 150 shares of face value Rs, 100 issued at premium Rs. 10 Included in allotment money Rs, 70 called up forfeited for non payment of allotment money Rs 50. Calculate amount debited to securities premium A/c for forfeiture.

(a) Rs. 10500

(b) . Rs. 7500

(c) Rs. 1500

(d) Rs. 15000 Ans: (c) (150*10)

7. 250 shares of face value Rs, 10 issued at premium Rs. 2 Rs, 8 called up forfeited for non payment of first call Rs 2. Calculate amount debited to share capital a/c for forfeiture

(a) Rs. 2000

(b) . Rs. 1500

(c) Rs. 2500

(d) Rs. 3000 Ans: (a) (250*8)

3 marks Questions

1. A company issues 10,000 equity shares of the value of Rs.10 each, payable Rs.3 on application, Rs.3 on allotment and Rs.4 on first and final call. All amounts were received except the call money on 100 shares. These shares were forfeited and are resold as fully paid for Rs.500. Give necessary journal entries.

Sol: Eq. Share Capital A/c (100*10) Dr. 1000

To **Share Forfeiture A/c** **600**

To Final Call A/c **(100*4)** 400

(100 eq. shares of Rs. 10,fully called up , forfeited for non-payment of Final Call of Rs. 4)

Bank A/c Dr. 500

Share Forfeiture A/c Dr. 500

To Eq. Share Capital A/c 1,000

(Re-issued the forfeited shares Rs 500 fully paid-up)

Share Forfeiture A/c Dr. (600-500) 100

To Capital Reserve A/c 100

(Share forfeiture A/c transferred to Capital Reserve A/c)

2. Fill in the missing figure:

Date	Particulars	LF	Amount (Dr.)	Amount (Cr.)
Oct,03	Eq. Share Capita A/c Dr. …………………….. Dr. To ……………….. To ……………….. [800 eq. shares of Rs. 100, issued at premium of Rs. 25 per share, forfeited for non-payment of Allotment of Rs. 60 (including premium)]		40,000 ………..	 ……….. ………..
	………………………………. Dr. To …………………….. To …………………….. (Out of forfeited shares, 600 shares were Re-issued @ Rs 120 per share)		……….. ………..	 ………..
	………………………………. Dr. To …………………….. (…………………………………………….)		………..	 ………..

Sol: Eq. Share Capital A/c Dr. 40,000

Sec. Pre. (Res.) Ac Dr. 20,000

To **Share Forfeiture A/c** 12,000

To **Allotment A/c** or Call in Arrear A/c 48,000

[800 eq. shares of Rs. 100, issued at premium of Rs. 25 per share, forfeited for non-payment of Allotment of Rs. 60 (including premium)]

Bank A/c Dr. 72,000

To Eq. Share Capital A/c 60,000

To Sec. Pre. (Res.) A/c 12,000

(Re-issued 600 shares the forfeited shares @ Rs 120per share paid-up)

Share Forfeiture A/c Dr. (600/800*12000-0) 9,000

To Capital Reserve A/c 9,000

(Share forfeiture A/c transferred to Capital Reserve A/c)

3. VK Limited forfeited 500 shares of Rs.100 each for the non-payment of first call of Rs.30 per share. The final call of Rs.10 per share was not yet made. The forfeiture shares were reissued for Rs.65,000 fully paid up. Give journal entries.

Sol. (i) Sh.Capital A/c Dr. 45,000; Sh. Call A/c Cr.15,000; Sh. Forfeiture A/c Cr.30,000

(ii) Bank A/c Dr.65,000; Sh. Capital Cr.50,000; Securities premium Cr 15,000

(iii) Sh. Forfeiture A/c Dr.30,000; Capital Reserve Cr Rs.30,00

4. Rohit Ltd. forfeited 360 shares of Rs.10 each, Rs.8 called up, issued at a premium of Rs.2

per share to R for non-payment of allotment money of Rs.5 per share (including premium). Out of these, 320 shares were re-issued to Sanjay as Rs.8 called up for Rs.10 per share fully paid up. Give entries.

Sol. (i) Sh.Capital A/c Dr. 2,880; Securities Premium Dr.720; Sh. Allotment A/c Cr.1,800; Sh.

Forfeiture A/c Cr.1,800

(ii) Bank A/c Dr.3,200; Sh. Capital Cr.2,560; Securities Premium Cr.640

(iii) Sh. Forfeiture A/c Dr.1,600; Capital Reserve Cr Rs.1,600

4. AX Ltd. Forfeited 6,000 shares of Rs. 10 each for non-payment of first call of Rs. 2 per share. The final call of Rs. 3 per share was yet to be made. The final call was made after Forfeited of these shares. Of the forfeited shares, 4000 shares were reissued at Rs.9 per share as fully paid up. Assuming that the company maintains' calls in advance account' and 'Calls in Arrears Account'. Prepare 'Share Forfeited Account" in the books of AX Ltd.

a) Dr. Share Forfeited Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F	Amount Rs.
	To Share Capital A/c To Capital Reserve A/c To Balance c/d		4,000 16,000 10,000		By Share capital A/c		30,000
			30,000				30,000

8MARKS QUESTIONS

1. DP Shah Company Ltd made an issue of 1,00,000 shares of `. 10 each at a premium of 30% payable as follows:

On Application `3.50 per share,

On Allotment `. 6.50 per share including premium and

Balance on first and final call.

Applications were received for 2,00,000 shares and the directors made pro –rata allotment. Harsh who had applied for 1,600 shares did not pay the allotment and final call money. With the result his shares were forfeited. Later on 60% of the forfeited shares were reissued at`8 per share fully paid up.

Pass necessary journal entries in the books of the company.

ANS : Share application money received- Rs. 700000 transfer to share allotment 350000

Share allotment account received- Rs.2,97,600

Share call money received- Rs. 297600

For forfeiture credit in forfeiture 5600

Capital Reserve – Rs.2,400(480/800*5600-960) balance in share forfeited a/c (5600-3360)= 2240

2. Jaspreet Limited invited applications for 1,00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance on first and final call. Applications were received for 3,00,000 shares and the shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Mohan, a shareholder, who had applied for 3,000 shares, failed to pay the call money and his shares were accordingly forfeited and reissued @Rs.8 per share fully paid. Pass necessary journal entries.

ANS: Share application money received- Rs. 600000 transfer to share allotment 300000, to bank 100000, share capital 200000

Share allotment account received- Rs nil

Share call money received- Rs. 495000

For forfeiture credit in forfeiture 5000

Capital Reserve – Rs.3000(5000-2000)

3. Ford Ltd. invited applications for issuing 180,000 equity shares of Rs 10 each at a premium of Rs 16 per share. The amount was payable as follows:

On application – Rs 14 per share (including premium Rs 10 per share)

On Allotment – Rs 8 per share (including premium Rs 6 per share)

On First and Final Call – Balance.

Applications for 1,60,000 shares were received. Raman holding 400 shares failed to pay the allotment money. His shares were forfeited immediately after allotment. Afterwards the final call was made. Veer who had applied for 1200 shares failed to pay the final call. His share were also forfeited. Out of the forfeited shares 1000 shares were re-issued at Rs 8 per share fully paid-up. The re-issued shares included all the forfeited shares of Raman. Pass necessary journal entries for the above transactions in the books of Ford Ltd

Answer

Application money received -2240000

Application money transferred-sh cap 640000, sec prem 1600000

Allotment money due- 1280000

Allotment money received bank 1276800

Forfeiture of 400 shares held by Raman share forfe- 1600, share allotment 3200

First & Final call money due 159600*4=638400

First & Final Call money received 633600

Forfeiture of 1200 shares held by Veer share capital -12000 cr share forfeited 7200

Re-issue of 1000 forfeited share ,share forfeited Dr. 2000

Transfer of share forfeiture to capital reserve (along with working note) 3200

4. AG Ltd. issues 90,000 shares of Rs 10 each to the public at 10% premium, payable as Rs 3 on Application, Rs. 4 on allotment and balance on first and final call.

Applications were received for 1,50,000 shares. Applications for 30,000 shares were rejected, 10,000 applicants were allotted in full and for remaining shares were allotted on pro-rata basis. Ajay with 500 shares of full allotment category didn't pay allotment and call money, but Vijay with 1000 shares of pro-rata category paid call money with allotment. Shares of Ajay cancelled and reissued at Rs 8 per share as fully paid up.

Pass necessary entries in the books of AG Ltd.

Ans: Money received on Allotment Rs 2,72,000
Capital Reserve Rs 500

5. Manik Ltd. Invited applications for issuing 3,20,000 equity shares of Rs. 10 each at a premium of Rs.5 per share. The amount was payable as follows: On application – Rs.3 per share (including premium Rs.1 per share). On allotment — Rs. 5 per share (including Rs. 2 per share). On first and final call — balance. Applications for 4,00,000 shares were received. Applications for 40000 shares were rejected and refunded. Shares were allotted on pro rata basis to the remaining applicants. Excess money received with applications was adjusted towards sums due on allotment. Maya holding 800 shares failed to pay the allotment money and her shares were immediately forfeited. Afterwards final call made, Chhaya who applied

for 2700 shares failed to pay the final call. Her shares were also forfeited. Out of forfeited shares 1500 shares were re-issued at Rs. 8 per share fully paid up. The re-issued shares included all shares of Maya. Pass journal entries for the above transactions in the books of the company.

Answer

Capital Reserve- 2400

ISSUE OF DEBENTURES

Debentures: According to Section 2(30) of the Companies Act, 2013," Debentures includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Characteristics of a debenture.

i) A debenture is a document which acknowledge the debt of a company.

ii) It always carries interest at a fixed rate.

iii) A debentures is usually secured by a charge on the assets of the company.

Secured Debentures'.

Secured Debentures are those which are secured by a charge on the assets of the company. The charge may either be a fixed charge or a floating charge.

Registered Debentures Registered Debentures are those which are payable to the persons whose name and address appears in the register of Debentures-holders. These debentures are transferred only by transfer deed.

Convertible Debentures: convertible debentures are those , the holders of which have a right to convert them into shares at a later date.

Partly convertible debentures: When only a part of the amount of debentures is convertible into shares, such debenture holders are known as ' Partly Convertible debentures.

Fully convertible debentures: When full amount of debentures is convertible into shares, such debenture holders are known as ' Fully Convertible debentures.

(at par ,at premium at discount)

1. P ltd. Invited applications for issuing 9% Rs.5,00,000 debentures of Rs. 10 each at premium Rs. 2 .The whole amount was payable on application. The issue was fully subscribed. Pass necessary journal entries.

SOL : Debit Bank and Credit Deb. Application & allotment A/c 600000

Debit Deb. Application & allotment A/c 600000 Credit 9% Deb 500000 and cr. Sec. pre. Reserve 1000000

2. Why are irredeemable debentures are known as perpetual debentures.

   Ans: Because these are not repayable during the life span of the company.

3. Are debentures less riskier than shares.

   Ans: Yes, Debentures repayment is made before repayment of shares in case of winding up of company.

TOPIC- ISSUE OF DEBENTURES WITH REDEMPTION CONDITIONS (3 marks/4 marks)

1. A Ltd issues Rs 3,00,000 9% Debentures of Rs 100 each at 10% discount to be redeemed at 20% premium.

Ans: Bank A/c Dr 2,70,000
To Debenture application and allotment A/c 2,70,000

Debenture application and allotment account Dr 2,70,000
Loss on issue of debentures A/c Dr 90,000
To 9% debentures A/c 3,00,000
To premium on redemption of debentures A/c 60,000

2. B Ltd issues 1000 9% Debentures of Rs 500 each at 550 to be redeemed at Rs 600.

Bank A/c Dr 5,50,000
To Debenture application and allotment A/c 5,50,000

Debenture application and allotment account Dr 5,50,000
Loss on issue of debentures A/c Dr 1,00,000
To 9% debentures A/c 5,00,000
To premium on redemption of debentures A/c 1,00,000
To Securities Premium Reserve A/c 50,000

Practice Questions

a) 40,000, 15% Debentures of Rs. 100 each issued at par, redeemable at 10% premium.

b) 900, 15% Debentures of Rs. 1000 each issued at a discount of 5%, redeemable at premium of 10%.

c) Rs. 40,000; 15% debentures of Rs. 100 each issued at premium of 10%, redeemable at premium of 10%.

d) Rs. 40,000; 15% debentures of Rs. 100 each issued at premium of 10% , redeemable at par.

e) Rs. 40,000; 15% debentures of Rs. 100 each issued at par , redeemable at par.

f) Rs. 40,000; 15% debentures of Rs. 100 each issued at discount , redeemable at par.

TOPIC- WRITING OFF DISCOUNT ON ISSUE OF DEBENTURES (1m,3m)

1. On 1st April, 2013 a Limited Co. issued 5,000 debentures of Rs.200 each at a discount of 5%. Debentures were to be redeemed at the end of five years at par. On the Date Company have balance of Securities Premium Reserve for Rs. 50,000. Pass journal entries for writing off ' Discount on Issue of Debentures Account' . Accounts are closed on 31st March each year.
   Ans: Debit securities premium Reserve A/c 50000 and Credit discount on issue of debenture A/c
2. On 1st April, 2018 AB Limited Co. issued 2,000 debentures of Rs.500 each at a discount of 5%. Debentures were to be redeemed at the end of five years at par. On the date Company have balance of Securities Premium Reserve for Rs. 10000. Pass journal entries for writing off 'Discount on Issue of Debentures Account'. Accounts are closed on 31st March each year.
   Ans Debit securities premium Reserve A/c 10000, Debit surplus in statement of P&l A/c 40000 and Credit discount on issue of debenture A/c 50000
3. On 1st April, 2016 XYZ Limited Co. issued 1,000 debentures of Rs.200 each at a discount of 5%. Debentures were to be redeemed at the end of five years at premium 10%. Pass journal entries for writing off 'Discount on Issue of Debentures Account'. Accounts are closed on 31st March each year.
   Ans: Debit surplus in statement of P&l A/c 30000 and Credit Loss on issue of debenture A/c 30000

TOPIC- DEBENTURES ISSUED AS A COLLATERAL SECURITIES

. "Issue of debentures as a collateral security" means issue of debentures, by a company to its lender, as an additional security against the loan taken. Secondary security is given in addition to the principal security. When debentures are issued as collateral no interest is paid on these debentures.

Accounting treatment:

Method 1: a) No Journal entry is passed for issue of debentures as a collateral security.

b) Only journal entry for the raising of loan will be passed

Bank A/c Dr.

To Bank Loan A/c

Method 2: under this method, the following journal entries will be passed:

i) At the time of issue of debentures as collateral security.

Debentures Suspense A/c Dr.

To Debentures A/c

Disclosure in the Balance sheet: Debentures issued as collateral security are shown in the 'Notes to Accounts' under the heading 'Long Term Borrowing'. Debentures Suspense A/c is shown by way of deduction from the debentures.

ii) At the time of release of debentures on repayment of loan.

Debentures A/c Dr.

To Debentures Suspense A/c

3 marks/ 4 marks

1. X Ltd. obtained loan of Rs. 8,00,000 from State Bank of India and issued 10,000; 9% Debentures of Rs. 100 each as collateral security. How will issue of debentures be shown in the Balance Sheet? Discuss both the methods.

Ans: **First Method (When Journal Entry is not Passed):**

AN EXTRACT OF BALANCE SHEET OF X LTD. as at…

Particulars	Note no.	Rs.
I. EQUITY AND LIABILITIES **Non-Current Liabilities** Long-term Borrowings	1	8,00,000

Note to Accounts

1. Long-term Borrowings Loan from State Bank of India (Secured by issue of 10,000;9% Debentures of Rs. 100 each as collateral Security)	**Rs.** 8,00,000

II. Second Method (When Journal Entry isPassed):

Date	Particulars	LF.	Dr. (RS.)	Cr. (RS.)
	Debentures Suspense A/c ...Dr. To 9% Debentures A/c (Being the issue of 10,000; 9% Debentures of Rs. 100 each as collateral security for a loan taken from State Bank of India)		10,00,000	 10,00,000

AN EXTRACT OF BALANCE SHEET OF X LTD. as at…

Particulars	Note no.	Rs.
I. **EQUITY AND LIABILITIES** **Non-Current Liabilities** Long-term Borrowings	 1	 8,00,000

Note to Accounts

1. **Long-term Borrowings** Loan from State Bank of India 10,000; 9% Debentures of Rs. 100 each issued as Collateral Security 10,00,000 Less: 10,00,000 Debentures Suspense A/c	**Rs.** 8,00,000

2. X Ltd. obtained a loan of Rs. 5,00,000 from IDBI Bank. The company issued 7000, 8% Debentures of Rs. 100 each as a collateral security forthe same. Show how these items will be presented in the Balance Sheet of the company.
3. Pass the necessary Journal entry when 10,000 debentures of Rs. 100 each areissued as collateral security against a Bank loan of Rs. 8,00,00

TOPIC- ISSUE OF DEBENTURE FOR CONSIDERATION OTHER THAN CASH

Sometimes a company acquires some assets from the vendor and instead of making the payment to the vendor in cash, issue its debentures in discharge of purchase consideration. Such issue of debentures to vendors is known as 'Issue of Debentures for Consideration other than cash'

Accounting Treatment:

i) At the time of acquisition of Business (i.e. Assets and Liabilities)

Sundry Assets A/c Dr. (agreed value of assets taken over)

Goodwill A/c Dr. (Excess of purchase price over net assets)

To Sundry Liabilities (agreed value of liabilities taken over)

To Vendor's A/c (amount of purchase consideration)

To Capital Reserve (Excess of net assets over purchase consideration)

ii) At the time of allotment of debentures to the Vendor

Vendor's A/c Dr.(amount of purchase consideration)

Discount on issue of debentures A/c Dr. (if debentures are issued at a discount)

To Debentures A/c (Face value of debentures issued)

To Securities Premium Reserve A/c (if debentures are issued at a premium)

3m/4m questions

1. Aryans Ltd. is a real estate company. To discharge its Corporate Social Responsibility, it decided to construct a night shelter for the homeless. The company took over assets of Rs. 10,00,000 and liabilities of Rs. 1,80,000 of Sheetal Ltd. for Rs. 7,60,000. Aryans Ltd. issued 9% Debentures of Rs. 100 each at a discount of 5% in full satisfaction of the purchase consideration in favour of Sheetal Ltd. Pass necessary journal entries in the books of Aryans Ltd. for the above transactions.

Books of Aryans Ltd.

(i) Assets A/c ....Dr. 10,00,000

To Liabilities A/c 1,80,000

To Sheetal Ltd. 7,60,000

To Capital Reserve A/c 60,000

(ii) Sheetal Ltd..Dr. 7,60,000

Discount on issue of Debentures A/c. Dr. 40,000

To 9% Debentures A/c 8,00,000

2. S Ltd. purchased Furniture for Rs. 6,00,000 from R Ltd. Rs. 2,00,000 was paid by drawing a promissory note in favour of R Ltd. The balance was paid by issue of 9%Debentures of Rs. 10 each at a premium of 25%. Pass necessary journal entries in the books of Std.
   1. Furniture A/C Dr 6,00,000
      To R ltd 6,00,000
   2. R ltd A/C Dr6,00,000
      To Bills Payable A/C 2,00,000
      To 9% Debentures A/c 320000
      To Securities Premium Reserve A/c 80000
   (Being 32000 debentures issued at premium)

TOPIC- INTEREST ON DEBENTURE

<u>Interest on debentures</u>is a charge against profits of the company. It is shown in the Statement of Profit and Loss as an expense (Finance Cost).

i) Entry for interest due on debentures:

Debentures Interest A/c Dr.

To Debenture holders A/c

ii) **Entry for payment of interest on debentures**:

Debenture holders A/c

To Bank A/c

iii) Entry for closing debenture interest account at the end of the year:

Statement of Profit and Loss Dr.

To Debenture Interest A/c

Q1. PQ Ltd. issued 1,000 10% Debentures of Rs.500 each on 1st April, 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31stMarch and tax deducted at source is 10%.Pass the necessary journal entries related to the debenture interest for the half-yearly ending on 31st March, 2013 and transfer of interest on debentures to Statement of Profit and Loss.

Answer

Interest on debentures for6 months Rs. 25000, TDS to be deducted @ 10% Rs. 5000

REDEMPTION OF DEBENTURES

Meaning of Redemption of Debentures

- Redemption of Debentures means repayment of debentures to the debenture holders .
- Debenture is a liability on the part of a company, so the redemption of debentures means the discharge of liability.

Ways in which the debentures may be redeemed by a company

1. Lump sum payment .
2. Draw of lots or annual drawings .
3. Conversion of debentures .
4. Purchase of own debentures

Note: conversion of debentures and purchase of own debentures methods are not the part of syllabus, hence not discussed.

Meaning of lump sum payment method

- Under this method, the total amount of debentures is paid to the debentureholder's in lump-sum on the maturity date.

Annual drawing method

- In this method the company while issuing debentures mention that their debentures will be redeemed in annual instalment by drawing a lot. In order to decide the debentureholder whose debentures are to be redeemed, lottery is drawn out of the unpaid debentures. This procedure is known as Drawing by lots.

As per SEBI guidelines regarding Debenture Redemption Reserve

As per SEBI Guidelines, a company shall create DRR equivalent to at least 25% of the amount of debentures issued before starting the redemption of debentures.

The following companies are exempted from creating DRR:

(a) All India Financial Institutions regulated by the Reserve Bank of India
(b) Banking Companies

Accounting entries passed at the time of redemption

- For transfer of profit to Debenture Redemption Reserve:

Surplus, i.e Balance in Statement of Profit & loss Dr. XXXX

To Debenture Redemption Reserve A/c XXXX

(Being profit equal to 25% of debentures transferred to DRR A/c)

- For debenture Redemption investment.

Debenture Redemption Investment A/c Dr. XXXX
To Bank A/c XXXX
(Being amount Invested)

Bank A/c Dr. XXXX

To Debenture Red Investment A/c XXXX
(Being investment encashed)

A. When Debenture are Redeemed at Par:

(i) % Debenture A/c Dr XXXX

To Debenture holders A/c XXXX

(Being debentures due for redemption)

(ii) Debentures holders A/c Dr XXXX

To Bank A/c XXXX

B. When Debentures are Redeemed at Premium:

(i) % Debentures A/c Dr XXXX

Premium on Redemption of Debentures A/c Dr XXXX

To Debenture holders A/c XXXX

(Being debentures due for redemption at premium)

(ii) Debenture holders A/c Dr. XXXX

To Bank A/c XXXX

(Being amount paid on redemption)

- When all Debentures are Redeemed:

Debenture Redemption Reserve A/c Dr XXXX

To General Reserve A/c XXXX

(Being DRR A/c transferred to General Reserve A/c)

(1M questions)

1. Once the debentures are redeemed, amount of Debenture Redemption Reserve is transferred to :

a) Capital Reserve

b) Surplus i.e. Balance in statement of profit and loss A/c.

c) General Reserve.

d) Capital Redemption Reserve Ans; c

2. **ABC Bank** Ltd. is to redeem 30,000; 10% Debentures of Rs. 100 each on 30th nov, 2018. How much amount should be transferred to Debenture Redemption Reserve?

a) Rs. 7,50,000

b) Rs. 6,00,000

c) Rs. 5,00,000

d) Nil Ans; d

3. Premium payable on redemption of Debentures is in the nature of

A) Liability A/c

B) Asset A/c

C) Expense A/c

D) None of these Ans: A

4. State whether the following statements are True or False:

(i) Debenture Redemption Reserve can be used only for redemption of debentures. T

(ii) Surplus i.e. Balance in statement of profit and loss cannot be transferred to Debenture Redemption reserve. F

(iii) General reserve can be transferred to Debentures Redemption Reserve. T

5. Once the debentures are redeemed, the amount of Debentures Redemption Reserve is transferred to Capital Reserve.

   F

6. Fill in the blanks with appropriate words;

   (1) Debenture are redeemed setting aside 25% of nominal (face) value of debentures to Debenture Redemption Reserve (DRR) . It is redemption out of ….

   (2) Amount should be set aside to ………before the redemption of debentures.

   (3) Debenture Redemption Investment (DRI) should be made of an amount of at least equal to… of the nominal (face)value of the debentures to be redeemed during the year ending March 31 of the next year

   ANS

(1) Profit and capital

(2) Debenture Redemption Reserve

(3) 15%

7. As per the companies Rule 2014, the minimum percentage for creation of DRR is 25% of the value of outstanding debentures that are to be redeemed**.**

Ans; The following companies are exempted from creating DRR:

All India Financial Institutions regulated by the Reserve Bank of India and Banking Companies

(3M/4M)

1. C Ltd had Rs. 3,00,000 9% Debentures of Rs. 100 each to be redeemed at premium of 10% on 31-3-2019. Pass necessary entries for redemption if there is a balance of Rs. 20,000 in DRR.

Statement of P & L	Dr	55,000	
To DRR			55,000
DRI A/c	Dr	45,000	
To bank A/c			45,000
Bank A/c	Dr	45,000	
To DRI A/c			45,000
9% Debentures A/c	Dr	3,00,000	
Premium on redemption A/c	Dr	30,000	
To Debentureholders A/c			3,30,000
Debentureholders A/c	Dr	3,30,000	
To bank A/c			3,30,000
DRR A/c	Dr	75,000	
To general reserve A/c			75,000

2. IFCI Ltd.(an All India Financial Company) issued 10,00,000; 9% Debentures of ₹ 50 each on 1st April, 2008 redeemable on 1st April, 2015. How much amount of Debentures Redemption Reserve is required before the redemption of debentures? Also, pass Journal entries for redemption of debentures.

Ans: Debenture Redemption Reserve is not to be created, it being an All India Financial Company

2015				
Apr 1	9% Debentures A/c	Dr.	5,00,00,000	
	To Debenture holder's A/c			5,00,00,000
	(for Amount due to debenture holders)			
Apr 1	Debenture holder's A/c	Dr.	5,00,00,000	
	To Bank A/c			5,00,00,000
	(for Amount paid to Debenture holders)			

3. On 1 Apr 2013, Hans Ltd. Issued 1000, 10% Debentures of Rs. 100 at a discount of 5%. These debentures are redeemable on 31 Oct 2019, at a premium of 5%. Pass the necessary journal entries for the issue and redemption of debentures.

HANS LTD.

2013				
1 Apr	Bank A/c	Dr.	95,000	
	To Debenture App and Allot A/c			95,000
	(Being cash received for deb application)			
	Debenture App and Allot A/c	Dr.	95,000	
	Discount on issue A/c	Dr.	5,000	
	Loss on issue of debentures A/c	Dr.	5,000	
	To 10% Debentures A/c			1,00,000
	To Premium on Redemption A/c			5,000
	(Being amount transferred to Debentures A/c and Premium on redemption recorded)			
2019				
31 mar	Statement of Profit & Loss A/c	Dr	25,000	
	To Debenture Redemption Reserve A/c			25,000
	(being DRR created)			
30 Apr	Debenture Redemption Investment A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being amount Invested)			
2015				
31 oct	Bank A/c	Dr.	15,000	
	To Debenture Red Investment A/c			15,000
	(being Investment encashed)			

12% Debentures A/c Dr 1,00,000

To Debentureholder's A/c 1,00,000

(being amount due to Debenture holder's)

Debentureholder's Dr 1,00,000

To Bank A/c 1,00,000

(being amount paid to debentureholders)

Debenture Redemption Reserve A/c Dr. 25,000

To General Reserve A/c 25,000

(being DRR transferred to general reserve)

4. IFCI Ltd.(an All India Financial Company) issued 10,00,000; 9% Debentures of ₹ 50 each on 1st April, 2008 redeemable on 1st April, 2015. How much amount of Debentures Redemption Reserve is required before the redemption of debentures? Also, pass Journal entries for redemption of debentures

   Answer

   Debentures redemption reserve required NIL

5. Arun Ltd. Has 20000, 8% debentures of Rs. 100 each due for redemption. The company has debenture redemption reserve of Rs. 1,50,000 . Co decided to redeem half debentures on March 31, 2015 Assuming that no interest is due, record the necessary Journal entries at the time of redemption of debentures.

   Answer

   DRI Rs.1,50,000, DRR 3,50,000.

FINANCIAL STATEMENT OF A COMPANY

(BALANCE SHEET)

Balance Sheet as at 31st March, 20.....

Particulars	Note No.	. Figure as per current year	. Figure as per previous year
I. EQUITY AND LIABILITIES			
1) Shareholder's 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			
II.ASSETS		-	
1) Non-Current Assets			
(a) Fixed assets			
(i) Tangible assets			
(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			
Total			

Q1 Classify the following items in the balance sheet of a company under Major heads and Sub-heads:-

Sr.No.	ITEMS	HEAD	SUB HEAD
1	Goodwill	Non Current Asset	Intangible Asset(Fixed
2	Forfeited shares	Share Holder fund	Asset)
3	Acceptances	Current Liabilities	Share Capital
4	Capital reserve	Share Holder fund	Trade Payables
5	Loans from banks	Non-Current	Reserve & Surplus
6	Investment in shares	Liabilities	Long term Borrowing
7	anddebentures	Non Current Asset	Non Current Investment
8	Interest accrued and due	Current Liabilities	Other Current
	ondebentures	Current Liabilities	Liabilities
9	Interest accrued but not due on		Other Current
10	Secured Loans	Current Liabilities	Liabilities
11	Interest accrued but not due on		
12	Unsecured Loans	Current Assets	Other Current
13	Interest accrued on Investments	Share holder's fund	Liabilities
14	Surplus	Share holder's fund	
15	Securities Premium Reserve	Current Asset	Other Current Asset
16	Loose Tools	Current Liabilities.	Reserve & Surplus
17	Provision for Taxation	Current Liabilities	Reserve & Surplus
18	Unclaimed dividend	Current Assets	Inventories
19	Short term loans & advances	Non-Current	Short term Provision
20	Live stock	Assets(F.A.)	Other Current
	Calls unpaid/calls in arrears	Share holder's fund	Liabilities
21	Uncalled liability on shares partly	Contingent Liability	Short term loans &
22	paid		advances
23	Pre-paid Insurance	Current Assets	Tangible Asset
24	Stores and spare parts	Current Assets	Reserve & Surplus
25	Advances from customers	Current Liabilities	Footnotes
	. Debentures redemption reserve	Share holder's fund	
26	Premium on redemption of	Non currentLiabilies	Other Current asset
27	debentures		inventories
	Debentures redemption fund	Share holder's fund	Other Current
28	Debentures redemption fund	Non current Asset	Liabilities
29	investment		Reserve & Surplus
30	Vehicles	Non Current Asset	Other non current
31	Sinking fund	Share holder's fund	Liabilities
32	Advances to supplier	Current Asset	
33	Patents, trademarks, design	Non-Current Asset	Reserve & Surplus
34	Calls in advance	Current Liabilities	Non current investment
35	Deposits with custom authorities	Non-Current Asset	
36	Furniture and fittings	Non-Current Asset	Fixed Asset
37	Statement of profit & loss (Dr.)	Shareholder's Fund	Reserve & Surplus
38	Capital work-in-progress	Non-Current Asset	Other- Current Asset
	Provision for doubtful debts	Current Liabilities	Fixed Asset(Intangible)
39	Statement of profit & loss (Cr.)	Shareholder's Fund	Other-Current
	2019-20		Liabilities

40 41 42 43 44 45 46 47 48	Claims against the company not acknowledged as debt Capital redemption reserve Public deposits Authorised capital Provision for Provident fund Drafts in Hand Goods in Transit Premium on redemption of Debenture Debenture Redeemable in Current Year Securities Premium Reserve	Contingent Liability Shareholder's Fund Non Current Liability Shareholder's Fund Non Current Liabilities Current Assets Current Assets Non-Current Liabilities Current Liabilities Shareholder's Fund	Deferred Tax Asset Fixed Assets Reserve & Surplus Fixed Assets Short term Provision Reserve & Surplus Footnote Reserve & Surplus Long term borrowing Share Capital Long term Provision Cash & Cash equivalent Inventories Other Non Current Liabilities Other Current Liabilities Reserve & Surplus.

TEST YOUR KNOWLEDGE

Q1 If Operating cycle is 12 months and payment is received in 15 months, how will you classify the assets?
AnsNon Current Assets
Q2 How will you treat Bank Overdraft and Cash Credit in the balance sheet of a Company?
Ans Short term Borrowing.
Q3How Share application money pending allotment will be shown ina company's Balance Sheet?
Ans (1) Share Application Money <= Issued capital --- not refundable shown under separate head Equities & Liabilities.(2) Share application Money > Issued Capital is refundable shown in other Current Liabilities.
Q4 How will you disclose the following items in the Balance Sheet of a company;
(i) Computer software.
(ii) Goodwill
(ii) Uncalled liability on partly paid-up shares
(iii) Debentures redemption reserve
(iv) Balance with Banks.
(v) 10% debentures
(vi) Proposed dividend
(vii) Share forfeited account
(viii) Capital redemption reserve
(ix) Mining rights
(x) Work-in-progress
Ans.

SR.NO	ITEMS	HEAD	SUB-HEAD
1.	Computer software	Non-current asset	Intangible asset
2	Goodwill	Non-current asset	Intangible asset

3	Uncalled liability on partly paid-up shares	commitments	footnote
4	Debentures redemption reserve	Shareholder fund	Reserve & surplus
5	Balance with Banks.	Current asset	Cash & cash equivalents
6	10% debentures	Non-current liability	Long term borrowing
7	Proposed dividend	Contigent liability	footnote
8	Share forfeited account	Shareholder fund	Share capital
9	Capital redemption reserve	Shareholder fund	Reserve & surplus
10	Mining rights	Non-current asset	Intangible asset
11	Work-in-progress	Non-current asset	Tangible assets

Q5 The accountant of a company wants to show Debit Balance of Statement of Profit & Loss a/c under the sub-head Other Current Asset. Is he correct?
Ans No, he is wrong. This balance is to be shown as a negative figure under the head 'Reserve & Surplus'
Q6 X Ltd. has Calls in arrears of Rs.2,00,000 and Calls-in –advance of Rs.75000. the Company wants to show the net balance of Rs.1,25,000 under the head Current Asset. Is this the correct way of presentation?
Ans No Calls in arrear of Rs.2,00,000 is to be shown under subscribed but not fully paid up capital
But Calls-in-advance Rs.75,000 is shown under Head Current Liabilities and Sub head other Current Liabilities.
Q7 State whether True /False

(i) It is compulsory for directors of a company to present company's statement of Profit & Loss A/C and Balance Sheet in the Annual General meeting of Shareholders.
(ii) Contingent Liabilities are shown in the balance sheet under the heading Current Liabilities.
(iii) Facts & figures Presented in balance sheet are not at all based personal judgements

Ans (i) true (ii), (iii)False
Q8 Show the following items in the balance sheet of X Ltd, as at March 31,2019:
General Reserve (since 31 March 2019) 50000
Statement of Profit & Loss (Debit Balance) for 2018-19 (80,000

Books of XLtd.Balance Sheet as at March 31, 2019)

Particulars	Note No	31 March,2019
I. Equity and Liabilities 1. Shareholders' Funds a) Reserve and Surplus	1	(30000)

Notes to Accounts

Particulars	Amount (Rs.)
1. Reserve and Surplus i) General reserve (1 April, 2012) ii) Less: Statement of profit and loss	 50,000 (80,000)

(debit balance)	(30,000)

FINANCIAL STATEMENT ANALYSIS

Q1Intra firm Analysis and inter firm Analysis are one and same thing. Do you agree?
Ans no, these are not same.
Intra firm analysis means comparison of financial statement of an enterprise for two or more accounting periods but inter firm comparison means comparison of financial statements of two or more enterprises for the same accounting period.
Q2 One of the Objective of financial statement analysis is to judge the ability of the firm to repay its debt & assessing the short term as well as the long term liquidity position of the firm. State any two more objectives of financial statement analysis.
Ans (i) To know managerial efficiency (ii) for comparative study
Q3 State any two objectives of Analysis of financial statement.
Ans (1) Measure the short term solvency of the enterprise.
(2) Measure the Long term solvency of the enterprise.
(3) Measure the operating efficiency and profitability of the enterprise.
(4) Compare the intra firm position, inter firm position
(5) Measure the Earning Capacity of the enterprise.
(6) To identify the trend of business
Q4 State any four limitation of Analysis of financial statement.
Ans (1) Limitation of financial statements (2) Not free from bias
(3) Ignore price level changes (4) Window dressing
(5)Lack of Qualitative Analysis
Q5 State three uses of Analysis of financial statement.
Ans (1) For taking Investment Decision.
(2)Taking Dividend Decision.
(3)Taking Various Managerial Decisions.
(4) For estimating trend of the business.
Q6 How is financial Strength of a business unit assessed?
AnsFrom Earning Capacity and its ability to pay debts.
Q7 Explain horizontal and vertical Analysis.
Ans Horizontal Analysis:- Analysis financial Statement of a number of years of a firm against a chosen base year.Vertical Analysis:-Analysis financial Statement of one year only to compare the performance of several companies of same type.
Q8 What is External Analysis and Internal Analysis.
Ans External Analysis is carried out by outsiders such as Bankers, creditors, Govt. or any other party.
Internal Analysis is conducted by management to know financial position & earning capacity of the firm.

TOOLS OF FINANCIAL STATEMENT ANALYSIS---Comparative Statements &Common Size Statements

The most commonly used techniques of financial analysis are as follows:
1. *Comparative Statements:* These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. Comparative figures indicate the trend and direction of financial position and operating results. .
2. *Common Size Statements:* These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item. Such as Revenue from operation for common size income Statement and Total Assets or Total of Equities and Liabilities for common size Balance Sheet.
3. *Trend Analysis:* It is a technique of studying the operational results and financial position over a series of years. Using the previous years' data of abusiness enterprise, trend analysis can be done to observe the percentage changes over time in the selected data. one may find whether the ratiois falling, rising or remaining relatively constant. From this observation, a problem is detected or the sign of good or poor management is detected.
4. *Ratio Analysis:* It describes the significant relationship which exists between various items of a balance sheet and a statement of profit and loss of a firm. As a technique of financial analysis, accounting ratios measure the comparative significance of the individual items of the income and Balance Sheet statements. It is possible to assess the profitability, solvency and efficiency of an enterprise through the technique of ratio analysis.
5. *Cash Flow Analysis:* It refers to the analysis of actual movement of cash into and out of an organization. The flow of cash into the business is called as cash inflow or positive cash flow and the flow of cash out of the firm is called as cash outflow or a negative cash flow. The difference between the inflow and outflow of cash is the net cash flow. Cash flow statement is prepared to project the manner in which the cash has been received and has been utilized during an accounting year. it summarize the causes for the changes in cash position of a business enterprise between dates of two balance sheets.

Q2Fill in the blanks with appropriate word(s):
1. Analysis simply means—(Simplification) -data.
2. Interpretation means ——(significance)———data.
3. Comparative analysis is also known as ——(Horizontal/Dynamic)— analysis.
4. Common size analysis is also known as —(Vertical/Static) analysis.
5. The analysis of actual movement of money inflow and outflow in an organisation is called—(Cash Flow Statement)— analysis.

Q3 From the following statement of profit and loss of M Co. Ltd., Preparecomparative statement of profit and loss for the year ended March 31, 2018 and2019 :

Particulars	Note No.	31st March 2019	31st March 2018
Revenue from operations Other Income(% of ROP) Expense(% of ROP) Tax Rate		60,00,000 15% 60% 30%	40,00,000 20% 50% 30%

Solution

Praticulars	Note.	31st March 2018 (A)	31st March 2019 (B)	Absolute Change (C=B-A)	%Change (D=C/A*100)
I.Revenue from operations		40,00,000	60,00,000	20,00,000	50
II. Other Income(% of ROP)		8,00,000	9,00,000	1,00,000	12.50
III. Total Revenue(I+II)		48,00,000	69,00,000	21,00,000	43.75
IV. Expenses		20,00,000	36,00,000	16,00,000	80
V. Profit before Tax (III-IV)		28,00,000	33,00,000	5,00,000	17.86
VI. Less Tax		8,40,000	9,90,000	1,50,000	17.86
VII.Profit After Tax		19,60,000	23,10,000	3,50,000	17.86

Q4 From the following Balance Sheets of A Limited as at March 31, 2016 and 2017, prepare a comparative balance sheet:.

Particulars	Note No.	31st March 2019	31st March 2018
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		80,00,000	60,00,000
b) Reserve and surplus		12,00,000	8,00,000
2. Non-current Liabilities			
Long-term borrowings		24,00,000	20,00,000
3. Current liabilities			
Trade payables		4,00,000	12,00,000
Total		1,20,00,000	1,00,00,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
- Tangible assets		80,00,000	60,00,000
- Intangible assets		4,00,000	12,00,000
2. Current assets			
- Inventories		24,00,000	20,00,000
- Cash and Cash Equivalents		12,00,000	8,00,000
Total		1,20,00,000	1,00,00,000

Solution

Particulars	Note.	31st March 2018 (A)	31st March 2019 (B)	Absolute Change (C=B-A)	%Change (D=C/A*100)
I. Equity and Liabilities					
1. Shareholders' Funds					
a) Share capital		60,00,000	80,00,000	20,00,000	33.33
b) Reserve and surplus		8,00,000	12,00,000	4,00,000	50

2. Non-current Liabilities					
Long-term borrowings		20,00,000	24,00,000	4,00,000	20
3. Current liabilities					
Trade payables		12,00,000	4,00,000	(8,00,000)	(66.66)
Total		1,00,00,000	1,20,00,000	20,00,000	20
II. Assets					
1. Non-current assets					
a) Fixed assets					
- Tangible assets		60,00,000	80,00,000	20,00,000	33.33
- Intangible assets		12,00,000	4,00,000	(8,00,000)	(66.66)
2. Current assets					
- Inventories		20,00,000	24,00,000	4,00,000	20
- Cash and Cash Equivalents		8,00,000	12,00,000	4,00,000	50
Total		1,00,00,000	1,20,00,000	20,00,000	20

QFrom the following statement of profit and loss of M Co. Ltd., Preparecommon-size statement of profit and loss for the year ended March 31, 2018 and 2019 :

Particulars	Note No.	31st March 2019	31st March 2018
Revenue from operations		3,00,000	2,00,000
Other Income(% of ROP)		36,000	40,000
Expense(% of ROP)		1,20,000	1,00,000
Tax Rate		50%	40%

Solution

Particulars	Note.	31st March 2018 (A)	31st March 2019 (B)	31st March 2018(%)	31st March 2019(%)
I. Revenue from operations		2,00,000	3,00,000	100	100
II. Other Income(% of ROP)		40,000	36,000	20	12
III. Total Revenue(I+II)		2,40,000	3,36,000	120	112
IV. Expenses		1,00,000	1,20,000	50	40
V. Profit before Tax (III-IV)		1,40,000	2,16,000	70	72
VI. Less Tax		56,000	1,08,000	28	36
VII.ProfitAfter Tax		84,000	1,08,000	42	36

Q5From the following Balance Sheets of A Limited as at March 31, 2016 and 2017, prepare a common size balance sheet:.

Particulars	Note No.	31st March 2019	31st March 2018

I. Equity and Liabilities 1. Shareholders' Funds a) Share capital b) Reserve and surplus 2. Non-current Liabilities Long-term borrowings 3. Current liabilities Trade payables Total		 10,00,000 2,00,000 8,00,000 4,00,000 24,00,000	 5,00,000 3,00,000 5,00,000 2,00,000 15,00,000
II. Assets 1. Non-current assets a) Fixed assets - Tangible assets 2. Current assets - Cash and Cash Equivalents Total		 15,00,000 9,00,000 24,00,000	 10,00,000 5,00,000 15,00,000

Solution

Particulars	Note.	31st March 2018 (A)	31st March 2019 (B)	31st March 2018(%)	31st March 2019(%)
I. Equity and Liabilities					
1. Shareholders' Funds					
a) Share capital		5,00,000	10,00,000	33.33	41.67
b) Reserve and surplus		3,00,000	2,00,000	20	8.33
2. Non-current Liabilities					
Long-term borrowings		5,00,000	8,00,000	33.33	33.33
3. Current liabilities					
Trade payables		2,00,000	4,00,000	13.33	16.67
Total		15,00,000	24,00,000	100	100
II. Assets					
1. Non-current assets					
a) Fixed assets - Tangible assets		10,00,000	15,00,000	66.67	62.50
2. Current assets - Cash and Cash Equivalents		5,00,000	9,00,000	33.33	37.50
Total		15,00,000	24,00,000	100	100

Q7 Following is the comparative statement of Profit & Loss of K Ltd.

Praticulars	Note.	31st March 2018 (A)	31st March 2019 (B)	Absolute Change (C=B-A)	%Change (D=C/A*100)

I.Revenue from operations		5,00,000			50
II. Other Income(% of ROP)		20,000	-------	(--)	(25)
III. Total Revenue(I+II)		5,20,000		2,45,000	---
IV. Expenses		,		1,50,000	50
V. Profit before Tax (III-IV)					
VI. Less Tax				10,000	25
VII.Profit After Tax					

You are required to fill the missing figures in the comparative statement of Profit & Loss of K Ltd.

Solution:-

Praticulars	Note.	31st March 2018 (A)	31st March 2019 (B)	Absolute Change (C=B-A)	%Change (D=C/A*100)
I.Revenue from operations		5,00,000	7,50,000	2,50,000	50
II. Other Income(% of ROP)		20,000	15,000	(5,000)	(25)
III. Total Revenue(I+II)		5,20,000	7,65,000	2,45,000	47.12
IV. Expenses		3,00,000	4,50,000	1,50,000	50
V. Profit before Tax (III-IV)		2,20,000	3,15,000	95,000	43.18
VI. Less Tax		4,00,000	50,000	10,000	25
VII.Profit After Tax		1,80,000	2,65,000	85,000	47.22

Q8 Following is the comparative statement of Profit & Loss of K Ltd.

Praticulars	Note.	31st March 2018 (A)	31st March 2019 (B)	Absolute Change (C=B-A)	%Change (D=C/A*100)
I.Revenue from operations					
II. Other Income(% of ROP)		15,000	20,000		
III. Total Revenue(I+II)					
IV. Expenses					
Cost of Material Consumed					
Other Expenses (10% of Cost of Material Consumed		70,000	87,200		
Total Expenses					
V. Profit before Tax (III-IV)					
VI. Less Tax (50%)					
VII.Profit After Tax		1,22,500	130400		6.45

You are required to fill the missing figures in the comparative statement of Profit & Loss of K Ltd.

Solution :-

Praticulars	Note.	31st March 2018 (A)	31st March 2019 (B)	Absolute Change (C=B-A)	%Change (D=C/A*100)

I.Revenue from operations		10,00,000	12,00,000	2,00,000	20
II. Other Income(% of ROP)		15,000	20,000	5,000	33.33
III. Total Revenue(I+II)		10,15,000	12,20,000	2,05,000	47.12
IV. Expenses					
Cost of Material Consumed		7,00,000	8,72,000	1,72,000	24.57
Other Expenses (10% of Cost of Material Consumed		70,000	87,200	17,200	24.57
Total Expenses		7,70,000	959200	189,200	24.57
V. Profit before Tax (III-IV)		2,45,000	260800	15,800	6.45
VI. Less Tax		1,22,500	130400	7900	6.45
VII.Profit After Tax		1,22,500	130400	7900	6.45

Q9Following is Common Size Balance Sheet of XLtd. **You are required to fill the missing figures in the common Size Balance Sheet of XLtd.**

Particulars	Note.	31st March 2018 (A)	31st March 2019 (B)	31st March 2018(%)	31st March 2019(%)
I. Equity and Liabilities					
1. Shareholders' Funds					
a) Share capital		---------	31,00,000	65	---
b) Reserve and surplus		3,20,000	-------	--	9
2. Non-current Liabilities					
Long-term borrowings		4,80,000	5,50,000	----	-----
3. Current liabilities					
Trade payables		-----	-------	15	18
Total			50,00,000	100	100
II. Assets					
1. Non-current assets					
a) Fixed assets					
- Tangible assets		16,00,000	21,00,000	----	----
b) Non Current Investment		-----	------	11	8
2. Current assets					
- Cash and Cash Equivalents		19,60,000	25,00,000	----	-----
Total		40,00,000		100	100

Solution :-

Particulars	Note.	31st March 2018 (A)	31st March 2019 (B)	31st March 2018(%)	31st March 2019(%)
I. Equity and Liabilities					
1. Shareholders' Funds					
a) Share capital		26,00,000	31,00,000	65	62
b) Reserve and surplus		3,20,000	4,50,000	8	9
2. Non-current Liabilities					
Long-term borrowings		4,80,000	5,50,000	12	11
3. Current liabilities					
Trade payables		6,00,000	9,00,000	15	18
Total		40,00,000	50,00,000	100	100
II. Assets					
1. Non-current assets					
a) Fixed assets					
- Tangible assets		16,00,000	21,00,000	40	42
b) Non Current Investment		4,40,000	4,00,000	11	8
2. Current assets					
- Cash and Cash Equivalents		19,60,000	25,00,000	49	50
Total		40,00,000	50,00,000	100	100

Ratio Analysis

Meaning :-Ration is an arithmetical expression of relationship b/w two related or interdependent items. It is study of relationship among various financial factors.

Objectives of Ratio Analysis :

1.To Simplify the accounting Data.
2.To determine Liquidity, Solvency, Profitability, Efficiency of the concern.
3.To find potential area required improvement.
4.To provide information for cross sectional analysis.
5. To provide information For future fore casting.

Advantages of Ratio Analysis

1.HelpfulinSimplifying the accounting Data.
2. Helpful in finding Liquidity, Solvency, Profitability, Efficiency of the concern
3. Helpful in cross sectional analysis
4. Helpful in forecasting.
5. Helpful in locating weak areas.

Limitations of Ratio Analysis:

1.False result in case of false accounting Data.
2. Ignores Qualitative aspects
3. Ignores Price Level Changes.
4. Window dressing
5. Lack of standard Ratio.

Classification of Ratio Analysis

1.Liquidity Ratios a. Current Ratio b. Quick Ratio	2. Solvency Ratios a. Debt Equity Ratio b. Total Asset to Debt Ratio c. Proprietary Ratio d. Interest Coverage Ratio.	3. Activity Ratios a. Inventory Turnover Ratio b. Trade Receivable Turnover Ratio c. Trade Payable Turnover Ratio d. Investment Turnover Ratio	4. Profitability Ratios. a. Gross Profit Ratio b. Operating Ratio. c. Operating Profit Ratio. d. Net Profit Ratio. e. Return on Investment.

1.Liquidity Ratios means firm's ability to pay its current obligations.

a. Current Ratio= Current Assets / Current Liabilities

Current Assets = Current investments+ Inventories + Trade receivables + Cash and cash equivalents + Short term loans and advances

Current Liabilities=Current liabilities include short-term borrowings, trade payables (creditors and bills payables), other current liabilities and short-term provisions.

Ideal Ratio is 2:1

b. Quick Ratio=Quick Assets/Current Liabilities
Quick Assets=Quick Assets = Current assets – (Inventories + PrepaidExp.)

2. Solvency Ratios means firm's ability to pay its Long term obligations on time.

a. Debt Equity Ratio Debt-Equity Ratio measures the relationship between long-term debt and equity. Ideal debt equityratio is 2 : 1
Debt-Equity Ratio =Long − term Debts/Shareholders' Funds

Shareholders' Funds (Equity) =Equity Share capital + Preference share capital + Reserves and Surplus +Money received against share warrantsor
Shareholders' Funds (Equity) = Non-current Assets + Working capital –Non-current liabilities
Working Capital = Current Assets – Current Liabilities

b. Total Asset to Debt Ratio =Total Assets/Total Debts
Total Debts =Non Current Liabilities + Current Liabilities
Total Assets = Non Current Assets + Current Assets.

C. Proprietary Ratio= Shareholders' Funds/ Total assets

Shareholders' Funds (Equity) =Equity Share capital + Preference share capital + Reserves and Surplus +Money received against share warrants

Total Assets = Non Current Assets + Current Assets.

d. Interest Coverage Ratio.= Net Profit before Interest and Tax/Interest on long-term debts

It reveals the number of times interest on long-term debts is covered by the profits.

3. Activity Ratios:- It shows how efficiently a company is using its resources.

a. Inventory Turnover;Itdetermines the number of times inventory is converted into revenue from operations during the accounting period under consideration.
Inventory Turnover Ratio = Cost of Revenue from Operations /Average Inventory
Cost of Revenue from Operations= Opening Inventory + Purchases(Net)+ Direct Exp.- Closing Inventory
OR Cost of Revenue from Operations= Revenue from Operations- Gross Profit
Average Inventory=(Opening Inventory +Closing Inventory)/2

b. Trade receivable Turnover;This ratio indicates the number of times the receivables are turned over and converted into cash in an accounting period
Trade receivable Turnover Ratio=Net Credit Revenue from Operations/Average Trade Receivable
Where Average Trade Receivable = (Opening Debtors and Bills Receivable + Closing Debtors and Bills Receivable)/2
Average collection period=Number of days or Months/Trade receivables turnover ratio

c. Trade payable Turnover; it indicates the pattern of payment of trade payable.As trade payable arise on account of credit purchases
Trade Payables Turnover ratio = Net Credit purchases/Average trade payable
Where Average Trade Payable = (Opening Creditors and Bills Payable + Closing Creditors and Bills Payable)/2
Average Payment Period =No. of days/month in a year/Trade Payables Turnover Ratio
d. Investment (Net assets) TurnoverNet Assets or Capital Employed Turnover ratio = Revenue from Operation/Capital Employed
Capital employed turnover ratio which studies turnover of capital employed (or Net Assets) is analyzed further by following two turnover ratios :
***(a) Fixed Assets Turnover Ratio :*=Net Revenue from Operation/Net Fixed Assets**
***(b) Working Capital Turnover* Ratio : Net Revenue from Operation/Working Capital**
***Significance* : High turnover of capital employed, working capital and fixed assetsis a good sign and implies efficient utilization of resources.**

Profitability Ratios:- Profitability ratios are calculated to analyze the earning capacity of the business which is the outcome of utilization of resources employed in the business.

1. **Gross profit ratio=** Gross Profit/Net Revenue from Operations ×100

Gross Profit=Net Revenue from Operations-Cost of Revenue from Operations

2. Operating ratio=It is computed to analysis cost of operation in relation to revenue from operations.It is calculated as follows:
Operating Ratio = (Cost of Revenue from Operations + Operating Expenses)/ Net Revenue from Operations ×100

3. Operating profit ratio=It is calculated to reveal operating margin. It may be computed directly or as a residual of operating ratio.
Operating Profit Ratio = 100 – Operating Ratio
or
Operating Profit Ratio = Operating Profit/ Revenue from Operations × 100
Where Operating Profit = Revenue from Operations – Operating Cost
4. Net profit ratio=Net profit/Revenue from Operations × 100
It reflects the overall efficiency of the business,
5. Return on Investment (ROI) or Return on Capital Employed (ROCE)=Profit before Interest and Tax/Capital Employed × 100
Significance: It measures return on capital employed in the business. It reveals the efficiency of the business in utilization of funds entrusted to it by shareholders, debenture-holders and long-term loans. For inter-firm comparison, return on capital employed funds is considered a good measure of profitability.

Return on Shareholders' Fund =Profit after Tax/Shareholders' Funds × 100

EarningPer Share = Profit available for equity shareholders/Number of Equity Shares

Book Value per share = Equity shareholders' funds/Number of Equity Shares
Dividend Payout Ratio =Dividend per share/Earnings per share
Price EarningRatio = Market Price of a share/earnings per share

Q1 From the following details, calculate Return on Investment:
Share Capital : Equity (Rs.10) Rs. 40,00,000 Current Liabilities Rs. 10,00,000
12% Preference Rs. 10,00,000 Fixed Assets Rs. 95,00,000
General Reserve Rs. 18,40,000 Current Assets Rs. 23,40,000
10% Debentures Rs. 40,00,000
Also calculate Return on Shareholders' Funds, the net profit after tax wasRs. 15,00,000, and the tax had amounted to Rs. 500,000.
Solution:
Profit before interest and tax = Rs. 15,00,000 + Debenture interest + Tax
= Rs. 15,00,000 + Rs. 400,000 + Rs. 500,000
= Rs.24,00,000
Capital Employed = Equity Share Capital + Preference Share Capital + Reserves + Debentures
= Rs. 40,00,000 + Rs. 10,00,000 + Rs. 18,40,000+ Rs. 40,00,000 = Rs. 108,40,000
Return on Investment = Profit before Interest and Tax/ Capital Employed × 100
= Rs. 24,00,000/Rs. 108,40,000 × 100
= 22.14%
Shareholders' Fund = Equity Share Capital + Preference Share Capital + General Reserve
= Rs. 40,00,000 + Rs. 10,00,000 + Rs. 1840,000
= Rs. 68,40,000

Q2 Calculate current assets of a company from the following information:

Inventory turnover ratio = 4 times
Inventory at the end is Rs. 200,000 more than the inventory in the beginning.
Revenue from Operations Rs. 30,00,000 and gross profit ratio is 20% of revenue fromoperations.Current liabilities = Rs. 400,000Quick ratio = 0.75 : 1
Solution:
Cost of Revenue from Operations = Revenue from Operations – Gross Profit
= Rs. 30,00,000 – (Rs. 30,00,000 × 20%)
= Rs. 30,00,000 – Rs. 600,000
= Rs. 24,00,000
Inventory Turnover Ratio = Cost of Revenue from Operations/ Average Inventory
Average Inventory = Cost of Revenue from Operations/4
= Rs. 2400,000/4 = Rs. 600,000
Average Inventory = (Opening inventory + Closing inventory)/2
Rs. 600,000 = Opening inventory + (Opening inventory +Rs.200,000)/2
Rs. 600,000 = Opening inventory + Rs. 100,000
Opening Inventory = Rs. 500,000&Closing Inventory = Rs. 700,000
Liquid Ratio = Liquid assets/current liabilities
0.75 = Liquid assets/Rs. 400,000
Liquid Assets = Rs. 400,000 × 0.75 = Rs. 300,000
Current Assets = Liquid assets + Closing inventory
= Rs. 300,000 + Rs. 700,000 = Rs. 10,00,000

Q3 From the following details, calculate interest coverage ratio:
Net Profit after tax Rs. 120,000; 15% Long-term debt 10,00,000; and Tax rate 40%.
*Solution:*Net Profit after Tax = Rs. 120,000Tax Rate = 40%
Net Profit before tax = Net profit after tax × 100/(100 – Tax rate)
= Rs. 120,000 × 100/(100 – 40)= Rs. 2,00,000
Interest on Long-term Debt = 15% of Rs. 10,00,000 = Rs. 1,50,000
Net profit before interest and tax = Net profit before tax + Interest
= Rs. 2,00,000 + Rs. 1,50,000 = Rs. 3,50,000
Interest Coverage Ratio = Net Profit before Interest and Tax/Interest on long-term debt= Rs. 3,50,000/Rs. 1,50,000= 2.33 times.
Q4 X Ltd., has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by inventories is Rs. 2400, calculate current assets and current liabilities.
Solution:
Current Ratio = 3.5:1&Quick Ratio = 2:1
Let Current liabilities = x
Current assets = 3.5xand Quick assets = 2x
Inventories = Current assets – Quick assets
2400 = 3.5x – 2x
2400 = 1.5x
x = Rs.1600
Current Liabilities = Rs.1600
Current Assets = 3.5x = 3.5 × Rs. 1600 = Rs. 5600.

Q5 Assuming that Current Ratio is 2:1. State Giving Reasons , Which of the following transaction would (i)improve (ii) Reduce (iii) Not Alter the current Ratio

B/R Dishonoured
Sale of inventories at Loss for credit
Purchase of fixed assets on 2 month credit
B/P given to creditors i
Issue of new shares for cash
Redemption of Debenture

Solution:-

Transaction	Current Ratio WIll	Reason
B/R Dishonoured	Not Alter	Only B/R converted in debtors ,no change in Current Asset & Current Liabilities
Sale of inventories at Loss for credit	Reduce	Decrease in Current Asset & Current Liabilities no change
Purchase of fixed assets on 2 month credit	improve	No change in Current Asset & Current Liabilities increased
B/P given to creditors i	No Alter	No Change in Current Asset & Current Liabilities
Issue of new shares for cash	improve	Increase in Current Asset & Current Liabilities no change
Redemption of Debenture	improve	Both Current Asset & Current Liabilities change with same amount

Q6 Assuming that Debt Equity Ratio is 2:1. State Giving Reasons , Which of the following transaction would (i)improve (ii) Reduce (iii) Not Alter the Debt Equity Ratio

Transactions
Repayment of Long term borrowing
Buy Back of its own share
Issue of Bonus Shares
Sale of Fixed Asset at Loss
Issue of new shares for cash
Redemption of Debenture

Solution

Transactions	Ratio WIll	Reason
Repayment of Long term borrowing	Reduce	Equity same Debt Decrease
Buy Back of its own share	Reduce	Equity increase Debt Remain Same
Issue of Bonus Shares	Not Alter	Equity Same Debt Remain Same as Bonus Shares are issued from Reserve & Surplus
Sale of Fixed Asset at Loss	Improve	Equity reduces Debt Remain Same
Issue of new shares for cash	Reduce	Equity increase Debt Remain Same
Redemption of Debenture	Reduce	Equity Same Debt Reduce

Q7A trader carries an average inventory of Rs.80,000. His inventory turnover ratio is 8 times. If he sells goods at a profit of 20% on Revenue from operations, find out the gross profit.
Solution:
Inventory Turnover Ratio =Cost of Revenue from Operations/Average Inventory=8
Cost of Revenue from Operations/Rs. 80,000
Cost of Revenue from operations = 8 × Rs.80,000= Rs. 6,40,000
Revenue from operations = Cost of Revenue from operations ×100/80
= Rs. 6,40,000 ×100/80= Rs. 8,00,000
Gross Profit = Revenue from operations – Cost of Revenue from operations
= Rs. 8,00,000 – Rs. 6,40,000 = Rs. 1,60,000

Q8 Gross profit ratio of a company was 25%. Its credit revenue from operations was Rs. 18,00,000 and its cash revenue from operations was 10% of the total revenue from operations. If the indirect expenses of the company were Rs. 50,000, calculate its net profit ratio.
Solution:
Cash Revenue from Operations = Rs.18,00,000 × 10/90
= Rs.2,00,000
Hence, total Revenue from Operations are = Rs.20,00,000
Gross profit = 0.25 × 20,00,000=5,00,000
Net profit = Rs.5,00,000 – 50,000= Rs.4,50,000
Net profit ratio = Net profit/Revenue from Operations× 100
= Rs.450,000/Rs.20,00,000 × 100
= 22.5%.
Q9 D Ltd. has inventory of Rs. 20,000. Total liquid assets are Rs. 1,00,000 and quick ratio is 2 : 1. Calculate current ratio

Solution : Quick Ratio= Liquid Asset/ Current Liabilities
2/1=1,00,000/Current Liabilities
Current Liabilities= 50,000
Current Assets== Liquid Asset+ inventory=1,00,000+20,000=120,000
: Current Ratio=Current Assets/Current Liabilities=1,20,000/50,000
Current Ratio 2.4 : 1)
Q10. Calculate debt-equity ratio from the following information:
Total Assets Rs. 20,00,000Current Liabilities Rs. 6,00,000Total Debts Rs. 12,00,000

Solution : Equity= total Assets- Total Debt=20,00,000-12,00,000=8,00,000
Total debt =Long term debt-Current Liabilities
Long term debt =12,00,000-6,00,000=6,00,000
Debt-equity ratio=debt/equity =6,00,000/8,00,000
(Ans: Debt-Equity Ratio .75 : 1.)
Q11 A Company has a loan of 2,00,000 as a part of its capital employed. The interest payable on Loan is 15% and ROI of the company is 25%. The Rate of Income tax is 40%. What is the gain to the share holders due to the Loan raised by the company.
Solution :Return on Investment = Profit before Interest and Tax/
Capital Employed × 100
Profit before Interest and Tax=2,00,000×25/100=50,000

Less interest paid=2,00,000×15%=30,000

Less tax paid 20,000×40/100=8000

Net gain to shareholder=12,000

1-1 Marks Questions

Q1 Can Current Ratio and Quick Ratio be same at any moment?

AnsYes if there is no inventory and Prepaid Exp. In the concern.

Q2Why inventory is excluded from quick Ratio

Ans there is uncertainty when it would be sold

Q3Why Prepaid exp. is excluded from quick Ratio

Ans they cannot be converted into Cash.

Q4 Why stores & Spares is excluded from Inventory Turnover Ratio?

AnsThese are not purchased for resale.

Fill in Blanks

(i) The __________ is useful in evaluating credit and collection policies.
A. average payment periodB. current ratio
C. average collection periodD.current asset turnover
(ii) The ____________ measures the activity of a firm's inventory.
A. average collection period**B. inventory turnover**
C. liquid ratio D. current ratio
(iii Amount of Current assets is realized within----
A. 30 days**B. 365 days** C. 470 days D. 637 days
(iv) ____________ are especially interested in the average payment period, since it provides them with a sense of the bill-paying patterns of the firm.
A. Customers B. Stockholders **C. Lenders and suppliers**
D. Borrowers and buyers
(v) The ___________ ratios provide the information critical to the long run operationof the firm.
A. liquidity B. activity **C. solvency** D. profitability
(vi) higher the ratio ,lower will be profitability, is applicable to:
A. Gross Profit **B. Operating Ratio** C. Net Profit D operating profit ratio

CASH FLOW STATEMENTS

A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investingand financing activities. It relates with accounting Standard 3 (As-3).

Objectives of Cash Flow Statement

1. To ascertain the source of Cash and Cash Equivalent from Operating, Investing and Financing Activities.
2. To ascertain the application of Cash and Cash Equivalent from Operating, Investing and Financing Activities.
3. To ascertain the net change in Cash & Cash equivalent from Operating, Investing and Financing Activities b/w the dates of two consecutive Balance Sheet .
4. To Highlight the major activities that have provided Cash and that have used during a particular Period and to show that effect on the overall Cash balance.

Importance / uses of Cash flow statement

1. Useful for Short term financial Planning
2. Useful in preparing the Cash Budget
3. Helpful in Trend analysis of Cash Receipt and Cash payments
4. Explain the reasons of difference of Cash from earning
5. Helpful for Management for taking various decisions.
6. Helpful in comparative Study of Actual cash position with budget.
7. Helpful in making dividend decision.

Limitation of Cash flow Statement

1. Ignores non Cash Transactions
2. Ignores the Accrual concept of accounting
3. No substitute for income statement
4. Historical in nature
5. No substitute for Balance Sheet.
6. Assessment of Liquidity not Possible

KEY TERMS USED in CASH FLOW STATEMENT

Terms	Definition
Cash	Cash in Hand & Cash at Bank
Cash Equivalents	Cash in Hand & Cash at Bank, Cheques & Drafts on hand, Marketable Securities or means short-term highly liquid investments that are readily convertible into known amounts *of cash and which are subj*ect to an insignificant risk of changes in value
Operating activities	These are the principal revenue generating activities (or the main activities) of the enterprise *Cash Inflows from operating activities* (l) cash receipts from sale of goods and the rendering of services. (li) cash receipts from royalties, fees, commissions and other revenues.

	Cash Outflows from operating activities (l) Cash payments to suppliers for goods and services. (li) Cash payments to and on behalf of the employees. (lii) Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits. (lV) Cash payments of income taxes
Investing Activities	Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, long-term investment *Cash Outflows from investing activities* (l) Cash payments to acquire fixed assets including intangibles and Capitalized research and development. (li) Cash payments to acquire shares, warrants or debt instruments of other enterprises *Cash Inflows from Investing Activities* (i)Cash receipt from disposal of fixed assets including intangibles. (li) Cash receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise). (lii) Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes. (lv) Interest received in cash from loans and advances. (v) Dividend received from investments in other enterprises
Financing Activities	Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in case of a company) and borrowings of the enterprise. *Cash Inflows from financing activities* (l) Cash proceeds from issuing shares (equity or/and preference). ((i) Cash proceeds from issuing debentures, loans, bonds and other short/ long-term borrowings. *Cash Outflows from financing activities* (l) Cash repayments of amounts borrowed. (ii) Interest paid on debentures and long-term loans and advances. (lii) Dividends paid on equity and preference capital.
Interest and Dividend	In case of a financial enterprise (whose main business is lending and borrowing),interest paid, interest received and dividend received are classified as operating activities while dividend paid is a financing activity. In case of a non-financial enterprise, as per AS-3, it is considered more appropriate that payment of interest and dividends are classified as financing activities whereas receipt of interest and dividends are classified as investing activities.

Format of Cash Flow Statement (Main heads only)

(A) Cash flows from operating activities xxx (B) Cash flows from investing activities xxx (C) Cash flows from financing activities xxx Net increase (decrease) in cash and cash xxx equivalents (A + B + C) + Cash and cash equivalents at the beginning xxx = Cash and cash equivalents at the end xxxx

Indirect Method of Preparing Cash flow Statement

Cash flow Statement for the year ended-----(As per Accounting standard 3)

A. Cash flow from Operating Activities *Net Profit/Loss before Tax and Extraordinary Items* + Non-cash items such as Depreciation, Goodwill to be Written-off, Loss on sale of Fixed Assets . +Non-operating items such as Interest. – Non-operating items such as Dividend received, Profit on sale of Fixed Assets,Interest Received, Rental Income *Operating Profit before Working Capital changes* + Increase in Current liabilities + Decrease in Current assets – Increase in Current assets – Decrease in Current Liabilities Cash Flows from Operating Activities before Tax and Extraordinary Items – Income Taxpaid +/– Effects of Extraordinary Items (A)Net Cash flow from Operating Activities ------ ------ B. Cash from Investing Activities. + Proceeds from the sale of Fixed Assets + Proceeds from the sale of investment + Proceeds from the sale of intangible Assets + Interest & Dividend received (for non-financial org.) +Rental income - Payment for the Purchases of Fixed Assets - Payment for the Purchases of non current investment - Payment for the Purchases of intangible Assets **(B)** Net Cash flow from Investing Activities.------- C. Cash flow from Financing Activities. + Proceeds from issue of Shares & Debentures or other Long term borrowings + increase in Bank Overdraft/ Cash Credit	

- Payment of final /interim Dividend on any type of shares - Payment of interest - Repayment of Loans - Redemption of Debenture/Preference Shares (C) Net Cash flow from Financing Activities------ Net increase (decrease) in cash and cash equivalents (A + B + C) + Cash and cash equivalents at the beginning = Cash and cash equivalents at the end	

Q1 Calculate Cash Flow from Investing activities from the following information

Particulars	31st March2015	31st March2014
Investment in Shares (miko)	1,80,000	80,000
12 % long term investment	15,000	50,000
Plant & Machinery	60,000	40,000
Goodwill	12,000	4,000

Additional information: 1. 9% dividend was received fromMiko ltd.

2. A Machine costing Rs.5,000 (depreciation provided thereon Rs.1,500) was sold for Rs.4,000. Depreciation Charged during the year was Rs.5500

Solution

Cash Flow from Investing activities

Particulars	Amount
Sale of Plant & Machinery	4000
Purchase of Plant & Machinery	(29,000)
Investment in Shares (miko)	(1,00,000)
Dividend received from Shares (miko)	7200
Sale of Long term investment	35,000
Interest received on long term Investment	6,000
Goodwill Purchased	(8000)
Net Cash Flow from Investing activities	84,800

Plant &Machinery Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d	40000	By Bank	4000

To Gain on Sale To Bank (purchase)	500 29000 69500	By depreciation By Balance c/d	5500 60000 69500

Q2 the Balance in Machinery A/c and accumulated depreciation a/c as on March 31,2018 and 2019 are given below:-

particular	March 31,2018	March 31,2018
Machinery accumulated depreciation	5,00,000 1,64,000	6,00,000 1,80,000

During the year , a machine costing Rs. 1,00,000 accumulated depreciation thereon Rs.44000 was sold for Rs.30,000

Prepare Cash Flow from this information.

Solution-

Cash flow Statement for the year ended-----(

particular	Amount
A) Cash flows from operating activities	
Net Profit	--
Add dep. on Machinery	80,000
Loss on sale of Machinery	26000
(B) Cash flows from investing activities	
Sale of Machinery	30,000
Purchase of Machinery	200000
(C) Cash flows from financing activities	

Plant &Machinery Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d To Bank (purchase)	500000 200000	By Bank By Accumulated dep. By Loss on Sale By Balance c/d	30000 44000 26000 600000
	700000		700000

Accumulated Depreciation Account

Particulars	*Amount*	*Particulars*	*Amount*
To Machinery a/c To Balance c/d	44000 180000 -----	By Balance b/d By depreciation	164000 80000
	224000		224000

Q3 Calculate Cash Flow from financing activities from the following information

Particulars	31st March2018	31st March2017
Equity Shares Capital	8,00,000	600,000

12 %Preference Share capital 14% Debenture	--- 100,000	200,000 ----

Additional information :-(i) Equity Shares were issued at a Premium 20%
(ii) 12% Preference Shares were redeemed at a Premium 5%

(iv) 14% Debenture were isued at a discount of 1%
(v) Interest paid on old debenture Rs.14000
(vi) Proposed Dividend (previous year) Rs.90,000

Solution :-

Cash Flow from Financing activities

Particulars	Amount
Proceeds from issue of equity of Share + Premium Redemption of Preference Shares Proceed from issue of Debenture Interest Paid Proposed Dividend Paid	240,000 (210000) 99000 (14000) (90000)
Net Cash Flow from Financing activities	25000

Q4 Following is the balance sheet of Solar power Ltd as at 31.03.2017

Particulars	Note no	31.3.2017	31.03.2016
Equities and liabilities			
1. **Shareholder's fund** :			
(a) Share capital		14,00,000	10,00,000
(b) Reserves and Surplus		5,00,000	4,00,000
2. Non Current liabilities			
Long term borrowings(10% Debenture)		5,00,000	1,40,000
3. current liabilities			
(a) trade payables		1,20,000	90,000
(b) short term provisions		60,000	30,000
Total		25,80,000	16,60,000
ASSETS			
Non current assets			
(a) fixed assets :			
(i) Tangible		16,00,000	9,00,000
(ii) Intangible		1,40,000	2,00,000
current assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade receivables		5,00,000	3,00,000
(c) Cash and cash equivalent		90,000	60,000
Total		25,80,000	16,60,000

Notes to account:

S N	**Particulars**	**31.3.2017**	**31.03.2016**
	Short term Provision		

	Provision for taxation	60,000	30,000
	Tangible assets Machinery Less accumulated depreciation	 17,60,000 (1,60,000)	 10,00,000 (1,00,000)

Additional information(1)During the year a piece of machinery costing 50,000 on which accumulated depreciation was 20,000 was sold for 18,000

(2) Tax Paid Rs.20,000 (3)interest paid on Debenture Rs.50,000

Solution:-- Cash flow Statement for the year ended-----(As per Accounting standard 3)

B. Cash flow from Operating Activities *Net Profit/Loss before Tax 150,000* + Non-cash items such as Depreciation, 80,000 Goodwill to be Written-off, 60,000 Loss on sale of Fixed Assets . 12,000 Interest on Debenture 50,000 *Operating Profit before Working Capital changes 352,000* + Increase in Trade Payable 30,000 – Increase in inventory (50,000) -increase in Trade Receivables(2,00,000) Cash Flows from Operating Activities before Tax 132000 – Income Tax paid (20,000) (A)Net Cash flow from Operating Activities ------	112000
------B.Cash from Investing Activities. + Proceeds from the sale of Plant & Machinery 18,000 - Payment for Purchase of Plant & Machinery (810,000) **(B)** Net Cash flow used in Investing Activities.-------	(7,92,000)
D. Cash flow from Financing Activities. + Proceeds from issue of Shares 4,00,000 +issue of Debentures 360000 Interest paid on Debentures (50,000) (C) Net Cash flow from Financing Activities------	7,10,000
Net increase (decrease) in cash and cash equivalents (A + B + C)	30,000
+ Cash and cash equivalents at the beginning	60,000
= Cash and cash equivalents at the end	90,000

Plant &Machinery Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d	*10,00,000*	By Bank	*18,000*
To Bank (purchase)	*810,000*	By Accumulated dep.	*20,000*
		By Loss on Sale	*12,000*
		By Balance c/d	*17,60,000*

	1810000		*1810000*

Accumulated Depreciation Account

Particulars	*Amount*	*Particulars*	*Amount*
To Machinery a/c To Balance c/d	*20000* *160000* *180000*	By Balance b/d By depreciation	*100000* *80000* *180000*

Provision for taxation Account

Particulars	*Amount*	*Particulars*	*Amount*
To Cash To Balance c/d	20,000 60,000 80000	By Balance b/d By Profit &Loss a/c	30,000 50,000 80000

SOLVE IT

1. Following is the balance sheet of Solar power Ltd as at 31.03.2014

Particulars	Note no	31.3.2014	31.03.2013
Equities and liabilities			
4. **Shareholder's fund** :			
(c) Share capital		24,00,000	22,00,000
(d) Reserves and Surplus		6,00,000	4,00,000
5. Non Current liabilities			
Long term borrowings		4,80,000	3,40,000
6. current liabilities			
(c) trade payables		3,58,000	4,08,000
(d) short term provisions		1,00,000	1,54,000
Total		39,38,000	35,02,000
ASSETS			
Non current assets			
(b) fixed assets :			
(iii) Tangible		21,40,000	17,00,000
(iv) Intangible		80,000	2,24,000
current assets			
(d) Current investment		4,80,000	3,00,000
(e) Inventories		2,58,000	2,42,000
(f) Trade receivables		3,40,000	2,86,000
(g) Cash and cash equivalent		6,40,000	7,50,000
Total		39,38,000	35,02,000

Notes to account:

S N	**Particulars**	**31.3.2014**	**31.03.2013**
	Reserve and surplus Surplus P/L	6,00,000	4,00,000

	Tangible assets Machinery Less accumulated depreciation	 25,40,000 (4,00,000)	 20,00,000 (3,00,000)
	Intangible assets Goodwill	 80,000	 2,24,000

Additional information:-During the year a piece of machinery costing 48,000 on which accumulated depreciation was 32,000 was sold for 12,*000* ***Prepare*** **cash flow statement.**

Ans: - cash flows from operating activities ₹ 306,000 cash used in investing activities ₹ (576,000) cash flows from financing activities₹ 340,000

Q2Prepare a Cash Flow Statement from the following Balance Sheet:

Particulars	Note No.	31.03.2015 Amt.(Rs.)	31.03.2014 Amt.(Rs.)
I. Equity and Liabilities:			
(1) Shareholders' Funds:			
(a) Share Capital		6,00,000	5,00,000
(b) Reserves and Surplus	1	4,00,000	2,00,000
(2) Current Liabilities:			
Trade Payables		2,80,000	1,80,000
Total		**12,80,000**	**8,80,000**
II. Assets:			
(1) Non-current Assets:			
(a) Fixed Assets:			
Plant and Machinery		5,00,000	3,00,000
(II) Current Assets:			
(a) Inventories		1,00,000	1,50,000
(b) Trade Receivables		6,00,000	4,00,000
(c)Cash and Cash Equivalents		80,000	30,000
Total		**12,80,000**	**8,80,000**

Notes to Accounts:

Particulars	31.03.2015 Amt.(Rs.)	31.03.2014 Amt.(Rs.)
1. Reserves and Surplus Surplus (Balance in Statement of Profit & Loss)	4,00,000	2,00,000

Additional Information:

i. An old machinery having book value of Rs.50,000 was sold for Rs.60,000.

Depreciation provided on machinery during the year was Rs.30,000.

Ans Cash inflow from Operating Activities Rs. 1,70,000 Cash used in

Investing Activities Rs. (2,20,000) Cash inflow from Financing Activities Rs. 1,00,000

Q1under which type of activity will you classify refund of income tax received while preparing cash flow statement

Ans Operating Activity

Q2under which type of activity will you classify payment of bonus to employees while preparing cash flow statement

Ans Operating Activities

Q3state whether conversion of debenture into equity by a financing company will result in inflow, outflow or no flow of cash

Ans no flow

Q4Cash flow statement is based on----

(A) Accrual basis (B)**Cash Basis (C)** Accounting basis

Q5 Which of the following will result into flow of cash?

(a) Deposited Rs.5000 into Bank
(b) Withdrew cash from Bank Rs.6000
(c) Sale of Machinery of the book value of Rs.74000 at a loss 5000
(d) Converted Rs.2,00,000, 9% debentures into Equity shares.

Q6 from the given notes to accounts and cash flow statements of Radhika Ltd. complete the missing figures.

Building A/C

To balance b/d	-----	By cash (sale of building)	50,000
To statement of profit & loss(gain on sale of building)	20000	By balance c/d	-----
	2,20,000		2,20,000

Plant A/C

To balance b/d	------	By depreciation	10,000
To cash a/c	1,30,000	By balance c/d	------
	2,10,000		2,10,000

Notes to accounts

Particulars	31.03.2014	31.03.2015
1 Share capital		
Equity share capital	3,00,000	4,00,000
Preference share capital	1,50,000	1,00,000
Total	4,50,000	5,00,000
2 Reserve & Surplus:		
General Reserve	40,000	70,000
Balance in statement of profit & loss	30,000	48,000
Total	70,000	1,18,000
3 short term provisions:		
Provision for taxation	40,000	50,000
Proposed dividend	42,000	50,000
Total	82,000	1,00,000
4 fixed Assets		
Building	2,00,000	1,70,000
Plant	80,000	2,00,000
Total	2,80,000	3,70,000

Cash flow statement (for the year ended 31.03.2015)

s.no.	Particularts	Details	Total
A.	Cash flows for operating Activities:		
	Profit before tax	------	
	Adjustment for:		
	Add: goodwill written off		
	Add : Depreciation on plant	25000	
	Less : Gain on sale on plant	------	
	Operating profit before working capital		
	Add: increase in current Liabilities & Decrease in Current Assets:		
	Trade Payables		
	Less: Increase in Current Assets & Decrease in Current Liabilities:	24,000	
	inventories		
	Less : Payment of Tax	82,000	
	Net cash flow from operating Activities		

B	Cash flow from investing Activities Sale of Building Purchase of plant Net cash flow from investing Activities		
C	Cash flow from financing Activities Issue of equity shares Redemption of preference share Payment of dividend Net cash flow from financing Activities		
D	Net decrease in cash & cash equivalents (A+B+C)		
E	Cash & Cash equivalent : opening balance		25,000
F	Cash & cash equivalent : Closing balance		18,000

ANS Profit before tax Rs.1,48,000 (profit after tax Rs.18,000+Provision for tax Rs.50,000+ Dividend Rs.50,000+ Proposed Amount transferred to General Reserve Rs.30,000): Operating profit before working capital changes Rs.1,63,000: Net cash from operating activities Rs.65,000, Net cash used in investing Activities Rs.80,000: Net cash flow from financing activities Rs.8,000

Q7 what is meant by cash equivalent?

Q8 state whether the following will result in inflow, outflow or no flow of cash
(I)Conversion of debentures into equity (II) Payment of cash to trade payables (III) Depreciation charged(IV)Purchase of goods on credit (V) Purchase of fixed assets issue of shares (VI) Declaration of final dividend (VI) sale of marketable securities at par (VII) Interest received on debentures.(VIII) Purchase of patents in cash (IX) Deposit of cash into bank (X) withdrawal of cash from bank for office use
(XI) Old furniture written off (xii) issue of bonus shares to employees

Ans
Inflow: vi, vii, outflow: viii Noflow:1,ii,iii,iv,v,ix,x,xi,xii