Prof. Rahul Mishra **Cell: 9999907099, 9818932244**

CHAPTER – I

Accounting for partnership firms – Fundamentals

1 and 3 Mark Questions

Q1. Define partnership.

Ans. When two or more persons enter into an agreement to carry on business and share its profit and losses, it is a case of partnership. The Indian partnership Act, 1932, defines Partnership as follows:

"Partnership is the relation between persons and who have agreed to share the profits of a business carried on by all or any of them acting for all.

Q.2 What do you understand by 'partners', 'firm' and 'firms' name?

Ans. The persons who have entered in to a Partnership with one another are individually called 'Partners' and collectively 'a firm' and the name under which the business is carried is called 'the firm's name'.

Q.3 Write any four main features of partnership.

Ans. Essential elements or main features of Partnership :

i) Two or more persons: Partnership is an association of two or more persons.

ii) Agreement: The Partnership is established by an agreement either oral or in writing.

iii) Lawful Business: A Partnership formed for the purpose of carrying a business, it must be a legal business.

iv) Profit sharing: Profit of the firm is share by the partners in an agreed ration, if the ratio is not agreed then equally. Profit also includes loss.

Q.4 What is the minimum and maximum number of partners in all partnership?

Ans. There should be at least two persons to form a Partnership. The maximum number of Partners in a firm carrying an banking business should not exceed ten and in any other business should not exceed ten and in any other business it should not exceed twenty.

Q.5 What is the status of partnership from an accounting viewpoint?

Ans. From an accounting viewpoint, partnership is a separate business entity. From legal viewpoints, however, a Partnership, like a sole proprietorship, is not separate from the owners.

Q.6 What is meant by partnership deed?

Ans. Partnership deed is a written agreement containing the terms and conditions agreed by the Partners.

Q.7 State any four contents of a partnership deed.

i) The date of formation and the duration of the Partnership

ii) Name and address of the Partners

iii) Name of the firm.

iv) Interest on Partners capital and drawings

v) Ratio in which profit or losses shall be shared

Q.8 In the absence of a partnership deed, how are mutual relations of partners governed?

Ans.In the absence of Partnership deed, mutual relations are governed by the Partnership Act, 1932.

Q.9 Give any two reason in favour of having a partnership deed.

Ans. i) In case of any dispute or doubt, Partnership deed is the guiding document.

ii) It can specify the duties and powers of each Partner.

Q.10 State the provision of 'Indian partnership Act 1932' relating to sharing of profits in absence of any provision in the partnership deed.

Ans.In the absence of any provision in the Partnership deed, profit or losses are share by the Partners equally.

Q.11 Why is it important to have a partnership deed in writing?

Ans.Partnership deed is important since it is a document defining relationship of among Partners thus is assistance in settlement of disputes, if any and also avoids possible disputes: it is good evidence in the court.

Q.12 What do you understand by fixed capital of partners?

Ans.Partners' capital is said to be fixed when the capital of Partners remain unaltered except in the case where further capital is introduced or capital is withdrawn permanently.

Q.13 What do you understand by fluctuating capital of partners?

Ans.Partner's capital is said to be fluctuating when capital alters with every transaction in the capital account. For example, drawing, credit of interest, etc

Q.14 Give two circumstances in which the fixed capital of partners may change.

Ans.Two circumstances in which the fixed capital of Partners may change are :

i) When additional capital is introduced by the Partners.

ii) When a part of the capital is permanently withdrawn by the Partners.

Q.15 List the items that may appear on the debit side and credit side of a partner's fluctuating capital account.

Ans.On debit side: Drawing, interest on drawing, share of loss, closing credit balance of the capital.

On credit side : Opening credit balance of capital, additional capital introduced, share of profit, interest on capital, salary to a Partner, commission to a Partner.

Q.16 How will you show the following in case the capitals are?

i) Fixed and ii) Fluctuating

. a) Additional capital introduced

b) Drawings

c) Withdrawal of capital

d) Interest on capital and

e) Interest on loan by partners?

Ans.i) In case, capitals are fixed:

a) On credit side of capital (b) on debit side of current A/c (c) on debit side of capital A/c (d) on credit side of current A/c (e) on credit side of loan from partner's A/c

Q.17 If the partners capital accounts are fixed, where will you record the following items :

i) Salary to partners

ii) Drawing by a partners

iii) Interest on capital and

iv) Share of profit earned by a partner?

Ans. i) Credit side of Partner's current A/c
ii) Debit side of Partner's current A/c
iii) Credit side of Partners current A/c
iv) Credit side of Partners current A/c

Q.18 How would you calculate interest on drawings of equal amounts drawn on the Last day of every month?

Ans. When a partners draws a fixed amount at the beginning of each month, interest on total drawing would be on the amount withdraw for 6.5 months at the agreed rate of interest per annum. Apply the following formula.

$$\text{Interest on drawing} = \text{total drawing} \times \boxed{\frac{\text{Rate} \times 6.5}{100 \times 12}}$$

Q.19 How would you calculate interest on drawing of equal amounts drawn on the last day of every month?

Ans. When drawing of fixed amounts are made at regular monthly intervals on the day of every month, Interest would be charged on the amount withdrawn at the agreed rate of interest for 5.5 months. Apply the following formula. :

$$\text{Interest on drawing} = \text{Total drawing} \times \boxed{\frac{\text{Rate} \times 5.5}{100 \times 12}}$$

Q.20 How would you calculate interest on drawing of equal amount drawn in the middle of every month?

Ans. $$\text{Interest on drawing} = \text{Total drawing} \times \boxed{\frac{\text{Rate} \times 6.0}{100 \times 12}}$$

Q.21 Ramesh, a partner in the firm has advanced a loan of a Rs. 1,00,000 to the firm and has demanded on interest @ 9% per annum. The partnership deed is silent on the matter. How will you deal with it?

Ans. Since the Partnership deed is silent on payment of interest, the provisions of the Partnership Act, 1932 will apply. Accordingly, Ramesh is entitled to interest @ 6% p.a.

Q.22 The partnership deed provides that Anjali, the partner will get Rs. 10,000 per month as salary. But, the remaining partners object to it. How will this matter be resolved?

Ans. No, he is not entitled to the salary because it is not so, Provided in the Partnership deed and according to the Partnership act, 1932 if the Partnership deed does not provided for payment of salary to Partners, he will not be entitled to it.

Q.23 Distinction between Profit and loss and profit and loss appropriation account:

Ans.

	Profit & Loss A/c		Profit & Loss Appropriation A/c
i)	Profit and Loss A/c is prepared to ascertain net profit or net loss of the business for an accounting year.	i)	In case of partnership firms, profit And loss appropriation A/c is Prepared to appropriate / Distribute the profit of the year Among partners.
ii)	It is prepared by all the business firms.	ii)	Only partnership firms and Companies prepare profit and loss Appropriation A/c

Q.24. State the Average period to be taken for calculating interest on drawing in different cases if amount is withdrawn on regular interval.

Ans. **TABLE SHOWING THE AVERAGE PERIOD WHEN WITHDRAWALS ARE MADE REGULARLY**

	DATE OF WITHDRAWAL	AVERAGE PERIOD
1	Beginning of every month	(12+1)/2 = 6.5
	Middle of every month	(11.5+0.5)/2 = 6
	End of every month	(11+0)/2 = 5.5
2	Beginning of every quarter	(12+3)/2 = 7.5
	End of every quarter	(9+0)/2 = 4.5
3	Beginning of half year	(12+6)/2 = 9
	End of half year	(6+0)/2 = 3

PROBLEMS BASED ON FUNDAMENTALS

Q. 1 A, B, and C were partners in a firm having no partnership agreement. A, B and C contributed Rs.2, 00,000, Rs.3, 00,000 and 1, 00,000 respectively. A and B desire that the profits should be divided in the ratio of capital contribution. C does not agree to this. How will the dispute be settled?

ANS: C is correct because in the absence of Partnership deed the profits are to be shared equally.

Q2 A and B are partners sharing profits in the ratio of 3: 2 with capitals of Rs. 5, 00,000 and Rs. 3, 00,000 respectively. Interest on capital is agreed @ 6% p.a. B is to be allowed an annual salary of Rs. 25000. During 2006, the profits of the year prior to calculation of interest on capital but after charging B's salary amounted to Rs. 1, 25,000. A provision of 5% of the profits is to be made in respect of Manager's commission.

Prepare an account showing the allocation of profits and partners' capital accounts.

Solution: 2 **Profit and Loss Appropriation Account**

Particulars		**Amount** Rs.	**Particulars**	**Amount** Rs.
To Interest on Capital A 30,000 B 18,000		48000	By Profit after B's Salary but before other adjustments	1, 25,000
ToProv.Manager's Commission (5% of Rs.1, 50,000*)		7,500		
To Profit transferred to:				
A's Capital A/c	41700			
B's Capital A/c	27800	69,500		
		125000		**125,000**

Partner's capital Accounts

Particulars	**A**	**B**	**Particulars**	**A**	**B**
To Balance c/d	571700	370800	By Balance b/d	500000	300000
			By interest on capital	30000	18000
			By salary	-	25000
			By P and L Appropriation A/c	41700	27800
	571700	**370800**		**571700**	**370800**

Q.3 X and Y are partners sharing profits and losses in the ratio of 3: 2 with capitals of Rs. 50,000 and Rs. 30,000 respectively. Each partner is entitled to 6% interest on his capital. X is entitled to a salary of Rs. 800 per month together with a commission of 10% of net 'Profit remaining after deducting interest on capitals and salary but before charging any commission. Y is entitled to a salary of Rs. 600 per month together I. with-a commission of 10% of Net profit remaining after deducting interest on capitals and salary and after charging all commissions. The profits for the year prior to calculation of interest on capital but after charging salary of partners amounted to Rs. 40,000. Prepare partners' Capital Accounts:-

(i) When capitals are fixed, and

(ii) When capitals are. Fluctuating.

Note: (1) Calculation of interest on Capital: Interest for 3 months i.e. from 1st April to 30th June, 2004

	A	B
A on Rs. 5,00,000 @ 10% p.a.	12500	
B on Rs. 3,00,000 @ 10% p.a.		7500
Interest for 9 months i.e. from 1st July, 2004 to 31st March, 2005:		
A on Rs. 3,50,000 @ 10% p.a.	26250	
B on Rs. 3,50,000 @ 10% p.a.		26250

Q 4 Give the answer to the following:

(1) P and Q are partners sharing profits and losses in the ratio of 3:2. On 1st April 2009 their capital balances were Rs.50, 000 and 40,000 respectively. On 1st July 2009 P brought Rs.10, 000 as his additional capital whereas Q brought Rs.20, 000 as additional capital on 1st October 2009. Interest on capital was provided @ 5% p.a. Calculate the interest on capital of P and Q on 31st March 2010.

(2) A and B are partners sharing profits and losses in the ratio of 2:1. A withdraws Rs.1500 at the beginning of each month and B withdrew Rs. 2000 at the end of each month for 12 months. Interest on drawings was charged @ 6% p.a. Calculate the interest on drawings of A and B for the year ended 31st December 2009.

Ans. 1 Interest on Capital for A

DATE	AMOUNT	NO. OF MONTHS	PRODUCT
1-4-2009 TO 31-3-10	50,000	12	6,00,000
1-7-2009 TO 31-3-10	10,000	09	90,000
		TOTAL	6,90,000

Interest on capital for A will be = 6, 90,000 x 5/100 x 1/12
= 2,875

For B

DATE	AMOUNT	NO OF MONTHS	PRODUCT
1-4-2009 to 31-3-10	40,000	12	4,80,000
1-10-2009 to31-3-10	20,000	06	1,20,000
		TOTAL	6,00,000

Interest on capital for B will be = 6, 00,000 x 5/100 x 1/12
= 2,500

Ans. 2 **Interest on Drawings**

For A = Total drawings of the year x rate/100 x Average calculated period

= 18,000x6/100 x 13/2 x1/12 =585

For B = 24,000 x 6/100 x 11/2 x1/12 =660

Q.5 A, B and C are partners in a firm sharing profits and losses in the ratio of 2:3:5. Their fixed capitals were 15, 00,000, Rs.30, 00,000 and Rs.6, 00,000 respectively. For the year 2009 interest on capital was credited to them @ 12% instead of 10%. Pass the necessary adjustment entry.

Ans: TABLE SHOWING ADJUSTMENT

PARTICULARS	A RS	B RS	C RS	TOTAL RS
Interest that should have been credited @ 10%	1,50,000	3,00,000	6,00,000	10,50,000
Interest already credited @ 12%	1,80,000	3,60,000	7,20,000	12,60,000
Excess credit in partners account	(30,000)	(60,000)	(1,20,000)	(2,10,000)
By recovering the extra amount paid the share of profits will increase and it will be credited in the ratio of 2:3:5	42,000	63,000	1,05,000	2,10,000
Net effect	+12,000	+3,000	-15,000	Nil

Adjustment Entry:

C's current A/c	Dr.	15,000	
To A's Current A/c		12,000	
To B's Current A/c			3,000

(For interest less charged on capital, now rectified)

Q.6 From the following balance sheet of X and Y, calculate interest on capitals @ 10% p.a. payable to X and Y for the year ended 31st December, 2008.

Liabilities	Amount	Assets	Amount
X's Capital	50,000	Sundry Assets	1, 00,000
Y's capital	40,000	Drawings X	10,000
P& L appropriation A/c (1998)	20,000		
	1, 10,000		**1, 10,000**

During the year 2008, X's drawings were Rs. 10,000 and Y's Drawing were Rs. 3,000. Profit during the year, 2008 was Rs.30, 000.

Ans: 6 Calculations of Opening Capitals

	X	Y
	Rs.	Rs.
Capitals as on 31st Dec., 2008	50,000	40,000
Add: Drawings (Previously deducted).	-	3,000
	50,000	43,000
Less: Profit distributed (30,000- 20,000' equally	5,000	5,000
Opening Capitals	45,000	38,000
Interest on 'capitals: @ 10% p.a;	4,500	3,800

Working Notes:

(1) As X's drawings are shown in the Balance Sheet, it means his drawings are not deducted. From his .capital till now, so his drawings are not included back.

(2) Profits for 2008 were Rs. 30,000 and profits of Rs. 20,000· are, shown in the Balance Sheet, which means only Rs. 10,000 profits were distributed between the partners.

Q.7 A, B and C entered into partnership on 1st April, 2008 to share profits & losses in the ratio of 4:3:3. A, however, personally guaranteed that C's share of profit after charging interest on Capital @ 5% p.a. would not be less than Rs. 40,000 in any year. The Capital contributions were:

A, Rs. 3, 00,000; B, Rs. 2, 00,000 and C, Rs. 1, 50,000.

The profit for the year ended on 31st March, '2008 amounted to Rs. 1, 60,000. Show the Profit & Loss Appropriation Account. .

Solution:7 **Profit and Loss Appropriation Account**

(*for the year ending on 31st March 2008*)

Particulars		**Amount**	**Particulars**	**Amount**
To Interest on Capital:			By Profit before adjustments	1,60,000
A	15,000			
B	10,000			
C	7,500	32,500		
To net Profit transferred				
A. (51,000-1,750)	49,250			
B. (1,27,500x3/10)	38,250			
C. (38,250+1,750)	40,000	1, 27,500		
		1,60,000		**1,60,000**

Q 8 A, and C are partners with fixed capitals of Rs. 2,00,000, Rs. 1,50,000 and Rs. 1,00,000 respectively. The balances of current accounts on 1st January, 2004 were A Rs. 10,000 (Cr.); B Rs. 4,000 (Cr.) and C Rs. 3,000 (Dr.). A gave a loan to the firm of Rs. 25,000 on 1st July, 2004. The Partnership deed provided for the following:-

(i) Interest on Capital at 6%.

(ii) Interest on drawings at 9%. Each partner drew Rs. 12,000 on 1st July, 2004.

(iii) Rs. 25,000 is to be transferred in a Reserve Account.

(iv) Profit sharing ratio is 5:3: 2 up to Rs. 80,000 and above Rs. 80,000 equally. Net Profit of the firm before above adjustments was Rs. 1, 98,360.

From the above information prepare Profit and Loss Appropriation Account, Capital and Current Accounts of the partners.

Solution: 8

Profit and Loss Appropriation Account

For the year ended 31st December, 2004

Particulars		**Amount**	**Particulars**		**Amount**	
To Interest on Capital at 6% :			By profit and Loss A/c	198360		A
12000Less: interest on A's Loan						
B 9000@ 6% p.a.on Rs 25,000						
C6000 27000for six months	750	197610				
By interest on drawings @ 9% p.a.						
for 6 months on Rs 12,000						
			A	540		
To reserve A/c		25000	B 540			
To profit			C	540	1620	
A's current A/c	62410					
B's current A/c	46410					
C's current A/c	38410	147230				
		199230			**199230**	

Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To balance c/d	2,00,000	1,50,000	1,00,000	By balance b/d	2,00,000	1,50,000	1,00,000

Current accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	-	-	3000	By balance b/d	10000	4000	-
To drawings	12000	12000	12000	By interest on capital	12000	9000	6000
To interest on drawings	540	540	540	By P&L A/c	62410	46410	38410
To balance c/d	71870	46870	28870				
	84,410	**59,410**	**44,410**		**84,410**	**59,410**	**44,410**

Calculation of Distribution of Profits:

Up to Rs. 80000 in the ratio of 5:3:2

Above Rs. 80,000 equally

Q.9 Ram and Shyam started a partnership business on 1st January, 2007. Their capital contributions were Rs. 2,00,000 and Rs. 10,0000 respectively. The partnership deed provided:

i. Interest on capitals @10% p.a.

ii. Ram, to get a salary of Rs. 2,000 p.m. and Shyam Rs. 3,000 p.m.

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

The profits for the year ended 31st December, 2007 before making above appropriations were Rs. 2,16,000. Interest on Drawings amounted to Rs. 2,200 for Ram and Rs. 2,500 for Shyam. Prepare Profit and Loss Appropriation Account.

Ans:9 **Profit and Loss Appropriation Account**

for the year ending on 31st Dec., 2007

Particulars		**Amount**	**Particulars**		**Amount**
To Interest on Capital:	Rs.		ByProfit		2,16,000
			By Interest on Drawings		
Ram	20,000		Amit	2,200	
Shyam	15,000	35,000	Vijay	2,500	4,700
To Salary					
Ram	24,000				
Shyam	36,000	60,000			
To Net profit transferred					
Ram Capital A/c	75,420				
Shyam Capital A/c	50,280	1,25,700			
		2,20,700			**2,20,700**

Q.10 P and Q are partners with capitals of Rs. 6,00,000 and Rs. 4,00,000 respectively. The profit and Loss Account of the firm showed a net Profit of Rs. 4, 26,800 for the year. Prepare Profit and Loss account after taking the following into consideration:-

(i) Interest on P's Loan of Rs. 2,00,000 to the firm

(ii) Interest on 'capital to be allowed @ 6% p.a.

(iii) Interest on Drawings @ 8% p.a. Drawings were; P Rs 80,000 and Q Rs. 1000,000.

(iv) Q is to be allowed a commission on sales @ 3%. Sales for the year was Rs. 1000000

(v) 10% of the divisible profits is to be kept in a Reserve Account.

Solution:10 Profit and Loss Account for the year ended

Particulars	Amount	Particulars	Amount
To Interest on P's Loan A/c	12000	By profit before interest	426800
To Profit transferred to			
P&L Appropriation A/c	414800		
	426800		**426800**

Profit and Loss Appropriation Account for the year ended.

Particulars		Amount	Particulars		Amount
To interest on Capital			By profit and Loss A/c (Profit)		414800
P	36000		By interest on drawings		
Q	24000	60000	P	3200	
To Q's commission		60000	Q	2000	5200
To reserve A/c		30000			
To profit					
P's Capital	135000				
Q's capital	135000	270000			
		420000			**420000**

Notes:

(i) If the rate of interest on Partners' Loan is not given in the question, it is to be wed @ 6% p.a. according to the Partnership Act.

(ii) Interest on Partners' Loan is treated as a charge against Profit, so it is shown in the debit of Profit and Loss A/c.

(iii) If the date of Drawings is not given in the question, interest on drawings will be charged and average period of 6 months. .

(iv) Reserve Fund is calculated at 10% on Rs. 3,00,000 (i.e. Rs. 4,26,800 + Rs. 5,200- 12,000 - Rs. 60,000 - Rs. 60,000.

Guarantee of profit

A, B and C arte partners. They admit D and guarantee that his share of profit will not be less than Rs. 20,000. Profits to be shared 4:3:3:2 respectively. Total profits were Rs. 96,000. It was agreed that excess payable to D over his share will be borne by A,B and C in the ratio of 3:2:1. Calculate share of profit for each partner.

Books of A,B and C

Profit and Loss appropriation account for the year ending………

Particulars	Rs.	Particulars	Rs.
To profit transferred to: A's Capital a/c (Rs.96,000x4/12) 32,000 Less: Deficiency borne 2,000	32,000	By Profit & Loss A/c	96,000
B's Capital A/c (96,000x3/12) 24,000 Less: Deficiency borne 1,333	22,667		
C's Capital A/C (Rs.96,000x3/12) 24,000 Less: Deficiency borne 667	23,333		
D's Capital A/C (Rs.96,000x2/12) 16,000 Add: Deficiency recoveredfrom the Capitals of: A 2,000 B 1,333 C 667	20,000		
	96,000		**96,000**

CHAPTER - II

<u>RECONSTITUTION OF PARTNERSHIP</u>

(CHANGE IN PROFIT SHARING RATIO AMONG THE EXISTING PARTNERS, ADMISSION OF A PARTNER, RETIREMENT/DEATH OF A PARTNER)

<u>Admission of a Partner</u>

Learning objectives:-

After studying this lesson, the students will be able to:

- Identify and deal effectively with the situation of reconstitution of partnership.
- Identify the problem arising due to admission of a partner in the firm.
- Calculate new and sacrifice ratio in different cases.
- Understand, calculate and make treatment of goodwill in different cases.
- Make accounting treatment of the revaluation of assets and liabilities and distribute the profit and loss on revaluation among the old partners.
- Make accounting treatment of unrecorded assets and liabilities
- Prepare capital Accounts, Cash A/c and Balance Sheet of the New firm
- Adjust the Partners' Capital Accounts

Salient Points:-

1. Goodwill is the monetary value of business reputation. It is an intangible asset.
2. Goodwill may be of two types:
    a. Purchased goodwill
    b. Non-purchased goodwill
3. When existing firm faces problem of limited financial resources and man power then one new additional partner enters into firm.
4. There are three methods of valuation of goodwill:
    a. Average Profit Method
    b. Super Profit method
    c. Capitalization Method
5. When new partner is admitted into existing partnership then existing partners have to sacrifice in favour of new partner, it is called sacrificing ratio.

6. Share of goodwill of new partner will be credited to sacrificing partners into their sacrificing ratio.
7. At the admission of new partner Profit & Loss on revaluation of assets and liabilities and balances of accumulated profits & losses will be distributed among old partners (only) in old ratio.

Ql. At the time of change in profit sharing ratio among the existing partners, where will you record an unrecorded liability?

Ans. Revaluation Account-Debit side

Q2. Anand, Bhutan and Chadha are partners sharing profits in ratio of 3:2:1. On 1st April 2007, they decided to share profits equally. Name the partners who is gaining on consequence of such change.

Ans. Chadha.

Q3. Give two characteristics of goodwill.

Ans. (i) it is an intangible asset having a definite value.

(ii) It helps in earning more profit.

Q4. Name any two factors affecting goodwill of a partnership firm.

Ans. (i) Favorable location (ii) Time period

Q5. In a partnership firm assets are Rs.5, 00,000 and liabilities are Rs. 2, 00,000. The normal profit rate is 15%. State the amount of normal profits.

Ans. Rs.45,000

Q6. State the amount of goodwill, if goodwill is to be valued on the basis of 2 years' purchase of last year's profit. Profit of the last year was Rs.20, 000.

Ans. Rs.40, 000

Q7. Where will you record 'increase in machinery' in case of change in profit sharing ratio among the existing partners?

Ans. Revaluation Account- Credit Side.

Q8. Name two methods for valuation of goodwill in case of partnership firm.

Ans. (i) Average Profit Method (ii) Super Profit Method

Q9 Give formula for calculating goodwill under 'super profit method'.

Ans. Goodwill = Super Profit x Number of Years' Purchase.

Q 10. Pass the journal entry for increase in the value of assets or decrease in the value of liabilities in the Revaluation A/c?

Ans Assets A/c Dr. (with the amount of increase)

Liabilities A/c Dr. (with the amount of decrease)

To Revaluation A/c (with the total amount of gain)

(Being revaluation of assets and liabilities)

Qll. P,Q and R are partners in a firm sharing profits in the ratio of 2:2:1 on 1.4.2007 the partners decided to share future profits in the ratio of 3:2:1 on that day balance sheet of the firm shows General Reserve of Rs 50,000. Pass entry for distribution of reserve.

Ans.

General Reserve	A/c	Dr.	50,000	
To P's Capital	A/c			20,000
To Q's Capital	A/c			20000
To R's Capital	A/c			10000
(Being Reserve distributed)				

Q12. "The gaining partner's should compensate to sacrificing partner's with the amount of gain." Journalise this statement.

Ans. Gaining Partner's Capital A/c Dr

To Sacrificing Partner's Capital A/c

(Being compensation given by gaining partner to sacrificing partner)

Q13. What are the two main rights acquired by the incoming new partner in a partnership firm? ,

Ans, The two main rights are:

(i) Right to share the assets of the firm.

(ii) Right to share the future profits of the firm.

Q14. A and B are partners, sharing profits in the ratio of 3:2. C admits for 1/5 share . State the sacrificing ratio.

Ans. Sacrificing Ratio - 3:2.

Q15. How should the goodwill of the firm be distributed when the sacrificing ratio of any of the existing partner is negative (i.e. he is gaining)

Ans. In this case the partner with a negative sacrificing ratio, i.e. the gaining partner to the extent of his gain should compensate to the sacrificing partner to the extent of his gain.

Ql6. In case of admission of a partner, in which ratio profits or loss on revaluation of assets and reassessment of liabilities shall be divided?

Ans. Old ratio.

Q17. Give journal entry for distribution of ‘Accumulated Profits* in case of admission of a partner.

Ans. Accumulated Profit A/c Dr.

To Old Partners Capital A/c

(Being distribution of accumulated profits among old partners)

Q18. At the time of admission of partner where will you record ‘unrecorded investment’?

Ans. Revaluation Account- Credit side.

Q19. The goodwill of a partnership is valued at Rs.20,000. State the amount required by a new partner, if he is coming for 1/5 share in profits.

Ans. Rs.4,000.

Q20. What journal entries should be passed when the new partner brings his share of goodwill in kind?

And.

(i) Assets A/c Dr - To Premium for goodwill A/c

(ii) Premium for goodwill A/c Dr - To Sacrificing Partners’ Capital A/c

Q21. What journal entries will be passed when the new partner is unable to bring his share of goodwill in cash?

Ans. New Partner’s Capital A/c Dr. - -
To Sacrificing Partners’ Capital A/c

Q22. In case of admission of a new partner, goodwill was already appearing in the books of the firm. Give journal entry for its treatment

Ans Old Partners Capital A/c Dr.
To Goodwill A/c -

(Being old goodwill written off among old partners)

Q23. At the time of admission of a new partner, workmen's compensation reserve in appearing in the Balance sheet as Rs1,000. Give journal entry if workmen's compensation at the time of admission is estimated at Rs 1,200.

Ans: Revaluation A/c 200
To Workmen's Compensation Reserve A/c 200

(Being workmen's compensation estimated at Rs. 1,200)

Q24. Give journal entry for recording deceased partner's share in profit from the closure of last balance sheet till the date of his death.

Ans. Profit & Loss Suspense Account Dr.
To Deceased Partner's Capital Account

(Being share of profit to deceased partners)

Q25. Define gaining ratio.

Ans. Gaining ratio is the ratio in which remaining/continuing partners acquire the share of the outgoing partner(s).

Q26. Give two circumstances in which gaining ratio can be applied.

Ans. (i) Retirement of a partner (ii) Death of a partner. .

Q27. At the time of retirement of a partner give journal entry for writing off the existing goodwill.

Ans. All Partners Capital (including retiring) A/c Dr.

To Goodwill A/c

(Being old goodwill written off among all partners in, old ratio)

1 Mark Questions

Admission of a Partner

Q.1 State the two financial rights acquired by a new Partner?

Ans.New partner is admitted to the partnership if it provided in the partnership deed or all the existing partners agree to admit the new partner. Section 31 of the Indian Partnership Act 1932 Provides that a person may be admitted as a new partner into a partnership firm with the consent of all the Partners.

Q.2 Give the name of the compensation which is paid by a new Partner to sacrificing Partners for sacrificing their share of profits.

Ans. When a partner joins the firm, he gets the following two rights along with others:

i) Right to share future profit of the firm and

ii) Right to share the assets of the firm.

Q.3 Enumeration the matters that need adjustment at the time of admission of a new Partner.

Ans. The matter that needs adjustment of the time of admission of a new partner is:

i) Adjustment in profit sharing ratio and adjustment of capital

ii) Adjustment for goodwill

iii) Adjustment of Profit / Loss arising from the Revolution of Assets and Reassessment of Liabilities.

iv) Adjustment of accumulated profits, reserves and losses.

Q.4 Give two circumstances in which sacrificing Ratio may be applied.

Ans. Circumstances in which sacrificing Ratio may be applied are:

i) At the time of admission of a new partner for distributing goodwill brought in by the new partner.

ii) For adjustment goodwill in case of change in Profit - sharing ratio of existing partners.

Q.5 Why is it necessary to revalue assets and reassess liabilities of a firm in case of admission of a new partner?

Ans. The assets are revalued and liabilities of a firm are reassess, at the time of admission of a partner because the new partner should; neither benefit nor suffer because change in the value of assets and liabilities as on the date of admission.

Q.6 What are the accumulated profit and accumulated losses?

Ans. The profit accumulated over the years and have not been credited to partners' capital A/c are known as accumulated Profit or undistributed profit, e.g. the General Reserve, Profit and Loss A/c (credit balance).

The losses which have not yet been written off to the debit of Partners' Capital A/c are known as accumulated Losses, e.g. the Profit and Loss A/c appearing on the assets side of Balance Sheet, etc.

Q.7 Explain the treatment of goodwill in the books of a firm on the admission of a new Partner when goodwill already appears in the Balance sheet at its full value and the new partner brings his share of good will in cash.

Ans. By following accounting standard - 10, the existing goodwill (i.e. goodwill appearing in the Balance Sheet) is written off to the old partners Capital a/c in their old profit sharing ratio.

Old partners capital A/c Dr. .....
To Goodwill A/c [in old Ratio]

[Being the existing g/w written off in the old ratio.]

Q.8 Under what circumstances the premium for goodwill paid by the incoming Partner will not recorded in the books of Accounts ?

Ans. When the premium for goodwill is paid by the incoming partner privately, it is not recorded in the books of A/c as it is as a matter outside the business.

Q.9 A and B share profits and losses in the Ratio of 4:3, they admit C with 3/7th share; which he gets 2/7th from A and 1/7 from B. What is the new profit sharing ratio?

Ans. A : - = 4/7-2/7 =2/7
B : : = 3/7-1/7=2/7
C : =2/7+1/7=3/7
New Profit sharing Ratio is 2:2:3.

Q.10 The capital of A and B are Rs. 50,000 and Rs. 40,000. To Increase the Capital base of the firm to Rs. 1, 50,000, they admit C to join the firm; C is required to Pay a sum of Rs. 70,000, what is the amount of premium of goodwill?

Ans. The total capital of the firm is Rs. 90,000. To increase the capital base to Rs. 1, 50,000, C is to bring in Rs. 60,000 (Rs. 1, 50,000 - 9, 00, 00) But he bring in Rs. 70,000. Therefore, the excess of Rs. 10,000 represent premium for goodwill.

Q.11 Distinguish between New Profit - sharing ratio and sacrificing ratio?

Ans. Distinction between New Profit - Sharing ratio and sacrificing ratio:

	New Profit sharing Ratio		Sacrificing Ratio
1)	It is related to all the Partners (Including new)	1)	It is related to old partners only
2)	It is the ratio in which the all Partner (including new) will share Profit in future.	2)	It is the ratio in which old partners have sacrificed their share in favour Of new Partner or when profit Sharing Ratio is changed.
3)	New Profit sharing Ratio = Old Ratio - Sacrificing Ratio	3)	Sacrificing Ratio = Old Ratio - New Ratio

2-3 marks questions:

Q 1 A & B are partners sharing in the ratio of 3:2. C is admitted. C gets 3/20th from A and 1/20th from B. calculate new and sacrifice ratio

Ans: 9: 7: 4

Q2 X & Y are partners share profits in the ratio of 5:3. Z the new partner gets 1/5 of X's share and $1/3^{rd}$ of Y's share. Calculate new ratio.

Ans: 4:2:2

Q 3 P & Q are partners sharing in the ratio of 5:3. They admit R for 1/4th share and agree to share between them in the ratio of 2:1 in future. Calculate new ratio.

Ans: 2:1:1.

6-8 marks Questions

Q.1 Dinesh, Yasmine and Faria are partners in a firm, sharing profits and losses in

11:7:2 respectively. The Balance Sheet of the firm as on 31st Dec 2001 was as follows:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	800	Factory	7,350
Public Deposits	1,190	Plant & Machinery	1,800
Reserve fund	900	Furniture	2,600
Capital A/c		Stock	1,450
Dinesh	5,100	Debtors Rs. 1,500	
Yasmine	3,000	Less: bad debts Rs. 300 provisions	1,200
Faria	5,000	Cash in hand	1,590
	15,900		15,900

On the same date, Annie is admitted as a partner for one-sixth share in the profits with Capital of Rs. 4,500 and necessary amount for his share of goodwill on the following terms:-

a. Furniture of Rs. 2,400 was to be taken over by Dinesh, Yasmine and Faria equally.

b. A Liability of Rs. 1,670 is created against Bills discounted.

c. Goodwill of the firm is to be valued at 2.5 years' purchase of average profits of 2 years. The profits are as under:

2000:- Rs. 2,000 and 2001 - Rs. 6,000.

d. Drawings of Dinesh, Yasmine, and Faria were Rs. 2,750; Rs. 1,750; and Rs. 500 Respectively.

e. Machinery and Public Deposits are revalued to Rs. 2,000 and Rs. 1,000 respectively.

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

Solution 1

Books of Dinesh, Yamine, Farte and Anie

REVALUATION ACCOUNT

Particulars	Rs.	Assets		Rs.
To Bills Discounted A/c	1670	By Public deposits A/c	190	
		By Machinery A/c		200
		By Loss transferred to		
		Dinesh's capital A/c	704	
		Yasmine's Capital A/c	448	
		Faria's Capital A/c	128	1280
	1670			**1670**

PARTNERS' CAPITAL ACCOUNTS

Dr. Cr.

Particulars	Dinesh Rs.	Yasmine Rs.	Faria Rs.	Annie Rs.	Particulars	Dinesh Rs	Yasmine Rs.	Faria Rs.	Annie Rs.
To Revaluation A/c (Loss)	704	448	128		By Balance b/d	5100	3000	5000	--
					By Reserve A/c	495	315	90	--
To Furniture A/c	800	800	800		By Cash A/c	--	--	--	4500
To Drawings A/c	2750	1750	500		By Premium A/c	917	583	167	--
To Balance c/d	2258	900	3829	4500					
	6512	**3898**	**5257**	**4500**		**6512**	**3898**	**5257**	**4500**

BALANCE SHEET

as at 31.12.2001

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		800	Cash in Hand		2757
Public Deposits		1000	Factory Buildings		7350
Capitals :			Machinery		2000
Dinesh	2258		Furniture		200
Yashmine	900		Stock		1450
Faria	3829		Debtors	1500	
Annie	4500	11487	Less : Provision	300	1200
Bills Discounted		1670			
		14957			14957

Q.2 X and Y are partners as they share profits in the proportion of 3:1 their balance sheet as at 31.03.07 as follows.

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
Capital Account		Land	1,65,000
X	1,76,000	Furniture	24,500
Y	1,45,200	Stock	1,32,000
Creditors	91,300	Debtors	35,200
		Bills Receivable	28,600
		Cash	27,500
	4,12,500		4,12,500

On the same date, Z is admitted into partnership for 1/5th share on the following terms

* Goodwill is to be valued at 3½ years purchase of average profits of last for year which was Rs. 20,000 Rs. 17,000 Rs. 9,000 (Loss) respectively.
* Stock is fund to be overvalued by Rs. 2,000 Furniture is reduced and Land to be appreciated by 10% each, a provision for Bad Debts @ 12% is to be created on Debtors and a Provision of Discount of Creditors @ 4% is to be created.
* A liability to the extent of Rs. 1,500 should be created for a claim against the firm for damages.
* An item of Rs. 1,000 included in Creditors is not likely to be claimed, and hence it should be written off. Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm if Z is to contribute proportionate capital and goodwill. The capital of partners is to be in profit sharing ratio by opening current Accounts.

Solution 2

BOOK OF X, Y AND Z

REVALUATION ACCOUNT

Dr.				Cr.
Particulars		Amount	Particulars	Amount
To Stock A/c		2000	By land A/c	16500
To furniture A/c		2420	By creditors A/c	1000
To Provision for bad debts A/c		4224	By provision of discount on	3612
To claim against damages A/c		1500	creditors A/c	
To profit transferred to				
X's capital A/c	8266			
Y's	2742	10968		
		21112		**21112**

PARTNER'S CAPITAL ACCOUNT

Dr.							Cr
Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
Y's Current A/c	-	64,900	-	By Balance b/d	1,76,000	1,45,200	-
To Balance	2,54,901	84,967	84,967	By revaluation Profit	8,226	2,742	-
				By premium a/c	5,775	1,925	-
				By Cash a/c	-	-	84,967
				By X's current	64,900	-	-
	2,54,901	**1,49,867**	**84,967**		**2,54,901**	**1,49,867**	**84,967**

BALANCE SHEET AS AT 31.3.07

Liabilities		Rs.	Assets		Rs.
Claim against damages		1,500	Cash		1,20,167
Creditors	Rs. 91,300		Land	1,81,500	
Less	Rs. 1,000		Furniture	21,780	
	90,300		Stock	1,30,000	
Less Prov.	3,612	86,688	Debtors	35,200	
Capital			Less provision.	4,224	30,976
X	Rs. 2,54,901		Bills receivables		28,600
Y	Rs. 84,967		X's current a/c		64,900
Z	Rs. 84,967	4,24,835			
Current A/c (Y)		64,900			
		5,77,923			**5,77,923**

Q.3. Rashmi and Pooja are partners in a firm. They share profits and losses in the ratio of 2:1. They admit Santosh into partnership firm on the condition that she will bring Rs. 30,000 for Goodwill and will bring such an amount that her capital will be 1/3 of the total capital of the new firm. Santosh will be given 1/3 share in future profits. At the time of admission of Santosh, the Balance Sheet of Rashmi and Pooja was as under:

Balance sheet

Liabilities	Rs.	Assets	Rs.
Capital Account		Cash	90,000
Rashmi	1,35,000	Machinery	1,20,000
Pooja	1,25,000	Furniture	10,000
Creditors	30,000	Stock	50,000
Bills Payable	10,000	Debtors	30,000
	3,00,000		3,00,000

It was decided to:

a. revalue stock at Rs. 45,000.

b. depreciated furniture by 10% and machinery by 5%.

c. make provision of Rs. 3,000 on sundry debtors for doubtful debts.

Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm. Give full workings.

Solution : 3

REVALUATION ACCOUNTS

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock	5000	By Loss on Revaluation distributed	
To Furniture	1000	Rashmi	10000
To Machinery	6000	Pooja	5000
To Debtors	3000		
	15000		**15000**

CAPITAL ACCOUNTS OF PARTNERS

Particulars	Rashmi	Pooja	Santosh	Particulars	Rashmi	Pooja	Santosh
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Revaluation A/c	10000	5000	--	By Balance b/d	115000	115000	--
To Adv Susp. A/c	2000	1000	--	By Cash A/c	--	--	--
To Balance C/d	145000	130000	--	By Premium a/c	20000	10000	--
				By Reserve	16000	8000	--
				By Work com.Res.	6000	3000	-
	157000	136000	--		157000	136000	--
To Balance c/d	145000	130000	137500	To Balance c/d	145000	130000	-
				By Cash A/c	--	--	137500
				½ of (Rs. 145000 + Rs. 130000)	--	--	137500
	145000	**130000**	**137500**		**145000**	**130000**	**137500**

BALANCE SHEET OF A, B & C AS AT

Dr. Cr.

Liabilities	Rs.	Assets		Rs.
Creditors	30000	Cash		257500
Bills Payable	10000	Machinery		114000
Rashmi's Capital	145000	Furniture		9000
Pooja's capital	130000	Stock		45000
Santosh's capital	137500	Debtors	30000	
		Less : Provision	3000	
	452500			**452500**

Q.4 A, B and C are equal partners in a firm, their Balance Sheet as on 31st March 2002 was as follows:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	27,000	Goodwill	1,17,000
Employees Provident Fund	6,000	Building	1,25,000
Bills Payable	45,000	Machinery	72,000
General Reserve	18,000	Furniture	24,000
Capitals:		Stock	1,14,000
A	2,17,000	Bad Debts	1,02,000
B	1,66,000	Cash	12,000
C	90,000	Advertisement Suspense A/c	3,000
	5,69,000		5,69,000

On that date they agree to take D as equal partner on the following terms:

a. D should bring in Rs. 1, 60,000 as his capital and goodwill. His share of goodwill is valued at Rs. 60,000.

b. Goodwill appearing in the books must be written off.

c. Provision for loss on stock and provision for doubtful debts is to be made at 10% and 5% respectively.

d. The value of building is to taken Rs. 2,00,000.

e. The total capital of the new firm has been fixed has been fixed at Rs. 4,00,000 and the partners capital accounts are to be adjusted in the profit sharing ratio. Any excess is to be transferred to current account and any deficit is to be brought in cash.

Required : Revaluation Account, Partners Capital Accounts, and the Balance Sheet of the new firm.

Solution 4

REVALUATION ACCOUNT

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock	11400	By land & building	75000
To provision for doubtful debtors	5100		
A's Capital A/c (1/3)	19500		
B's Capital A/c (1/3)	19500		
C's Capital A/c (1/3)	19500		
	75000		**75000**

CAPITAL ACCOUNTS OF PARTNERS

Particulars	Rashmi Rs.	Pooja Rs.	Santosh Rs.	Particulars	Rashmi Rs.	Pooja Rs.	Santosh Rs.
To Adver.				By Balance c/d	217000	166000	90000
Sus. A/c	1000	1000	1000	By Revaluation	19500	19500	19500
to goodwill	39000	39000	39000	By General Res.	6000	6000	6000
To Current A/c	122500	71500	--	By Premium A/c	20000	20000	20000
To Balance c/d	100000	100000	100000	By Current A/c	--	--	4500
	262500	**211500**	**140000**		**262500**	**211500**	**140000**

BALANCE SHEET OF M/S A, B & C as at 31st march 20x2

Dr.				Cr.
Liabilities	Rs.	Assets		Rs
Sundry creditors	27000	Cash at bank		172000
Employees' Provident Fund	6000	Debtors	102000	
Bills Payable	45000	Less : Provision	5100	96900
A's Capital	100000	Mr. X		--
B's Capital	100000	Stock		102600
C's Capital	100000	Furniture & Fixtures		24000
D's Capital	100000	Plant & Machinery		72000
A's Current A/c	122500	Land & Building		200000
B's Current A/c	71500	C's Current A/c		4500
	672000			**672000**

Q.5 A, Band C were partners in a firm sharing profits equally: Their Balance Sheet on.31.12.2007 stood as:

BALANCE SHEET AS AT 31.12.07

Liabilities		Rs.	Assets		Rs.
A	Rs. 30,000		Goodwill		18,000
B	Rs. 30,000		Cash		38,000
C	Rs. 25,000	85,000	Debtors	. 43,000	
Bills payable		20,000	Less: Bad Debt provision	3,000	40,000
Creditors		18,000	Bills Receivable		25,000
Workers Compensation Fund		8,000	Land and Building		60,000
Employees provide4nt Fund		60,000	Plant and Machinery		40,000
General Reserve		30,000			
		2,21,000			**2,21,000**

It was mutually agreed that C will retire from partnership and for this purpose following terms were agreed upon.

i) Goodwill to be valued on 3 years' purchase of average profit of last 4 years which were 2004 : Rs.50,000 (loss); 2005 : Rs. 21,000; 2006: Rs.52,000; 2007 : Rs.22,000.

ii) The Provision for Doubtful Debt was raised to Rs. 4,000.

iii) To appreciate Land by 15%.

iv) To decrease Plant and Machinery by 10%.

v) Create provision of Rs;600 on Creditors.

vi) A sum of Rs.5,000 of Bills Payable was not likely to be claimed.

vii) The continuing partners decided to show the firm's capital at 1,00,000 which would be in their new profit sharing ratio which is 2:3. Adjustments to be made in cash

Make necessary accounts and prepare the Balance Sheet of the new partners.

Ans.5 REVALUATION ACCOUNT

Particulars		Rs.	Particulars	Rs.
To Provision for Debts A/c		1,000	By Land A/c	9,000
To Plant & Machinery A/c		4,000	By Provision on Creditors A/c	600
To Profit transferred to			By Bills Payable A/c	5,000
A's Capital A/c	Rs. 3,200			
B's Capital A/c	Rs. 3,200			
C's Capital A/c	Rs. 3,200	9,600		
		14,600		**14,600**

PARTNER'S CAPITAL ACCOUNTS

Particulars	ARs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To Goodwill A/c	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To C's Capital A/c	2,250	9,000	-	By General Reserve	10,000	10,000	10,000
To C's Loan A/c	-	-	46,116	By Worksmen A/c Compensation Fund	2,667	2,667	2,666
To Balance c/d	40,000	60,000	-	By Revalu A/c (profit)	3,200	3,200	3,200
				By A's Capital A/c	-	-	2,250
				By B's Capital A/c	-	-	9,000
				By Cash A/c (Deficiency)	2,383	29,133	-
	48,250	**75,000**	**52,116**		**48,250**	**75,000**	**52,116**
				By Balance b/d	40,000	60,000	-

BALANCE SHEET

as at 31.12.07

Liabilities	Rs.	Assets	Rs.

Bills Payable		15,000	Debtors	Rs. 43,000	
Creditors		17,400	Less: Provision	Rs. 4,000	39,000
Employees Provident Fund		60,000	Bills Receivables		25,000
C’s Loan		46,116	Land & Buildings		69,000
A’s Capital	40000		Plant & Machinery		36,000
B’S Capital	60000	1,00,000	Cash		69,516
		2,38,516			2,38,516

Retirement of a Partner

LEARNING OBJECTIVES:

After studying this lesson, we are confident; you should be competent enough to:

- Identify adjustments arising due to retirement of a partner.
- Calculate new and gaining ratio.
- Make accounting treatment of goodwill in different cases.
- Make accounting treatment of the revaluation of assets and liabilities and distribution of profit or loss on revaluation among partners.
- Make accounting treatment of undistributed profit or loss.
- Determine the amount payable to retiring partner and make payment as per agreement and provisions of law.
- Make adjustment of partners' capital account

Salient Points:-

1. An existing partner may wish to withdraw from a firm for various reasons.
2. The amount due to a retiring partner will be the total of :-
   a. his capital in the firm
   b. His share in firm's accumulated profits and losses.
   c. His share of profit or loss on revaluation of assets and liabilities
   d. ;his share of profits till the date of retirement
   e. His remuneration and interest on capital.
   f. His share in firm's goodwill.
3. The ratio in which the continuing (remaining) partners have acquired the share from the outgoing partner is called gaining ratio.
4. Share of goodwill of outgoing partner will be debited to gaining partners in their gaining ratio.
5. At the retirement of a partner Profit & Loss on Revaluation of Assets and liabilities and balances of accumulated Profits and losses will be distributed among all partners (including outgoing partner) in their old ratio.
6. The outstanding balance of outgoing partner's capital A/C may be settled by fully or partly payment and (or) transferring into his loan account.

1-3Marks Questions

Q.1 What is meant by retirement of a partner?

Ans. Retirement of a partner is one of the modes of reconstituting the firm in which old partnership comes to an end and a new partner among the continuing (remaining) partners (i.e., partners other than the outgoing partner) comes into existence.

Q.2 ‘How can a partner retire from the firm?

Ans. A partner may retire from the firm;

i) In accordance with the terms of agreement; or

ii) With the consent of all other partners; or

iii) Where the partnership is at will, by giving a notice in writing to all the partners of his intention to retire.

Q.3 What do you understand by ‘Gaining Ratio?

Ans. Gaining Ratio means the ratio by which the share in profit stands increased. It is computed by deducting old ratio from the new ratio.

Q.4 What do you understand by ‘Gaining Partner’?

Ans Gaining Partner is a partner whose share in profit stands increased as a result of change in partnership.

Q.5 Give two circumstances in which gaining ratio is computed.

Ans. Gaining Ratio is computed in the following circumstances: (i) When a partner retires or dies. (ii) When there is a change in profit-sharing ratio.

Q.6 Why is it necessary to revalue assets and reassess liabilities at the time of retirement of a partner?

Ans. At the time of retirement or death of a partner, assets are revalued and liabilities are reassessed so that the profit or loss arising on account of such revaluation up to the date of retirement or death of a partner may be ascertained and adjusted in all partners’ capital accounts in their old profit-sharing ratio.

Q.7 Why is it necessary to distribute Reserves Accumulated, Profits and Losses at the time of retirement or death of a partner?

Ans. Reserves, accumulated profits and losses existing in the books of account as on the date of retirement or death are transferred to the Capital Accounts (or Current Accounts) of all the partners (including outgoing or deceased partner) in their old profit-sharing ratio so that the due share of an outgoing partner in reserves, accumulated profits/losses gets adjusted in his Capital or Current Account.

Q.8 What are the adjustments required on the retirement or death of a partner?

Ans. At the time of the retirement or death of a partner, adjustments are made for the following:

(i) Adjustment in regard to goodwill.

(ii) Adjustment in regard to revaluation of assets and reassessment of liabilities.

(iii) Adjustment in regard to undistributed profits.

(iv) Adjustment in regard to the Joint Life Policy and individual policies.

Q.9 X wants to retire from the firm. The profit on revaluation of assets on the date of retirement is Rs. 10,000. X is of the view that it be distributed among all the partners in their profit-sharing ratio whereas Y and Z are of the view that this profit be divided between Y and Z in new profit-sharing ratio. Who is correct in this case?

Ans. X is correct because according to the Partnership Act a retiring partner is entitled to share the profit up to the date of his retirement. Since the profit on revaluation arises before a partner retires, he is entitled to the profit.

Q.10 How is goodwill adjusted in the books of a firm -when a partner retires from partnership?

Ans. When a partner retires (or dies), his share of profit is taken over by the remaining partners. The remaining partners then compensate the retiring or deceased partner in the form of goodwill in their gaining ratio. The following entry is recorded for this purpose:

Remaining Partners' Capital A/cs ...Dr. [Gaining Ratio]

To Retiring/Deceased Partner's Capital A/c [With his share of goodwill]

If goodwill (or Premium) account already appears in the old Balance Sheet, it should be written off by recording the following entry:

All Partners' Capital/Current A/cs ...Dr. [Old Ratio]

To Goodwill (or Premium) A/c

Q.11 X, Y and Z are partners sharing profits and losses in the ratio of 3 : 2 :1. Z retires and the following Journal entry is passed in respect of Goodwill:

Y's Capital A/c ...Dr.	20,000	
To X's Capital A/c		10,000
To Z's Capital A/c		10,000

Q.21 The value of goodwill is Rs. 60,000. What is the new profit-sharing ratio between X and Y?

Ans. Without calculating the gaining ratio, the amount to be adjusted in respect of goodwill can be calculated directly with the help of following statement:

STATEMENT SHOWING THE REQUIRED ADJUSTMENT FOR GOODWILL

Particulars	X(Rs.)	V(Rs.)	Z(Rs.)
Right of goodwill before retirement (3:2:1)	30,000	20,000	10,000
(Old Ratio) Right of goodwill after retirement	20,000	40,000	—
(Balancing Figure) (New Ratio)			
Net Adjustment	(-) 10,000	(+) 20,000	(-) 10,000

The new ratio between X and Y is 1 : 2.

Q.13 State the ratio in which profit or loss on revaluation will be shared by the partners when a partner retires. ;

Ans. Profit or loss on revaluation of assets/liabilities will be shared by the partners (including the retiring partner) hi their old profit-sharing ratio.

Q.14 How is the account of retiring partner settled?

Ans. The retiring partner account is settled either by making payment in cash or by promising the retiring partner to pay in installments along with interest or by making payment partly in call and partly transferring to his loan account. The -following Journal entry is passed:

Retiring Partner's Capital A/c ...Dr.

To Cash* [If paid in cash]Or

To Retiring Partner's Loan [If transferred to loan]

6 to 8 marks questions

Q.1 The Balance Sheet of A, B and C on 31st December 2007 was as under :

BALANCE SHEET

as at 31.12.2007

Liabilities	Amount	Assets	Amount
A's Capital	400,00	Buildings	20,000
B's Capital	30,000	Motor Car	18,000
C's Capital	20,000	Stock	20,000
General Reserve	17,000	Investments	1,20,000
Sundry Creditors	1,23,000	Debtors	40,000
		Patents	12,000
	2,30,000		**2,30,000**

The partners share profits in the ratio of 8 : 4 : 5. C retires from the firm on the same date subject to the following term S and conditions:

i) 20% of the General Reserve is to remain' as a reserve for bad and doubtful debts. ;

ii) Motor)r Car is to be decreased by 5%.

iii) Stock is to be revalued at Rs.17, 500.

iv) Goodwill is valued at' 2 ½ years purchase of the average profits of last 3 years.

Profits were; 2001: Rs.11,000; 200l: Rs. 16,000 and 2003: Rs.24,000.

C. was paid in July A and B borrowed the necessary amount from the Bank on the security of Motor Car and stock to payoff C.

Prepare Revaluation Account, Capital Accounts and Balance Sheet of A and B.

Ans.2 SOLUTION

REVALUATION ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Motor Cars A/C	900	By Loss transferred to	
To Stock A/C	2,500	A's Capital A/c Rs.	1,600
		B's Capital A/c Rs.	800
		C's Capital A/c Rs.	1,000
	3,400		**3,400**

PARTNERS CAPITAL ACCOUNT

Particulars	ARs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To C's Capital A/c	8,334	4,166	-	By Balance b/d	40,000	30,000	20,000
To Revaluation A/c (Loss)	1,600	800	1,000	By General Reserve A/c	6,400	3,200	4,000
To Bank A/c	-	-	35,500	By A's Capital A/c	-	-	8,334
Balance c/d	36,466	28,234	-	By B's Capital A/c	-	-	4,166
	46,400	**33,200**	**36,500**		**46,400**	**33,200**	**36,500**
				By Balance b/d	**36,466**	**28,234**	**-**

BALANCE SHEET OF A AND B

Liabilities		Rs.	Assets	Rs.
Sundry creditors		1,23,000	Building	20,000
Bank Loan		35,500	Motor Card	17,100
Capital A	36,466		Stock	17,500
B	28,234	64,700	Investment	1,20,000
	Debtors		36,600	
			Patents	12,000
		2,23,200		**2,23,200**

Q.3 A, Band C were partners in a firm sharing profits equally: Their Balance Sheet on.31.12.2007 stood as:

BALANCE SHEET AS AT 31.12.07

Liabilities		Rs.	Assets		Rs.
A	Rs. 30,000		Goodwill		18,000
B	Rs. 30,000		Cash		38,000
C	Rs. 25,000	85,000	Debtors	. 43,000	
Bills payable		20,000	Less: Bad Debt provision	3,000	40,000
Creditors		18,000	Bills Receivable		25,000
Workers Compensation Fund		8,000	Land and Building		60,000
Employees provide4nt Fund		60,000	Plant and Machinery		40,000
General Reserve		30,000			
		2,21,000			**2,21,000**

It was mutually agreed that C will retire from partnership and for this purpose following terms were agreed upon.

i) Goodwill to be valued on 3 years' purchase of average profit of last 4 years which were 2004 : Rs.50,000 (loss); 2005 : Rs. 21,000; 2006: Rs.52,000; 2007 : Rs.22,000.

ii) The Provision for Doubtful Debt was raised to Rs. 4,000.

iii) To appreciate Land by 15%.

iv) To decrease Plant and Machinery by 10%.

v) Create provision of Rs;600 on Creditors.

vi) A sum of Rs.5,000 of Bills Payable was not likely to be claimed.

vii) The continuing partners decided to show the firm's capital at 1,00,000 which would be in their new profit sharing ratio which is 2:3. Adjustments to be made in cash

Make necessary accounts and prepare the Balance Sheet of the new partners.

Ans.3 REVALUATION ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Provision for Debts A/c	1,000	By Land A/c	9,000
To Plant & Machinery A/c	4,000	By Provision on Creditors A/c	600
To Profit transferred to		By Bills Payable A/c	5,000
A's Capital A/c Rs. 3,200			
B's Capital A/c Rs. 3,200			
C's Capital A/c Rs. 3,2009,600			
	14,600		**14,600**

PARTNER'S CAPITAL ACCOUNTS

Particulars	ARs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To Goodwill A/c	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To C's Capital A/c	2,250	9,000	-	By General Reserve	10,000	10,000	10,000
To C's Loan A/c	-	-	46,116	By Workmen A/c	2,667	2,667	2,666
				Compensation Fund			
To Balance c/d	40,000	60,000	-	By Revalu A/c (profit)	3,200	3,200	3,200
				By A's Capital A/c	-	-	2,250
				By B's Capital A/c	-	-	9,000
				By Cash A/c (Deficiency)2,38329,133			-
	48,250	**75,000**	**52,116**		**48,250**	**75,000**	**52,116**
				By Balance b/d	**40,000**	**60,000**	-

BALANCE SHEET

as at 31.12.07

Liabilities		Rs.	Assets		Rs.
Bills Payable		15,000	Debtors	Rs. 43,000	
Creditors		17,400	Less: Provision	Rs. 4,000	39,000
Employees Provident Fund		60,000	Bills Receivables		25,000
C's Loan		46,116	Land & Buildings		69,000
A's Capital	40000		Plant & Machinery		36,000
B'S Capital	60000	1,00,000	Cash		69,516
		2,38,516			**2,38,516**

DEATH OF A PARTNER

Learning Objectives:

After studying this Unit, students will be able to understand and prepare:

a) Deceased partners capital account
b) Deceased partners Executor account
c) Executors loan account
d) Calculation of share of profit and Goodwill of the deceased partner.

SALIENT POINTS:

- ❖ Gaining Ratio: When the partner retires or dies, his share of profit is taken over by the remaining partners.
- ❖ Gaining ratio is applied for the purpose of calculating Goodwill to be paid off to the deceased partner.
- ❖ The deceased partner s share of profit till the date of death will be calculated by preparing Profit and Loss Suspense account on the date of Death.

SHORT QUESTIONS--- (3-4 MKS)

1. A, B and C are partners sharing profits and losses in the ratio of 5:4:1. The profit for the year ending 31, March, 2010 was Rs 1, 00,000. B died on 30th June 2010. Calculate C's share of profit till the date of death and pass necessary journal entry.

Profit and Loss suspense a/c – Dr B's Capital Account	10,000	 10,000
(Being B's share of profit transferred to his capital account)		

C's share of profit = 1, 00,000 X 4/10 X 3/12 = 10,000

2. X, Y and Z are partners in a firm sharing profits and losses in the ratio of 5:4:1.The Partnership agreement provides that the share of profit of the deceased partner will be worked out on the basis of sales. The sales for the year 2009-10 was Rs 8,00,000 and the sales from April 1, 2010 to June 30, 2010 was Rs 1,50,000. The profit for the year ended 31st March 2010 amounted to Rs 1,00,000. Y died on 30th June 2010. Calculate his share of profit and pass necessary journal entry.

Profit and Loss suspense a/c – Dr Y's Capital Account	7500	 7500
(Being Y's share of profit transferred to his capital account		

Sales for the year 2009-10 ----8, 00,000 Profit for the year 2009-10 -----1,00,000
Sales from April 1,2010 to 30th June 2010 -----1,50,000 Profit upto 30th June 2010----?
C's share of profit = 1,00,000/8,00,000 X 1,50,000 = 18750 X 4/10 = 7500.

3. Ram, Mohan and Sohan were partners sharing profits and losses in the ratio of 5:3:2. On 31st March, 2006 their Balance Sheet was as under:

Liabilities	Rs	Assets	Rs
Capitals		Leasehold	1,25,000
Ram	1,50,000	Patents	30,000
Mohan	1,25,000	Machinery	1,50,000
Sohan	75,000	Stock	1,90,000
Workmen's Compensation Reserve	30,000	Cash at Bank	40,000
Creditors	1,55,000		
	5,35,000		5,35,000

Sohan died on 1st August, 2006. It was agreed that :
(i) Goodwill of the firm is to be valued at Rs. 1,75,000.
(ii) Machinery be valued at Rs. 1,40,000; Patents at Rs. 40,000; Leasehold at Rs. 1,50,000 on this date.
(iii) For the purpose of calculating Sohan's share in the profits of 2006-07, the profits should be taken to have accrued on the same scale as in 2005-06, which were Rs. 75,000.
Prepare Sohan's Capital Account and Revaluation Account. (6)

Revaluation Account

Particulars	Amt	Particulars	Amt
Machinery	10,000	Leasehold	25000
Capital Accounts		Patents	10,000
Ram	12500		
Mohan	7500		
Sohan	5000		
	35000		35000

Sohan's capital Account

Particulars	Rs	Particulars	Rs
		Balance b/d	75000
Sohan's Executor's account	1,26,000	Revaluation a/c	5000
		Ram's Capital a/c	21875
		Mohan's capital a/c	13125
		P & L Suspense A/c	13125
		Workmen's Compensation reserve a/c	6000
	1,26,000		1,26,000

Working Note :
a)Total Goodwill of the firm = 1,75,000
Sohan's share of goodwill = 1,75,000 X 2/10 = 35000 (to be divided in the ratio of 5:3 i.e gaining ratio)

b) Sohan's share of profit = 75000 X 4/12 x 2/10 = Rs 5000

4. Following is the Balance sheet of P , Q and R as on 31st December 2010 sharing profits in the ratio of 5:3:2.

Particulars	Rs	Particulars	Rs
Capital Accounts		Cash	13000
P	30000	Debtors	8000
Q	25000	Machinery	30000
R	15000	Stock	10000
Creditors	7000	Patents	6000
Reserve Fund	10000	Building	20000
	87000		87000

P died on 1st July 2011 on the following terms-

i) Patents are to be valued at Rs 8000, Machinery at Rs 28000 and Building at Rs 30,000.

ii) Interest on Capital is to be provided at 10% p.a.

iii) Goodwill of the firm is valued at 2 years purchase of the average profits of the last five years which were-
2006 - Rs 15,000 2007 – Rs 13000 2008 – Rs 12,000 2009—15,000 and 2010--- Rs 20,000

iv) Profit for the year 2011 has been accrued on the same scale as in 2010.

v) P's Executor is to be paid Rs 11,500 and balance transferred to his loan account.

Prepare Revaluation Account, P's Capital account and P's executors account.Also pass necessary journal entries.

Revaluation Account

Particulars	Rs	Particulars	Rs
Machinery	2000	Patents	2000
Capital Accounts-		Buildings	10000
P	5000		
Q	3000		
R	2000		
	12000		12000

P's Capital Account

Particulars	Rs	Particulars	Rs
P's Executors a/c	61500	Balance b/d	30000
		Reserve fund	5000
		Q's Capital a/c	9000
		R's Capital a/c	6000
		Revaluation a/c	5000
		Interest on capital	1500
	61500		61500

P's Executor's account

Particulars	Rs	Particulars	Rs
Bank/cash a/c	11500	P's Capital a/c	61500
P's Executor's Loan a/c	50000		
	61500		61500

Working Note :

a) Interest on Capital : 30,000 X 10/100 X 6/12 = Rs 1500
b) Reserve fund = 10,000 X 5/10 = Rs 5000
c) P's Share of profits = 20,000 X 5/10 X 6/12 = Rs 5000.(for 6 months)
d) Total Goodwill of the firm =
   Average profits = 75000/5 = Rs 15000
   Goodwill = 15000 X 2 = 30,000
   P's share of Goodwill = 30,000 X 5/10 = 15000(to be divided in Gaining ratio 3:2)

Journal

SN	Particulars	LF	Amt	Amt
1	Revaluation a/c ----Dr Machinery a/c (Being machinery revalued)		2000	 2000
2	Patents a/c --Dr Building a/c - Dr Revaluation a/c (Being Assets revalued)		2000 10000	 12000
3	Revaluation a/c --- Dr P's Capital a/c Q's Capital a/c R's Capital a/c (Being Revaluation profit distributed)		10000	 5000 3000 2000
4	Reserve fund a/c –Dr P's Capital a/c (Being reserve distributed)		5000	 5000
5	Q's Capital a/c ---Dr R's Capital a/c ---Dr P's capital a/c (Being deceased partner 's account credited by his share of goodwill contributed by the gaining partners)		9000 6000	 15000
6	Interest on capital a/c – Dr P's Capital a/c (Being Interest on capital provided to the deceased partner)		1500	 1500
7	P's Capital a/c ---Dr P's executor's a/c (Being P's balance due transferred to his executor's a/c)		61500	 61500
8	P's executor's a/c --Dr Cash a/c P's executor's loan a/c (Being amount paid to the executor and balance transferred to his loan account)		61500	 11500 50000

5. X, Y and Z are partners sharing profits and losses in the ratio of 2:2:1 respectively. Their Balance Sheet as on 31st march 2007 was as follows—

Balance Sheet as on 31/03/10

Liabilities	Rs	Assets	Rs
Sundry Creditors	1,00,000	Cash at bank	20,000
Capital Accounts		Stock	30,000

X	60,000	Sundry Debtors	80,000
Y	1,00,000	Investments	70,000
Z	40,000	Furniture	35,000
General Reserve	50,000	Buildings	1,15,000
	3,50,000		3,50,000

Z died on 30th September 2007 and the following was provided—

a) "Z" will be entitled to his share of profit upto the date of death based on last year's profit.

b) Z's share of Goodwill will be calculated on the basis of 3 years purchase of average profits of last four years . The profits of the last four years was as follows—

Year I – 80,000, Year II –Rs 50,000 Year III – Rs 40,000 and Year IV –Rs 30,000

c) Interest on Capital was provided at 12% p.a.

d) Drawings of the deceased partner upto the date of death was Rs 10,000.

e) Rs 15,400 should be paid immediately to the executor of the deceased partner and the balance in four equal yearly instalments with interest at 12% on remaining balance.

Prepare Z's capital account and Z's executors account till the account is finally closed.

Z's Capital Account

Particulars	Rs	Particulars	Rs
Drawings	10,000	Balance b/d	40,000
Z's Executor's a/c	75,400	General Reserve	10,000
		Profit &Loss Suspense a/c	3,000
		Interest on capital	2400
		X's Capital a/c	15,000
		Y's capital a/c	15,000
	85400		85400

Z's Executor's Account

Date	Particulars	Rs	Date	Particulars	Rs.
30/09/07	Bank a/c	15400	30/09/07	Z's Capital a/c	75400
31/03/08	Balance c/d	63600	31/03/08	Interest on Loan (on Rs 60,000@12% for 6 months)	3600
		79000			79000
30/09/08	Bank a/c (15000+ 7200)	22,200	1/04/08	Balance b/d	63600
31/03/09	Balance c/d	47,700	30/09/08	Interest on Loan(On Rs 60,000 @ 12% for 6 months)	3600
			31/03/09	Interest on Loan(on Rs 45000 @12% for 6 months)	2700
		69900			69900
30/09/09	Bank a/c (15000+5400)	20,400	1/04/09	Balance b/d	47,700
31/03/10	Balance c/d	31800	30/09/09	Interest on loan(on Rs 45000 @ 12% for 6 months)	2700
			31/03/10	Interest on loan (on Rs 30,000@12% for 6 months)	1800
		52200			52200
30/09/10	Bank a/c(15000 + 3600)	18600	1/4/10	Balance b/d	31800
31/03/11	Balance c/d	15900	30/09/10	Interest on loan(on Rs 30,000 @12% for 6 months)	1800
			31/03/11	Interest on Loan(on Rs 15000 @12% for 6 months)	900
		34500			34500
30/09/11	Bank a/c (15000+1800)	16800	1/04/11	Balance b/d	15900
			30/09/11	Interest on loan(on Rs 15000 @12% for 6 months)	900
		16800			16800

6 Anil, Jatin and Ramesh were sharing profit in the ratio of 2:1:1. Their Balance Sheet as at 31.12.2001 stood as follows:-

Liabilities	**Rs**	**Assets**	**Rs**
Creditors	24,400	Cash	**1,00,000**
Bank Loan	10,000	Debtors 20000 Less : Provision 1600	18,400
Profit and Loss A/c	18,000	Stock	10,000
Bills Payable	2,000	Building	20,000
Anil's Capital	50,000	Investment	14,000
Jatin's Capital	40,000	Goodwill	22,000
Ramesh's Capital	40,000		
	1,84,400		1,84,400

Ramesh died on 31st March 2002. The following adjustments were agreed upon-

(a) Building be appreciated by Rs. 2,000

(b) Investments be valued at 10% less than the book value.

(c) All debtors (except 20% which are considered as doubtful) were good.

(d) Stock be increased by 10 %

(e) Goodwill be valued at 2 years' purchase of the average profit of the past five years.

(f) Ramesh's share of profit to the death be calculated on the basis of the profit of the preceding year. profit for the years 1997, 1998, 1999 and 2000 were Rs. 26,000, Rs. 22,000, Rs. 20,000 and Rs. 24,000 respectively.

Prepare revaluation account, partner's capital Account, Ramesh 's Executors' Account and Balance sheet immediately after Ramesh's death assuming that Rs. 18, 425 be paid immediately to his executors and balance to b left to the Ramesh's Executor's Account

Revaluation Account

Particulars	**Rs**	Particulars	**Rs**
Investment A/c	1,400	Building A/c	2,000
Provision for doubtful debt A/c	2,400	Stock A/c	1,000
		Loss transferred to	
		Anil's Capital A/c	400
		Jatin's Capital A/c	200
		Ramesh's Capital A/c	200
	3800		3800

Partners Capital Accounts

Particulars	**Anil**	**Jatin**	**Ramesh**	**Particulars**	**Anil**	**Jatin**	**Ramesh**
Goodwill A/c	11000	5500	5500	By Balance b/d	50000	40000	40000
Ramesh Capital A/c	7333	3667		Profit and Loss A/c	9000	4500	4500
Revaluation A/c (Loss)	400	200	200	Profit &Loss Susp A/c			1125
Ramesh's Executor's A/c			50925	Anil's Capital A/c			7333
Balance c/d	40,267	35,133	----	Jatin's Capital A/c			3667
	59,000	41,500	56,625		59,000	41,500	56,625

Ramesh's Executor's account

Particulars	**Rs**	**Particulars**	**Rs**
Cash Account	18425	Ramesh's Capital account	50925
Balance c/d	32500		
	50925		50925

Balance sheet

Liabilities	Rs	Assets	Rs
Bank Loan	10, 000	Cash	81,575
Creditors	20,400	Debtors 20000 Less Provision 4000	16000
Bills Payable	2,000	Stock	11000
Ramesh's Executor's Loan	32,500	Building	22000
Anil's Capital	40,267	Investments	12600
Jatin's Capital	35,133	Profit &Loss Suspense A/c	1125
	1,44,300		1,44,300

DISSOLUTION OF PARTNERSHIP FIRM

Learning Objectives

After Studying this unit, the students will be able to understand:

*Meaning of Dissolution

* Distinction between Dissolution of Partnership and Dissolution of Partnership firm.

* Preparation of Realisation Account

* Procedure of settlement of accounts

* Preparation of Memorandum Balance sheet (to find out missing figures)

* Necessary journal entries to close the books of the firm.

SALIENT POINTS:

- ❖ Dissolution : Dissolution of the firm is different from Dissolution of Partnership.
- ❖ Realisation account : It is prepared to realize the various assets and pay off the liabilities.
- ❖ Closure of the Books of Accounts : When the firm is dissolved, finally all the books of accounts are closed through Bank Account.

1. Distinguish between Dissolution of Partnership and Dissolution of Partnership firm

Dissolution of Partnership	Dissolution of partnership firm
a)The Partnership is dissolved but the business continues. The Business is not terminated	a)The firm winds up the business.
b) Assets and liabilities are revalued through revaluation account and the Balance sheet is prepared	b)Assets are sold and the liabilities are paid off through Realisation account.
c) The Books of accounts are not closed as the business is not terminated.	d) The Books of accounts are closed.

2. State the provisions of Section 48 of the Partnership Act 1932 regarding settlement of Accounts during the Dissolution of Partnership firm.

Ans. According to section 48—

a)Losses including the deficiencies of Capitals are to be paid---

i) First out of profits

ii) Next out of Capitals of the partners

iii) Lastly if required, by the partners individually in their profit sharing ratio(as their liability is unlimited)

b) The Assets of the firm and the amount contributed by the partners to make up the deficiency of capital shall be applied for –

i) First to pay the debts of the firm to the third parties.

ii) Next, Partners Loan(Partner has advanced to the firm)

iii) Partners capitals

iv) The residue, if any shall be distributed among the partners in their profit sharing ratio.

3. Distinguish between Realisation account and Revaluation account

Realisation Account	Revaluation Account
a) It is prepared in the case of Dissolution of Partnership firm.	a)It is prepared in the case of Dissolution of Partnership.
b) This account is prepared to realise the assets & pay off the liabilities .	b) This Account is prepared to revalue the assets and liabilities during Admission, Retirement and Death of the partner.

4. A and B are partners sharing profits and losses equally. They decided to dissolve their firm. Assets and Liabilities have been transferred to Realisation Account. Pass necessary Journal entries for the following.

a) A was to bear all the expenses of Realisation for which he was given a commission of Rs 4000.
b) Advertisement suspense account appeared on the asset side of the Balance sheet amounting Rs 28000
c) Creditors of Rs 40,000 agreed to take over the stock of Rs 30,000 at a discount of 10% and the balance in cash.
d) B agreed to take over Investments of Rs 5000 at Rs 4900
e) Loan of Rs 15000 advanced by A to the firm was paid off.
f) Bank loan of Rs 12000 was paid off.

JOURNAL

SN	Particulars	LF	Debit(Rs)	Credit(Rs)
a)	Realisation account –Dr A's Capital account (Being commission given to A)		4000	 4000
b)	A's Capital account –Dr B's Capital account –Dr Advertisement Suspense account (Being Advertisement suspense written off)		14000 14000	 28000
c)	Realisation account –Dr Cash account (Being creditors paid off)		13000	 13000
d)	B's Capital account –Dr Realisation account (Being asset taken over by the partner)		4900	 4900
e)	A's Loan account –Dr Cash account (Being partners loan paid off)		15000	 15000
f)	Realisation account -- Dr Cash account (Being Bank loan paid off)		12000	 12000

4. X and Y are partners in the firm who decided to dissolve the firm. Assets and Liabilities are transferred to Realisation account. Pass necessary journal entries—

a) Creditors were Rs 1,00,000. They accepted Building valued Rs 1,40,000 and paid cash to the firm Rs 40,000

b) Aman, an old customer whose account of Rs 1000 was written off as bad in the previous year paid 40% of the amount.

c) There were 300 shares of Rs 10 each in ABC Ltd which were acquired for Rs 2000 were now valued at Rs 6 each. These were taken over by the partners in the profit sharing ratio.

d) Profit on Realisation Rs 42000 was divided among the partners.

e) Land and Building (Book value Rs 1, 60,000) was sold for Rs 3,00,000 through a broker who charged 2% commission on the deal.

f) Plant and machinery (Book value Rs 60,000) was handed over to the creditor in full settlement of his claim.

S.N	Particulars	LF	Debit(Rs)	Credit(Rs)
a)	Cash account –Dr Realisation account (Being cash received from the creditor)		40000	 40000
b)	Cash a/c –Dr Realisation a/c (Being cash received from a debtor whose account was wriiten off earlier)		400	 400
c)	X's Capital a/c –Dr Y's Capital a/c –Dr Realisation a/c (Being Investments taken over by the partners)		900 900	 1800
d)	Realisation a/c –Dr X's Capital a/c Y's capital a/c (Being profit on Realisation distributed among the partners)		42000	 21000 21000
e)	Cash a/c—Dr Realisation a/c (Being Land and Building realized)		294000	 294000
f)	NO JOURNAL ENTRY			

LONG QUESTIONS—6-8 MKS

6) Following is the Balance sheet of Karan and Sandeep who share profits and losses equally as on 31st march 2010

Liabilities	Rs	Assets	Rs
Capitals--		Bank	40,000
Karan	1,00,000	Debtors	25,000
Sandeep	50,000	Stock	35,000
Creditors	30,000	Machinery	60,000
Workmen compensation fund	15,000	Furniture	40,000
Bank loan	5000		
	2,00,000		2,00,000

The firm was dissolved on the above date.

1. Karan agreed to take over 50% of the stock at 10% less on its book value, the remaining stock was sold at a gain of 15%. Furniture and machinery realized for Rs 30,000 and 50,000 respectively.
2. There was unrecorded Investments which was sold for Rs 25,000.
3. Debtors realized Rs 31,500 (with interest) and Rs 1200 was recovered for bad debts written off last year.
4. There was an outstanding bill for repairs which had to be paid Rs 2000.

Prepare necessary Ledger accounts to close the books of the firm.

Realisation account

Particulars	Rs	Particulars	Rs
Sundry assets Debtors-25000 Stock-35,000 Furniture-40,000 Machinery-60,000	1,60,000	Liabilities: Creditors : 30,000 Bank loan : 5000	35000
Bank a/c(outstanding repair bill)	2000	Karan's Capital a/c	15750
Bank(Creditors & Bank loan)	35,000	Bank a/c(stock)	20125
Capital accounts- Karan : 5787.5 Sandeep: 5787.5		Bank a/c(Assets realized)	80,000
	11575	Bank a/c(Debtors)	32700
		Bank a/c(Investments)	25,000
	208575		208575

Partners Capital accounts

Particulars	Karan	Sandeep	Particulars	Karan	Sandeep
Realisation a/c(stock)	15750		Balance b/d	1,00,000	50,000
			Workmen's compensation fund	7500	7500
Bank account	97537.5	63287.5	Realisation a/c	5787.5	5787.5
	113287.5	63287.5		113287.5	63287.5

Bank account

Particulars	Amount	Particulars	Amount
Balance b/d	40,000	Realisation a/c (repair bill, creditors and bank loan)	37000
Realisation a/c(stock)	20125	Karan's capital	97537.5
Realisation a/c(Machinery & furniture)	80,000	Sandeep's capital	63287.5
Realisation a/c(Debtors)	32700		
Bank(Investments)	25,000		
	197825		197825

5. Following is the Balance sheet of X and Y who share profits in the ratio of 4:1 as on 31st march 2010

Balance sheet

Liabilities	Rs	Assets	Rs
Sundry Creditors	8,000	Bank	20,000
Bank overdraft	6,000	Debtors 17,000 Less provision 2000	15,000
X's Brother's loan	8,000	Stock	15,000
Y's Loan	3,000	Investments	25,000
Investment Fluctuation fund	5,000	Building	25,000
Capitals- X-50,000 y-40,000	90,000	Goodwill	10,000
		Profit and Loss a/c	10,000
	1,20,000		1,20,000

The firm was dissolved on the above date and the following was decided—

a) X agreed to pay off his brother's loan
b) Debtors of Rs 5000 proved bad.
c) Other assets realized as follows—Investments 20% less, and Goodwill at 60%.
d) One of the creditors for Rs 5000 was paid only Rs 3000.
e) Building was auctioned for Rs 30,000 and the auctioneer's commission amounted to Rs 1000.
f) Y took over part of the stock at Rs 4000(being 20% less than the book value)Balance stock realized 50%
g) Realisation expenses amounted to Rs 2000.

Prepare Realisation account, Partners capital accounts and Bank account.

Realisation account

Particulars	Amt(Rs)	Particulars	Amt(Rs)
Sundry Assets Debtors 17,000 Stock 15,000 Investments 25,000 Building 25,000 Goodwill 10,000	92,000	Sundry Liabilities Creditors – 8000 Bank overdraft - 6000 X's Brothers loan- 8000 Investment Fluctuation fund – 5,000 Provision for doubtful debts - 2000	29000
X's Capital(Brothers loan)	8000	Bank a/c (Assets realized)	72,000
Bank(Liabilities paid off) Creditors- 6000 Bank overdraft 6000	12000	Y's Capital(stock) Loss transferred to capitals X- 7200 Y- 1800	4000 9000
Bank(Realisation expenses)	2000		
	1,14000		1,14,000

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
Profit & Loss a/c	8,000	2,000	Balance b/d	50,000	40,000
Realisation a/c		4,000	Realisation a/c	8,000	
Realisation a/c(loss)	7,200	1,800			
Bank a/c	42,800	32,200			
	58,000	40,000		58,000	40,000

Bank account

Particulars	Amt (Rs)	Particulars	Amt(Rs)
Balance b/d	20,000	Y's loan a/c	3,000
Realisation a/c(assets realized)	72,000	Realisation a/c(liabilities paid off)	12,000
		Realisation a/c(expenses)	2,000
		X's Capital a/c	42,800
		Y's capital a/c	32,200
	92,000		92,000

6. A, B and C commenced business on 1st January 2008 with capitals of Rs 50,000, 40,000 and Rs 30,000 respectively. Profits and losses are shared in the ratio of 4:3:3. During 2008 and 2009 they made profit of Rs 20,000 and Rs 25000 respectively. Each partner withdrew Rs 5000 per year.

   On 31st December 2009, they decided to dissolve the firm. Creditors and cash on that date were Rs 12,000 and Rs 2000 respectively. The Assets realized Rs 1,50,000. Creditors were settled for Rs 11,500 and realization expenses were Rs 500.

   Prepare Realisation a/c, Capital accounts and Cash account.

Realisation account

Particulars	Rs	Particulars	Rs
Sundry Assets	1,45,000	Creditors	12,000
Cash a/c(Creditors)	11,500	Cash a/c(Assets realized)	1,50,000
Cash a/c(Expenses)	500		
Capital Accounts- A- 2,000 B- 1,500 C- 1,500	5,000		
	1,62,000		1,62,000

Partners Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
Cash a/c	60,000	45,000	35,000	Balance b/d	58,000	43,500	33,500
				Realisation a/c	2,000	1,500	1,500
	60,000	45,000	35,000		60,000	45,000	35,000

Cash account

Particulars	Rs	Particulars	Rs
Balance b/d	2,000	Realisation(Creditors)	11,500
Realisation a/c	1,50,000	Realisation a/c(expenses)	500
		A's Capital a/c	60,000
		B's Capital a/c	45,000
		C's Capital a/c	35,000
	1,52,000		1,52,000

Working Note: Calculation of Closing capital(Capital as on 31/12/2009)

Particulars	A	B	C
Opening Capital	50,000	40,000	30,000
Add Profits(of two yrs)	18,000	13,500	13,500
Less Drawings(of 2 yrs)	10,000	10,000	10,000
Closing Capital	58,000	43,500	33,500

Memorandum Balance sheet as on 31/12/2009

Liabilities	Rs	Assets	Rs
Capitals- X-58000 Y-43500 Z-33500	1,35,000	Cash	2000
Creditors	12,000	Sundry Assets(Balancing fig)	1,45,000
	1,47,000		1,47,000

UNIT 4: Company Accounts- Share capital

LEARNING OBJECTIVES

Understand the meaning and features of company

I) Classification of share capital

II) Understand the accounting treatment of over subscription, calls in arrears, premium and discount on issue of shares.

III) Understand the meaning of forfeiture of shares

IV) Pass journal entries regarding forfeiture and reissue of shares

V) Calculate capital reserve

VI) Differentiate between capital reserve and reserve capital

VII) Understand the disclosure of the share capital in the balance sheet

Salient Features

*A company is an artificial person having separate legal entity.

*A company is created by law and effected by law.

*A private company can be formed with minimum two members and maximum fifty.

*For a public company minimum members required are 7 and there is no maximum limit.

*The capital of the company is divided into units of small denominations which are called shares.

*Though the company is an artificial person, it has to perform all statutory obligation like a person. association.
*A public company can allot shares in case of minimum subscription is received.
*Shares can be issued at par, premium, or even at discount.
*Preferences shareholder enjoy preference rights whereas equity share holder enjoy votingrights.
*When a shareholder fails to pay one or more installments due on the shares held by him, the company has the authority to forfeit such shares.
*A company can re-issue the forfeited shares in accordance with the provisions contained in the articles of the company.

(1 marks)

Q.1 Give the definition of a compnay as contained in the companies act,1956.

Ans. section 3(1)(i) of companies act defines a company as "a company formed and registered under this act or an existing company."
According to sec3(1)(ii),"An exisiting company means a company formed and registered underany of the former companies Acts."

Q.2 Can forfeited shares be issued at a discount ? If so to what extent?

Ans. Re-issue of forfeited shares: Forfeited shares can be reissued at a discount. However, the In other words, amount received on received on re-issue plus amount already received on forfeited shares must not be less than the paid up value of shares.

Q.3 As a director of a company you had invited applications for 20,000 equity shares of Rs.10 each at apremium of Rs.2 each. The total applications money received at Rs.3/- per share was Rs.72,000. Name the kind of subscription. List the three alternatives for allotting these share.

Ans. It is a case of over-subscription. Shares are said to be over-subscribed when the numbers of shares ar more than the number of shares offered:
(i) Allotment for 1st 20,000 shares and the rest can rejected
(ii) Allotment on prorata basis
(iii)Allotment of some application in full and some on prorata basis,and some refused.

4 What is an Escrow Account?

Ans. In order to fulfill certain obligations under the scheme of buy-back of securities an account is opened, which is known as escrow account.

Q.5 What do you mean by Private placement of shares?

Ans. Private Placement of shares implies issue and allotment of shares to a selected groups of persons privately and not to public in general through public issue. In order to place the shares privately, a company must pass a special resolution to this effect.

Q.6 What is Sweat Equity?

Ans. Sweat Equity shares means easily shares issued by the company to its employees or whole time directors at a discount or for consideration other than cash for providing know - how or making available right in the nature of intellectual property rights or valve addition by whatever name called.

Q.7 What maximum amount of discount can be allowed on the reissue of forfeited shares?

Ans. The maximum amount of discount on reissue of forfeited shares is that the amount of discount allowed cannot exceed the amount that had been received on forfeited shares on their original issue and that the discount allowed on re issue of forfeited shares should be debited to the share forfeited account.

Q.8 State in brief, the SEBI Guidelines regarding Debenture Redemption Reserve.

Ans. At per SEBI Guidelines, an amount equal to 50% of the debenture issue must be transferred to DRR before the redemption begins. In other words, before redemption, at least an amount equal to 50% of the debenture issue must stand to the credit of DRR

Q.9 Name the head under which discount on issue of debentures appears in the Balance Sheet of "C" Company.

Ans. Discount on issue of debentures will appear under the heading Miscellaneous Expenditure.

Q.10 Can a company issue share of discount? What conditions must a company comply with before the issue of such shares?

Ans. Section 79 of the companies Act, 1956 permits a company to issue shares at a discount only if the following conditions are fulfilled :

1) The shares are of a class already issued.

2) At least one year must have elapsed since the company become entitled to commence business.

3) The issue of shares at discount is authorized by a revolution passed by the company in its general meeting and sanctioned by the central Government.

The resolution specifies the maximum rate of discount at which the shares are to be issued. The rate must not exceed 10% unless sanctioned by the central Government.

Q.11 Write the difference between an equity share and preference share.

Ans.

Basis	Preference shares	Equity shares
Dividend rate	Preference share holders are paid dividend at a fixed rate.	The rate of dividend on equity sharesvary from year to year depending upon profits
Redemption	They can be redeemed	They can't be redeemed.
Payment of Dividend	These shares have a Preferential right to receivedividend before any dividend is paid on equity shares.	Payment of dividend is made after paying to Preference share holders.

Q.12 Differentiate between Reserve capital and capital reserve.

Ans.

Basis	Reserve capital	Capital reserve
Meaning and creation	Reserve capital refers to a portion of uncalled capital	Capital reserve is created out of capital profits.
Special resolution	Is required	no Special resolution required
Time when it can be used	It can be used only in the event of company's winding up	It can be used to write off capital losses or to issue bonus shares.
Disclosure in balance sheet	It is not shown in company's balance sheet	It is mentioned under the heading reserves and surplus on the liabilities side of balance sheet

Q.13 Employees stock option plan-"A right to buy and not an obligation". Comment

Ans. Employees stock option plan is the right granted to the employees of the company to purchasesthe shares lower than the market prices. It is worth mentioning the options provide aright and not the obligation to bur shares. It means that the employees under this plan are notnecessarily required to purchase the shares. It is their wish to buy or not necessarily required to purchase the shares. It is their wish to buy or not.

Q.14 Write a shortnote on minimum subscription?

Ans Minimum subscription is the amount received from share holders which is sufficient from the point of view of directors' for following purposes:

(a) For purchasing necessary assets of the company.

(b) For paying preliminary expenses and commission on sales of shares.

(c) For paying loan if arranged for above two purposes.

(d) For working capital and for any other purposes which the directors agree upon.

Q.15 Rohit Ltd. Purchased assets from Rohan & co. for Rs. 3,50,000. A sum of Rs. 75,000 was paidby the emans of a bank draft and for the balance due Rohit Ltd. Issued Equity shares of Rs. 10each at a premium of 10% .Journalise the above transaction in the books of the company.

Ans. Books of Rohit Ltds.

JOURNAL

Date	Particulars	L.f	Debit Rs	Credit Rs
	Sundry. assets Dr		3,50,000	
	ToRohan&Co.			3,50,000
	(Being assets purchased from Rohan& CO.)			
	Rohan&Co. Dr.		75,000	
	To Bank A/c			75,000
	(Being amount paid to Rohan & Co.)			
	Rohan &Co.A/c dr.		2,75,000	
	To Equity share capital a/c			2,50,000
	To securities Premium A/c			25,000

Q.16 50 shares of Rs. 10 each, issued at as premium of Rs. 5 per share, were forfeited by sohan Ltd. for the nonpayment of allotment money of Rs.9 per share (including premium). The first and final call on these shares at Rs. # per share was not made. Forfeited shares were re-issued@ Rs. 12 per share, fully paid up. Journalise

Ans

Date	Particulars	l.f	Debit	Credit
	Share capital a/c dr.		350	
	securities premium a/c dr.		250	
	To share forfeited a/c			150
	To share allotment a/c			450
	(Being 50 shares forfeited for non payment of allotment money as per board's resolution dated…)			
	Bank A/c dr.		600	
	To share capital a/c			500
	To securities Premium a/c			100
	(Being 50 shares reissued @Rs.12 per share, fully paid)			
	Shares Forfeited A/c Dr.		150	
	To capital reserve a/c			150
	(being the balance of forfeited shares transferred to capital reserve.)			

Q17 AB Ltd. Invited applications for issuing 1,00,000 equity shares of Rs. 10 each. The amount was payable as follows: On Application Rs.3 per share; On allotment Rs.2 per share; and on 1st and final call Rs.5 per share. Applications for 1,50,000 shares were received and prorata allotment was made to all applicants as follows: Application for 80,000 shares were allotted 60,000 shares on pro-rata basis; Application for 70,000 shares were allotted 40,000 shares on pro-rata basis; Sudha to whom 600 shares were allotted out of the group 80,000 shares failed to pay allotment money. Her shares were forfeited immediately after allotment. Asha who had applied for 1,400 share out of the group 70,000 shares failed to pay the first and final call.Her shares were also forfeited. Out of forfeited shares 1,000 shares were reissued @ Rs.8 per share fully paid up The reissued shares included all the forfeited shares of Sudha. Pass necessary journal entries to record the above transaction

ans. Journal Entries in the books of AbLtd.

Date/Sr.	Particulars	l.f	Debit .Rs	Credit .Rs.
1	Bank A/c Dr. To Equity share Application a/c (For application money received on 1,50,000 shares @ Rs.3 per share)		4,50,000	 4,50,000
2	Equity share application a/c Dr. To Equity share capital a/c To equity share allotment a/c (For aapplication m,oney capitalised and transferred to allotment a/c.)		4,50,000	 3,00,000 1,50,000
3	Equity share allotment a/c Dr. To equity share capital (For allotment money due on 1,00,000 shares @ Rs.2 per share.)		2,00,000	 2,00,000
4	Bank A/c Dr. To equity share allotment (For amount received on allotment)		49,400	 49,400
5	Equity share capital a/c Dr. To Equity Share allotment a/c To share forfeiture a/c (For 600 shares of sudha forfeited)		3,000	 600 2,400
6	Equity share first& final calla/c. Dr. To Equity share capital (For first and final call money due on 99,400 shares @ Rs.5 per shares.)		4,97,000	 4,97,000
7	Bank a/c Dr To equity share first&final call (For money received on first & final call.)		4,93,000	 4,93,000
8	Equity share capital Dr		8,000	

	To Equity share first&finala/c To share forfeiture a/c (for 800 share of Asha forfeited.)				4,000 4,000
9	Bank a/c Dr. Share forfeiture a/c Dr. To Equity share capital (For 1,000 share received and loss on re-issue charged from share forfeiture a/c.)			8,000 2,000	 10,000
10	Share Forfeiture Dr. To capital ReserveA/c (For proportionate balance of share forfeiture a/c transferred to capital reserve a/c.)			2,400	 2,400

Working notes:

Amount Received on application

Amount due	2,00,000
Less:Excess Received on application	1,50,000
	50,000
Less:Calls in arrears	600
	49,400
Due from Sudha on Allotment on 600 shares@2 each	1,200
Less:Excess on application on 200 shares @Rs.3 each	600
	600

If 60,000 shares allotted than applied 80,000

If 600 shares applied than 80000/60000*600=800 shares

Shares allotted to Asha

If 70000 shares applied ,allotted 40,000

If 1,400 shares than 40000/70000*1,400

Amount transferred to capital reserve

Balance of share forfeited a/c on Sudha's share	2400
Balance of share forfeited a/c on Asha's share	2000
	4400
Less: Loss on capital Re-issue	2000
	2400

Q.18 New India Ltd. forfeited 100 shares of Rs. 10 each, issued at a discount of 10%. The company had called up only Rs. 8 per share. Final call of Rs. 2 each has not been made on these shares. These shares were allotted to Ram, who did not pay the first call of Rs. 3. 60 shares were reissued at Rs. 7 per share, as Rs. 8 paid up. Give Journal entries in the books of the company, showing the working clearly.

JOURNAL

Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs)
	Share Capital A/c (100 x Rs. 8)	...Dr.		800	
	To Forfeited Shares A/c (100 xRs. 4)				400
	To Discount on Issue of Shares (1 00 x Re. 1)				100
	To Share First Calf A/c (100 x Rs. 3)				300
	(Being 100 scares forfeited for non-payment of first call ...)				
	Bank A/c (60 x Rs. 7)	...Dr.		420	
	Discount on issue of Shares A/c (60 x Re. 1)	...Dr.		60	
	Forfeited Shares A/c	...Dr.		60	
	To Share Capital A/c				540
	(Being 60 shares were reissued at Rs. 7 per share, as Rs. 8 paid up)				
	Forfeited Shares A/c	...Dr.		180	
	To Capital Reserve A/c				180
	(Being the transfer of profit on reissue o' shoes':				

19. XYZ Ltd. Registered with a nominal capital of Rs. 10,00,000 divided in 1,00,000 equity shares of Rs. 10 each . Out of these, 20,000 equity shares were issued to the vendor as fully paid as purchase consideration for a building acquired. 65,000 equity shares were offered to the public and of these 60,000 equity shares were applied for and allotted. The directors called Rs. 6 per share and received the entire amount except a call of Rs. 2 per share on 5,000 equity shares.

How would you show the relevant items in the Balance Sheet of XYZ Ltd.

Balance Sheet as at

LIABILITIES	Rs.	Assets	Rs.
Share Capital		**Fixed Assets**	
Authorised Capital:		Building	2,00,000
1,00,000 Equity Shares of Rs. 10 each	10,00,000	**Current Assets**	
		Cash at Bank	3,50,000
Issued Capital:			
85,000 shares of Rs. 10 each	8,50,000		
Subscribed, Called-up and Paid-up Capital:			
20,000 shares of Rs. 10 each (Issued as fully paid for consideration other than cash)	2,00,000		
60,000 shares of Rs. 10 each			
Rs. 6 called-up 3,60,000			
Less: Calls unpaid 10,000 @ Rs. 2 on 5,000 shares ---------------	3,50,000		
	5,50,000		5,50,000

20. Bharat Ltd. Invited applications for issuing 2,00,000 equity shares of Rs. 10 each. The amount was payable as follows:

On application Rs. 3 per share, on allotment Rs. 5 per share, and on first and final call Rs. 2 per share. Applications for 3,00,000 shares were allotted 3,000 shares failed to pay the allotment and call money. His shares were forfeited. Out of the forfeited shares, 2500 shares were reissued as fully paid-up @ Rs. 8 per share.

Pass the necessary journal entries to record the above transactions.

Date	Particulars	L.F	Dr.(Rs)	Cr.(Rs)
	Bank a/c Dr. To Equity Share Application a/c (Being the application money received on 3,00,000 shares)		9,00,000	 9,00,000
	Equity Share application a/c To Equity share capital a/c To Equity share allotment a/c (Being the application money adjusted)		9,00,000	 6,00,000 3,00,000
	Equity share allotment a/c To Equity share capital a/c (Being the allotment amount due)		10,00,000	 10,00,000
	Bank a/c To Equity share allotment a/c (Being the remaining allotment money received on 1,97,000 shares)		6,89,500	 6,89,500
	Equity share first and final call a/c To Equity share capital a/c (Being the call money due)		4,00,000	 4,00,000
	Bank a/c To Equity share first and final call a/c (Being the call money received)		3,94,000	 3,94,000
	Equity share capital To Equity share allotment a/c To Equity share first and final call a/c To Shares Forfeited a/c (Being 3,000 shares forfeited for non-payment of allotment and first and final call)		30,000	 10,500 6,000 13,500
	Bank a/c Shares Forfeited a/c To Equity share capital a/c (Being reissue of 2,500 shares as fully paid at Rs. 8 per share)		20,000 5,000	 25,000
	Shares forfeited a/c To Capital reserve a/c (Being balance in shares forfeited account transferred to capital reserve account)		6,250	 6,250

21. Alpha Ltd issued for public subscription 40,000 equity shares of Rs. 10 each. At a premium of Rs. 2 per share payable as under:

On application Rs. 2 per share, on allotment Rs. 5 per share (including premium), on first call Rs. 2 per share and on second call Rs. 3 per share.

Applications were received for 60,000 shares. Allotment was made pro rata basis to the applicants for 48000 shares, the remaining applications being refused. Money overpaid on application was applied towards sums due on allotment.

A, to whom 1,600 shares were allotted, failed to pay the allotment money and B, to whom 2,000 shares were allotted failed to pay the two calls. These were subsequently forfeited after the second call was made.

Pass journal entries.

Date	Particulars	L.F	Dr.(Rs)	Cr.(Rs)
	Bank a/c Dr. To Equity Share Application a/c (Being the application money received on shares)		1,20,000	 1,20,000
	Equity Share application a/c To Equity share capital a/c To Bank To Equity share allotment a/c (Being the application money adjusted)		1,20,000	 80,000 24,000 16,000
	Equity share allotment a/c To Equity share capital a/c To Securities Premium (Being the allotment amount due)		2,00,000	 1,20,000 80,000
	Bank a/c To Equity share allotment a/c (Being the remaining allotment money received)		1,76,640	 1,76,640
	Equity share first call a/c To Equity share capital a/c (Being the first call money due)		80,000	 80,000
	Bank a/c To Equity share first call a/c (Being the call money received)		72,800	 72,800
	Equity share second and final call a/c To Equity share capital a/c (Being equity second call money due)		1,20,000	 1,20,000
	Bank a/c To Equity share second and final call a/c		1,09,200	 1,09,200
	Equity share capital a/c Securities Premium a/c To Equity share allotment a/c To Equity share first call a/c To Equity share second call a/c To Shares Forfeited a/c (Being shares forfeited for non-payment of allotment, first and final call)		36,000 3,200	 7,360 7,200 10,800 13,840

22. A limited company invites applications for 50,000 equity shares of Rs. 10 each, at a maximum discount by the Companies Act, payable as follows:

On application Rs. 3; on allotment Rs. 3; on first call Rs. 2; on final call the balance.
Applications were received for 55,000 shares. Allotments were made on the following basis:

(i) To applicants for 35,000 shares- in full

(ii) To applicants for 20,000 shares- 15,000 shares.

Excess money paid on application was utilized towards allotment money.
A shareholder who was allotted 1,500 shares out of the group applying for 20,000 shares failed to pay allotment money and money due on calls. These shares were forfeited. 1,000 forfeited shares were reissued as fully paid on receipt of Rs. 8 per share.
Show the journal in the books of the company.

Date	Particulars	L.F	Dr.(Rs)	Cr.(Rs)
	Bank a/c Dr. To Equity Share Application a/c (Being the application money received on shares)		1,65,000	 1,65,000
	Equity Share application a/c To Equity share capital a/c To Equity share allotment a/c (Being the application money adjusted)		1,65,000	 1,50,000 15,000
	Equity share allotment a/c Discount on issue of shares a/c To Equity share capital a/c (Being the allotment amount due)		1,50,000 50,000	 2,00,000
	Bank a/c To Equity share allotment a/c (Being the remaining allotment money received)		1,32,000	 1,32,000
	Equity share first call a/c To Equity share capital a/c (Being the first call money due)		1,00,000	 1,00,000
	Bank a/c To Equity share first call a/c (Being the call money received)		97,000	 97,000
	Equity share second and final call a/c To Equity share capital a/c (Being equity second call money due)		50,000	 50,000
	Bank a/c To Equity share second and final call a/c		48,500	 48,500
	Equity share capital a/c To Discount on issue of shares a/c To Equity share allotment a/c To Equity share first call a/c To Equity share second call a/c To Shares Forfeited a/c (Being shares forfeited for non-payment of allotment, first and final call)		 15,000	 1,500 3,000 3,000 1,500 6,000
	Bank a/c Shares forfeited a/c		8,000 1,000	

	Discount on issue of shares a/c To Equity share capital a/c (Being the reissue of 1,000 shares)		1,000	 10,000
	Shares Forfeited a/c To Capital Reserve a/c (Being the amount transferred to capital reserve a/c)		3,000	 3,000

Note:- Maximum discount permitted by the Companies Act is 10% of the face value of share

UNIT 5: ACCOUNTING FOR DEBENTURES

LEARNING OBJECTIVES

I) Understand the meaning and features of debentures.

II) Differentiate between shares and debentures.

III) Understand different classes of debentures

IV) Journal entries regarding issue of debentures for cash and for consideration other than cash.

V) Accounting treatment of debentures issued as collateral security

VI) Accounting treatment of issue and redemption of debentures at par, discount and at premium.

VII) Understand the methods of redemption of debentures.

VIII) Accounting treatment of redemption of debentures out of capital and profit.

IX) Understand the redemption of debentures by purchase in the open market

X) Understand redemption of debentures by conversion into shares and new debentures.

1) What do you meant by Debentures?

Debentures is an instrument of debt owned by a company as an acknowledgement of debt, such measurements are issued under the seal of company and duly signed by authorized signatory.

2) Write any four types of debentures

i) Redeemable debentures

ii) Perpetual Debentures

iii) Convertible debentures

i) Secured debentures

3) What is debenture Trust Deed?

Debenture trust deed is a document created by the company whereby trustee is appointed to protect the interest of debenture holders before they are offered for public subscription.

4) What is meant by convertible debentures?

Convertible debentures are those, the holders of which are given an option to exchanging the amount of their debentures with equity shares or other securities after a specified period.

5) Why is premium on the issue of debentures considered as a capital profit?

Premium on the issue of debentures is considered a capital profit because it is not an income arising from the normal course of business operations.

6) Explain deep discount Bond

When debentures are issued without interest rate and issue price is thereby discounted, the issue of debenture is said to have been made as deep discount bond.

7) Differentiate between shareholders and debenture holder,

Point of Difference	Share holder	Debenture holder
1) Status	There are the owners of the company	They are the creditors of the company
2) Return	They are paid Dividend	They are paid interest
3) Security	Shares are not secured	Debentures are ordinarily secured

8) What is the nature of interest on debentures?

Interest on debentures is a charge against profits.

9) State in brief, the SEBI Guidelines regarding Debenture Redemption Reserve

Ans. At per SEBI Guidelines, an amount equal to 50% of the debenture issue must be transferred to DRR before the redemption begins. In other words, before redemption, at least an amount equal to 50% of the debenture issue must stand to the credit of DRR

10) Name the head under which discount on issue of debentures appears in the Balance Sheet of "C" Company.

Ans. Discount on issue of debentures will appear under the heading Miscellaneous Expenditure.

11) What are the exceptions for creating debenture Redemption Reserve?

(i) An infrastructure company, (ii) Debentures are issued for less than 18 months maturity period (iii) if debentures issued by private placement.

12) What do you mean by debentures issued as collateral security?

The issue of debentures as a collateral security means the issue of debentures as an additional security against the loan in addition to principal security that may be offered.

13) A Ltd issued 5,000 13% debentures of Rs.100 each at par and raised a loan of

Rs.80, 000 from Bank. Collaterally secured by Rs. 100,000 13% debentures. How will You show the debenture in the Balance Sheet of the Company assuming that thecompany has recorded the issue of Debentures as collateral security in the books.

Balance Sheet

Liabilities		Assets	
Secured Loans 13% Debenture 5,000 deb of Rs. 100 each at par Bank loan (secured by the issue of 1000 13% deb of Rs.100 each)	Amount 500000 80000	Current assets Bank a/c	Amount 500000

15) Ashoka Ltd. had Rs. 5, 00,000 12% debentures outstanding as on 1st Jan, 2003. During the year company took a loan of Rs. 3, 00,000 from Bank of Punjab for which the company placed with the bank debentures of Rs. 3, 60,000 as collateral security.

Pass journal entries and also show how the debentures and bank loan will appear in the balance sheet.

	Bank a/c Dr. To Bank loan a/c (Being loan taken from bank)	3,00,000	3,00,000
	Debenture suspense a/c Dr. To 12 % Debenture a/c (Being Debentures issued as collateral security)	3,60,000	3,60,000

16) XYZ Co. Ltd., issued 10000 10% debentures of Rs.100 each at a premium of Rs. 5 payable as follows

On application Rs.40, on Allotment Rs.65 (including premium)

All the debentures were subscribed and money was received, pass necessary journal entries to record the issue of debentures

Journal Entries

1) Bank a/c Dr. To 10% Debenture application (Being application money received)	4,00,000	4,00,000
2) 10% Deb Application a/c Dr. To 10% Debenture a/c	4,00,000	4,00,000

(Being application money transferred to debenture a/c)		
3) 10% Deb allotment a/c Dr. To Debenture a/c To S Premium a/c (Being debenture allotment due)	6,50,000	 6,00,000 50,000
4) Bank a/c Dr. To 10% Deb allotment a/c (Being allotment money received)	6,50,000	 6,50,000

17) Pass Journal Entries to record the Issue of Debentures

1) 5000 15% debenture of Rs.100 each issued at Discount of 5% and redeemable at premium at 5% after 5 years.

2) 10000 15% debenture of Rs.100 each issued at a premium of 10% and redeemable at par after 6 years.

Ans: Journal Entries

1) Bank a/c Dr. loss on issue of Deb a/c Dr. To15% debenture a/c To premium on redemption of debenture (Being issue of debenture at discount and redeemable at 5% premium)	4,75,000 50,000	 5,00,000 25,000
2) Bank a/c Dr. To Debenture a/c To Premium a/c To premium a/c (Being issue of debenture at premium and redeemable at par)	1100000	 1000000 100000

18) Journalise the following transactions:

(a) 10 debentures issued at Rs. 100 repayable at Rs. 100.
(b) 10 debentures issued at Rs. 95, repayable at Rs. 100
(c) 10 debentures issued at Rs. 105 , repayable at Rs. 100
(d) 10 debentures issued at Rs. 100, payable at Rs. 105.
(e) 10 debentures issued at Rs. 95, Repayable at Rs. 105.

Date	Particulars	Debit Amt	Credit Amt
(a)	Bank a/c Dr. To debenture Application a/c Being Debenture application money received)	1,000	 1,000
	Debenture Application a/c Dr. To Debenture a/c (Being 10 debentures of Rs. 100 each issued at par redeemable at par)	1,000	 1,000
(b)	Bank a/c Dr. To debenture Application a/c Being Debenture application money received)	950	 950
	Debenture Application a/c Dr. Discount on issue of Debentures Dr. To Debenture a/c (Being 10 debentures of Rs. 100 each issued at a discount of 5% and repayable at par.)	950 50	 1,000
(c)	Bank a/c Dr. To debenture Application a/c Being Debenture application money received)	1,050	 1050
	Debenture Application a/c Dr. To Debenture a/c To Securities premium a/c (Being 10 debentures of Rs. 100 each issued at premium of 5% and redeemable at par)	1,050	 1,000 50
(d)	Bank a/c Dr.	1,000	

	To debenture Application a/c Being Debenture application money received)		1,000
	Debenture Application a/c Dr. Loss on issue of debentures a/c Dr. To Debentures a/c To Premium on redemption of debentures a/c (Being 10 debentures of Rs. 100 each issued at par but repayable at a premium of 5%)	1,000 50	 1,000 50
(e)	Bank a/c Dr. To debenture Application a/c Being Debenture application money received)	950	 950
	Debenture Application a/c Dr. Loss on issue of debentures a/c Dr. To Debentures a/c To Premium on redemption of debentures a/c (Being 10 debentures of Rs. 100 each issued at discount of 5% but repayable at a premium of 5%)	950 100	 1,000 50

19) A building has been purchased for Rs.1,10,000 from X Ltd., X Ltd., has been issued 12% debentures in Purchase Consideration at a Premium of 10% Journalise the above transaction.

Ans: Journal entries

1) Building a/c Dr. To vendors a/c (Being purchasing of a building on credit)	110000	110000
2) Vendors a/c Dr. To 12% debentures a/c To securities premium a/c	110000	100000 10000

(Being issue of 12% debentures at 10% premium)		

20) Raghav Limited purchased a running business from Krishna traders for a sum of Rs. 15,00,000 payable Rs. 3,00,000 by cheque and for the balance issued 9% debentures of Rs. 100 each at par.

The assets and liabilities consisted of the following:

Plant and Machinery	4, 00,000
Building	6, 00,000
Stock	5, 00,000
Debtors	3, 00,000
Creditors	2, 00,000

Record necessary journal entries in the books of Raghav Limited.

Date	Particulars	L.F	Dr. (Rs.)	Cr.(Rs.)
	Plant and Machinery a/c Dr.		4,00,000	
	Building a/c Dr.		6,00,000	
	Stock a/c Dr.		5,00,000	
	Debtors a/c Dr.		3,00,000	
	To Creditor's a/c			2,00,000
	To Krishna Traders			15,00,000
	To Capital Reserve (Bal. Fig)			1,00,000
	(Being assets and liabilities taken over from the vendor company).			
	Krishna Traders a/c Dr.		15,00,000	
	To Bank			3,00,000
	To 9% Debentures a/c			12,00,000
	(Being issues of 12,000 debentures of Rs.. 100 each at par and rest paid by a cheque)			

21) What do you mean by Redemption of debentures by purchase in the open market?

A company, if authorised by its Articles of Association, can redeem its own debentures by purchasing them in the open market. This is called redemption of debentures by purchase in the open market. Debentures may be purchased at par or at a premium. But this procedure is usually adopted by the company only when its debentures are quoted at a discount in the open market.

22) LCM Ltd., purchased for cancellation its own 10, 00,000, 9% debenture of Rs.500 each of Rs.480 each. Record necessary Journal entries.

Journal Entries

1) Own debentures a/c Dr. To Bank a/c (Being purchased its own debenture at Rs.480/- each)	480000000	480000000
2) 9% Debentures a/c Dr. To Own debentures a/c To Profit on cancellation of debentures.	500000000	480000000 2000000

23) A company authorized its Rs.1, 10,000 debenture holders to convert them into preference shares. Pass the necessary journal entry if

a) Debentures were converted into shares of Rs.100 at par

b) Debentures were converted into shares of Rs.100 at a premium of 10%

Ans: a) Debentures A/c Dr. 1, 10,000

T0 preference Share capital a/c 1, 10,000

b) Debentures a/c Dr. 1, 10,000

To preference share capital a/c 1, 00,000

To securities premium a/c 10,000

(Being debentures converted into preference

Shares issued at 10% premium)

24) White Ltd., issued 8,00,000 8% debentures of Rs.100 each redeemable at a premium of 10%. According to the terms of redemption, the company redeemed 25% of the above debentures by converting them into shares of 50 each issued at a premium of 60% pass Journal entry regarding redemption of debentures.

1) 8% debentures a/c Dr. 2, 00, 00,000

Premium on redemption of debentures a/c Dr.	20,00,000	
To Debenture holders a/c		2, 20, 00,000
(Being 25% of debentures redeemed at a premium)		

2) Debenture holders A/c Dr.	2, 20, 00,000	
To share capital		1, 37, 50,000
To security premium a/c		82, 50,000
(Being issue of 2, 75,000 shares of Rs.50 each at a Premium of 60% to the debenture holders on conversion of 2,00,000 debentures)		

25). Journalise the following transactions in the books of Raja Ltd.,

1) 200 12% debentures of Rs.100 each issued it a discount of 10% were converted into 10% preference shares of Rs.100 each issued at a premium of 25%. The debentures were converted at the option of the debentures-holders before the date of redemption.

2) Issued 1000 12% debentures of Rs.100 each at a discount of 10% redeemable at a premium of 5%.

Journal Entries

Ans

1) 12% Debenture a/c Dr. To discount on issue of debenture a/c To debenture holders a/c (Being the amount due to debenture holders on conversion of 200, 12% debenture)	20,000	 2,000 18,000
2) Debenture holders a/c Dr. To 10% preference share Capital To securities premium (Being issue of 144, 12% preference shares Of Rs.100 each.)	18,000	 14,400 3,600
3) Bank a/c Dr. Loss on Issue of Deb a/c Dr. To 12% Debenture a/c To premium on redemption of deb a/c (Being issue of 1000, 12% debenture of Rs.100 each at a discount of 10% and redeemable at premiums of 5%).	90,000 15,000	 100,000 5,000

26) On January 1st, 2006 S Ltd issued 1,000 10% debentures of Rs. 500 each at par redeemable after 7 years. However the company gave an option to debenture holder to get debentures converted into equity shares of Rs. 100 each at a premium of Rs. 25 per share any time after the expiry of one year.

Arvind the holder of 200 debentures informed on Jan, 2006 that he wanted to excise the option of conversion of debentures into equity shares.

Pass necessary Journal entries to record the issue of debentures on Jan, 2004 and conversion of debentures on Jan, 2006.

Journal of S Limited

Date	Particulars	L.F	Dr.(Rs.)	Cr.(Rs.)
	Bank a/c Dr. **To 10% Debenture a/c** **(Being Debenture money received)**		**5,00,000**	 **5,00,000**
	10% Debenture a/c Dr. **To Debenture holder a/c** **(Being Amount due to debenture holders on redemption.)**		**1,00,000**	 **1,00,000**
	Debenture holders a/c Dr. **To Equity share capital a/c** **To Securities Premium a/c** **Being payment made to debenture holders)**		**1,00,000**	 **80,000** **20,000**

27) Animesh Ltd issued 1,000, 12 % Debenture of 100 each in the following manner:

(i) For cash at par Rs. 50,000 nominal

(ii) For creditors of Rs. 45,000 against purchase of machinery Rs. 35,000 nominal

(iii) To SBI bank against a loan of Rs. 10,000 as collateral security Rs. 15,000 nominal

Pass Journal entries.

Date	Particulars	L.F	Dr.(Rs.)	Cr.(Rs.)
	Debenture Application a/c Dr. To 12% Debentures a/c (Being 12% Debentures issued at par)		50,000	 50,000
	Bank a/c To Debenture Application a/c (Being Application money received on 500 debentures @ Rs. 100)		50,000	 50,000
	Machinery a/c Dr. To Vendor a/c (Being Machinery purchased)		45,000	 45,000
	Vendor a/c Dr. To 12% Debentures a/c To Securities Premium a/c (Being Debentured issued to vendor at premium.)		45,000	 35,000 10,000
	Bank a/c Dr. To Bank Loan a/c (Being Loan borrowed)		10,000	 10,000
	Debenture Suspense a/c Dr. To 12% Debentures a/c (Being Debentures issued as collateral security)		15,000	 15,000

28) Dipesh Ltd redeemed its 8,000, 11 % Debentures of Rs. 100 each in the following manner;

(i) 4,000 debentures were purchased @ Rs. 95.
(ii) 3,000 debentures were purchased @ Rs. 93
(iii) 1,000 debentures were purchased @ Rs. 97.50.

The expenses on purchase of own debentures amounted to Rs. 200.

The debentures were purchased for immediate cancellation. Pass journal entries.

Journal Entries

Date	particulars	L.F	Dr.(Rs.)	Cr.(Rs.)
	P/L appropriation a/c Dr. To Debenture Redemption Reserve a/c (Being Debenture redemption reserve created @ 50% of debentures.)		4,00,000	 4,00,000
	Own Debentures a/c Dr. To Bank a/c (Being Own debentures purchased)		7,56,700	 7,56,700
	11% Debentures a/c Dr. To Own Debentures a/c To Gain on cancellation of own Debentures a/c (Being Own debentures cancelled)		8,00,000	 7,56,700 43,300
	Gain on cancellation of own Debentures a/c To capital reserve a/c (Being Gain transferred to capital reserve)		43,300	 43,300
	DRR a/c Dr. To General reserve a/c Being DRR transferred to general Reserve)		4,00,000	 4,00,000

UNIT 6. FINANCIAL STATEMENT ANALYSIS:

LEARNING OBJECTIVES:

After studying the lesson, students will be able to:

- Understand the meaning of financial statements and their objectives.
- Identify the parties interested in the financial statements.
- Understand the meaning of financial analysis and its objectives
- Understand the parties interested in financial Analysis
- Analyse the limitation of financial analysis
- Prepare comparative Income statement and Position Statement.
- Prepare Common Size Statements
- Understand the tools of Financial Analysis.

SALIENT POINTS:-

- Analysis of Financial statement is the systematic process of identifying the financial strength and weaknesses of the firm by establishing the relationship between the items of the Balance Sheet and income statement.
- The information available from the Analysis, serves the interest of different sections like Management, shareholders, workers, creditors, government, Potential Investors, Economist and Researchers and Stock Exchange.
- Financial analysis can be External Analysis and Internal Analysis, Horizontal analysis and Vertical Analysis.
- External Analysis: when analysis is made on the basis of Published statements, reports and information then this is known as External analysis.
- Internal Analysis: This analysis is based upon the information available to the business only.
- Horizontal Analysis: This analysis is based on the financial statements of different years of the same business unit or financial statements of a particular year of different business units.
- Vertical Analysis: According to this analysis financial statement of the same period or different items of the same financial statements are compared.
- Comparative statements, Common Size statements, Trend Analysis, Ratio Analysis, Fund Flow Statement, Cash flow statement are the Tools of financial statement analysis.
- Comparative Statements: it helps in ascertaining change in the items of income statement and Position Statement of different years in terms of figures and percentage.

REVISED SCHEDULE VI OF THE COMPANIES ACT 1956
BALANCE SHEET AS AT……………….

PARTICULARS (1)	NOTE NO (2)	FIGURES AS AT THE END OF CURRENT REPORTING PERIOD (3)	FIRGURES ASA AT THE END OF THE PREVIOUS REPORTING PERIOD (4)
1. EQUITY AND LIABILITIES (1) Shareholders' Funds (a) Share Capital (b) Reserves and Surplus (c) Money received against share warrants (2) Share Applications 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 (f) Other current assets			
TOTAL			

STATEMENT OF PROFIT AND LOSS (Rs. In…..)

PARTICULARS	NOTE NO	FIGURES FOR THE CURRENT RERPORTING PERIOD	FIGURES FOR THE PREVIOUS REPORTING PERIOD
I. Revenue from operations			
II. Other income			
III. Total Revenue (I+II)			
IV. Expenses: **Cost of materials consumed** **Purchases of stock-in-trade** **Changes in inventories of finished goods** **Work-in-progress and stock-in-trade** **Employees benefits expenses** **Finance costs** **Depreciation and amortization expenses** **Other expenses** **Total expenses**			
V. Profit before exceptional and extraordinary items and tax (III-IV)			
VI. Exceptional items			
VII. Profit before extraordinary items and tax (V-VI)			
VIII. Extraordinary items			
IX. Profit before tax (VII-VIII)			
X. Tax expenses: **(1) Current tax** **(2) Deferred tax** **XI. Profit (Loss) for the period from continuing operations (VII-VIII)**			
XI. Profit (Loss) from discontinuing operations			
XII. Tax expense of discontinuing operations			
XIII. Profit (Loss) from discontinuing operations (after tax) (XII-XIII)			
XIV. Profit (Loss) for the period (XI-XIV)			
XV. Earnings per equity share: **(1) Basic** **(2) Diluted**			

Remember: Under Revised Schedule VI detail under each classification should be disclosed in the *Notes to Accounts* giving reference number in the Balance Sheet and Statement of Profit and Loss.

<u>Comparative Income statement :(4 Marks)</u>

Particular	P.Y amount	C.Y. amount	Change in amount	Change in Percentage
Gross sales Less: Sales return	Xxx xxx	Xxx Xxx	C.Y –P.Y.	$\frac{C.Y-P.Y}{P.Y.}$ X 100
Net Sales Less: C.O.G.S.	Xxx xxx	Xxx Xxx	do	do
Gross Profit Less: Indirect Expenses/ Operating expense	Xxx xxx	Xxx xxx	do	do
Operating Profit Add: Non-operating income Less: non-operating expenses	Xxx Xxx xxx	Xxx Xxx xxx	do	do
Profit before tax Less: tax	Xxx xxx	Xxx xxx	do	do
Profit after tax	xxx	xxx	do	do

2. Comparative Balance Sheet: - (4 Marks)

Particular	P.Y. amount	C.Y. Amount	Change in amount	Change in Percentage
1. Share Capital	xxx	Xxx	C.Y –P.Y	$\frac{C.Y-P.Y}{P.Y.}$ X 100
2. Reserve and surplus	Xxx	xxx	do	do
3.Secured loan	Xxx	xxx	do	do
4. Unsecured Loan	Xxx	Xxx	do	do
5. Current liabilities & Provision	Xxx	Xxx	do	do
Total	Xxx	Xxx	C.Y –P.Y	$\frac{C.Y-P.Y}{P.Y.}$ X 100
1. Fixed Assets	Xxx	Xxx	do	do
2. Investments	Xxx	Xxx	do	do
3. Current assets and Loans & Advances	Xxx	Xxx	do	do
4. Miscellaneous Expenditure	Xxx	Xxx	do	do
5. P&L(Debit balance)	Xxx	Xxx	do	do
Total	xxx	Xxx	C.Y –P.Y	$\frac{C.Y-P.Y}{P.Y.}$ X 100

- Common Size Statements: In common size statements every item of the statement is presented in the form of percentage of its important heading i.e Net Sales(in case of Common Size income Statement) and Total of Assests and Liabilities(in case of Common Size Balance Sheets)

1. Common Size Income statement: (4 Marks)

Particular	P.Y amt.	C.Y. amt.	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
Gross sales Less: Sales return	Xxx xxx	Xxx Xxx	P.Y. Amount X 100 P.Y. net sales	C.Y. Amount X 100 C.Y. net sales
Net Sales Less: C.O.G.S.	Xxx xxx	Xxx Xxx	100% P.Y. Amount X 100 P.Y. net sales	100% C.Y. Amount X 100 C.Y. net sales
Gross Profit Less: Indirect Expense/ Operating expense	Xxx xxx	Xxx xxx	do	do
Operating Profit Add: Non-operating income Less: non-operating expenses	Xxx Xxx xxx	Xxx Xxx xxx	do	do
Profit before tax Less: tax	Xxx xxx	Xxx xxx	do	do
Profit after tax	xxx	xxx	do	do

2. Common Size Balance Sheet:- (4 Marks)

Particular	P.Y. amount	C.Y. Amount	% of total in P.Y.	% of total in C.Y.
1. Share Capital	xxx	Xxx	P.Y amount X 100 Total of P.Y.	C.Y. amount X 100 Total of C.Y.
2. Reserve and surplus	Xxx	xxx	do	do
3.Secured loan	Xxx	xxx	do	do
4. Unsecured Loan	Xxx	Xxx	do	do
5. Current liabilities & Provision	Xxx	Xxx	do	do
Total	Xxx	Xxx	100 %	100%
1. Fixed Assets	Xxx	Xxx	P.Y amount X 100 Total of P.Y.	C.Y. amount X 100 Total of C.Y.
2. Investments	Xxx	Xxx	do	do
3. Current assets and Loans & Advances	Xxx	Xxx	do	do
4. Miscellaneous Expenditure	Xxx	Xxx	do	do
5. P&L(Debit balance)	Xxx	Xxx	do	do
Total	xxx	Xxx	100%	100%

QUESTIONS: 01 MARKS

1. How would you show the following two items in a company's Balance Sheet as at 31st March, 2012 as per the requirement of Schedule VI:
General Reserve(Since 31st March, 2011) Rs. 3,00,000, Statement of Profit and Loss(Debit Balance) for 2011-12 Rs. 2,00,000.

Ans. Balance Sheet
As at 31st march, 2012

Equity and Liablities	Note No.	Rs.
Shareholders' fund Reserve and Surplus	1	1,00,000

Notes to Accounts:
Reserve and Surplus

General Reserve(1st April, 2011)	3,00,000
Less: Statement of Profit and Loss(Dr. Balance)	2,00,000
	1,00,000

2. Under Which main headings and sub-headings of Equity and Liabilities of the balance sheet as per the Revised Schedule VI of a company will you classify the following items:
   i. Proposed dividend.
   ii. Fixed Deposit from Public.

Ans.

Sr. No.	Items	Main-Heading	Sub-Heading
i.	Proposed dividend	Current-Liabilities	short-term provision
ii.	Fixed deposit from Public	non-current liabilities	long term borrowing

3. State any two items which are shown under the head 'Investment' in a company balance sheet. (1)
Ans. (i) Government Securities.
(ii) Sinking Fund Investment.

4.How is analysis of Financial statements suffered from the limitation of window dressing ? (1)

Ans. Analysis of financial statements is affected from the limitation of window dressing as companies hide Some vital information or show items at incorrect value to portray better profitability and financial Position of the business, for example the company may overvalue closing stock to show higher profits.

5. What is the interest of Shareholders in the analysis of Financial Statements? (1)

Ans. (i) They want to judge the present and future earning capacity of the business.
(ii) They want to judge the safety of their investment.

6. Name two tools of Financial Analysis? (1)
Ans. (i) Comparative Financial Statements.
(ii) Ratio Analysis etc.
7. What is Horizontal Analysis? (1)
Ans:The analysis which is made to review and compare the financial statements of two or more then two Years is called Horizontal Analysis.
8. Give the example of Horizontal Analysis. (1)
Ans. Comparative Financial Statement.

9. What is Vertical Analysis? (1)

Ans:11 The Analysis which is made to review the financial statements of one particular year only is called Vertical Analysis.

10. Give the example of Vertical Analysis? (1)

Ans. Ratio Analysis.

QUESTIONS 03 MARKS

1. Give the Main Heading and Sub- Heading ofEquity and Liabilities of the Balance sheet of a company as per the Revised Schedule VI of the companies Act.1956.

Ans.

2. EQUITY AND LIABILITIES **(5) Shareholders' Funds** **(d) Share Capital** **(e) Reserves and Surplus** **(f) Money received against share warrants** **(6) Share Applications Money Pending Allotment** **(7) Non-Current Liabilities** **(e) Long-term borrowings** **(f) Deferred tax liabilities(Net)** **(g) Other Long-term Liabilities** **(h) Long-term provisions** **(8) Current Liabilities** **(e) Short-term borrowings** **(f) Trade payables** **(g) Other current liabilities** **(h) Short-term provisions**
TOTAL

3. Give the Main Heading and Sub- Heading of Assets of the Balance sheet of a company as per the Revised Schedule VI of the companies Act.1956.

Ans. **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**
(f) **Other current assets**

4. Rearrange the following items under assets according to Revised or New Schedule VI:
   a. Livestock
   b. Loose Tools.
   c. Goodwill
   d. Trademarks
   e. Bills Receivable
   f. Debtors
   g. Land
   h. Leasehold
   i. Stock-in-Trade
   j. Stores and Spare Parts
   k. Vehicles
   l. Cash at Bank
   m. Work in Progress(Machinery)
   n. Interest accrued on Investment
   o. Furniture
   p. Advance to Subsidiaries
   q. Cash in Hand
   r. Plant
   s. Deposits with electricity supply company.

Ans.
   i. Fixed Assets(Tangible): Livestock, Land, Leasehold, furniture, vehicles and plant
   ii. Capital Work-in-progress: Work in progress(Machinery)
   iii. Fixed Assets(Intangible): Goodwill and Trademarks
   iv. Inventories: Loose Tools, Stock-in-Trade, Stores and Spare Parts.
   v. Trade Receivables: Bill Receivables, Debtors
   vi. Cash and Cash Equivalents: Cash at Bank, Cash in Hand
   vii. Long term Loans and Advances: Advance to Subsidiaries, Deposits with Electricity Supply Company.
   viii. Other Current Assets: Interest Accrued on Investments.

4. List any three items that can be shown as contingent Liabilities in a company's Balance sheet.

Ans: (i) Claims against the Company not acknowledged as debts.
(ii) Uncalled Liability on partly paid shares.
(iii)Arrears of Dividend on Cumulative preference shares.

5. How is a Company's balance sheet different from that of a Partnership firm? Give Two point only

Ans. (i) For company's Balance Sheet there are two standard forms prescribed under the companies Act.1956 .Whereas, there is no standard form prescribed under the Indian partnership Act,1932 for a partnership Firms balance sheet.
(ii) In case of a company's Balance sheet previous year's figures are required to be given whereas it is not so in the case of a partnership firms balance sheet.

<u>QUESTIONS 04 MARKS</u>

1. Prepare Comparative and Common Size income statement from the following information for the year's ended march 31, 2008 and 2009.

Particulars	2008(Rs.)	2009(Rs.)
1.Net Sales 2.Cost of Goods Sold 3.Indirect Expenses 4.Income Tax rate	8,00,000 60% of sales 10% of Gross profit 50%	10,00,000 60% of sales 10% of Gross Profit 60%

Ans.1.a

Comparative Income statement:

Particular	2008 amount	2009 amount	Change in amount	Change in Percentage
Net Sales Less: C.O.G.S.	8,00,000 4,80,000	10,00,000 6,00,000	2,00,000 1,20,000	25% 25%
Gross Profit Less: Indirect Expenses	3,20,000 32,000	4,00,000 40,000	80,000 8,000	25% 25%
Operating Profit/ PBT Less: tax	2,88,000 1,44,000	3,60,000 2,16,000	72,000 72,000	25% 50%
Profit after tax	1,44,.000	1,44,000	----------	------------

Common Size Income statement

Particular	2008 amount	2009 amount	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
Net Sales Less: C.O.G.S.	8,00,000 4,80,000	10,00,000 6,00,000	100% 60%	100% 60%
Gross Profit Less: IndirectExpenses	3,20,000 32,000	4,00,000 40,000	40% 4%	40% 4%
Operating Profit/ PBT Less: tax	2,88,000 1,44,000	3,60,000 2,16,000	36% 18%	36% 21.6%
Profit after tax	1,44,.000	1,44,000	18%	14.4%

RATIO AND ANALYSIS

Learning outcomes:

- Explain the meaning of accounting ratios.
- Understand the objectives and limitation of accounting ratios.
- Classify the ratios as profitability, activity and solvency.
- Compute various profitability, activity and solvency ratios.
- Express your views about the operational efficiency and financial soundness of the company.
- Comment upon the performance of the enterprise.
- Recommend financial measures to be adopted to strengthen financial structure of the company

IMPORTANT FORMULAE OF RATIO ANALYSIS

Profitability ratio

1. Gross Profit Ratio = Gross profit/Net sales*100 {gross profit=Net sales- cost of goods sold}
2. (a) Net profit ratio= Net Profit/Net sales*100 {Net Profit=Gross profit+operating and non operatingincome-operating and non operating expenses.}
   (b)Operating Net profit ratio =Operating Net profit/Net sales*10

3 Operating Ratio= $\frac{\text{(Cost of goods sold + Operating expenses)}}{\text{Net Sales}}$ x 100

4 Return on investment (ROI)= $\frac{\text{Net Profit before interest,tax and dividend}}{\text{Capital Employed}}$ X 100

Capital employed= Share Capital+Undistributed profit+long term loans-
(fictitious assets like underwriting commission, preliminary expenses, discount or loss on issue of shares and non-operating assets like Investments).
or
Net fixed assets+Working capital

working capital= Current assets-current liabilties.

5 Earning per share= $\frac{\text{Net Profit-Preference dividend}}{\text{No.of Equity shares}}$

6 Dividend per share=$\frac{\text{Net Profit after interest, taxes and preference dividend}}{\text{Number of equity shares}}$

7 Price Earning Ratio=$\frac{\text{Market price of a share}}{\text{Earning per share}}$

(B) TURNOVER OR ACTIVITY OR PERFORMANCE RATIOS:

1 Working capital turnover ratio=$\frac{\text{Net Sales}}{\text{working capital}}$

Working Capital= Current assets- current Liabilities

3 Debtors turnover ratio= $\frac{\text{Net credit sales}}{\text{Average Debtors}}$

Average Debtors=$\frac{\text{Debtorsin the beginning+Debtors at the end}}{2}$

Receivables= Debtors+Bills receivable

4 Payable turnover ratio= Net credit purchases
Account Payable

5 Fixed Assets Turnover ratio= Sales or cost of goods sold
Net fixed assets

6 Current assets Turnover Ratio=Net sales or cost of goods sold
current
Assets

LIQUIDITY RATIOS:

1 Current ratio= current Assets
current liabilities

2 Liquid or quick or acid test ratio= liquid assets
current liabilities

Solvency ratios

1 Debt to equity ratio= Long term loans
Shareholder's funds

2 Total assets to debt ratio= Total assets
Long term debts

3 Proprietory ratio= Proprietors fund or shareholders fund
Total Assets

4 Current asset turnover ratio= Net sales/cost of goods sold
current assets

5 Fixed assets turnover rqatio= Net sales
Net fixed assets

Ratio Analysis

Questions for 1 mark

1) X Ltd has a debt Equity Ratio at 3:1. According to the Management, it should be maintained at 1;1. What are the two choices to do so ?

Ans : The Two choices to maintain Debt Equity ratio at 1:1 are:

a) To increase the Equity
b) To reduce the debt

2) Assuming that the Debt equity ratio is 1:2, state giving reason whether the ratio willimprove, decline or will have no change if equity shares are issued for cash.

Ans It will decrease the ratio as Equity increases without change in the debt.

3) State the satisfactory ratio of Current ratio and Liquid Ratio

Ans The Standard Current ratio is 2:1 whereas Ideal Liquid ratio is 1:1.

4) Current ratio of a firm is 2:1. State whether ‘Purchase of goods for cash” will improve, decrease or will not have any change in the ratio

Ans. It will not change the ratio as stock increases and cash decreases.

5) Define “ratio Analysis”

Ans Ratio Analysis refers to the process of computing, determining and explaining the relationship between the component items of financial statements in terms of ratios.

2-3 MARKS

6) A company has a current ratio of 4:1 and Quick ratio is 2.5;1. Assuming that the inventories are Rs 22500, find out total current assets and current liabilities.

Ans Current ratio ---4:1
Quick ratio ---2.5:1
Inventory =4-2.5=1.5
If inventory is 1.5, then Current assets =4
If inventory = 22500, then current assets = 4X 22500/1.5 =60,000
Current Liabilities = 60,000/4 = Rs 15000.

7) From the following, calculate stock turnover ratio—
Net Sales –Rs 2,00,000 Gross Profit = 25% Opening stock = 5000
Closing stock : 15000

Ans – Stock Turnover ratio = Cost of goods sold/Average stock
Cost of sales= sales-gross profit
Cost of sales = 2,00,000 – 50,000 = 1,50,000
Average stock $= \frac{\text{Opening stock + closing stock}}{2} =$ 20,000/2 =10,000
1,50,000/10,000 = 15 times.

8) Calculate Gross profit and sales—
Average stock = Rs 80,000
Stock turnover ratio = 6 times
Selling price = 25% above cost

Ans. Stock Turnover ratio = cost of sales/average stock
6 = cost of sales/80,000
Cost of sales = 80,000X 6 = 4,80,000
Gross profit = 4,80,000 X 25/100 = 1,20,000
Sales = Cost of sales + Gross Profit
4,80,000 + 1,20,000 = Rs 6,00,000

9) A Company made credit sales of Rs 7,20,000 during the year. If the collection period is 50 days and the year is assumed to be of 360 days. Calculate –
a) Average Debtors b) Debtors Turnover ratio c)Opening and Closing Debtors if the closing Debtors are Rs 10,000 more than the opening Debtors.

Ans Credit sales per day = 7,20,000/360 = Rs 2000 per day.
Average Debtors = 2000 X 50 days = Rs 1,00,000
Debtors Turnover ratio = Net credit sales/Average Debtors
= 7,20,000/1,00,000 = 7.2 times.
Let the Opening Debtors be “x”
Closing Debtors = “x + 10,000”
Total Debtors = x + x + 10,000 = 2,00,000
= 2x+ 10,000 = 2,00,000
= 2x = 1,90,000
x = 95,000 (Opening Debtors = 95000)
Closing Debtors = 95000 + 10000 = Rs 1,05,000

10) Calculate Operating ratio—

	Rs
Net Sales =	5,40,000
Net Purchases	3,10,000
Opening Stock	75,000
Direct expenses	32,000
Closing Stock	50,000
Selling expenses	25,000
Distribution expenses	15,000

Operating ratio = Cost of sales +Operating expenses/Net sales *100
Cost of sales = Opening stock + Net purchases + direct expenses-closing stock
= 75000+3,10,000+32,000-50,000 = 3,67,000
Operating expenses = Selling expenses + Distribution expenses
= 25000+15000 = 40,000
Operating ratio = 3,67,000+40,000/5,40,000 X 100 = 75.37%

11) Net profit after Interest but before tax Rs 1,40,000
15% Long term debt : Rs 4,00,000
Shareholders fund : Rs 2,40,000
Tax rate : 50% , Calculate Return on capital employed.

- Return on capital employed = Net profit before interest and tax/Capital employed X 100

Interest on long term debt = 15/100 X 4,00,000
= 60,000
Net Profit before Interest = 1,40,000 + 60,000 = 2,00,000
Capital employed = Debt + Shareholders fund
= 4,00,000 + 2,40,000 = 6,40,000
Return on Capital employed = 2,00,000/6,40,000 X 100 = 31.25%

12) Calculate Inventory Turnover Ratio—
Sales = Rs 4,00,000 Average stock – Rs 55,000 Gross Loss ratio =10%

- Inventory Turnover ratio = Cost of sales/Average stock
=4,40,000/55000 = 8 times .

13) Calculate Fixed Assets turnover ratio-
Cost of goods sold : Rs 16,80,000
Gross profit = Rs 5,60,000
Capital employed = Rs43,00,000
Working capital = Rs 80,000

- Fixed assets turnover ratio = Net sales/ Net fixed assets

Net sales = Cost of goods sold + Gross profit
= 16,80,000 + 5,60,000
= 22,40,000

Capital employed = Net fixed assets + Net working Capital
4,00,000 = Net Fixed assets + 80,000
Net Fixed assets = 3,20,000
Fixed assets turnover ratio = 22,40,000/3,20,000 = 7 times

14) Calculate Current Asset Turnover ratio if –

Cost of goods sold	= Rs 7,50,000
Gross profit	= Rs 2,10,000
Total Assets	= Rs 3,00,00
Capital employed	= Rs 3,00,000
Working capital	Rs 60,000

- Current Assets Turnover ratio = Net Sales/ Net Current assets

Net sales = Cost of sales + Gross Profit
= 7,50,000 + 2,10,000
= 9,60,000

Capital Employed = Net Fixed +Net Working Capital
Net Fixed Assets = Capital employed – Net working Capital
= 3,00,000 – 60,000
= 2,40,000.

Total Assets = Rs 3,00,000
Current Assets = Total assets – Fixed assets
= 3,00,000 – 2,40,000
= 60,000

Current Assets turnover ratio = Net Sales/Net current Assets
= 9,60,000/60,000 = 16 times.

15) From the following information calculate =
a) Debt equity ratio b) Total Assets to Debt ratio c) Proprietory ratio

Equity share capital = Rs 20,00,000
Reserves and Surplus = Rs 12,00,000
12% Debentures = Rs 10,00,000
Bank Loan = Rs 8,00,000
Current Liabilities = Rs 5,00,000
Fixed Assets = Rs 25,00,000
Goodwill = Rs 4,00,000
Current Assets = Rs 18,00,000

a) Debt Equity Ratio = Debt/Equity
Debt = 12% Debentures + Bank Loan
= 10,00,000 + 8,00,000
= 18,00,000
Equity = Equity share capital + Reserves and Surplus
= 20,00,000+12,00,000
= Rs 32,00,000
Debt / Equity = 18,00,000/32,00,000 = 0.56:1

b) Total Assets to Debt ratio = Total Assets/Long term Debt

Total Assets = Fixed assets + Goodwill + Current assets

= 25,00,000 + 4,00,000 + 18,00,000

=Rs 47,00,000

Long Term Debt = 12% Debentures + Bank Loan

= 18,00,000

Total Assets to Debt Ratio = 47,00,000/18,00,000 = 2.6:1

c) Proprietory Ratio = Equity/Total Assets

= 32,00,000/47,00,000 = 0.68 or 68%

Unit 6.CASH FLOW STATEMENT

LEARNING OBJECTIVES

i) To understand the meaning of cash flow statement
ii) To understand the meaning of cash, cash funds and cash equivalents.
iii) To calculate operating profit and cash flow from operating activities
iv) To understand operating and non-operating expenses and incomes.
v) To calculate cash flow from operating, investing and financing activities.
vi) To prepare cash flow statement with additional information

SALIENT POINTS :

- Classification of Activities : The cash flow from Operating, Investing and Financing are shown separately in Cash flow statement.
- Non cash items : The flow of cash which affects the statement is reflected in the preparation of Cash flow statement.

i) What do you mean by cash flow statement?

A statement which shows inflow and outflow of cash and cash equivalents from operating, investing and financing activities during a specific period.

ii) What are the various activities classified as per AS-3(revised) related to cash flow statement?

(a) cash flow from operating activities
(b) cash flow from investing activities
(c) cash flow from financing activities.

iii) State one objective of cash flow statement.

Helpful for short term planning, for preparing cash budget

iv) What do you mean by cash equivalent?

Short –term highly liquid investments which are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value.

v) State the category of the following items for a financial as well as non-financial company

(1) Dividend received
(2) Dividend received
(3) Interest paid
(4) Interest received

Answer

	Financial company	non-financial company
(1) Dividend received	operating activity	investing activity
(2) Dividend paid	financing activity	financing activity
(3) Interest paid	operating activity	financing activity
(4) Interest received	operating activity	investing activity

(Note; for objective type questions any one or two can be asked)

vi) What are the objectives of preparing cash flow statement?

Ans. The objectives of cash flow statement are:

i) To ascertain the specific sources (i.e., operating / investing financing activities) of cash and cash equivalents generated by an enterprise.
ii) To ascertain the specific uses (i.e., operating / investing / financing activities) of cash and cash equivalents used by an enterprise.
iii) To ascertain the net change in cash and cash equivalents (sources minus uses of cash and cash equivalents) between the date of two Balance Sheets.

Problems

1) Calculate the net amount of cash flow if a fixed asset costing Rs. 32,000(having a book value of Rs. 24,000) is sold at a loss of Rs. 8,000.
   Cash inflow from investing activities – Rs. 16,000
   (Book value –loss=Amount received from sale Rs. 24000-Rs.8,000)
2) From the following information calculate cash flow from operating activities:
   Profit and loss account

For the year ended on 31-03-2007

Particulars	Amount	Particulars	Amount
To Cost of goods sold	6,20,000	By sales	9,60,000
To selling and distribution expenses	52,000	By Profit on sale of furniture	12,000
To office Expenses	1,20,000	By interest Received	2,400
To Loss on sale of machinery	57,600		
To depreciation	24,000		
To Discount on debentures	8,000		
To payment for taxation	28,800		
To Net Profit	64,000		
	9,74,400		9,74,400

Additional information

Debtors	1,12,000	1,31,200
Stock	67,200	92,000
Creditors	50,000	60,000
Outstanding expenses	2,800	1,600

SOLUTION

Particulars		Amount	Amount
Net Profit before Taxation and extraordinary items		92,800	
Net Profit +Taxation(64,000+28,800)			
Add non-operating expenses			
Depreciation	24,000		
Loss on sale of machinery	57,600		
Discount on debentures written off	8,000	89,600	
		1,82,400	
less non-operating incomes			
Profit on sale of furniture	(12000)		
Interest Received	(2,400)	(14,400)	
operating profit before working capital changes		1,68,000	
Adjustments related to current assets and liabilities			
Add: Increase in current Liabilities			
Creditors		10,000	
		1,78,000	
Less : Decrease in current liabilities			
outstanding expenses		(1,200)	
less Increase in current assets			
debtors	19,200		
Stock	24,800	(44,000)	
		1,32,800	
Less payment of taxes		(28,800)	
Net cash flow from operating activities			1,04,000

3) From the following balance sheet calculate cash flow from operating activities.

liabilities	2,007	2008	Assets	2007	2,008
Creditors	31,200	39,000	cash in hand	7,800	3,120
Bills payable	33,600	7,800	cash in hand	9,800	3,680
Income received in advance	40,000	50,000	Short term investments	15,600	10,800
outstanding salaries	20,000	20,200	Investments	62,400	46,800
10% Debentures	93,600	1,24,800	Inventory	46,800	70,200
equity share capital	80,000	80,000	Debtors	39,000	46,800
profit and loss	30,000	62,400	Bills receivable	7,800	15,600
General Reserve	16,800	31,200	Fixed assets	1,56,000	2,18,400
	3,45,200	4,15,400		3,45,200	4,15,400

Solution

Particulars	Amount	Amount
Net Profit Before Tax and Extraordinary items		
(profit+Transfer to general reserve)		
(Rs. 32,000+Rs. 14,400)	46,800	
Adjustments		
items to be added		
Interest on debentures	9,360	
Operating profit before working capital changes		56,160
Adjustments related to current assets and liabilities		
Add : Increase in Current liabilities		
creditors	7,800	
Income Received in advance	10,000	
outstanding salaries	200	18,000
		74,160
Less: Increase in Current Assets		
Inventory	(23,400)	
Debtors	(7,800)	
Bills Receivable	(7,800)	(39,000)
		35,160
Less :Decrease in Current Liabilities		
Bills Payable	(25,800)	
Net Cash from Operating Activities		9,360

4) X Ltd. made a profit of Rs.1, 00,000/- after charging depreciation of Rs.20,000/- on assets and a transfer to General Reserve of Rs.30,000/-. The Goodwill written off was Rs.7, 000/- and the gain on sale of machinery was Rs.3, 000/-. The other information available to you (changes in the value of current assets and current liabilities) is as follows:

At the end of the year Debtors showed an increase of Rs.6, 000/-, creditors an increase of Rs.10, 000/-, prepaid expenses an increase of Rs.200/-, Bills Receivable a decrease of Rs.3, 000/-, Bills Payable a decrease of Rs.4, 000/- and outstanding expenses a decrease of Rs.2, 000/-. Ascertain the cash flow from the operating activities.

Ans. Solution :

CASH FLOW FROM OPERATING ACTIVITIES

Particulars			Rs.
Net Profit			1,00,000
Add : Transfer to General Reserve			30,000
	Net Profit before Tax		1,30,000
Adjustment for non-cash and non-operation expenses :			
Add :	Depreciation	20,000	
	Goodwill Written Off	7,000	
		27,000	
Less :	Gain on Sale of Machinery	3,000	24,000
Operating Profit before working capital changes			1,54,000
Add :	Decrease in Current Assets and Increase in Current Liabilities		
	Increase in Creditors	10,000	
	Decrease in Bills Receivable	3,000	13,000
			1,67,000
Less :	Increase in Current Assets and Decrease in Current Liabilities :		
	Increase in Debtors	6,000	
	Increase in Prepared Expenses	200	
	Decrease in Bill s Payable	4,000	
	Decrease in Outstanding Expenses	2,000	12,200
	Cash Flow from Operating Activities		1,54,800

5) From the following Balance Sheets of Ranjan Ltd. prepare Cash Flow Statement:

Liabilities	2001	2002	Assets	2001	2002
Equity Share Capital	1,50,000	2,00,000	Goodwill	36,000	20,000
12% Pre. Share Capital	75,000	50,000	Building	80,000	60,000
General Reserve	20,000	35,000	Plant	40,000	1,00,000
Profit and Loss A/c	15,000	24,000	Debtors	1,19,000	1,54,500
Creditors	37,500	49,500	Stock	10,000	15,000
		Cash	12,500	9,000	
	2, 97,500	2, 58,500		2, 97,500	3, 58,500

Depreciation charged on plant was Rs. 10000 and building Rs. 60000.

Ans. Solution:

Rajan Ltd.

CASH FLOW STATEMENT for the year ended 31st December, 2002

Particular's	Rs.	Rs.
A. Cash Flow from Operating Activities		
B. Net Profit before tax :		
Closing Balanced of Profit and Loss A/c		
Closing Balance of Profit and Loss A/c	24,000	
Add: Transfer to General Reserve	15,000	
	39,000	
Less: Opening Balance of Profit and Loss A/c	15,000	
Net Profit before tax and extraordinary items		24,000
Adjustments for:		
Add: Depreciation on Plant	10,000	
Depreciation on Building	60,000	
Goodwill written off	16,000	86,000
Operating profit before working capital changes		1,10,000
Adjustments for:		
Increase in Creditors	12,000	
Increase in Debtors	(35,500)	
Increase in Stock	(5,000)	(28,500)
Net Cash from operating activities (A)		81,500

B. Cash Flow from Investing Activities			
Purchase of Plant (Note 2)		(70,000)	
Purchase of Building (Note 1)		(40,000)	
Net cash used in investing activities	(B)		(1,10,000)
C. Cash Flow from financing Activities			
Issue of Equity Shares		50,000	
Redemption of 12% Preference Shares		(25,000)	
Net Cash from financing activities	(C)		25,000
Net decrease in cash and cash Equivalents	(A+B+C)		(3,500)
Cash and cash equivalents at the beginning of the year			12,500
Cash and cash equivalents at the close of the year			9,000

Working Notes:

1. Dr. BUILDING ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	80,000		By Depreciation A/c	60,000
	To Bank A/c	70,000		By Balance c/d	60,000
		1, 20,000			1, 20,000

2. Dr. PLANT ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	40,000		By Depreciation A/c	10,000
	To Bank A/c	70,000		By Balance c/d	1, 00,000
		1,10,000			1,10,000

6) From the following Balance Sheet of India Ltd. and the additional information given made out the Cash Flow Statement:

Liabilities	2007	2008	Assets	2007	2008
Share Capital	3, 00,000	4, 00,000	Goodwill	1, 15,000	90,000
Mortgage Loan	1, 50,000	1, 00,000	Land & Building	2, 00,000	1, 70,000
General Reserve	40,000	70,000	Plant	80,000	2, 00,000
P & L A/c	30,000	48,000	Debtors	1, 60,000	2, 00,000
Proposed Div.	42,000	50,000	Stock	77,000	1, 09,000

Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills Payable	20,000	16,000	Cash in hand	15,000	10,000
Provisions for Taxation	40,000	50,000	Cash at Bank	10,000	8,000
	6, 77,000	8, 17,000		6, 77,000	8, 17,000

Additional information:

(1)Depreciation of Rs.1,000/- and Rs.20,000/- has been charged on Plant and Land & Building respectively in 2006-07.

(2)The interim dividend of Rs.20, 000/- has been paid in 2007-08.

(3)Income Tax of Rs.35, 000/- was paid during the year 2007-08.

Ans. Cash Flow from operating activities Rs. 1, 25,000, cash used in investing activities Rs. 120000 cash used in Financing Activities Rs. 12,000, Net decrease in cash and Bank Balance Rs. 7000.

7) From the following prepare cash flow statement as per AS-3

Liabilities	2010	2011	Assets	2010	2011
Share Capital	2,88,000	3,20,000	Fixed Assets	2,40,000	4,00,000
Reserves And Surpluses	64,000	80,000	Less Accumulated Dep.	64,000	1,20,000
Bank Loan	80,000	60,000		1,76,000	2,80,000
creditors	2,48,000	2,40,000	Goodwill	64,000	56,000
bills payable		4,000	Investments	72,000	88,000
Proposed Dividend	36,000	48,000	Stock	1,60,000	1,80,000
Income Tax Payable	20,000	24,000	Debtors	1,60,000	1,52,000
			Bank	1,04,000	20,000
	7,36,000	7,76,000		7,36,000	7,76,000

Additional
information:

(i) During the year a part of the machinery costing Rs. 40,000 was sold for Rs. 20,000.

(ii) Depreciation provided during the year Rs. 80,000.

(iii) Interim Dividend paid during the year Rs. 20,000.

Solution

Cash Flow Statement for the year ended 2011

A Cash flow from operating activities:			
Profit before Tax and Extraordinary items		1,08,000	
Adjustments for :			
Add: Depreciation		80,000	
Goodwill Written off		8,000	
Less: Profit on sale of Machinery		(4,000)	
operating profit before working capital changes		1,92,000	
Add : Decrease in current assets:			
Debtors	8,000		
Add: increase in current liability:			
Bills payable	4,000	12,000	
		2,04,000	
Less : increase in current assets			
Stock	20,000		
less : Decrease in Current Activities			
Creditors	8,000	(28,000)	
cash from operating activities		1,76,000	
Less Tax paid		(20,000)	
Net cash flow from operating activities			1,56,000

B Cash flow from investing activities			
sale of machinery		20,000	
purchase of fixed assets		(2,00,000)	
purchase of investment		(16,000)	
Cash flow in investing activities			1,96,000

C: Cash flows from operating activities:			
Issue of Share capital		32,000	
Repayment of bank loan		(20,000)	
payment of dividend			
regular	36,000		
interim	20,000	(56,000)	
Cash used in financing activities			(44,000)
A+B+C=			(84,000)
Add cash and cash equivalents at the beginning			1,04,000
cash and cash equivalents at the end			20,000

Working Notes

(i) Calculation of Profit before tax and extra ordinary items:

Net profit during the year	--------	
Add: Transfer to reserves	16,000	
Proposed dividend	48,000	
Income tax provision	24,000	
Interim Dividend	20,000	
		1,08,000

Fixed assets account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To balance b/d	2,40,000	By Bank (sale)	40,000
To Cash a/c (B.F)(purchase)	2,00,000	By Balance c/d	4,00,000
	4,40,000		4,40,000

Machinery Disposal Account			Cr.
To Fixed Assets a/c	40,000	By cash a/c	20,000
TO Profit and loss a/c (B.F)	4,000	By accumulated dep.	24,000
	44,000		44,000

Accumulated Depreciation Account			Cr.
To assets disposal a/c	24,000	by balance b/d	64,000
To bal c/d	1,20,000	By P &L a/c	24,000
	1,44,000		1,44,000

Income Tax Payable a/c

To cash a/c	20,000	By Balance b/d	20,000
To Balance c/d	24,000	By P&L a/c	24,000
	44,000		44,000

STUDY MATERIAL
ON
HOTS
Subject: Accountancy
CLASS – XII
Accounting for Partnership and Company Accounts

Unit 1:

ACCOUNTING FOR PARTNERSHIP FIRMS: BASIC CONCEPTS

Q.1 State the conditions under which capital balances may change under the system of a Fixed Capital Account.

Q.2 A is partner in a firm. His capital as on Jan 01, 2007 was Rs. 60,000. He introduced additional capital of Rs. 20000 on Oct 01 2007. Calculate interest on A's capital @ 9% p.a.

Q.3 A, B and C are partners in a firm having no partnership agreement. A, B and C contributed Rs. 20,000, Rs. 30,000 and Rs. 1,00,000 respectively. A and B desire that the profit should be divided in the ratio of capital contribution. C does not agree to this. How will you settle the dispute.

Q.4 A and B are partners in a firm without a partnership deed. A is an active partner and claims a salary of Rs. 18,000 per month. State with reason whether the claim is valid or not.

Q.5 Chandar and Suman are partners in a firm without a partnership deed. Chandar's capital is Rs. 10,000 and Suman's capital is Rs. 14,000. Chander has advanced a loan of Rs. 5000 and claim interest @ 12% p.a. State whether his claim is valid or not.

Q.6 R, S, and T entered into a partnership of manufacturing and distributing educational CD's on April 01, 2006. R looked after the business development, S content development and T financed the project. At the end of the year (31-03-2007) T wanted an interest of 12% on the capital employed by him. The other partners were not inclined to this. How would you resolve this within the ambit of the Indian Partnership Act, 1932?

Q.7 A, B and C are partners in a firm. A withdrew Rs. 1000 in the beginning of each month of the year. Calculate interest on A's drawing @ 6% p.a.

Q.8 A, B and C are partners in a firm, B withdrew Rs. 800 at the end of each month of the year. Calculate interest on B's drawings @ 6% p.a.

Q.9 A, B and C are partners in a firm. They have omitted interest on capital @ 10 % p.a. for three years ended 31st march 2007. Their fixed capitals on which interest was to be calculated through –out were

A	Rs. 1,00,000
B	Rs. 80,000
C	Rs. 70,000

Give the necessary Journal entry with working notes.

Q.10 X, Y, and Z are partners sharing profits and losses in the ratio of 3:2:1. After the final accounts have been prepared it was discovered that interest on drawings @ 5 % had not been taken into consideration. The drawings of the partner were X Rs. 15000, Y Rs. 12,600, Z Rs. 12,000. Give the necessary adjusting Journal entry.

Q.11 A, B and C are partners sharing profits and losses in the ratio of 3:2:1. Their fixed capitals are Rs. 1,50,000, Rs. 1,00,000 and Rs. 80,000 respectively. Profit for the year after providing interest on capital was Rs. 60,000, which was wrongly transferred to partners equally. After distribution of profit it was found that interest on capital provided to them @ 10% instead of 12% . Pass necessary adjustment entry. Show your working clearly.

Q.12 Ravi and Mohan were partner in a firm sharing profits in the ratio of 7:5. Their respective fixed capitals were Ravi Rs. 10,00,000 and Mohan Rs. 7,00,000. The partnership deed provided for the following:-

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

(ii) Ravi's salary Rs. 6000 per month and Mohan's salary Rs. 60000 per year.

The profit for the year ended 31-03-2007 was Rs. 5,04,000 which was distributed equally without providing for the above. Pass an adjustment Entry.

Q.13 Distinguish between fixed capital method and fluctuating capital method.

Q.14 A, B and C were partners in a firm having capitals of Rs. 60,000, Rs. 60,000 and Rs. 80,000 respectively. Their current account balances were A- Rs. 10,000, B- Rs. 5000 and C- Rs. 2000 (Dr.). According to the partnership deed the partners were entitled to an interest on capital @ 5% p.a. C being the working partner was also entitled to a salary of Rs. 6,000 p. a. The profits were to be divided as follows:

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

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

(iii) Remaining profits to be shared equally.

During the year the firm made a profit of Rs. 1,56,000 before charging any of the above items.

Prepare the profit and loss appropriate on A/C.

Q.15 A and B are partners sharing profits in proportion of 3:2 with capitals of Rs. 40,000 and Rs. 30,000 respectively. Interest on capital is agreed at 5 % p.a. B is to be allowed an annual salary of Rs. 3000 which has not been withdrawn. During 2001 the profits for the year prior to calculation of interest on capital but after charging B's salary amounted to Rs. 12,000. A provision of 5% of this amount is to be made in respect of commission to the manager.

Prepare profit and loss appropriation account showing the allocation of profits.

Unit 2: RECONSTITUTION OF PARTNERSHIP

ADMISSION OF A PARTNER

Q.1 On what occasions does the need for valuation of goodwill arise?

Q.2 Why is it necessary to revalue assetsand liabilities at the time of admission of a new partner?

Q.3 What is meant by sacrificing ratio?

Q.4 State two occasions when sacrificing ratio may be applied.

Q.5 A business has earned average profit of Rs. 60,000 during the last few years. The assets of the business are Rs. 5,40,000 and its external liabilities are Rs. 80,000. The normal rate of return is 10%. Calculate the value of goodwill on the basis of capitalisation of super profits.

Q.6 The capital of a firm of Arpit and Prajwal is Rs. 10,00,000. The market rate of return is 15% and the goodwill of the firm has been valued Rs. 1,80,000 at two years purchase of super profits. Find the average profits of the firm.

Q.7 The average profits for last 5 years of a firm are Rs. 20,000 and goodwill has been worked out Rs. 24,000 calculated at 3 years purchase of super profits. Calculate the amount of capital employed assuming the normal rate of interest is 8 %.

Q.8 Rahul and Sahil are partners sharing profits together in the ratio of 4:3. They admit Kamal as a new partner. Rahul surrenders 1/4th of his share and Sahil surrenders 1/3rd of his share in favour of Kamal. Calculate the new profit sharing ratio.

Q.9 Ajay and Naveen are partners sharing profits in the ratio of 5:3. Surinder is admitted in to the firm for 1/4th share in the profit which he acquires from Ajay and Naveen in the ratio of 2:1. Calculate the new profit sharing ratio.

Q.10 A and B were partners sharing profits in the ratio of 3:2. A surrenders 1/6th of his share and B surrenders 1/4th of his share in favour of C, a new partner. What is the new ratio and the sacrificing ratio.

Q.11 Aarti and Bharti are partners sharing profits in the ratio of 5:3. They admit Shital for 1/4th share and agree to share between them in the ratio of 2:1 in future. Calculate new and sacrificing ratio.

Q.12 X and Y divide profits and losses in the ratio of 3:2. Z is admitted in the firm as a new partner with 1/6th share, which he acquires from X and Y in the ratio of 1:1. Calculate the new profit sharing ratio of all partners.

Q.13 Rakhi and Parul are partners sharing profits in the ratio of 3:1. Neha is admitted as a partner. The new profit sharing ratio among Rakhi, Parul and Neha is 2:3:2. Find out the sacrificing ratio.

Q.14 X and Y are partners sharing profits in the ratio of 5:4. They admit Z in the firm for 1/3rd profit, which he takes 2/9th from X and 1/9th from Y and brings Rs. 1500 as premium. Pass the necessary Journal entries on Z's admission.

Q.15 Ranzeet and Priya are two partners sharing profits in the ratio of 3:2. They admit Nilu as a partner, who pays Rs. 60,000 as capital. The new ratio is fixed as 3:1:1. The value of goodwill of the firm was determined at Rs. 50,000. Show journal entries if Nilu brings goodwill for her share in cash.

Q.16 A and B are partners sharing profits equally. They admit C into partnership, C paying only Rs. 1000 for premium out of his share of premium of Rs. 1800 for 1/4th share of profit. Goodwill account appears in the books at Rs. 6000. All the partners have decided that goodwill should not appear in the new firms books.

Q.17 A and B are partners sharing profits in the ratio of 3:2. Their books showed goodwill at Rs. 2000. C is admitted with 1/4th share of profits and brings Rs. 10,000 as his capital but is not able to bring in cash goodwill Rs. 3000. Give necessary Journal entries.

Q.18 Piyush and Deepika are partners sharing in the ratio of 7:3. they admit Seema as a new partner. The new ratio being 5:3:2. Pass journal entries.

Q.19 A and B are partners with capital of Rs. 26,000 and Rs. 22,000 respectively. They admit C as partner with 1/4th share in the profits of the firm. C brings Rs. 26,000 as his share of capital. Give journal entry to record goodwill on C's admission.

Q.20 A and B are partners sharing profits in the ratio of 3:2. They admit C into partnership for 1/4th share. C is unable to bring his share of goodwill in cash. The goodwill of the firm is valued at Rs. 21,000. give journal entry for the treatment of goodwill on C's admission.

Q.21 A and B are partners with capitals of Rs. 13,000 and Rs. 9000 respectively. They admit C as a partner with 1/5th share in the profits of the firm. C brings Rs. 8000 as his capital. Give journal entries to record goodwill.

Q.22 A, B and C were partners in the ratio of 5:4:1. On 31st Dec. 2006 their balance sheet showed a reserve fund of Rs. 65,000, P&L A/C (Loss) of Rs. 45,000. On 1st January, 2007, the partners decided to change their profit sharing ratio to 9:6:5. For this purpose goodwill was valued at Rs. 1,50,000.

The partners do not want to distribute reserves and losses and also do not want to record goodwill.

You are required to pass single journal entry for the above.

Q.23 A and B were partners in the ratio of 3:2. They admit C for 3/13th share. New profit ratio after C's admission will be 5:5:3. C brought some assets in the form of his capital and for the share of his goodwill.

Following were the assets:

Assets	Rs.
Stock	2,44,000
Building	2,40,000
Plant and Machinery	1,40,000

At the time of admission of C goodwill of the firm was valued at Rs. 12,48,000.
Pass necessary journal entries.

Q.24 X, Y and Z are sharing profits and losses in the ratio of 5:3:2. They decide to share future profits and losses in the ratio of 2:3:5 with effect from 1st April, 2002. They also decide to record the effect of the reserves without affecting their book figures, by passing a single adjusting entry.

Book Figure	
General Reserve	Rs. 40,000
Profit & loss A/C	Rs. 10,000
Advertisement Suspense A/C	Rs. 20,000

Pass the necessary single adjusting entry.

RETIREMENT /DEATH OF A PARTNER

Q.1 Distinguish between Sacrificing Ratio and Gaining Ratio.

Q.2 Kamal, Kishore and Kunal are partners in a firm sharing profits equally. Kishore retires from the firm. Kamal and Kunal decide to share the profits in future in the ratio 4:3. Calculate the Gaining Ratio.

Q.3 P, Q and R are partners sharing profits in the ratio of 7:2:1. P retires and the new profit sharing ratio between Q and R is 2:1. State the Gaining Ratio.

Q.4 A, B and C are partners in a firm sharing profits in the ration of 2:2:1. B retires and his share is acquired by A and C equally. Calculate new profit sharing ratio of A and C.

Q.5 X, Y and Z are partners sharing profits in the ratio of 4/9, 1/3 and 2/9. X retires and surrenders 2/3rd of his share in favour of Y and remaining in favour of Z. Calculate new profit sharing ratio and gaining ratio.

Q.6 X, Y and Z have been sharing profits and losses in the ratio of 3:2:1. Z retires. His share is taken over by X and Y in the ratio of 2:1. Calculate the new profit sharing ratio.

Q.7 P, Q and R were partners in a firm sharing profits in 4:5:6 ratio. On 28-02-2008 Q retired and his share of profits was taken over by P and R in 1:2 ratio. Calculate the new profit sharing ratio of P and R.

Q.8 Mayank, Harshit and Rohit were partners in a firm sharing profits in the ratio of 5:3:2. Harshit retired and goodwill is valued at Rs 60000. Mayank and Rohit decided to share future profits in the ratio 2:3. Pass necessary journal entry for treatment of goodwill.

Q.9 Ramesh, Naresh and Suresh were partners in a firm sharing profits in the ratio of 5:3:2. Naresh retired and the new profit sharing ratio between Ramesh and Suresh was 2:3. On Naresh retirement the goodwill of the firm was valued at Rs. 120000. Pass necessary journal entry for the treat.

Q.10 L, M and O were partners in a firm sharing profits in the ratio of 1:3:2. L retired and the new profit sharing ratio between M and O was 1:2. On L's retirement the goodwill of the firm was valued Rs. 120000. Pass necessary journal entry for the treatment of goodwill.

Q.11 State the journal entry for treatment of deceased partners share of profit for his life period in the year of death.

Q.12 X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3:2:1. The profit of the firm for the year ended 31st March, 2007 was Rs. 3,00000. Y dies on 1st July 2007. Calculate Y's share of profit up to date of death assuming that profits in the year 2007- 2008 have been accured on the same scale as in the year 2006-07 and pass necessary journal entry.

Q.13 A, B and C were partners in a firm sharing profits in 3:2:1 ratio. The firm closes its books on 31st March every year. B died on 12-06-2007. On B's death the goodwill of the firm was valued at Rs. 60000. On B's death his share in the profit of the firm till the time of his death was to be calculated on the basis of previous years which was Rs.150000. Calculate B's share in the profit of the firm. Pass necessary journal entries for the treatment of goodwill and B's share of profit at the time of his death.

Q.14 A, B and C were partners in a firm sharing profits in the ratio of 2:2:1. C dies on 31st July, 2007. Sales during the previous year upto 31st march, 2007 were Rs. 6,00,000 and profits were Rs. 150000. Sales for the current year upto 31st July were Rs. 250000. Calculate C's share of profits upto the date of his death and pass necessary journal entry.

DISSOLUTION OF PARTNERSHIP FIRM

Q.1 Distinguish between dissolution of partnership and dissolution of partnership firm on the basis of continuation of business.

Q.2 Why is Realisation Account prepared on dissolution of partnership firm?

Q.3 State any one point of difference between Realisation Account and Revaluation Account.

Q.4 All partners wish to dissolve the firm. Yastin, a partner wants that her loan of Rs. 2,00000 must be paid off before the payment of capitals to the partners. But, Amart, another partner wants that the capital must be paid before the payment of Yastin's loan. You are required to settle the conflict giving reasons.

Q.5 On a firms dissolution debtors as shown in the Balance sheet were Rs. 17000 out of these Rs. 2000 became bad. One debtor of Rs. 6000 became insolvent and 40% could be recovered from him. Full recovery was made from the balance debtors. Calculate the amount received from debtors and pass necessary journal entry.

Q.6 On dissolution of a firm, Kamal's capital account shows a debit balance of Rs. 16000. His share of profit on realization is Rs. 11000. He has taken over firms creditors at Rs. 9000. Calculate the final payment due to /from him and pass journal entry.

Q.7 A and B were partners in a firm sharing profits and losses equally. Their firm was dissolved on 15th March, 2004, which resulted in a loss of Rs. 30,000. On that date the capital A/C of A showed a credit balance of Rs. 20,000 and that of B a credit balance of Rs. 30000. The cash account has a balance of Rs. 20000. You are required to pass the necessary journal entries for the (i) Transfer of loss to the capital accounts and (ii) making final payment to the partners.

Q.8 What journal entries would be passed in the books of A and B who are partners in a firm, sharing profits in the ratio of 5:2, for the following transactions on the dissolution of the firm after various assets (other than cash) and third party liabilities have been transferred to Realisation Account?

(a) Bank loan Rs. 16,000 is paid.
(b) Stock worth Rs. 6000 is taken over by B.
(c) Loss on Realisation Rs. 14,000.
(d) Realisation expenses amounted to Rs. 2,000, B has to bear these expenses.
(e) Deferred Revenue Advertising Expenditure appeared at Rs. 28,000.
(f) A typewriter completely written off in the books of the firm was sold for Rs. 200.

Unit 3 & 4: ACCOUNTING FOR SHARE CAPITAL & DEBENTURE

THEORETICAL QUESTIONS

Q.1 Jain Ltd has incurred a loss of Rs. 8,00,000 before payment of interest on debentures. The directors of the company are of the opinion that interest on debentures is payable only when company earn profit. Do you agree?

Q.2 As per latest guidelines governing the servicing of debentures a company is required to create on special account. Name that account.

Q.3 Name the method of redemption of debentures in which there is no requirement of creating Debenture Redemption Reserve.

Q.4 What is the nature of receipt of premium on issue of shares?

Q.5 Can a company issue shares at a premium in the absence of any express authority in its articles?

Q.6 What is the maximum rate of interest which the board of directors of a company can normally pay on calls-in-advance if the articles are silent on the matter of such interest?

Q.7 State with reason whether a company can issue its shares at a discount in its Initial Public Offer (IPO).

Q.8 Why securities premium money can not be used for payment of cash dividend among shareholders?

Q.9 Jamuna Ltd. with paid-up share capital of Rs. 60,00,000 has a balance of Rs. 15,00,000 in securities premium account. The company management does not want to carry over this balance. You are required to suggest the method for utilizing this premium money that would achieve the objectives of the management and maximize the return to shareholders.

Q.10 Distinguish between a share and a Debenture.

Q.11 Can share premium be utilised for the purchase of fixed assets?

Q.12 State in brief, the SEBI guidelines regarding Debenture Redemption Reserve(DRR).

Q.13 Which companies are exempted from the obligation of creating DRR by SEBI?

Q.14 What is the restriction on reissue of forfeited shares at discount?

PRACTICAL QUESTIONS

Q.1 X Ltd. issued 20,000 shares of Rs. 10 each at a premium of 10% payable as follows:-

On application Rs. 2 (1st Jan 2001), on allotment Rs. 4 (including premium) (1st April 2001), On first call Rs. 3 (1st June 2001), on second call & final call Rs. 2 (1st Aug. 2001).

Applications were received for 18,000 shares and the directors made allotment in full. One shareholder to whom 40 shares were allotted paid the entire balance on his share holdings with allotment money and another shareholder did not pay allotment and 1st call money on his 60 shares but which he paid with final call.

Calculate the amount of interest paid and received on calls-in-advance and calls-in-arrears respectively on 1st Aug. 2001.

Q.2 X Ltd took over the assets of Rs. 6,60,000 and liabilities of Rs. 80,000, Y Ltd for Rs. 600,000. Show the necessary journal entries in the book of X Ltd. assuming that

Case-I : The consideration was payable 10% in cash and the balance in 54000 equity shares of Rs. 10 each.
Case-II : The consideration was payable 10% in cash and the balance in 45000 equity shares of Rs. 10 each.
Case-III : The consideration was payable 10% in cash and the balance in 60,000 equity shares of Rs. 10 each.

Q.3 X ltd. was formed with a capital of Rs. 500,000 divided into shares of Rs. 10 each out of these 2000 shares were issued to the vendors as fully paid as purchase consideration for a building acquired, 1000 shares were issued to signatories to the memorandum of association as fully paid. The directors offered 6500 shares to the public and called up Rs. 6 per and received the entry called up amount on share allotted. Show these transaction in the Balance sheet of a company.

Q.4 X Ltd. invited applications for 11,000 shares of Rs. 10 each issued at 10% premium payable as:

On application	Rs. 3 (including Rs. 1 premium)
On allotment	Rs. 4 (including Rs. 1 premium)
On 1st Call	Rs. 3
On 2nd& final call	Rs. 2

Application were received for 24000 shares.
Category I : One fourth of the shares applied for allotted 2000 shares.
Category II: Three fourth the shares applied for allotted 9000 shares.

Remaining applicants were rejected. Mr. Mohan holding 300 shares out of category II failed to pay allotment and two calls and his shares were re issued @ Rs. 11 fully paid-up. Pass necessary journal entries.

Q.5 A company forfeited 240 shares of Rs. 10 each issued to raj at a premium of 20%. Raman had applied for 300 shares and had not paid anything after paying Rs 6 per share including premium on application. 180 shares were reissued at Rs. 11 per share fully paid up. Pass journal entries relating to forfeiture and reissue of shares.

Q.6 On 1st July 2007. A Ltd gave notice of their intention to redeem their outstanding Rs. 400,000 8% Debentures on 1st January, 2008 @ Rs. 102 each and offered the holders the following options-

(a) To subscibe for (i) 6% cumulative preference shares of Rs. 20 each at Rs. 22.50 per share, accepted by debenture holders of Rs. 1,71,000 or (ii) 12% debentures were issued @96% accepted by the holders of Rs. 1,44,000 Debentures.
(b) Remaining debentures to be redeemed for cash if neither of the option under (a) was accepted. Pass necessary journal entries.

Q. 7 Sonu Ltd. company issued 15,000 shares of Rs. 10 each. Payment on there shares is to be made as follows:

On application Rs. 4 (1st Feb, 2003)

On allotment Rs. 3 (1st April, 2003)
On final call Rs. 3 (1st May, 2003)

Rakesh to whom 1000 shares were allotted paid the full amount on application and mohan to whom 200 shares were allotted paid the final call money on allotment. Interest @ 6% was paid on 1st May, 2003. Pass necessary journal entries.

Q.8 TPT Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share. The whole amount was payable on application. The issue was over subscribed by 30,000 shares and allotment was made on pro-rata basis. Pass necessary journal entries in the books of the company.

Q9 What is Zero Coupon Bond ?

Q10 What is a Debenture Trust Deed?

Q.11 On 01-04-1999, A Ltd., issued 2000, 7% debentures of Rs. 100 each at a discount of 10% redeemable at par after 4 years by converting them into equity shares of Rs. 100 each issued at a premium of 25%. Pass journal entries in the following cases:

(i) If debentures are redeemed on maturity.
(ii) If debentures are redeemed before maturity.

Q.12 Pass journal entries for the following at the time of issue of debentures:

(a) B Ltd. issues 30,000, 12% Debentures of Rs. 100 each at a discount of 5 % to be repaid at par at the end of 5 years.
(b) E Ltd. issues Rs. 60,000, 12% Debentures of Rs. 100 each at a discount of 5 % repayable at a premium of 10% at the end of 5 years.
(c) F Ltd. issues Rs. 70,000, 12% Debentures of Rs. 100 each at a premium of 5 % redeemable at 110%.

Q.13 500 shares of Rs. 100 each issued at a discount of 10% were forfeited for the non-payment of allotment money of Rs. 50 per share. The first and final call of Rs.10 per share on these shares were not made. The forfeited shares were reissued at Rs. 80 per share fully paid-up.

Q.14 200 shares of Rs. 100 each issued at a discount of 10% were forfeited for the non payment of allotment money of Rs. 50 per share. The first and final call of Rs. 10 per share on these shares were not made. The forfeited share were reissued at Rs. 14 per share fully paid up.

Q.15 800 Shares of Rs. 10 each issued at per were forfeited for the non-payment of final call of Rs. 2 per share. These shares were reissued at Rs. 8 per share fully paid-up.

STUDY MATERIAL ON HOTS
Subject: Accountancy CLASS – XII
Part –B
Analysis of Financial Statements

Unit 5

Analysis of Financial Statements

Qus:1 How will you show the following items in the Balance sheet of a company.
(i) Loosetools (ii) Livestock

Qus:2 Under what heads the following items on the Liabilities side of the Balance sheet Of a company will be presented
(i) Provision for taxation.
(ii) Bills Payable

Qus:3 State any two items which are shown under the head 'Reserves and Surplus" in a company balance sheet.

Qus:4 Give the format of the Balance sheet of a company(main headings only) as per the requirement of Schedule VI of the companies Act.1956.

Qus:5 Give the heading under which the following items will be shown in a company's Balance sheet:
(i) Patents.
(ii) Discount on issue of Debentures
(iii) Sundry Debtors
(iv) Secutities Premium.
(v) Railway sliding.

Qus:6 The following balance have been from the book of Sahara Ltd. Share capital Rs.10,00,000, securities Premium Rs. 1,00,000, 9% Debentures Rs. 500,000, Creditors Rs. 200,000., Proposed Dividend Rs. 50,000. , Freehold property RS. 9,00,000, share of Reliance Industries Rs. 4,00,000, Work-in- Progress Rs. 4,00,000, Discount on Issue of Debentures Rs. 1,00,000. Prepare the balance sheet of the company as per schedule VI part 1 of the companies Act.1956.

Qus:7 List any three items that can be shown as contingent Liabilities in a company's Balance sheet.

Qus:8 Give two examples Of "Miscellaneous Expenditure"

Q 9. State how the creditors are interested in the Analysis of Financial statements.

Qus:10 Prepare Comparative income statement from the following information for the years ended march 31,2003 and 2004.

Particulars	2003(Rs.)	2004(Rs.)
1.Net Sales	10,00,000	15,00,000
2.Cost of Goods Sold	60% of sales	60% of sales
3. Direct Expenses	10,000	12,000
3.Indirect Expenses	10% of Gross profit	10% of Gross Profit
4.Income Tax rate	50%	60%

Interest on Investments @ Rs 40,000 p.a

RATIO ANALYSIS

Qus:1 How will you asses the liquidity or short term financial position of a business ?

Qus:2 Current ratio of Reliance Textiles Ltd. Is 1.5 at present. In future it want to improve this ratio to 2.Suggest any two accounting transaction for improving the current ratio.

Qus:3 State one transaction which results in an increase in ‘ liquid ratio ‘and nochange in ‘current ratio’.

Qus:4 Why stock is excluded from liquid assets ?

Qus:5 Quick ratio of a company is 1.5 :1 . state giving reason whether the ratio will improve , decline or Not change on payment of dividend by the company.

Qus:6 State one transaction which result in a decrease in ‘ debt-equity ratio ‘ and no change in ‘ current Ratio ‘.

Qus:7 How does ratio analysis becomes less effective when the price level changes?

Qus:8. Indicate which ratio a shareholders would use who is examining his portfolio and wants to decide Whether he should hold or sell his shareholdings?

Qus:9 Indicate which ratio would be used by a Long-Term creditor who is interested in determining whether his claim is adequately secured ?

Qus:10 What will be the Operating profit, If operating Ratio is 78% ?

Qus:11 The Debaters turnover Ratio of a company is 6 times. State with reasons whether the ratio will Improve , decrease, or not change due to increases in the value of closing stock by Rs. 50,000?

Qus:12 What will be the impact of ‘ Issue of shares against the purchase of fixed assets ‘ on a debt Equity ratio of 1:1 ?

Qus:13 State one transaction involving a decrease in Liquid ratio and no change in current ratio.

Qus:14 Assuming that the Debt Equity Ratio is 2:1. State giving reason , whether the ratio will improve, decline or will have no change in case bonus shares allotted to equity shareholders by Capitalizing profits.

Qus:15 The ratio of current Assets (Rs. 9,00,000) to current liabilities is 1.5:1. The accountant of this Firm is interested in maintaining a current ratio of 2:1 by paying some part of current liabilities You are required to suggest him the amount of current liabilities which must be paid for the Purpose.

Qus:16 A company has a loan of Rs.15,00,000 as part of its capital employed. The interest payable on Loan is 15% and the ROI of the company is 25%. The rate of income tax is 60%.what is the Gain to shareholders due to the loan raised by the company ?

Qus:17 Rs.2,00,000 is the cost of goods sold, inventory turnover 8 times, stock at the beginning is 1.5 Times more than the stock at the end. Calculate the value of opening & closing stock .

Qus:18 From the given information, calculate the stock turnover ratio: sales Rs.5,00,000, Gross Profit 25% on cost , opening stock was 1/3rd of the value of closing stock. Closing stock was 30% Of sales.

Qus:19 Calculate cost of goods sold from the following information: Sales Rs.12,00,000, Sales Returns Rs.80,000, operating expenses Rs.1,82,000, operating ratio 92%.

Qus:20 Calculate the amount of opening stock and closing stock from the following figures: Average Debt collection period 4 month stock turnover ratio 3 times. Average Debtors Rs.1,00,000 Cash sales being 25% of total sales Gross profit ratio 25% stock at the end was 3 Times that in the beginning.

Qus:21 (a) Calculate return on Investment from the following information :

Net profit after Tax Rs.6,50,000.
12.5% convertible debentures Rs 8,00000.
Income Tax 50%.
Fixed Assets at cost Rs.24,60,000.
Depreciation reserve Rs.4,60,000.
Current Assets Rs. 15,00,000.
Current Liabilities Rs. 7,00,000.

(b) Profit before interest and tax(PBIT) Rs.2,00,000, 10% preference shares of Rs.100 each. Rs.2,00,000, 2,0000 equity shares of Rs. 10 each, Rate of tax @ 50% calculate earning pen Share(EPS).

Unit: 6
CASH FLOW STATEMENT

Qus:1 Why is the cash flow statement not a suitable judge of profitability ?

Qus:2 Under which accounting standard , cash flow statement is prepared ?

Qus:3 Why do we add back depreciation to net profit while calculating cash flow from operating activities.

Qus:4 How will you classify loans given by Birla Finance Ltd.? While preparing cash flow statement.

Qus:5 How will you classify deposits by customers in HDFC Bank while preparing cash flow statement.

Qus:6 Where will you show purchase of computer in cash flow statement ?

Qus:7 Give two examples of ‘ Significant non cash transactions ‘.

Qus:8 How will you classify loans given by Tata Manufacturing Company.

Qus:9 A company receives a dividend of Rs. 2 Lakhs on its investment in other company’s share will it be Cash inflow from operating or investing activities in case of a.
- (i) Finance Company.
- (ii) Non-Finance Company.

Qus:10 How are various activities classified as per AS-3 (Revised) ?

Qus:11 Cash flow from operating Activities + Cash flow from Investing Activities + Cash flow from Financing Activities =……………………………………

Qus:12 What are the two methods which can be employed to calculate net cash flow from operating activities ?

Qus:13 Escorts Ltd. Engaged in the business of manufacturing tractors invested Rs.40,00,000 in the shares of a Car manufacturing Company. state with reason whether the dividend received on this investment will be cash flow from operating activities or Investing activities.

Qus:14 Modern Toys Ltd. Purchased a machinery of Rs.20,00,000 for manufacturing toys. State giving reason Whether the cash flow due to the purchase of machinery will be cash flow from operating activities, Investing activities or Financing activities ?

Qus:15 From the following profit or loss account find out the flow of cash from operating activities ofMohan Ltd.

Dr. PROFIT AND LOSS ACCOUNT Cr.

Particulars		Amount	Particulars	Amount
		(Rs)		(Rs)
To Rent Paid	14,000		By Gross Profit	1,82,000
Less: Prepaid	2,000	12,000	By Profit on Sale of Machine	12,000

To Salaries	25,000	By Tax Refund	3,800
To Depreciation	15,000	By Rent received 4,000	
To Loss on sale of Furniture	10,000	Add: Rent accrued 1,000	5,000
To Goodwill written Off	8,000		
To Bad Debts	3,000		
To Office Expenses	18,000		
To Discount allowed	7,000		
To Proposed Dividend	30,000		**2,02,800**
To Provision for Tax	22,000		
To Net Profit	52,800		
	2,02,800		

Note: There was increase in Closing stock by Rs. 25,000.

Qus:16 Prepare Cash flow Statement from the following information of Box Ltd. For the year ended March 31,2004.

BALANCE SHEETS OF LION LTD. AS ON MARCH 31,2004

Liabilities	2003	2004	Assets	2003	2004
	(Rs)	(Rs)		(Rs)	(Rs)
Share capital	3,00,000	4,00,000	Goodwill	70,000	30,000
Profit & Loss Account	1,20,000	2,60,000	Machinery	3,00,000	3,20,000
General Reserve	60,000	95,000	12% Investments	1,50,000	3,00,000
Tax Provision	70,000	80,000	Stock	35,000	1,85,000
Creditors	50,000	90,000	Debtors	50,000	70,000
Bill Payables	30,000	10,000	Cash at Bank	30,000	40,000
Depreciation Provision	25,000	40,000	Short term Investment	20,000	30,000
	6,55,000	**9,75,000**		**6,55,000**	**9,75,000**

Additional Information :

1.Investment costing Rs.50,000 were sold for Rs. 48,000 during the year.
2.Tax paid during the year Rs.70,000.
3.Interest received on Investment Rs. 12,000.

SUGGESTED ANSWERS
ON
HOTS

Unit 1: ACCOUNTING FOR PARTNERSHIP FIRMS: BASIC CONCEPTS

Ans. 1 (i) When additional capital is introduced.
(ii) When capital is withdrawn.

Ans. 2

60000 X 9/100	=	5400
20000 X 9/100 X 3/12	=	450
Total Interest		5850

Ans. 3 C is correct as in the absence of partnership agreement, profits and losses are divided equally among partners.

Ans. 4 A's claim is not valid as in the absence of partnership deed, no salary is allowed to partners.

Ans. 5 Chander's claim is not valid as in the absence of partnership deed interest on partners loan is provided @ 6% p.a.

Ans. 6 As per provision of Indian Partnership act 1932, when there is no partnership, no partner is entitled for interest on his capital contribution.

Ans. 7 Interest on drawing = 12000 X 6/100 X 6.5/12 = 390

Ans. 8 Interest on drawing = 9600 X 6/100 X 5.5/12 = 264

Ans. 9 ANALYSIS TABLE

		A	B	C
Interest on Capital (3 years)	Cr.	30000	24000	21000
Adjustment of profit	Dr.	25000	25000	25000
		(Cr) 5000	(Dr) 1000	(Dr) 4000)

Journal Entry :-

B's current A/C	Dr. 1000	
C's Current A/C	Dr. 4000	
To A's current A/C		5000

(Adjustment entry for omission of interest on capital @ 10% p.a.)

Ans. 10 ANALYSIS TABLE

		X	Y	Z	Total
Interest on drawings	(Dr)	750	630	600	1980
Adjustment of profit	(Cr)	990	660	330	1980
		(Cr) 240	(Cr) 30	(Dr)270	-

Z's Capital A/C	Dr. 270	
To X's Current A/C		240
To Y's current A/C		30

(Adjustment entry for omission of interest on drawings @ 5 % p.a.)

Ans. 11 ANALYSIS TABLE

	A	B	C	Total
Wrong profit Dr.	20000	20000	20000	60000
Interest on Capital @ 2% Cr.	3000	2000	1600	6600
Correct profit Cr.	26700	17800	8900	53400
	(Cr) 9700	(Dr) 200	(Dr) 9500	-

B's Current A/C Dr. 200
C's Current A/C Dr. 9500
To A's current A/C 9700
(Adjustment entry for interest on capital and distribution in wrong ratio.)

Ans. 12

ANALYSIS TABLE

	Ravi	Mohan	Total
Wrong Profit Distributed Dr.	252000	252000	504000
Interest on capital omitted Cr.	120000	84000	204000
Salary to be provided Cr.	72000	60000	132000
Current Profit Cr.	98000	70000	168000

Net adjustment Cr. 38000 Dr. 38000
Mohan's current A/C Dr. 38000
To Ravi's Current A/C 38000
(Adjustment entry for omission of certain provisions of partnership deed.)

Ans. 13 Distinction between Fixed and Fluctuating Capital method:-

Basis of differences	Fixed capital method	Fluctuating Capital Method
(i) Number of Accounts	Two accounts are maintained in fixed capital method.	Only one account is maintained.
(ii) Change in capital A/C balances	Remain unchanged	Balance fluctuate frequently.
(iii) Recording of transactions	Adjustment regarding interest on capital, interest on drawings partners salary and profits etc are recorded in partners current account.	All these adjustments are recorded in partners capital accounts.

Ans. 14 Profit transferred to A's current A/C Rs. 51,000
B's current A/C Rs. 45,000
C's current A/C Rs. 44,000

Ans. 15 Net profit transferred to A's Capital A/C Rs. 4,650
B's Capital A/C Rs. 3,100

Unit2: RECONSTITUTION OF PARTNERSHIP

ADMISSION OF A PARTNER

Ans. 1 Need of valuation of goodwill arises on the following occasions:-

(i) Change in profit sharing ratio of existing partners.
(ii) Admission of a partner.
(iii) Retirement of a partner.
(iv) Death of a partner.

Ans. 2 It is necessary to revalue assets and reassess liabilities at the time of admission of new partners as if assets and liabilities are overstated or understated in the books then its benefits or loss should not affect the near partner.

Ans. 3 Sacrificing ratio is the ratio in which old partners have agreed to sacrifice their share of profit in favour of the new partner. This ratio is calculated by deducting the new ratio from the old ratio.

Sacrificing Ratio = Old Ratio - New Ratio

Ans. 4 (i) On admission of a new partner.
(ii) On change on profit sharing ratio of existing partner.

Ans. 5 (i)Capital employed = Assets – Liabilities
= 540000 – 80000
= Rs. 460000

(ii) Normal Profit = Capital employed X Normal rate of return/100
= Rs. 460000 X 10/100 = 46000

(iii) Super Profit = Firm's Average profit – Normal Profit
= 60000 – 46000
= 14000

(iv) Goodwill = Super profit X 100/ Normal rate of return
= 14000 X 100/ 10
= 140000

Ans. 6 (i) Super profit = Value of goodwill /Number of years purchase
= 180000/2
= 90000
(ii) Normal Profit = Capital employed X Normal rate of return /100
= 1000000 X 15/ 100
= 150000
(iii) Average Profit = Normal Profit + Super profit
= 150000 + 90000
= 240000

Ans. 7 (i) Super profit = value of goodwill/ number of years purchase
= 240000/3
= 80000
(ii) Normal Profit = Average profit – Super profit
= 20000 – 8000
= Rs. 12000
(iii) Capital Employee = Normal Profit X 100/ Normal rate of return
= 12000 X 100/8
= 150000

Ans. 8

Rahul's sacrificing share	= 4/7 X 1/4	= 1/7
Sahil's sacrificing share	= 3/7 X 1/3	= 1/7
Rahul's new share	= 4/7 – 1/7	= 3/7
Sahil's New share	= 3/7 – 1/7	= 2/7
Kamal's share	= 1/7+1/7	= 2/7

New profit sharing ratio = 3:2:2

Ans. 9 Ajay's sacrifies = 1/4 X 2/3 = 2/12
Naveen's sacrifies =1/4 X 1/3 = 1/12
Ajay's new share = 5/8 – 2/12 = 11/24
Naveen's New share = 3/8 – 1/12 = 7/24
Surender's share = 1/4 or 6/24
New ratio = 11:7:6

Ans. 10

Old ratio	= A: B	= 3:2	
A surrender	= 3/5 X 1/6	= 3/30	=1/10
B surrender	= 2/5 X 1/4	= 1/10	
A's new share	= 3/5 – 1/10	= 5/10	
B's new share	= 2/5 – 1/10	= 3/10	
C's new share	= 1/10 +1/10	= 2/10	
New ratio	= 5/10, 3/10, 2/10 OR 5:3:2		
Sacrificing Ration	= Old ratio – New ratio		
A	= 3/5 – 5/10	= 1/10	
B	= 2/5 – 3/10	= 1/10	
Sacrificing ratio	= 1:1		

Ans. 11

Old ratio = 5:3
Shital = 1/4th Share

Let the profit be Rs. 1

Remaining profit	= 1-1/4	=3/4
Arti : Babita	= 2:1	
Arti's share	= 3/4 X 2/3	= 1/2
Babita's Share	= 3/4 X 1/3	= 1/4
New Ratio	= 1/2, 1/4, 1/4 Or 2:1:1	
Sacrificing ratio	= Old ratio – New ratio	
Arti's sacrifies	= 5/8 – 2/4	= 1/8
Babita's Sacrifies	= 3/8 – 1/4	= 1/8
Sacrificing Ratio	= 1:1	

Ans. 12 Old ratio = X:Y = 1:1
Z is admitted for 1/6th share which he acquire from X,Y in the ratio of 1:1

Since 1/6 X 1/2 = 1/12 from X and Y
X's new ratio = 3/5 – 1/12 = 31/60
Y's New ratio = 2/5 – 1/12 = 19/60
Z's share = 1/6
New ratio = 31/60, 19/60,1/6 or 31:19:10

Ans. 13

Old ratio = Rakhi : Parul = 3:1
New ratio = Rakhi: Parul: Neha = 2:3:2
Rakhi's sacrifice = 3/4 – 2/7 = 13/28
Parul's sacrifice = 1/4 -3/7 = 5/28 (Gain)

So, Rakhi's sacrifice 13/28th share and Parul is gaining to the extent of 5/28th share.

Ans. 14

Cash A/C	Dr. 1500	
To premium A/C		1500
(cash brought in by Z for his share of goodwill)		
Premium A/C	Dr. 1500	
To X's capital A/C		1000
To Y's Capital A/C		500
(Goodwill distributed among sacrificing partners in the ratio of 2:1.)		

Ans. 15

Cash A/C	Dr. 70000	
To Nilu's capital A/C		60000
To premium A/C		10000
(Cash brought in by new partner)		
Premium A/C	Dr. 10000	
To Priya's capital A/C		10000
(Amount of goodwill distributed among sacrificing partner in their sacrificing ratio.)		

Ans. 16

Cash A/C	Dr. 1000	
To premium A/C		1000
(Amount of goodwill brought in by C)		
Premium A/C	Dr. 1000	
C's capital A/C	Dr. 800	
To A's capital A/C		900
To B's capital A/C		900
(Rs. 1800 distributed among sacrificing partners in sacrificing ratio.)		
A's capital A/C	Dr. 3000	
B's capital A/C	Dr. 3000	
To goodwill A/C		6000
(Old goodwill written off among old partners in old ratio.)		

Q. 17

Cash A/C	Dr. 10000	
To C's capital A/C		10000
(Cash brought in by C for his share of capital)		
A's capital A/C	Dr. 1200	
B's Capital A/C	Dr. 800	
To goodwill A/C		2000
(Old goodwill written off among old partners in old ratio.)		
C's capital A/C	Dr. 3000	
To A's capital A/C		1800
To B's capital A/C		1200

(Adjustment of goodwill on admission of C)

Ans. 18

Cash A/C	Dr. 4000	
To premium A/C		4000
(Amount of goodwill brought in by new partner)		
Premium A/C	Dr. 4000	
To Piyush's capital A/C		4000
(Goodwill distributed among sacrificing partners in their sacrificing ratio.)		

Ans. 19

Cash A/C	Dr. 26000	
To C's capital A/C		26000
(Amount of capital brought in by new partner.)		
C's capital A/C	Dr. 7500	
To A's capital A/C		3750
To B's capital A/C		3750
(C's share of goodwill distributed among A and B)		

Calculation of Hidden goodwill:-

Capital of A and B	= 26000 + 22000
	= 48000
C brings	= 26000 for 1/4th share
Total capital of the firm	= 26000 X 4/1
	= 104000
Existing capital of the firm	= 48000 + 26000
	= 74000
Goodwill	= 104000 – 74000
	= 30000
C's share of goodwill	= 30000 X 1/4 = 7500

Ans. 20

C's capital A/C	Dr. 5250	
To A's capital A/C		3150
To B's capital A/C		2100
(C's share of goodwill distributed among old partners in sacrificing ratio i.e. 3:2)		

Ans. 21

Cash A/C	Dr. 8000	
To C's capital A/C		8000
(Amount of capital brought in by new partner)		
C's capital A/C	Dr. 2000	
To A's capital A/C		1000
To B's capital A/C		1000
(Share of goodwill distributed among A and B in sacrificing ratio i.e. 1:1)		

Calculation of Hidden Goodwill.

C brings 8000 for 1/5 share

Since total capital of the firm = 8000 X 5/1

	= 40000
Existing capital of the firm	= 13000 + 9000 + 8000
	= 30000
Goodwill	= 40000 – 30000
	= 10000
C's share of goodwill	= 10000 X 1/5
	= 2000

Ans. 22

C's Capita; A/C	Dr. Rs. 25, 500	
To A's Capital A/C		Rs. 8,500
To B's Capital A/C		Rs. 17,000

Ans. 23

	Rs	Rs
(i) Stock A/C Dr. Building A/C Dr Plant & Machinery A/C Dr. To C's capital A/C To premium A/C	2,44,000 2,40,000 1,40,000	 3,36,000 2,88,000
(ii) Premium A/C Dr. To A's Capital A/C To B's Capital A/C	2,88,000	 2,68,800 19,200

Ans. 24

Z's Capital A/C Dr.	Rs. 9000	
To X's Capital A/C		Rs. 9000

RETIREMENT AND DEATH OF A PARTNER

Ans. 1

Basis	Sacrificing Ratio	Gaining Ratio
(i) Meaning	Proportion in which old partners sacrifice their share in favour of new partner.	Proportion in which continuing partner gain the share of outgoing partner on his retirement.
(ii) Occasion	Sacrificing ratio is calculated at the time of admission of new partner.	Gaining ratio is calculated at the time of retirement or death of a partner.
(iii) Formula	Sacrificing ratio = Old ratio – New ratio	Gaining ratio – Old ratio

Ans. 2 Gaining Ratio = New ratio – Old ratio
Kamal's Gain = 4/7 – 1/3 = 5/21
Kunal's Gain = 3/7 – 1/3 = 2/21
Gaining Ratio = 5:2

Ans. 3 Old ratio = P Q R
7 : 2 : 1
New ratio = Q R
2 : 1
Gaining Ratio = New ratio – Old ratio
Q's gain = 2/3 – 2/10 = 14/30
R's gain = 1/3 – 1/10 = 7/30
Gaining Ratio = 14:7 or 2:1

Ans. 4 A's gaining share = 2/5 X ½ = 1/5
A's new share = 2/5 + 1/5 = 3/5
C's gaining share = 2/5 X ½ = 1/5
C's New share = 1/5 + 1/5 = 2/5
New ratio of A and C = 3:2

Ans. 5
Y's gaining share = 4/9 X 2/3 = 8/27
Z's gaining share = 4/9 – 8/27 = 4/27
Y's new share = Old share + gain
= 1/3 + 8/27 = 17/27
Z's new share = 2/9 + 4/27 = 10/27
[
New Ratio = 17:10
Gaining ratio = 8/27 : 4/27 or 2:1

Ans. 6
Old Ratio = 3:2:1
Z Retire
X's Gaining = 1/6 X 2/3 = 2/18
X's New share = 3/6 + 2/18 = 11/18
Y's Gaining = 1/6 X 1/3 = 1/18
Y's new share = 2/6 + 1/18 = 7/18
New Ratio = 11/18, 7/18 Or 11:7

Ans. 7 Old ratio = P Q R
= 4:5:6
Q retired

P's gaining = 1/3 X 5/15 = 1/9
P's new share = 4/15 + 1/9 = 17/45
R's Gaining share = 2/3 X 5/15 = 2/9
R's new share = 6/15 + 2/9 = 28/45
New Ratio = 17:28

Ans. 8 Rohit's capital A/C Dr. 24000
To Mayank's capital A/C 6000
To harshit's Capital A/C 18000
(Adjustment Entry for treatment of goodwill in gaining ratio.)

Ans. 9 Suresh capital A/C Dr. 48000
To Ramesh's capital A/C 12000
To Naresh capital A/C 36000
(Goodwill adjusted among the gaining partner in gaining ratio.)

Ans. 10 O's capital A/C Dr. 40000
To C's capital A/C 20000
To M's capital A/C 20000
(Adjustment of goodwill in gaining partners in their gaining ratio.)

Ans. 11 Profit and loss suspense A/C Dr
To deceased partner's capital A/C

Ans. 12 Total profit for the year ended 31st March 2007 = Rs 300000
Y's share of profit up to date of death = 300000 X 2/6 X 3/12
= 25000
Profit and Loss suspense A/C Dr. 25000
To Y's capital A/C 25000
(Y's share of profit transferred to Y's capital A/C)

Ans. 13 Profit and Loss suspense A/C Dr. 10000
To B's capital A/C 10000
(B's share of profit transferred to B's capital A/C)

A's capital A/C Dr. 15000
C's capital A/C Dr. 5000
To B's capital A/C 20000
(B's share of goodwill transferred to B's capital A/C and debited to remaining partners capital A/C in their gaining ratio.)
B's share of profit = Number of days from 1 April to 12th June 2007
= 73 Days
B's share of profit = 150000 X 1/3 X 73/365
= Rs. 10000

Ans. 15 Profit & Loss suspense A/C Dr. Rs. 12,500
To C's capital A/C Rs. 12,500

DISSOLUTION OF PARTNERSHIP FIRM

Ans. 1 In case of dissolution of partnership, the firm may continue its business operation but in case of dissolution of partnership firm, the business operations are discontinued.

Ans. 2 Realisation account is prepared to ascertain profit or loss on sale of assets and payment of liabilities.

Ans. 3 Realisation Account is prepared on dissolution of partnership firm and Revaluation account is prepared on reconstitution of partnership firm.

Ans. 4 Yustin's claim is valid as according to section 48 (b) of partnership Act, partners loan are to be paid before any amount is paid to partners on account of their capitals.

Ans. 5 Cash A/C Dr. 11400
To Realisation A/C 11400
(For debtors realized on dissolution of firm)

Ans. 6 Kamal's capital A/C Dr. 4000
To cash A/C 4000
(for final payment to Kamal)

Ans. 7 (i) A's capital A/C Dr. 15000
B's capital A/C Dr. 15000
To realization A/C 30000
(For transfer of loss on dissolution)
(ii) A's capital A/C Dr. 5000
B's capital A/C Dr. 15000
To cash A/C 20000
(For final payment to partners)

Ans. 8

	JOURNAL		
		Dr. (Rs)	Cr. (Rs.)
(a)	Realisation A/CDr. To Bank A/C	12000	 12000
(b)	B's capital A/C Dr. To realisation A/C	6,000	 6,000
(c)	A's capital A/C Dr. B's capital A/CDr. To Realisation A/C	10,000 4,000	 14000
(d)	B's capital A/C Dr. To bank A/C	2,000	 2,000
(e)	A's capital A/C Dr. B's capital A/C Dr. To deferred revenue advertising expenditure A/C	20,000 8,000	 28,000
(f)	Bank A/C Dr. To realisation A/C	200	 200

Unit 3 & 4: ACCOUNTING FOR SHARE CAPITAL & DEBENTURE

Ans.1 No' because Interest on debentures is a charge against profit and not an appropriation of profit.

Ans. 2 Debenture Redemption Reserve Account.

Ans. 3 Redemption of debentures by conversion.

Ans. 4 Capital Nature.

Ans. 5 Yes. [Hint See section 78]

Ans. 6 According to table 'A' not exceeding 6 % p.a.

Ans. 7 Section 79 Companies Act- the shares must be of a class already issued. So a company cannot issue shares at a discount in its Initial Public Offer.

Ans. 8 It is restricted under section 78 of Indian Companies Act.

Ans. 9 Mention the provisions of section 78.

Ans. 10 Basis of difference :

- (i) Ownership
- (ii) Return
- (iii) Voting Right
- (iv) Convertibility

Ans. 11 No.

Ans. 12 As per SEBI guidelines, an amount equal to 50% of the debenture issue, must be transferred to DRR before the redemption begins.

Ans. 13 The following companies are exempted from the obligation of creating DRR –

- (i) A company which has issued debentures with a maturity of 18 months or less.
- (ii) Infrastructure companies, which are wholly engaged in the business of developing, maintaining and operating infrastructure facilities.

Ans. 14 A Company can reissue forfeited shares at a discount not more than amount forfeited on these shares.

PRACTICAL QUESTIONS

Ans. 1 Interest on Calls in advance Rs. 2.80
Interest on Calls in arrears Rs. 5.50

Ans. 2

Solution:-

(i)	Sundry Assets A/C Dr. Goodwill A/C Dr. To Sundry Liabilities To Y Ltd.	660,000 20,000	 80000 600000
(ii)	Y Ltd. Dr. To Bank A/C	60,000	 60000
Case I	Y Ltd Dr. To Equity share capital A/C	540,000	 540, 000
Case II	Y Ltd Dr. To Equity share capital A/C To securities premium A/C	540,000	 450,000 90,000
Case III	Y' Ltd Dr. Discount on issue share A/C Dr. To Equity share capital A/C	540,000 60000	 600,000

Ans. 3 Issued Capital Rs. 95000.

Ans. 4 Hint-

(i) Amount received on allotment Rs. 26,100.
(ii) Amount transferred to share forfeited A/C Rs. 900
(iii) Amount transferred to Capital Reserve Rs. 600.

Ans. 5 Capital Reserve Rs. 990.

Ans. 6

Hints-

(1) Case a (i) – No. of preference shares issued 7752.
(2) Case a (ii)- No. of debentures issued 1530.
(3) Remaining 85000 debentures paid in cash.

Ans. 7 Interest on Calls in advance = 15 + 3 = Rs. 18

Ans. 8

(i) Dr. Bank A/C Rs. 16,90,000, Cr.Eq.share Application A/C Rs. 16,90,000.

(ii) Dr.Eq.Share Application A/C Rs. 16,90,000, Cr.Eq. share Capital A/C Rs.10,00,000, Cr. Security premium A/C Rs. 300,000, Cr. Bank A/C Rs. 3,90,000.

Ans. 9 Debentures Issued without a predetermined rate of interest are called zero coupon Bond.

Ans 10. A company issuing Debentures by way of public issue is required to appoint the trustees and execute a trust deed . It is a document created by the company which issues the Debentures.

Ans. 11 Case (i) – No. of Equity shares to be issued 1,600.
Case (ii) – No. of Equity shares to be issued 1,440.

Ans. 12

Journal of B Ltd.

(a)

(i) Bank A/C	Dr. 28,50,000	
To. Deb. Application & Allotment A/C		28,50,000
(ii) Deb. Application & allotment A/C	Dr. 28,50,000	
Discount on issue of Debentures	Dr. 1,50,000	
To 12 % debentures A/C		30,00,000

Journal of E Ltd.

(b)

(i) Bank A/C	Dr. 57,000	
To. Deb. Application & Allotment A/C		57,000
(ii) Deb. Application & allotment A/C	Dr. 57,000	
Loss on issue of Debentures A/C	Dr. 9,000	
To 12 % debentures A/C		60,000
To Debenture Redemption Premium A/C		6000

(c)

(i) Bank A/C	Dr. 73,500	
To. Deb. Application & Allotment A/C		73,500
(ii) Deb. Application & allotment A/C	Dr. 73,500	
Loss on issue of Debentures A/C	Dr. 7,000	
To 12 % debentures A/C		70,000
To Securities premium A/C		3,500
To Debenture Redemption Premium A/C		7,000

Ans. 13 Capital Reserve Rs. 10,000

Ans. 14 Capital Reserve Rs. 600

Ans. 15 Capital Reserve Rs. 4,800.

Unit 5: Analysis of Financial Statements

Ans:1 (i- Current Assets
ii) Fixed Asset.

Ans:2

Items	Heading	Sub-Heading
Provision for Taxation	Current Liabilities & Provision	Provision
Bills payable	Current Liabilities & Provision	Current Liabilities

Ans:3 (i) Capital Reserve
ii) Debenture Redemption Reserve

Ans:4 Balance sheet as on______

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed Assets	
Reserve & surplus		Investment	
Secured Loans		Current Assets,	
Unsecured Loans		Loan and Advances	
		(a) Current Assets	
		(b) Loans & Advance	
Current Liabilities & Provision		Miscellaneous Expenditures	
(a) Current Liabilities		Profit & Loss amount (Dr.Balance)	
(b) Provision			

Ans:5 (i) Fixed Assets.
(ii) Miscellaneous Expenditures
(iii)Current Assets Loans & Advance under Current Assets.
(iv)Reserve and Surplus.
(v)Fixed Assets.

Ans:6 Total of Balance Sheet Rs.18,50,000.

Ans:7 (i) Claims against the Company not acknowledged as debts .
(ii) Uncalled Liability on partly paid shares.
(iii)Arrears of Dividend on Cumulative preference shares.

Ans:8. Discount on Issue of shares, Advertisement Suspense a/c

Accounting Ratios

Ans:1 Short term financial position of the business is assessed by calculating current ratio and liquid ratio.

Ans:2 (i) Payment of current liabilities.
(ii) Issue of share capital etc.

Ans:3 Sale of stock at cost price.

Ans:4 (i) because there is uncertainty whether it will be sold or not.
(ii) It will take time before it is converted into debtors' and cash.

Ans:5 Quick ratio will improve as both the liquid assets and current liabilities will decrease by the same Amount.

Ans:6 Conversion of debentures into shares.

Ans:7 Accounting ratios are calculated from financial statements, which are down on the basis of historical Cost as recorded in the book of accounts .

Ans:8 Total Assets to Debt Ratio.

Ans:9 Debt-Equity-Ratio.

Ans:10 100-78=22%

Ans:11 No change because it will neither affect net credit sales nor average receivable.

Ans:12 Debt-equity ratio will decrease because the Long-term loans remain unchanged where as the Shareholders funds are increased by the amount f share capital issued .

Ans:13 Purchase of goods for cash .

Ans:14 Debt equity ratio will not change as the total amount of shareholders funds will remain same.

Ans:15 Payment of current Liabilities Rs.3,00,000.

Ans:16 Net gain to shareholders Rs.60,000.

Ans:17 Closing stock = Rs.14,285.
Opening stock = Rs.35,715.

Ans:18 Stock turnover Ratio = 4 times .

Ans:19 Cost of goods sold =Rs.8,48,400.

Ans:20 Opening stock Rs. 50,000.
Closing stock Rs. 1,50,000.

Ans:21 (a) Net profit before interest Rs.14,00,000
capital employed Rs. 28,00,000
Return on investment 50%.
(b)Earning per share Rs. 4.

Unit 6: Cash Flow Statement

Ans:1 Cash Flow statement is prepared on cash basis of accounting but profit is calculated on accrual basis. So cash flow statement is not a judge of profitability.

Ans:2 Under accounting standard-3(Revised).

Ans:3 Depreciation reduces the net profit without reducing the cash balance as it is a non-cash item.

Ans:4 As Operating Activities.

Ans:5 Operating Activities.

Ans:6 As Outflow under Investing Activities.

Ans:7 Give any two examples-

(i) Acquisition of fixed asset by issue of debentures or shares.
(ii) Conversion of debentures into shares.

Ans:8 Classified as Financing Activities.

Ans:9 It will be operating activities in case of a finance company and investing activities in case of Non-Financing Company.

Ans:10 (i) Operating Activities.
(ii)Investing Activities.
(iii)Financing Activities.

Ans:11 …= Net Increase /Decrease in cash and Cash Equivalents.

Ans:12 Direct Method and Indirect Method.

Ans:13 Investing Activities Because …………….

Ans:14 Investing Activities Because …………….

Ans:15 Cash from Operating Activities Rs.1,03,800.

Ans:16 (i) Cash Inflow From Operating Activities Rs.80,000.
(ii)Cash Outflow on Investing Activities Rs.1,60,000,
(iii)Cash Inflow From Financing Activities Rs. 1,00,000.