ACCOUNTANCY

UNIT-I (FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANISATIONS)

Meaning and Definition

According to Section 4 of the Partnership Act 1932 "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all"

Features of partnership Firm

1) Association of two or more persons: There must be at least two persons and maximum of 50 persons to form a partnership and they must be competent to contract.
2) Partnership Agreement or Deed: There must be an agreement among partners to form a partnership. It can be written or oral.
3) Legal Business: The business of the partnership firm must be a legally allowed business.
4) Sharing of Profits or Losses: The partners must share profits or losses in a certain ratio.
5) Mutual Agency: The partners mutually take part in daily routine work or the work may be carried on by one or more partners on behalf of the other partners. Every partner is legally liable for the acts of all other partners, whether he is taking part in the activities of the firm or not.
6) Unlimited Liability: Partners' liability to the third parties is unlimited. If there are losses, and the firm is not able to pay its debts fully, then all the partners shall be jointly and severally liable to pay the debts of the firm to an unlimited extent.

Partnership Deed: The document, which contains terms of the agreement, is called 'Partnership Deed'. It generally contains the details about all the aspects affecting the relationship between the partners including the objective of business, contribution of capital by each partner, ratio in which the profits and the losses will be shared by the partners and entitlement of partners to interest on capital, interest on loan, etc.

Provisions of Partnership Act, 1932 in the absence of Partnership Deed:

(a) **Profit Sharing Ratio**: If the partnership deed is silent about the profit sharing ratio, the profits and losses of the firm are to be shared equally by partners.

(b) **Interest on Capital**: No interest on capital is payable if the partnership deed is silent on the issue.

(c) **Interest on Drawings**: No interest is to be charged on the drawings made by the partners, if there is no mention in the Deed.

(d) **Interest on Advances**: If any partner has advanced some money to the firm beyond the amount of his capital for the purpose of business, he shall been titled to get an interest on the amount at the rate of 6 percent per annum.

(e) **Remuneration for Firm's Work**: No partner is entitled to get salary or other remuneration for taking part in the conduct of the business of the firm.

Fixed and Fluctuating Capital Accounts of Partners

There are two methods by which the capital accounts of partners can be maintained. These are: (i) fixed capital method, and (ii) fluctuating capital method.

Fixed Capital Method: Under the fixed capital method, the capitals of the partners shall remain fixed unless additional capitalis introduced or a part of the capital is with drawn as per the agreement among the partners. All items likes hare of profit or loss, interest on capital, drawings, interest on drawings, etc. are recorded in separate accounts, called Partner's Current Account. The partners' capital accounts will always show a credit balance, which shall remain the same (fixed) year after year unless there is any addition or withdrawal of capital. The partners' current account on the other hand, may show a debit or a credit balance. Thus under this method, two accounts are maintained for each partner viz., capital account and current account. While the partners' capital accounts shall always appear on the liabilities side in the balance sheet, the partners' current account's balance shall be shown on the liabilities side, if they have credit balance and on the assets side, if they have debit balance.

The partner's capital account and the current account under the fixed capital method would appear as shown below:

Dr. Partner's Capital Account Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
	To Bank A/c(permanent withdrawal of capital)		xxx		By Balance b/d (opening balance)		xxx
	To Balance c/d (closing balance)		xxx		By Bank A/c (fresh capital introduced)		xxx
Date			xxx				xxx

Dr. Partner's Current Account Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
	To Drawings		xxx		By Balance b/d		xxx
	To Interest on drawings		xxx		By Salaries/Commission		xxx
	To Profit and Loss		xxx		By Interest on capital		xxx
	Appropriation A/c (for share of loss)		xxx		By Profit and Loss Appropriation A/c (for share of profit)		xxx
	To Balance c/d		xxx				xxx
Date			xxx				xxx

Fluctuating Capital Method: Under the fluctuating capital method, only one account, i.e. capital account is maintained for each partner. All the adjustments such as share of profit and loss, interest on capital, drawings, interest on drawings, salary or commission to partners, etc. are recorded directly in the capital accounts of the partners. This makes the balance in the capital account to fluctuate from time to time. That's the reason why this method is called fluctuating capital method. In the absence of any instruction, the capital account should be prepared by this method. The proforma of capital accounts prepared under the fluctuating capital method is given below:

Dr. **Partner's Capital Account** Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
	To Drawings		xxx		By Balance b/d		xxx
	To Bank (permanent withdrawal of capital)		xxx		By Bank (fresh capital introduced)		
	To Interest on drawings		xxx		By Salaries/Commission		xxx
	To Profit and Loss Appropriation A/c (for share of loss)		xxx		By Interest on capital		xxx
	To Balance c/d				By Profit and Loss Appropriation A/c (for share of profit)		xxx
Date			xxxx				xxxx

Distribution of Profit among Partners

The profits and losses of the firm are distributed among the partners in an agreed ratio. However, if the partnership deed is silent, the firm's profits and losses are to be shared equally by all the partners.

You know that in the case of sole partnership the profit or loss, as ascertained by the profit and loss account is transferred to the capital account of the proprietor. In case of partnership, however, certain adjustments such as interest on drawings, interest on capital, salary to partners, and commission to partners are required to be made. For this purpose, it is customary to prepare a Profit and Loss Appropriation Account of the firm and ascertain the final figure of profit and loss to be distributed among the partners, in their profit sharing ratio.

The Proforma of Profit and Loss Appropriation Account is given as follows:

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

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Profit and Loss A/c (if there is loss)	xxx	By Profit and Loss A/c (if there is profit)	xxx
To Interest on Capital A/c	xxx	By Interest on Drawings	xxx
To Salary/Commission to Partner A/c		By Partners' Cap A/cs or Current A/cs (distribution of loss)	xxx
To General Reserve A/c	xxx		
To Partners' Cap A/cs or Current A/cs (Distribution of Profit)	xxx		
	xxxx		xxxx

***Note: Interest on partner's loan is to be treated as a charge against profits.**

Past Adjustments

If after closing the accounts for the year it is the discovered that some errors have been committed, then these errors have to be rectified. Some adjustment entries have to be passed to rectify the error. The entries are made through Profit & Adjustment A/c. These entries are to rectify the errors committed in past, therefore, they are known as 'Past Adjustments'. Generally the following types of errors are committed.

(i) Interest on Capital and on Drawings have been omitted.

(ii) Interest on Capital and on Drawings have been provided at higher or lower rates than the rates agreed in the Deed.

(iii) Salary or commission to partners either not given or a higher or lower amount has been given.

(iv) Profit shared in a wrong ratio.

Adjustment Chart

Particulars	A	B	C	Firm
+ Interest on Capital	+	+	+	
+ Partner's Salary/Commission	+	+	+	
- Interest on Drawings	–	–	–	
Excess profit taken back in their P&L sharing ratio	+	+	+	–
	–	–	–	
	+	–	+	

* Assumed that there are three partners A, B and C.
* Assumed that all errors are related to omission
* + means Cr the partner's capital A/c
* - means Dr the partner's capital A/c
* In last + amount should be equal to - amount

Note: Similarly following errors can be rectified accordingly:

(i) Interest on Capital and on Drawings have been provided at higher or lower rates than the rates agreed in the Deed.

(ii) Salary or commission to partners either a higher or lower amount has been given.

Guarantee of Profit to a Partner

Guarantee of profit means a minimum amount of profit to be paid to a partner. This amount shall be given to him if his share of profit is lower than the guaranteed amount. The deficit shall be borne either by one of the old partners or by all the old partners in a particular agreed ratio. If there is no agreement, then in their old profit sharing ratio. If his actual share of profit is more than the guaranteed amount, then, he will be given his actual share of profit. He gets the guaranteed amount or the actual share of profit, **whichever is higher.**

(a) **Guarantee given by all partners**

(i) Compare the amount of guarantee and his actual share of profit. If guaranteed amount is more than his actual share of profit, then the guaranteed amount will be debited to profit and loss Appropriation Account and the partner's account will be credited with the guaranteed amount.

(ii) The deficiency shall be shared by other partners in their profit sharing ratio.

(b) **Guarantee given by One Partner only**

First calculate his share of profit. Compare it with the guaranteed amount. The amount of deficiency is to be charged from the partner who gave guarantee.

(c) **Guarantee given to a partner by other partners in a ratio different from their profit sharing ratio**

Distribute profit among all the partners in the profit sharing ratio. Work out the amount of deficiency by comparing it with the guaranteed amount and his actual share of profit. The other partners will bear the deficiency in an agreed new ratio.

Goodwill

Meaning of Goodwill

Over a period of time, a well - established business develops an advantage of good name, reputation and wide business connections. Thishelps the business to earn more profits as compared to a newly setup business. In accounting, the monetary value of such advantage is known as "goodwill".

Factors Affecting theValue of Goodwill

The main factors affecting the value of goodwill areas follows:

1. Nature of business: A firm that produces high value added products or having as table demand disable to earn more profits and there fore has more goodwill.
2. Location: If the business is centrally located or is at a place having heavy customer traffic, the goodwill tends to be high.
3. Efficiency of management: A well-managed concern usually enjoys the advantage of high productivity and cost efficiency. This leads to higher profits and so the value of good will also be high.
4. Market situation: The monopoly condition or limited competition enables the concerned to earn high profits which leads to higher value of goodwill.
5. Special advantages: The firm that enjoys special advantages like import licenses, low rate and assured supply of electricity, long-term contracts for supply of materials, well-known collaborators, patents, trade marks, etc. enjoy higher value of goodwill.

Need for Valuation of Goodwill

In a partnership firm, goodwill needs to be valued in the following circumstances:

1. Change in the profit sharing ratio amongst the existing partners;
2. Admission of new partner;
3. Retirement of a partner;
4. Death of a partner; and
5. Dissolution of a firm involving sale of business as a going concern.
6. Amalgamation of partnership firm

Methods of Valuation of Goodwill

1. **Average Profits Method**
   (a) **Simple Average**
   Stepwise procedure to calculate Goodwill under this method:
   Step1: Work out profits or losses given for each of the past year after taking into account abnormalities, if any.
   Step2: Calculate average by dividing the total profit of all the years by the number of years.
   Step3: Goodwill= Average Profit x Number of year's purchase.
   (b) **Weighted Average**
   This is a better method than the simple average method. It takes into account the importance of each year. Under this method, earlier years are less important than the recent years. Thus, each year's profit is multiplied by its respective number (weight) in chronological order. The latest year will be given the highest weight and the earliest year will be given lowest weight. Each profit figure will be multiplied by its weight and then the total of these products will be calculated. This total will be divided by the total of weights.
   Then Goodwill = Weighted average x number of years' purchase.
2. **Super Profit Method**
   Stepwise procedure to calculate Goodwill under this method:
   Calculate the average profit,
   1. Calculate the normal profit on the capital employed on the basis of the normal rate of return, Formula = Normal Profit = Capital Employed x NRR / 100
   2. Calculate the super profits by deducting normal profit from the average profits. Formula- Super Profit = Average Profit - Normal Profit
   3. Goodwill = Super profits x number of years' purchase.
3. **Capitalisation Method**
   Under this method the goodwill can be calculated in two ways: (a) by capitalizing the average profits, or (b) by capitalizing the super profits.
   (a) **Capitalisation of Average Profits**: This involves the following steps:
   (i) As certain the average profits based on the past few years' performance.
   (ii) Capitalize the average profits on the basis of the normal rate of return to as certain the capitalised value of average profits as follows:
   Average Profits x 100/Normal rate of Return
   (iii) As certain the actual capital employed (net assets) by deducting outside liabilities from the total assets (excluding goodwill).
   Capital Employed/Net Assets = Total Assets (excluding goodwill) – Outside Liabilities
   (iv) Compute the value of goodwill by deducting net assets from the capitalised value of average profits, i.e. (ii)–(iii).

Capitalisation of Super Profits: It involves the following steps.

(i) Calculate capital employed of the firm,which is equal to total assets minus outside liabilities.

(ii) Calculate normal profits on capital CE = Total Assets - Outside Liabilities employed.

(iii) Calculate average profit for past years, as specified.

(ii) Super profits = average profits/Actual profit - normal profits

(iii) Multiply the super profits by there quired rate of return multiplier, that is, Goodwill = Super Profits × 100/ Normal Rate of Return

Note: In other words, goodwill is the capitalised value of super profits. The amount of goodwill worked out by this method will be exactly the same as calculated by capitalising the average profits.

Question

X,Y and Z share profit in the ratio of 2:3:5.They earned a profit of Rs 1,50,000 for the year ended 31-12-2015. The profit was by mistake distributed among X,Y and Z in the ratio of 3:2:1,respectively. This error was noted in the beginning of the new year. They have set up an old age Home for the old and poor in the city.

Identify the business values and give the missing figures in the following solution

Particulars		**X**	**Y**	**Z**	**Firm**
1. Profit distributed in wrong ratio taken back	Dr.	(-)75000	(-)50000	(-)25000	+1,50,000
2. The same profit now correctly distributed in correct ratio	Cr.	+30000	+45000	+75000	- 1,50,000
Adjustment required	Dr.	-45,000	-5,000	+50,000	

And give adjustment entry.

X's Capital A/c Dr. 4500.00

Y's Capital A/c Dr. 5000.00

To Z's Capital A/c Dr. 5000.00

(Being Adjustment entry made)

Value : Sensitivity towards poor Fulfiling social responsibility

Practical Problems:

Partnership Deed

1. Mohan and Shyam are partners in a firm. State whether the claim is valid if the partnership agreement is silent in the following matters.

(i) Mohan is an active partner. He wants a salary of Rs.10,000 per year;

(ii) Shyam had advanced a loan to the firm. He claims interest@10% per annum;

(iii) Mohan has contributed Rs.20,000 and Shyam Rs.50,000 as capital. Mohan wants equal share in profits.

(iv) Shyam wants interest on capital to be credited @6% perannum.

2. State whether the following statements are true or false.

(i) Valid partnership can be formulated even without a written agreement between the partners;

(ii) Each partner carrying on the business is the principal as well as the agent for all the other partners;

(iii) Methods of settlement of dispute among the partners can't be part of the partnership deed;

(iv) If the deed is silent, interest at the rate of 6% p.a. would be charged on the drawings made by the partner

Division of Profit

3. X and Y are partners with capitals of Rs.15,00,000 and Rs.10,00,000 respectively. They agree to share profits in the ratio of 3:2. Show how the following transactions will be recorded in the P & L Appropriation and capital accounts of the partners in case:

   (i) The capitals are fixed, and

   (ii) the capitals are fluctuating. The books are closed on March 31, every year.

Particulars	X (Rs.)	Y (Rs.)
Additional capital contributed	3,00,000	2,00,000
on July 1,2015		
Interest on capital	5%	5%
Drawings (during 2015-16)	30,000	20,000
Interest on drawings	12%	12%
Salary	20,000	–
Commission	10,000	7,000

The profits for the year ending 31st March,2016 were Rs 71,500.

Hint: If the capitals are fixed: X's capital A/c-Rs 18,00,000; Y's capital A/c-Rs 12,00,000; X's current A/c-Rs 20,700; Y's current A/c-Rs 80.

If the capitals are fluctuating: X's capital A/c-Rs 18,20,700; Y's capital A/c-Rs 12,00,800

Interest on Capital & Interest on Drawings

A and B are partners sharing profits and losses in the ratio of 3:2. Their capital accounts showed balances of Rs.1,50,000 and Rs. 2,00,000 respectively on Jan 01, 2003. Show the treatment of interest on capital for the year ending December 31, 2006 in each of the following alternatives:

If the partnership deed is silent as to the payment of interest on capital and the profit for the year is Rs.50,000;

If partnership deed provides for interest on capital @8% p.a. and the firm incurred a loss of Rs.10,000 during the year;

(a) If partnership deed provides for interest on capital @8% p.a. and the firm earned a profit of Rs.50,000 during the year;

(b) If the partnership deed provides for interest on capital @8% p.a. and the firm earned a profit of Rs.14,000 during the year.

Hint: In the absence of any information interest on capitals will be appropriation of profit.

4. Mann, Harry and Ali are partners in a firm sharing profits and losses equally. Harry and Ali with drew the following amounts from the firm, for their personal use, during 2006.

Date	Harry (Rs.)	Ali (Rs.)
2006	5,000	7,000
January, 01		
April, 01	8,000	4,000
September, 01	5,000	5,000
December, 01	4,000	9,000

Calculate interest on drawings if the rate of interest to be charged is 10 percent, and the books are closed on December 31 every year.

Guarantee of Profit

1. Ram, Mohan and Sohan are partners with capitals of Rs.5,00,000, Rs.2,50,000 and 2,00,000 respectively. After providing interest on capital @10% p.a. the profits are divisible as follows:

   Ram ½, Mohan 1/3 and Sohan 1/6. Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than Rs.25,000, in any year. The net profit for the year ended March 31, 2016 is Rs.2,00,000, before charging interest on capital.

   You are required to show distribution of profit.

   (Ans: Profit to Ram, Rs.48,000, Mohan, Rs.32,000 and Sohan, Rs.25,000)

Past Adjustment

2. The net profit of X, Y and Z for the year ended March 31, 2006 was Rs.60,000 and the same was distributed among them in their agreed ratio of 3:1:1. It was subsequently discovered that the under mentioned transactions were not recorded in the books:

   (i) Interest on Capital @5% p.a.

   (ii) Interest on drawings amounting to X Rs.700, Y Rs.500 and Z Rs.300.

   (iii) Partner's Salary: X Rs.1000, Y Rs.1500 p.a.

   The capital accounts of partners were fixed as: X Rs.1,00,000; Y Rs.80,000 and Z Rs.60,000. Record the adjustment entry.

   (Ans: X Dr. Rs.2,700, Y credit Rs.2,600 and Z credit Rs.100)

Valuation of Goodwill

3. Compute the value of goodwill on the basis of four years' purchase of the average profits based on the last five years? The profits/losses for the last five years were as follows:

   2012 - Rs25,000; 2013 - Rs40,000; 2014 - (Rs15,000) loss; 2015 - Rs80,000; 2016 - Rs1,00,000

   Ans: Rs 1,84,000

4. Capital employed in a business is Rs.2,00,000. The normal rate of return on capital employed is 15%. During the year 2002 the firm earned a profit of Rs.48,000. Calculate good will on the basis of 3 years purchase of super profit?

   (Ans: Rs.54,000)

5. A business has earned average profits of Rs.1,00,000 during the last few years.

Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs.10,00,000 and its external liabilities are Rs.1,80,000. The normal rate of return is10%?

(Ans: Rs.1,80,000)

ADMISSION OF PARTNER

Accounting Steps:

Step1: Revaluation of Assets and Reassessment of Liabilities.

Step2: Treatment of Accumulated Profits or Losses.

....After welcome of new partner

Step3: New Profit sharing ratio and sacrificing ratio.

Step4: Treatment of Goodwill.

Step5: Adjustment of capital and New Balance Sheet.

***Note:** First two steps are calculated on the basis of old balance sheet,old partners'capital A/cs and old profit sharing ratio. If, firstly these two steps are completed by students then there will be no chance of mistake in accounting treatment.

Step1:Revaluation of Assets and Reassessment of Liabilities.

The journal entries recorded for revaluation of assets and reassessment of liabilities are as follows

For

(i) For increase in the value of an asset

Asset A/c	Dr.	
To Revaluation A/c		(Gain)

(ii) For reduction in the value of an asset

Revaluation A/c	Dr.	
To Asset A/c		(Loss)

(iii) Appreciation in the amount of a liability

Revaluation A/c	Dr.	
To Liability A/c		(Loss)

(iv) For reduction in the amount of a liability

Liability A/c	Dr.	
To Revaluation A/c		(Gain)

(v) For an unrecorded asset

Asset A/c	Dr.	
To Revaluation A/c		(Gain)

(vi) For an unrecorded liability

Revaluation A/c Dr

To Liability A/c (Loss):

(vii) For transfer of gain on Revaluation if credit balance

Revaluation A/c Dr.

To Old Partners Capital A/cs **(Old ratio)**

(individually)

(viii) For transferring loss on revaluation

Old partner's Capital A/cs Dr

(Individually) **(Oldratio)**

To Revaluation A/c

Step2: Treatment of Accumulated Profits or Losses.

The journal entries recorded for Accumulated Profits or Losses are as follows:

(i) **For Accumulated Profit**

Reserve A/c Dr

Profit & Loss A/c(Profit) Dr

Workmen's Compensation Fund A/c Dr

Investment Fluctuation Reserve A/c Dr

To Old Partners' Capital A/c (individualy)

(In old profit sharing ratio)

(ii) **For Losses**

Old Partners' Capital A/cs Dr (individualy)

To Profit & Loss A/c(Loss)

To Deferred Revenue Expenses A/c **(In old profit sharing ratio)**.

Step3: New Profit sharing ratio and Sacrificing ratio.

New Profit Sharing Ratio

When new partner is admitted he acquires his share in profits from the old partners. In other words, on the admission of a new partner, the old partners sacrifice a share of their profit in favour of the new partner. But, what will be the share of new partner and how he will acquire it from the existing partners is decided mutually among the old partners and the new partner. However, if nothing is specified as to how does the new partner acquire his share from the old partners; it may be assumed that he gets it from them in their profit sharing ratio. In any case, on admission of a new partner, the profit sharing ratio among the old partners will change keeping in view their respective contribution to the profit sharing ratio of the incoming partner. Hence, there is a need to as certain the new profit sharing ratio among all the partners. This depends upon how does the new partner acquires his share from the old partners for which there are many possibilities. Let us understand it with the help of the following illustrations.

Illustration 1

Anil and Vishal are partners sharing profits in the ratio of 3:2. They admitted Sumit as a new partner for 1/5 share in the future profits of the firm. Calculate new profit sharing ratio of Anil, Vishal and Sumit.

Solution: Sumit's share = 1/5

Remaining share = 1-1/5=4/5

Anil's new share = 4/5 x3/5=12/25

Vishal's new share = 4/5 x 2/5 = 8/25

Sumit's share = 1x5/5x5 = 5/25

New profit sharing ratio of Anil, Vishal and Sumit will be12:8:5.

Note: It has been assumed that the new partner acquired his share from old partners in old ratio.

Illustration 2

Akshay and Bharati are partners sharing profits in the ratio of 3:2. They admit Dinesh as a new partner for 1/5th share in the future profits of the firm which he gets equally from Akshay and Bharati. Calculate new profit sharing ratio of Akshay, Bharati and Dinesh.

Solution: Dinesh's share = 1/5 or 2/10

Akshay's share = 3/5 – 1/10 = 5/10

Bharti,s share = 2/5 – 1/10 = 3/10

So, new profit sharing ratio is 5:3:2

Illustration 3

Ram and Shyam are partners in a firm sharing profits in the ratio of 3:2. They admit Ghanshyam as a new partner. Ram surrenders 1/4 of his share and Shyam 1/3 of his share in favour of Ghanshyam. Calculate new profit sharing ratio of Ram, Shyam and Ghanshyam.

Solution;

Ram sacrifice = 3/5 x 1/4 = 3/20

Shyam sacrifice = 2/5 x 1/3 = 2/15

Ram's new share= 3/5 – 3/20 = 9/20

Shyam's new share = 2/5 – 2/15 = 4/15

Ghanshyam's new share = 3/20 + 2/15 = 17/60

So new ratio is 27:16:17

Sacrificing Ratio

The ratio in which the old partners agree to sacrifice their share of profit in favour of the incoming partner is called sacrificing ratio. The sacrifice by a partner is equal to:

Old Share of Profit – New Share of Profit

Step4: Treatment of Goodwill.

There are different situations relating to the accounting treatment of goodwill at the time of admission of new partner. All these are given in detail under the following categories:

(I) **Goodwill paid by the new partner to the old partners privately:**

No entry will be passed in the books of the firm. Entry for cash brought in by him as capital shall only be passed.

However if there is any goodwill a/c existing in the balance sheet of old partners before admission, it should be immediately written off among the old partners in old ratio.

(II) **When amount of goodwill brought in by new partner:**

In this case there may be three situations:

Exp: Supposed there are two partners A and B. C is admitted as new partner.

When new partner brings his share of goodwill in cash	When new partner is not able to brings his share of goodwill in cash	When new partner brings only part of his share of goodwill in cash
If there is any goodwill a/c in the balance sheet of old partners A's Capital A/c Dr B's Capital A/c Dr To Goodwill A/c (Being old goodwill written off in old ratio)	If there is any goodwill a/c in the balance sheet of old partners A's Capital A/c/Current A/c Dr B's Capital A/c Current A/c Dr To Goodwill A/c (Being old goodwill written off in old ratio)	If there is any goodwill a/c in the balance sheet of old partners A's Capital A/c DrB's Capital A/c Dr To Goodwill A/c (Being old goodwill written off in old ratio)
Cash/Bank A/c Dr To Premium A/c To C's Capital A/c (Being cash brought in by new partner for premium and capital)	Cash/Bank A/c Dr To C's Capital A/c (Being cash brought in by new partner for capital)	Cash/Bank A/c Dr To Premium A/c To C's Capital A/c (Being cash brought in by new partner for a part of premium and capital)
Premium for Goodwill A/c Dr To A's Capital A/c To B's Capital A/c (Being premium amount transferred to old partners' capital A/cs in sacrificing ratio)	C's Capital A/c/C's Current A/c Dr To A's Capital A/c To B's Capital A/c (Being new partner's share of goodwill credited to old partners in sacrificing ratio)	Premium for Goodwill A/c Dr To A's Capital A/c To B's Capital A/c (Being a part of premium brought in cash transferred to old partners' capital A/cs in sacrificing ratio) C's Cap/Current A/c Dr To A's Capital A/c To B's Capital A/c (Being new partner's cap a/c Dr for part of premium not bring in cash and Cr to old partners in sacrificing ratio)
If premium amount withdrawn by old partners A's Capital A/c Dr B's Capital A/c Dr To Cash/Bank A/c	**If premium amount withdrawn by old partners** A's Capital A/c Dr B's Capital A/c Dr To Cash/Bank A/c	**If premium amount withdrawn by old partners** A's Capital A/c Dr B's Capital A/c Dr To Cash/Bank A/c

(III) **When New Partner brings his share of goodwill in kind:**

Exp: Supposed there are two partners A and B. C is admitted as new partner.

When new partner brings his share of goodwill in kind	
If there is any goodwill a/c in the balance sheet of old partners	
A's Capital A/c	Dr
B's Capital A/c	Dr
To Goodwill A/c	
(Being old goodwill written off in old ratio)	
Assets A/c	Dr
To Premium for Goodwill A/c	
To C's Capital A/c	
(Being cash brought in by new partner for premium and capital)	
Premium for Goodwill A/c	Dr
To A's Capital A/c	
To B's Capital A/c	
(Being premium amount transferred to old partners'capital A/cs in sacrificing ratio)	
If premium amount withdrawn by old partners	
A's Capital A/c	Dr
B's Capital A/c	Dr
To Cash/Bank A/c	

(IV) **Hidden Goodwill:**

Sometimes the value of Goodwill is not given. It is inferred or estimated from other related information given in question.

Exp: A and B are two partners in 3:2 ratio. Their capitals are Rs 1,20,000 and Rs 1,00,000 respectively. C is admitted for 1/5th share and he is bringing Rs 80,000 as his capital. Calculate the value of goodwill.

Solution:

Value of Goodwill = (C's Capital x 5/1) – (A's Capital+B's Capital+C's Capital)

= (80,000 x 5/1) – (1,20,000+1,00,000+80,000)

= 4,00,000 – 3,00,000

= 1,00,000

So C's share of Goodwill = 1,00,000 x 1/5 = 20,000

***Note:** It means new partner C doesn't bring his share of goodwill in cash. So in this case journal entries will be same as given in table of (III) situation

Step5: Adjustment of capital and New Balance Sheet.

After the admission of a partner, the capitals of all partners may be adjusted as per agreement. The adjustment may take any of the following forms:

(I) **Adjustment of the capitals of the old partners on the basis of new partner's capital Steps:**

(i) Calculate the total capital of the firm on the basis of new partner's capital and his share in profits.

Total Capital/New Capital= New partner's capital x Reciprocal of the proportion of his share in profit

(ii) Calculate the new capitals of all partners by dividing total capital in new ratio.

(iii) Prepare old partners' capital a/cs (after all adjustments regarding Revaluation, General Reserve , Goodwill etc) and find out the actual balances of their capitals.

(iv) Compare the new capitals as in (ii) with old capital balances as in (iii) and work out surplus or deficiency.

(v) Surplus will be paid back to the old partners and if there is deficiency the same will be contributed in cash by the old partners.

(If it is specifically required under agreement, the surplus can be Cr to their current a/cs and deficiency can be Dr to their current a/cs)

(vi) If goodwill is not brought in cash, it can be adjusted either (i) through new partner's capital a/c – this will reduce his original capital contributed by him or (ii) if it is adjusted through new partner's current a/c – this will not affect the original capital contributed by him.

(II) **Finding the new partner's sufficient capital on the basis of the old partners' capital or the total capital of the firm**

Steps:

(i) Prepare old partners' capital a/cs(after all adjustments regarding Revaluation, General Reserve , Goodwill etc)

(ii) Calculate the total Capital of the new firm as follows.

Total Capital of the firm =

$$\left(\begin{array}{c}\text{Combined adjusted}\\ \text{capital of old partners}\end{array}\right) \times \left(\begin{array}{c}\text{Reciprocal of the combined}\\ \text{proportion of their share of profit}\end{array}\right)$$

(iii) New partner's capital will be equal to his share of the total capital.

(iv) If goodwill is not brought in cash by the new partner; it should be better Dr to his Current Account. This will make the calculation of his sufficient capital more accurate and simple.

Change in Profit Sharing Ratio among the existing Partners

Sometimes, the partners of a firm decide to change their existing profit sharing ratio without any admission or retirement of a partner. This results in gain of additional share in future profits of the firm for some partner while a loss of a part thereof for other partners. In this case, first of all, loss and gain in the value of goodwill (if any) will have to be adjusted. Losing partners can be credited and gaining partners debited with appropriate amounts without good will account appearing in the books, as explained earlier in the context of the admission of a new partners. Any change, in the profit sharing ratio, like admission of partner, may also involve adjustments in respect of revaluation of assets and liabilities, transfer of accumulated profit and losses to partners' capital accounts in the old profit sharing ratio and adjustment of partners' capitals, if specified, so as to make them proportionate to the new profit sharing ratio. All this is done in the same way as incase of admission of a partner.

Question based on missing figure

A and B are partners sharing profit in the ratio of 4:1. They admit C on 31-3-2016 with ¼ shares. He brings Rs 60,000 and he brings his share in cash. The information given below is incomplete. Give the correct missing figures. Old partners have withdrawn their goodwill.

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To claim for damages	1,000	By Creditors	500
To Machines	12,000	By Old partners	
To Furniture	3,500	A	
		B	....
	16,500		16,500

Dr. **Bank/Cash A/c** **Cr.**

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2016		2016	2016		2016
March 31	To Balance b/d	15,000	March 31	By A's capital a/c (goodwill withdrawn)	....
	To C's capital a/c	....		By B's capital a/c (goodwill withdrawn)	....
	To Premium a/c	....		By Balance c/d	....
		....			....
2016	To Balance b/d	....			
April 1					

Dr. **Partners' Capital a/cs** **Cr.**

Date	Particulars	A	B	C	Date	Particulars	A	B	C
2016 March 31	To cash a/c (goodwill withdrawn)	......	......	xxx	2016 March 31	By Balance b/d	80,000	80,000	xxx
	To Revaluation a/c (Loss)	......	......	xxx	March 31	By Premium a/c	12,000	3,000	xxx
	To Balance c/d	......	......	......	March 31	By cash a/c	xxx	xxx	xxx
		......	......	......			......	......	......
					2016 April 1	By Balance b/d	......	......	......

Dr. **Balance Sheet as at 31-3-2016** Cr.

Particulars	Amount	Particulars	Amount
Capital		Cash/Bank	....
A		Debtors	40,000
B		Stock	50,000
C	....	Machines	1,00,000
....	1,800	Furniture	31,500
Creditors	59,500		
	....		....

Practical Questions

New ratio and sacrificing ratio

1. A and B were partners in a firm sharing profits and losses in the ratio of 3:2.

   They admit C into the partnership with 1/6 share in the profits. Calculate the new profit sharing ratio? (Ans: 3:2:1)

2. P and Q are partners sharing profits in 2:1 ratio. They admitted R into partnership giving him 1/5 share which he acquired from P and Q in 1:2 ratio. Calculate new profit sharing ratio. (Ans:3:1:1)

3. Sandeep and Navdeep are partners in a firm sharing profits in 5:3 ratio. They admit C into the firm and the new profit sharing ratio was agreed at 4:2:1. Calculate the sacrificing ratio? (Ans:1:1.)

Goodwill

4. Amar and Samar were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Kanwar for 1/4 share of profits. Kanwar could not bring his share of good will premium in cash. The Goodwill of the firm was valued at Rs.80,000 on Kanwar's admission. Record necessary journal entry for good will on Kanwar's admission.

Revaluation a/c,Accumulated profit or losses, Partners' capital a/cs & their adjustment, Balance Sheet of new firm

5. Azad and Babli are partners in a firm sharing profits and losses in the ratio of 2:1. Chintan is admitted into the firm with 1/4 share in profits. Chintan will bring in Rs.30,000 as his capital and the capitals of Azad and Babli are to be adjusted in the profit sharing ratio. The Balance Sheet of Azad and Babli as on December 31, 2006 (before Chintan's admission) was as follows:

Dr. **Balance Sheet as at 31-12-2015** Cr.

Liabilities	Amount	Assets	Amount
Creditors	8,000	Cash in hand	2,000
Bills payables	4,000	Cash at Bank	10,000
General Reserve	6,000	Sundry Debtors	8,000
Capital accounts:		Stock	10,000
		Furniture	5,000
Azad 50,000		Machinery	35,000
Babli 32,000	82,000	Building	40,000
	1,00,000		1,00,000

It was agreed that:

i) Chintan will bring in Rs.12,000 ashish are of good will premium.

ii) Buildings were valued at Rs.45,000 and Machinery at Rs.23,000.

iii) A provision for doubtful debts is to be created @ 6% on debtors.

iv) The capital accounts of Azad and Babli are to be adjusted by opening current accounts.

v) Record necessary journal entries, show necessary ledger accounts and prepare the Balance Sheet after admission.

(Ans: Gainor Revaluation Rs.2,520. Balance Sheet Rs.1,44,520)

Change in profit sharing ratio

6. Dinesh, Ramesh and Suresh are partners in a firm sharing profits and losses in the ratio of 3:3:2. They decided to share the profits equally w.e.f. April 1, 2015. Their Balance Sheet as on March 31, 2015 was as follows:

Liabilities	Amount	Assets	Amount
Creditors	1,50,000	Cash at Bank	40,000
General Reserve	80,000	Bills Receivables	50,000
Partners'Loan:		Sundry Debtors	60,000
Dinesh 40,000		Stock	1,20,000
Ramesh 30,000	70,000	Fixed Assets	2,80,000
P's Capital accounts:			
Dinesh 1,00,000			
Ramesh 80,000			
Suresh 70,000			
	2,50,000		
	5,50,000		5,50,000

It was also decide that:

1. The fixed assets should be valued at Rs 3,31,000.
2. A provisions of 5% on sundry debtors be made doubtful debts.
3. Goodwill of the firm is valued at Rs 90,000.
4. The value of stock be reduced to Rs 1,12,000.

Prepare Revaluation a/c, partners' capital a/cs and Balance Sheet.

(Ans: Total of balance sheet Rs 5,90,000.)

RETIREMENT AND DEATH OF A PARTNER

A partner has right to retire from the firm after giving due notice in advance. After retirement a new partnership comes into existence between the remaining partners. Partner can retire from the firm in the following circumstances

With the consent of the all the partners

As per the terms of the partnership agreement

By giving a notice in writing to all other partners, if the partnership is at will.

The retirement of a partner is called reconstitution of the partnership firm because the old agreement is terminated but the firm continues and the new agreement comes into force.

Following accounting treatments are done while retiring a partner.

1) Calculation of a new ration and gaining/sacrificing ratios (in some cases) ration.
2) Treatment of goodwill.
3) Adjustment of revaluation of assets and liabilities.
4) Adjustment of undistributed reserves and profits and losses a/c.
5) Capital adjustments and preparing opening balance sheet.

CALCULATION OF NEW RATIO AND GAINING RATIO: -

New ratio = Old share + Acquired share

Gaining ratio = New ratio- Old ratio

Gaining ratio is calculated to ascertain the amount of goodwill payable to retiring or deceased partner by the remaining partners.

Q.1. A, B, & C are partners with ratio 4:5:6. Find out new ratio if i) A retires ii). B retires iii) C retires.

Sol. Old ration between partners A, B, & C is 4:5:6. So new ration i). 5:6, ii) 4:6, iii) 4:5

Q.2. A, B, & c are partners with ratio 3:2:1. Find out new ratio if A retires and his share is purchased by B alone.

Sol. Old ration between partners A, B, & C is3:2:1. A retires leaving the share of 3/2 and this share is purchased by B. so B's new share 2/6 +3/6 =5/6 and c's share is 1/6. So new share is 5:1

Q.3. Roman, Preet and Sanjay are partners with equal profit sharing ratio. Roman decided to retire from the firm and new ration is fixed as 5:3, determine the gaining ratio.

Sol. Gaining Ratio = New Ratio – Old Ratio

Preet's Gaining Ratio = 5/8-1/3=15-8/24=7/24

Sanjay's Gaining = 3/8-1/3=9-8/24=1/24

Gaining Ratio = 7: 1

Q.4. A, B and C were partners sharing profits in the ratio of 5:3:2. B retires on January 1, 2016 with A and C agreeing to share the profits in future in the ratio of 6:4. Find the gaining ratio.

Sol. Gaining Ratio = New Ratio – Old Ratio

A's Gaining Ratio = 6/10-5/10 = 1/10

C's Gaining Ratio = 4/10-2/10=2/10

Gaining Ratio = 1:2

TREATMENT OF GOODWILL:-

The retiring partner share of goodwill is credited to capital account of respective partner and debited to remaining partners' capital in gaining ratio.

JOURNAL ENTRY:-

Gaining partner capital a/c/Current A/c Dr (With the share of Goodwill)

To Retiring or Deceased partner capital a/c (in gaining ratio)

The existing goodwill (if any) will be written off by debiting all partners' capital account in their old ratio and crediting the goodwill account.

Old partners' capital a/c/ current a/c Dr (in old ratio)

To Goodwill a/c (Goodwill existing goodwill)

Special Note: - Goodwill cannot be shown in books unless and until it is purchased by paying some consideration. (AS-26)

Q.5. A, B and C are partners in a firm sharing profits in the ratio of 5:3:2. A retires and his share is taken up by B and C equally. Goodwill of the firm is Rs. 60000. Pass necessary journal entry.

Sol:-

B's Capital a/c Dr 15000.00

C's Capital a/c Dr 15000.00

To A's Capital/c 30000.00

(Being adjustment of goodwill done on retirement of A)

Working Note: - Old Ratio is 5:3:2, New Ratio 11:9 and gaining ratio is 1:1. A's share of goodwill =60000*5/10=30000.

Numerical For practice

Q.6. A, B and C were partners sharing profits in the ratio of 2:2:1. B retires on January 1, 2016 with A and C agreeing to share the profits in future in the ratio of 3:2.Goodwill of the firm is Rs. 75000. Pass necessary journal entry.

Q.7. X, Y and Z are partners with ratio 3:2:1. Y retires and his share is purchased by Z alone. Goodwill of the firm is 30000.00. Pass necessary journal entry

Q. 8. Raman,Preet and Sanjayare partners with equal profit sharing ratio. Raman decided to retire from the firm and new ratios is fixed as 5:3.Share of Goodwill of Raman 80000.00.Pass necessary journal entry.

Q.9. What is difference between sacrificing ratio and Gaining ratio.

Distribution of profit and loss on revaluation at the time of retirement/ Death of partner

Profit/Loss on revaluation will be shared between all the partners in their old profit sharing ratio.

(Journal entries for the revaluation of assets and liabilities and finding out profits or losses thereof has been explained in previous lessons)

Journal entry for the transfer of profit and loss on revaluation at the time of retirement/ death of a partner.

For Profits:

Revaluation A/C Dr.

To All Partner's Capital A/C (in old ratio)

(Being profit on revaluation transferred to all partners' capital account in old profit sharing ratio)

For losses:

All the partners' capital A/C Dr. (in old ratio)

To Revaluation A/c

(Being loss on revaluation transferred to all partners' capital account in old profit sharing ratio)

Treatment of undistributed profit at the time of retirement/death of the partner.

Special Note: - Reserves are always undistributed profits whereas P&L a/c may be profits or losses. If P&L a/c is having credit balance or given on liability side it is profit and if P&L a/c is having debit balance or given on assets side it is loss.

The undistributed **profits** are transferred to all partners' capital account in the old profit sharing ratio.

General Reserve a/c Dr.

Profit & Loss a/c Dr.

To All partners' capital account (in old ratio)

(Being undistributed profits transferred to all partners' capital accounts in old ratio)

Treatment of undistributed losses at the time of retirement/death of a partner

The **undistributed losses** are transferred to all partners' capital accounts in their old profit sharing ratio.

All partners' Capital a/c Dr. (in old ratio)

To profit & loss a/c

(Being undistributed losses are transferred to all partners' capital account in old profit ratio)

Q.1. L, M and N were partners sharing profits and losses in the ratio of 5:3:2. On 31st March 2016 their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capitals:		Property	1,20,000
L 1,50,000		Patents	30,000
M 1,25,000		Machinery	1,50,000
N 75,000	3,50,00	Stock	1,90,000
General Reserve	30,000	Bank	40,000
Creditors	1,50,000		
	5,30,000		

N retired on 31st March 2016 and it was agreed that:

(i) Goodwill of the firm is to be valued at Rs.2, 00,000.

(ii) Machinery be valued at Rs.1, 40,000; Patents at Rs.40, 000 and Property at Rs.1, 50,000 on this date.

Prepare partners' Capital Account and Revaluation Account and balance sheet.

Solution: - Working Notes:-

Old Ratio=5:3:2, New ratio after retirement 5:3, Gaining ratio= 5:3 share of goodwill of retiring partner = 200000*2/10=40000.00

Dr. Revaluation a/c Cr.

Particulars	(Rs)	Particulars	(Rs)
To Machinery	10,000	By patents	10,000
To Profit transferred to Capital A/c:		By Property	30,000
L 15,000			
M 10,000			
N 5,000	30,000		
	12,000		40,000

Dr. Partners' Capital a/cs Cr.

Particulars	L	M	N	Particulars	L	M	N
To N's Loan a/c	....	....	85,000	By balance b/d	1,50,000	1,25,000	75,000
To balance c/d	1,80,000	1,45,000	....	By General Reserve	15,000	10,000	5,000
	1,80,000	1,45,000	85,000	By Profit on Revaluation	15,000	10,000	5,000
	1,80,000	1,45,000	85,000		1,80,000	1,45,000	85,000

Opening Balance Sheet of New Firm

Liabilities	Amount	Assets	Amount
Capitals:		Property	1,50,000
L 1,80,000		Patents	40,000
M 1,45,000	3,25,000	Machinery	1,40,000
N 's Loan a/c	85,000	Stock	1,90,000
Creditors	1,50,000	Bank	40,000
	5,60,000		5,60,000

Numerical For practice

Q.1 X, Y, and Z were in partnership sharing profits in the ratio of 3: 2. On this date Balance Sheet is as follows: -

Liabilities	**Amount**	**Assets**	**Amount**
Provision for Doubtful Debts	1,300		
Sundry creditors	15,000	Cash at bank	10,000
Capitals:		Debtors	16,000
X 78,750		Stock	20,300
Y 70,000		Machinery	60,00
Z 61,250	2,10,000	Land and Building	1,20,000
	2,26,300		2,26,300

Z retires on the above date and the new profit sharing ratio between X and Y will be 5:4 following terms were agreed:

1) Land and buildings be reduced by 10%.
2) Out of the Insurance premium paid during the year Rs.5, 000 be carried forward as unexpired.
3) There is no need of any provision for doubtful debts.
4) Goodwill of the firm be valued at Rs.36, 000 and adjustment in this respect be made without raising a goodwill a/c.

Pass necessary journal entries. Prepare the capital accounts and the new balance sheet.

Q.2. A, B, C and D were partners sharing profits in the ratio of 3:3:2:2 respectively. On 1st April, 2014, D retired owing to ill health. It was decided by A, B and C that in future their profit sharing ratio would be 3:2:1. Complete the following journal in this regard:

Date	**Particulars**	**L.F.**	**Dr.**	**Cr.**
	A's capital A/c Dr.		....	
	B's capital A/c Dr.		....	
	C's capital A/c Dr.		....	
	D's capital A/c Dr.		10,000	
	To			....
	(Being the existing goodwill written off)			
	A's capital A/c Dr.		1,20,000	
	B's capital A/c Dr.		....	
	To C's capital A/c			....
	To D's capital A/c			....
	(being the adjustment for the goodwill made on account of change in profit sharing ratio)			

Calculation of share of profit of the deceased partner

In case of death of a partner during the accounting year the executor of the deceased partner is entitled to a share of profit earned by the firm from the date of last balance sheet to the date of the death. The following two methods are adopted for ascertaining the profit of that period:

(a) On the basis of time:-

Deceased partner's share= Last year profit/Average profits x period (in months/days)/12/365

X Deceased partner's ratio

Note: Period here means from the period from the beginning of the year to the date of death.

(b) On the basis of sales: sales for the period *rate/100

Journal entry

Profit& loss Suspense a/c Dr (with the share of profit for the period)

To deceased partner's capital a/c

Numerical For practice

1) Ram, Manohar and Joshi were partners in a firm. Joshi died on 28th February 2004. His share of profit from the closure of the last accounting year till the date of death was to be calculated on the basis of the average of three completed years' profits before the death. Profits for 2002, 2003 and 2004 were Rs. 7,000, Rs. 8,000 and Rs. 9,000 respectively. Calculate Joshi's share of profit till his death and pass the necessary journal entry for the same.

Answer : Share of Profit Rs. 444.44

2) P, R and S are in the partnership sharing profits in the ratio of 4:3:1 respectively. It is provided in the partnership deed that, on the death of any partner, his share of goodwill is to be valued at half of the profits credited to his account during the previous four completed years. R dies on 1st January, 2005. The firm's profits for the last years 2011: Rs.1, 20,000; 2012 Rs. 80,000, 2013: Rs. 40,000, 2014: Rs. 80,000.Determine the amount that should be credited to R in respect of his share of goodwill.

Answer : Share of Goodwill= 60000

Calculation of the amount payable to the representative of deceased partner

The representative of the deceased partner is entitled to the following.

i. The balance standing on the credit of the deceased partner capital and current account

ii. His share of profit in the goodwill of the firm.

iii. His share of profit in the revaluation of assets and liabilities

iv. His share of reserve and accumulated profit

v. His share of profit upto the date of death

vi. Interest on capital if provided in the partnership agreement

The following amount will be debited to the account of the deceased partner for ascertaining the amount due to his representative.

i. His drawings
ii. Interest on drawings, if provided in the partnership deed
iii. His share of losses on revaluation of assets and liabilities
iv. His share of losses upto the date of his death
v. Loan to deceased partner.

Q.1. Arti, Bharti and Seema are partners in a firm sharing profits in the proportion of 3:2:1. Their Balance Sheet as on31st of March, 2013 stood as follows:

Particulars	(Rs)	Particulars	(Rs)
Bills payable	12,000	Buildings	21,000
Creditors	14,000	Cash in hand	12,000
General Reserve	12,000	Cash in Bank	13,700
Capital Accounts:		Debtors	12,000
Arti	20,000	Bills Receivable	4,300
Bharti	12,000	Stock	1,750
Seema	8,000	Investment	13,250
	78,000		78,000

Bharti died on 30th June, 2013 and according to the deed of the said partnership her executors are entitled to be paid as under:

(i) The capital to her credit at the time of her death and interest thereon @10% per annum.
(ii) Her proportionate share of general reserve.
(iii) Her share of profits for the intervening period will be based on the sales during that period. Sales were calculated as Rs. 1,20,000. The rate of profit during past three years had been10% on sales.
(iv) Goodwill according to her share of profit to be calculated by taking twice the amount of profits of the last three years less 20%. The profits of the previous three years were:

2000-2001	Rs. 8,200
2001-2002	Rs. 9,000
2002-2003	Rs. 9,800

The investments were sold at par and her executors were paid out.

Prepare Bharti's Capital Account and her Executor's Account.

Dr. **Bharti's Capital Account** Cr.

Date	Particulars	(Rs)	Date	Particulars	(Rs)
30.07.14	To Bharti's Executor A/c (Balancing Figure)	34,700	30.07.14	By Balance b/d	12,000
			30.07.14	By General Reserve	4,000
			30.07.14	By Interest on Capital	300
			30.07.14	By P & L Suspense	4,000
			30.07.14	By Aarti's Capital A/c	10,800
				By Seema's Capital A/c (Goodwill)	3,600
		34,700			34,700

Dr. **Bharti's Executors' a/c** Cr.

Date	Particulars	(Rs)	Date	Particulars	(Rs)
30.07.14	To Bank A/c (Bal. Fig.)	54,700	30.07.14	By Bharti's Capital A/c	54,700
		....			....

Working Notes:

(i) Interest on Capital = 12,000 x 10/100 x 3/12 = Rs. 300

(ii) Share in General Reserve = 12,000 x 2/6 = Rs. 4,000

(iii) Share of Profit = 1,20,000 x 10/100 = Rs. 12,000

Bharti's Share = 2/6 x 12,000 = Rs. 4,000

(iv) Total Profit of Last 3 years :

8,200 + 9,000 + 9,800/3 = 27,000

Twice Profit = 27,000 x 2 = Rs. 54,000

Less: 20% of 54,000 = Rs. 54,000 – 10,800 = 43,200

Bharti's shares of goodwill = 43,200 x 2/6 = 14,400

Numerical For practice

1) A, B and C were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2015 their Balance sheet was as under:

Liabilities	Amount	Assets	Amount
Creditors	7,000	Buildings	20,000
Reserves	10,000	Machinery	30,000
A's Capital	30,000	Stock	10,000
B's Capital	25,000	Patents	6,000
C's Capital	15,000	Cash	21,000
	87,000		87,000

C died on 1st October, 2015. It was agreed between his executors and the remaining partners that:

(a) Goodwill be valued and 2 years' purchase of the average profits of the previous five years, which were 2011: Rs. 15,000; 2012: Rs. 13,000; 2013; Rs. 12,000; 2014: Rs. 15,000 and 2015: Rs. 20,000.

(b) Patents be valued at Rs. 8,000, Machinery at Rs. 28,000, Buildings at Rs. 30,000.

(c) Profit for the year 2005-06 be taken as having accrued at the same rate as the previous year.

(d) Interest on capital be provided at 10% p.a

(e) A sum of Rs. 7,750 was paid to his executors immediately.

Prepare C's capital account and his executors account at the time of his death.

2). Archana, Bindu and Charu were partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as on 1st April 2019 was:

Liabilities	Amount	Assets	Amount
Creditors	200000	Cash	20,000
General Reserve	300000	Debtors	18,000
Capitals:		Stock	60,000
Archana- 1,00,000		Furniture	52,000
Bindu - 70,000		Land & Building	1,50,000
Charu - 70,000	240000		
	290000		290000

Bindu died on the above date and the executors were paid in the following manner:

a) Bindu's Share of Goodwill was Rs. 6,000;

b) A provision for doubtful debts @ 5% was to be made on debtors;

c) Land & Building were to be depreciated by 5% and Stock was valued at Rs.61900.

Pass necessary journal entries for the above transactions on Bindu's Death.

Q.1. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31.3.2015 their balance sheet was as followers.

Vipul's loan a/c

Liabilities			Amount	Assets	Amount
				Building	50,000
Capital accounts:				Patents	15,000
	X	75,000		Machinery	75,000
	Y	62,500		Stock	37,500
	Z	37,500	175000	Debtors	20,000
Creditors			42,000	Cash at Bank	20,000
			217500		217500

Z died on 31[st] July, 2015. It was agreed that:

(a) Goodwill be valued at year's purchase of the average profit of the last four years, which were as follows: Years Profits

Years	Profits
2011-2012	32,500
2012-2013	30,000
2013-2014	40,000
2014-2015	37,500

(b) Machinery be valued at 70,000; Patents at 20,000 and Building at 62,500.

(c) For the purpose of calculating Z's share of profit in the years of his death the profits in 2014-2015 should be taken to have been accrued the same scale as in 2015-2016.

(d) A sum 17,500 was paid immediately to the executors of *Z* and the balance was paid in four half early installments together with interest at 12% p.a starting from 31.1.2016.

Prepare *Z*'s capital account showing amount due to *Z*'s executor.

Ans: Amount due to *Z*'s executor=Rs 60000

RETIREMENT/ DEATH AND SETTLEMENT OF LOAN

It may be agreed among the partners that the principal amount will be paid in a few equal instalments with interest.

Q.1. Sachin, Virat and Kaif were partner in the firm. Virat retired on March31, 2016. All revaluation and goodwill adjustments were made and his claim came to be Rs. 120000. The amount has been transferred to Virat's Loan a/c. Prepare loan a/c

i). If the amount is paid in four equal instalments plus interest @12%.

ii). If they pay on instalment of Rs. 140000 at the end of year including interest on outstanding balance of the first two years and the balance including interest on third year.

Sol. for i).

Virat's loan a/c

Date	**Particulars**	**(Rs)**	**Date**	**Particulars**	**(Rs**
2017 Mar.31	By Bank a/c	118400	2016 Mar.31	By Virat's Capital a/c	3,20,000
	By Balance c/d	240000	2017 Mar.31	By Interest	38400
		358400			358400
2018 Mar. 31	By Bank a/c	108800	2017 April ,1	By Balance b/d	240000
	By Balance c/d	160000	2018 Mar. 31	By Interest	28800
		268800			268800
2019 Mar. 31	By Bank a/c	99200	2018 April ,1	By Balance b/d	160000
2020 Mar. 31	By Balance c/d	80000	2019 Mar. 31	By Interest	19200
		179200			179200
2020Mar. 31	By Bank a/c	89600	2019 April ,1	By Balance b/d	80000
			2020 Mar. 31	By Interest	9600
		89600			89600

Virat's loan a/c

Date	**Particulars**	**(Rs)**	**Date**	**Particulars**	**(Rs**
2017 Mar.31	By Bank a/c	140000	2016 Mar.31	By Virat's Capital a/c	3,20,000
	By Balance c/d	218400	2017 Mar.31	By Interest	38400
		358400			358400
2018 Mar. 31	By Bank a/c	140000	2017 April ,1	By Balance b/d	218400
	By Balance c/d	104608	2018 Mar. 31	By Interest	26208
		244608			244608
2019 Mar. 31	By Bank a/c	117161	2018 April ,1	By Balance b/d	104608
			2019 Mar. 31	By Interest	12553
		171161			171161

Numerical For practice

Q.1. Sunny, Riya and Kavi were partner in the firm. Sunny retired on March 31, 2014. All revaluation and goodwill adjustments were made and his claim came to be Rs. 4,00,000. The amount has been transferred to Sunny's Loan a/c. Prepare loan a/c

i) If the amount is paid in four equal instalments plus interest @10%.

ii) If they pay on instalment of Rs. 1,60,000 at the end of year including interest on outstanding balance of the first two years and the balance including interest on third year.

DISSOLUTION OF PARTNERSHIP FIRM

Meaning of dissolution of partnership firm

Dissolution of partnership firm means that the firm closes down its business and comes to an end. On the dissolution of partnership firm, assets of the firm are sold and liabilities are paid off and out of remaining amount the accounts of partners are settled.

Thus, in case of dissolution of partnership, the firm may continue i.e. it does not mean the dissolution of firm. But in case of dissolution of the firm, the partnership is automatically dissolved.

Modes of dissolution of partnership firm:-

1) By mutual Agreement (Sec. 40)

2) Compulsory Dissolution (Sec. 41)

3) On Happening of an event (Sec. 42)

4) By Notice (Sec. 43)

5) By order of the Court (Sec. 44)

Difference between Realisation Account and Revaluation Account

Realisation A/c is prepared at the time of dissolution of firm and Revaluation A/c is prepared at the time of admission/retirement or death of a partner.

Journal entries:-

For closing of various asset accounts on the dissolution of partnership firm

Realisation A/c Dr.

To Sundry Asset a/c (By Name)

(Except cash, bank balance and fictitious assets)

(Only those assets which can be converted into cash are transferred to Realisation a/c. If provisions against any asset exists then asset at gross value is transferred to Realisation a/c and provision is credited to Realisation a/c)

For closing various liabilities accounts on the dissolution of partnership firm

Sundry Liabilities a/c Dr (By name)

To Realisation a/c

(Exceptpartner's loan, capital and accumulated profits)

(Only those liabilities which relate to third party are transferred to Realisation a/c.)

For payment of liability (Whether recorded or unrecorded)

Realisation a/c Dr

To Cash or Bank a/c

(For liability paid)

For assuming of liability by partner (Whether recorded or unrecorded)

Realisation a/c Dr

To Partner capital a/c

(For liability paid)

For sale of asset (Whether recorded or unrecorded)

Cash or Bank a/c Dr

To Realisation a/c

(For cash realized from sale of asset)

For asset taken over by partner (Whether recorded or unrecorded)

Partner Capital a/c Dr

To Realisation a/c

(For cash realized from sale of asset

For payment of realization expenses by firm

Realisation a/c Dr

To Cash or Bank a/c

(For realization expenses paid)

For payment of realization expenses by Partner

Realisation a/c Dr

To Partner capital a/c

(For realization expenses paid)

For payment of partner's loan by firm

Partner's Loan a/c Dr

To Cash or Bank a/c

(For partner's loan paid)

The undistributed **profits** are transferred to all partners' capital account in their sharing ratio.

General Reserve a/c Dr

Profit & Loss a/c Dr

To All partners' capital account (in their ratio)

(Being undistributed profits transferred to all partners' capital accounts)

The **undistributed losses** are transferred to all partners' capital accounts in their profit sharing ratio.

All partners' Capital a/c Dr. (in their ratio)

To profit & loss a/c

(Being undistributed losses are transferred to all partners' capital account)

Accounts prepared at the time of dissolution of partnership firm

1. Realisation a/c
2. Partner's Loan a/c
3. Partners' capital a/c
4. Cash or Bank a/c

Q.1 What journal entries would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third parties liabilities have been transferred to Realisation account?

1. Partner "A" took over the stock worth Rs.80, 000.
2. Firm paid Rs.40, 000 as compensation to employees.
3. Sundry creditors amounted to Rs.36, 000 which were settled at a discount of 15%.
4. There was an unrecorded bike of Rs.40, 000 which was taken over by partner "B" at Rs.30, 000.
5. Profit on realisation of Rs. 42,000 was to be distributed between A and B in the ratio of 4:3.

Sol:-

A's capital a/c	Dr	80,000	
To Realisation a/c			80,000
(Being stock is taken over by "A")			
Realisation a/c	Dr	40,000	
To bank a/c			40,000
(Being compensation paid to employee)			
Realisation a/c	Dr	30,600	
To Bank a/c			30,600
(Being stock is taken over by "A")			
B's capital a/c	Dr	30,000	
To Realisation a/c			30,000
(Being bike is taken over by "B")			
Realisation a/c	Dr	42000	
To A's capital a/c			24000
To B's capital		18000	
(Being profit on Realisation distributed to partners)			

Q.2 Charu and Palak are partners are partners in a firm and they decided to dissolve the partnership as on 31st March, 2013. On that day, their balance sheet was as follows:

Liabilities		Amount	Assets	Amount
Capitals: Charu	10,000		Building	17,000
Palak	20,000	30,000	Machinery	8,000
			Furniture	2,000
Creditors		10,000	Stock	4,500
			Sundry Debtors	5,500
			Cash at bank	3,000
		40,000		40,000

Amongst the partners, Charu decided to take over machinery at Rs.7, 500 while Palak took over building at Rs. 18,000. Stock realized its full value while furniture was sold at a discount of 10 per cent. Debtors were settled at Rs.5, 000 and Realisation expenses amounted to Rs.750.

Close the books of accounts.

Ans.

Dr. **Realisation a/c** Cr.

Liabilities	Amount	Assets	Amount
To Building	17,000	By creditors	10000
To Machinery	8,000	By Charu capital A/c (machinery)	7500
To Furniture	2,000	By Palak's capital A/c (building)	18000
To Stock	4,500	By cash at bank(stock)	4500
To Sundry Debtors	5,500	By cash at bank(furniture)	1800
To cash at bank(creditors)	10000	By cash at bank(debtors)	5000
To cash at bank(exp.)	750	By Charu's capital A/c -- 475	
		By Palak's capital A/c-- 475	950
	47750		47750

Dr. **Partner's Capital a/c** Cr.

Liabilities	Charu	Palak	Assets	Charu	Palak
To realisation	7500	1800	By balanced b/d	10000	20000
To realisation	475	475			
To Cash at bank	2025	1525			
	10000	20000		10000	20000

Dr. **Cash at Bank a/c** Cr.

Liabilities	Amount	Assets	Amount
To Cash at bank	3000	By realisation a/c	10000
To realisation a/c	4500	By realisation a/c (expenses)	750
To realisation a/c	1800	By Charu's capital A/c	2025
To realisation a/c	5000	By Palak's capital A/c	1525
	14300		14300

Numerical For practice

Q.1. What journal entries would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third parties liabilities have been transferred to Realisation account?

1). Loan of Rs. 10,000 advanced by a partner to the firm repaid on the dissolution of the firm

2). X, a partner takes over an unrecorded asset (typewriter) at Rs. 300

3). Undistributed balance (debit) of profit and loss account Rs. 30,000. The firm has three partners X, Y and Z.

4). the assets of the firm realized Rs. 1, 25,000.

5). Y who undertakes to carry out the dissolution proceeding is paid Rs. 2,000 for the same.

6). Creditors paid Rs.28, 000 in full settlement of their account of Rs.30, 000.

Q.2. A and B sharing profits and losses in the ratio of 5:2, for the following transactions on the dissolution of a firm, after various assets and third party liabilities have been transferred to Realisation account:

1) Bank loan Rs.12, 000 is paid.

2) Stock worth Rs.6, 000 is taken over by partner B.

3) Expenses on dissolution amounted to Rs.1, 500 and were paid by partner A.

4) A typewriter completely written off in the books of accounts was sold for Rs. 200.

5) Loss on Realisation is of Rs. 14,000.

6) There was a balance of Rs. 21,000 in the general reserve account on the date of dissolution.

7) B also agrees to take over the creditor of Rs. 30,000 for Rs. 20,000.

8) A, one of the partners has given loan to the firm of Rs. 10, 000. It was paid back to him at the time of dissolution.

9) Profit and loss account balance of Rs. 56,000 appeared on the assets side of the balance sheet.

10) Deferred revenue advertising expenditure appeared at Rs.28, 000.

11) An unrecorded investment realized Rs. 7,000.

Pass journal entries in the books of A and B.

Q.3. A and B, were partners sharing profits and losses in the ratio of 4:3, decided to dissolve the partnership firm as at 31-03-15. From the information given below, complete Realisation a/c, Partner's Capital A/c and Bank A/c:

Dr. **Realisation a/c** **Cr.**

Liabilities	Amount	Assets	Amount
To Sundry Assets A/c:		By Provisions for doubtful debts	500
Machinery 76,000		By sundry creditors	22,650
Stock 34,000		By Bank A/c-assets realized	
Investments 30,000		By Loss on Realisation transferred	
Debtors 5,730	1,34,730	to Capital a/c :	
To Bank A/c-Creditors		A ________	
To A's Capital A/c-Expenses	1,800	B 9720	
	1,70,740		1,70,740

Dr. **Partners Capital a/c** Cr.

Liabilities	A	Amount	Assets	A	B
To Realisation A/c		9,720	By ________	....	....
To Bank A/c	1,12,070		By ________	....	
			By Bank A/c	....	7,650
	1,25,090	9,720		1,25,030	9,720

Dr. **Bank a/c** Cr.

Liabilities	Rs.	Assets	Rs.
To ________	....	By ________	....
To realization A/c (assets realized)	1,24,910	By A's capital A/c	1,12,070
To B's capital A/c	7,650		
	1,35,220		1,35,220

Q.4. J, K and L decided to dissolve their partnership firm on 31st march, 2012. Their balance sheet on the day stood as under:

Dr. **Bank a/c** Cr.

Liabilities			Rs.	Assets	Rs.
Capitals:	J	10,000		Land	45,000
	K	10,000		Furniture	5,000
	L	10,000	30,000	Stock	4,000
J's Loan A/c			12,000	Debtors	5,000
Creditors			18,000	Bank	1,000
			60,000		60,000

Land was sold for the 15% above the book value while furniture was settled for Rs. 450 less. Stock was realized in full while debtors worth Rs. 300 proved bad. Expenses of Realisation were Rs. 600. Record the above transactions by passing necessary journal entries.**[Ans. Profit on realization. 5,400]**

Q.5. Ramesh and Mahesh were in partnership sharing profits and losses in the ratio of 3:1. They agreed to dissolve the firm. The assets realized Rs. 1, 50,000. The liabilities of the firm were as follows:

Creditors Rs. 90,000; Loan from Ramesh Rs. 40000; Ramesh's capital Rs. 20,000 and Mahesh's Capital Rs. 30,000. Show by mean of accounts the distribution of cash realized.

[Ans. Realisation loss Rs. 30,000; Ramesh brings in Rs. 2,500 and Mahesh is paid Rs. 22,500; Total of cash A/c Rs. 1, 52,500]

Q. 6. X, Y and Z are in partnership sharing in 7:5:8. They decided to dissolve the partnership. At the date of dissolution their creditors amounted to Rs. 20,000, cash being Rs.1000 and in the course of dissolution a contingent liability of Rs. 2,650 not brought into the accounts matured and to be met. Their capitals stood at Rs. 12,000; Rs. 10,000; and 18,000 respectively. X had lent to the firm in addition to capital Rs. 14,000. The assets realizers 44,150.

Prepare the Realisation account and the partner's capital accounts. Also show the cash account.

[Ans. Realisation Loss Rs. 31500Total of cash A/c Rs. 45,150]

Q. 7. X, Y and Z are partners sharing profits and losses in the ratio of 3:2:1. On 30th June, 2015, they agreed to dissolve the partnership, they appointed Y to realise the assets and distribute the proceeds. Y is to receive 5% commission on the sale of assets (except cash) as his remuneration and is to bear all expenses of Realisation. Their balance sheet was as follows:

Balance Sheet

Dr. **Bank a/c** **Cr.**

Liabilities		Rs.	Assets	Rs.
Sundry creditors		15,275	Cash at bank	3,340
Reserve fund		12,000	Sundry debtors	20,000
Profit and loss A/c		1,500	Stock	42,200
Capital accounts:			Plant and Machinery	61,000
X	70,000		Goodwill	15,000
Y	30,000		Current a/c - Z	23,460
Z	20,000	1,20,000		
Current accounts:				
X	12,500			
Y	4,125	16,625		
		165400		165400

Y reports the result of Realisation as follows:

Sundry Debtors Rs. 12,000, Stock Rs. 18,250, Plant and Machinery at 25% less than book value. Goodwill was valueless. Creditors were paid in full and the expenses of Realisation amounted to RS. 300 Which Y, met personally. Prepare necessary Ledger Accounts.

[Ans. Realisation loss Rs. 66,000,Final Payment to X Rs. 56,250; Y Rs. 20,425. Cash brought in by Z Rs. 12,210. Total of Bank A/c Rs. 91,950.]

Q.8. X, Y and Z carrying on business as a partnership firm decided to dissolve the firm on 30.6.2011 when their balance sheet was as follows:

Balance Sheet

Liabilities		Rs.	Assets	Rs.
Creditors		34,000	Cash	25,000
Capitals:			Stock	62,000
X	1,20,000		Debtors	37,000
Y	90,000		Tools	8,000
Z	60,000	2,70,000	Car	12,000
			Machinery	60,000
			Buildings	1,00,000
		304000		304000

The partnership deed provided that profits will be divided in the ratio of 3:2:1 respectively among X, Y and Z. Assets realized as follows: Stock Rs. 40,000, Tools Rs. 5,000, Machinery Rs. 78,000, Buildings Rs. 84,000, Car Rs. 25,000, Goodwill Rs. 60,000, Debtors Rs. 59,000. Creditors were settled at a discount of Rs. 720. There was unrecorded asset valued at Rs. 3,000, which was handed over to X for Rs. 2,000.Prepare Realisation account, cash account and partner's capital accounts.

Ans. Realisation profit Rs. 74,720.Final payment to X Rs. 1, 55,360; Y Rs. 1, 14, 907, Z Rs. 72, 453. Total of cash a/c Rs. 3, 76,000.

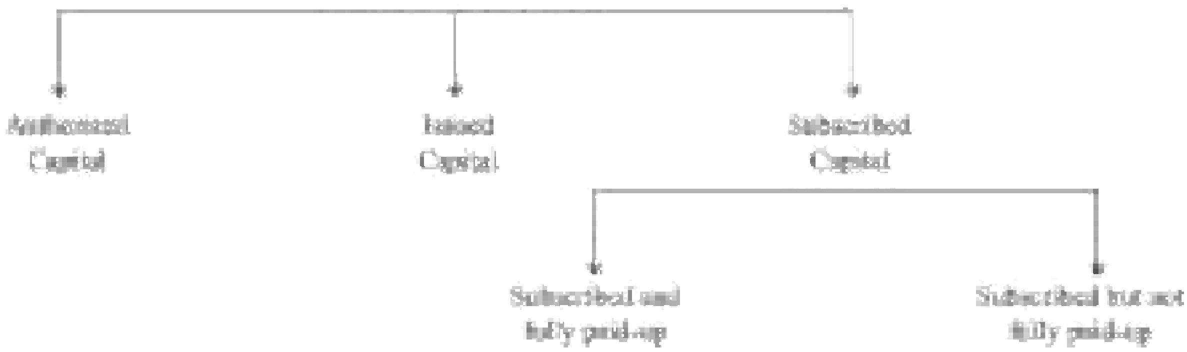
UNIT-II

Company Accounts - Accounting for Share Capital Meaning of company: A company is an organization formed by an association of persons through a process of law for undertaking (usually) a business venture.

Definition –"Company means a company incorporated under this Act or any previous company - Section 2(20) of the Companies Act, 2013

Share Capital - Schedule III of the Companies Act, 2013 classified Share Capital as:

SHARE CAPITAL



i. Authorised Share Capital is the maximum amount up to which a company can issue shares.

ii. Issued share capital is a part of authorized share capital that is issued by a company for subscription.

iii. Subscribed share capital is a part of issued share capital that is subscribed.

Subscribed share capital is shown as (i) Subscribed and fully paid – up (ii) Subscribed but not fully paid – up Called – up amount is the amount of nominal value of shares that has been called up for payment.

Paid – up amount is the amount that is received by the company.

Reserve capital is a part of subscribed share capital that a company resolves, by a special resolution, not to call except in the event and for the purpose of company being wound up.

PREFERENCE SHARES - These are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

EQUITY **SHARES** – These shares are the shares that are not preference shares. Shares can be issued (i) for cash and (ii) for consideration other than cash. Further, the shares can be issued (i) at par, or (ii) at premium.

OVER SUBSCRIPTION OF SHARES – It means shares applied for are more than the shares offered for subscription.

UNDER SUBSCRIPTION OF SHARES –It means shares applied for are less than the shares offered for subscription.

PRO RATA ALLOTMENT – It means allotment of shares in a fixed proportion. Pro rata allotment takes place only when the shares are oversubscribed.

SECURITIES PREMIUM RESERVE – It can be utilized for the purpose prescribed in section 52(2) of the Companies Act, 2013, which are:

(i) writing off preliminary expenses;

(ii) Writing off expenses such as share such as share issue expenses, commission ,discount allowed on issue of securities ;

(iii) Providing for the premium payable on redemption of debentures or Preference Shares; or

(iv) in buying-back its own shares.

(v) Issuing fully paid bonus shares;

CALL – It is a demand by a company from the holders of partly paid shares to pay a further installment towards full nominal value.

CALLS-IN-ARREARS-It is the amount not yet received by the company against the call or calls demanded.

CALLS-IN –ADVANCE- It is the amount received by the company from its allottees against the calls not yet made. Calls- In- Advance is shown as 'Other Current Liability' under 'Current Liabilities'.

FORFEITURE OF SHARES- It means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

Securities premium-How dealt when shares are forfeited. In case where Securities Premium Reserve Account has been credited and also it has been received-Securities Premium Reserve Account is not debited because of the restrictions imposed by Section52(2) of the Companies Act ,2013 as to utilization. In case Securities Premium Reserve Account has been credited but the amount has not been received –Securities Premium Reserve Account is debited because the amount has not been received and therefore Section 52(2) of the Companies Act ,2013 does not apply .

REISSUE OF FORFEITED SHARES-Forfeited Shares can be reissued and they may be reissued at a value lower than its face value. But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Share account at the time of forfeiture.

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on reissue cannot exceed the forfeited amount.
2. If the discount on reissue is less than the amount forfeited, the surplus (i.e., gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited share is reissued then the gain on reissue of such share is such transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.
5. When the shares are reissued at discount, such discount is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.
7. In case of the Forfeited Shares are reissued at a price higher than the paid- up value , the excess of issue price over paid up value is credited to 'Securities Premium Reserve Account'.

PRIVATE PLACEMENT OF SHARES- It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons , is called Private Placement Of Shares.

EMPLOYEES STOCK OPTION PLAN (ESOP) - It is the plan for granting options to subscribe shares by employees and employee directors. A company may issue stock (shares) options fulfilling the following conditions:

(a) These shares are of the same class of shares already issued;

(b) It is authorised by a special resolution passed by the company;

(c) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(d) Not less than one year has, at the date of issue, elapsed since the date on which the company had commenced business and

(e) These shares are issued in accordance with SEBI regulations, if the shares are listed.

Presentation of Share Capital in Company's Balance Sheet As per **Schedule III** of Companies Act 2013, Share Capital is to be disclosed in a Company's Balance Sheet in the following manner :

EXTRACT OF BALANCE SHEET OF .... as at.........................

Particulars	Note No.	Amt. current year Rs.	Amt. Previous year Rs.
1. EQUITY AND LIABILITIES :			
Shareholder 's Funds :			
(a) Share Capital*	(1)	....	
(b) Reserves and Surplus		....	
(c) Money received against share warrants		....	....

*As per schedule III disclosure requirements pertaining to Share Capital are to be provided in notes to accounts.

Notes to Accounts:

Particulars	Rs.	Rs.
(1) Share Capital		
Authorised Capital:		
................Equity Shares of Rs......each		
................preferences Shares of Rs......each		
Issued Capital :		
................Equity Shares of Rs ....each		
................Preferences Shares of Rs .....each		

Particulars	Rs.	Rs.
Subscribed Capital Subscribed and Fully Paid Capital ....Equity Shares of Rs ......each ....Preferences of Share of Rs ......each (Of the above shares ....Shares are allotted as fully paid up pursuant to a contract without payments beings received in cash) Subscribed but not fully paid Capital : ....Shares of Rs............ each , Rs .... per share Called-up Less : Calls in Arrears : (i) By Directors & Officers of the company Rs......... (ii) By Others Rs......... Add: Forfeited shares Rs.........		

Journal Entries Regarding Issue of Shares Capital

1. **ISSUE OF SHARES FOR CASH**

(i) Shares Payable in Lump Sum :

For Receiving Share Application Money:

Bank a/c ....Dr.

To Share Application and Allotment a/c

(Being the application money received)

For Allotment of Shares:

Share Application and Allotment a/c ....Dr

To Share Capital a/c [With Nominal (face) Value]

To Securities Premium Reserves a/c [With Premium Amt]

(Being the shares against share application and allotment money received)

(ii) Shares Payable in Installments :

Transaction	Journal Entry	Amount
On Receipt of Application Money	Bank a/c ......Dr. To Share Application a/c	Amount received with application.
On Allotment of Shares Share Application Money is transferred to Share Capital Account	Share Application a/c ......Dr. To Share Capital a/c	Application money on shares alloted.
Amount Due on Allotment	Share Allotment a/c ......Dr. To Share Capital a/c	Money due on shares alloted.
On Receipt of Allotment Money	Bank a/c ......Dr. To Share Allotment a/c	Amount received on shares alloted.
On First Call Being Due	Share First Call a/c ......Dr. To Share Capital a/c	Amount payable on first call.
On Receipt of First Call	Bank a/c ....Dr. To Share First Call a/c	Amount received on first call.

Accounting Entries in Case of Over subscription

1. **For Application Money Received**

   Bank A/c ......Dr

   To Share Application A/c

   Application Money For Allotted Shares

   Share Application A/c ......Dr

   To Share Application A/c

2. **Excess Application Money**

   a) **Refund**

   Share Application A/c ......Dr

   To Bank A/C

   b) **Adjustment**

   Share Application A/c ......Dr

   To Share Allotment A/c

   To Calls – in- Advances A/c

   Combined Entry

   Share Application A/c ......Dr

   To share Capital A/c

   To Bank A/c

   To Share Allotment A/c

   To Calls- in – Advance A/c

SHARE ISSUED FOR CONSIDERATION OTHER THAN CASE

The journal entries passed are:

I. (a) **On Purchased of Assets**

Sundry Assets A/cs (Individually) ...Dr		[With the amount of purchase price]
To Vendor's A/c		[With purchase consideration]

(b) **On Purchase of Business**

Sundry Assets A/cs	...Dr	[Agreed value of assets]
Goodwill A/c*	....Dr	
To Sundry Liabilities A/c		[Agreed value of liabilities]
To Vendor's A/c **		[With purchased consideration]
To Capital Reserve A/c***		

Note: Purchasing consideration is an amount paid by purchasing company in consideration for purchase of assets /business from other enterprise. It may be given in the question otherwise it will be equal to net assets, i.e. sundry assets minus sundry liabilities.

*If purchase consideration given is more than net assets, then the difference is debited in Goodwill Account.

** Vendor is credited by purchase consideration payable to him.

*** If purchase consideration given is less than the net assets, then the difference is credited to Capital Reserve.

Either Goodwill or Capital Reserve will appear at a time.

II. On Issues of Shares

(a) If shares are issued to vendor at par:

Vendor's A/c ….Dr [With the nominal value of share allotted]

To share Capital A/c

(b) If share are issued to vendor at a premium:

Vendor's A/c ….Dr [With the purchase price]

To share Capital A/c [With the nominal value of share allotted]

To Securities Premium Reserve A/c [With the amount of premium]

Note: Before making the journal entry we should calculate the number of share to be issued against purchase consideration. It will help in calculating the correct amount of share capital and securities premium reserve.

*Number of share to be issued = Purchase Consideration / Issue price of share

FORFEITURE OF SHARES -

Forfeiture of shares issued at par:

The entry for forfeiture of shares is:

Shares capital a/c (called up value) Dr.

To Share forfeited A/c

To share allotment a/c

To share call a/c

Forfeiture of shares which were originally issued at premium:

i. securities premium amount has been received; and

ii. Securities Premium amount has not been received.

Accounting Entries for Forfeiture of Shares Issued at a Premium:

i. If premium has been received :

Share Capital a/c Dr

To Share Allotment a/c

To Share Call/calls a/c

To Share forfeited A/c

i. If premium has not been received:

Share Capital a/c Dr.

Securities Premium Reserve a/c Dr.

To Share Allotment a/c

To Share call/calls a/c

To Share forfeited A/c

REISSUE OF FORFEITED SHARES

In case, they are reissued at par, accounting entry is:

Bank a/c Dr.

To Share capital a/c

In case, they are reissued at discount, accounting entry is:

Bank a/c Dr.

Share forfeited A/c Dr.

To Share Capital a/c

If the forfeited shares are reissued at a price higher than that of paid-up value, the excess of reissues price over paid-up value is credited to Securities Premium Reserve a/c. Following entry is passed:

Bank a/c Dr.

To Share capital a/c

To Securities Premium Reserve a/c

NOTE: **Maximum Permissible Discount on Reissue of Forfeited Shares:** Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

In other words, reissue price cannot be less than the amount unpaid on forfeited shares.

Accounting Treatment:

i. **When all Forfeited Shares are Reissued**

Forfeited Shares a/c Dr.

To Capital Reserve a/c

(Being the gain on reissue transferred to Capital Reserve)

ii. **When All Forfeited Shares are not Reissued**

*Gain on reissue of shares is calculated as follows:

= (Total amount forfeited *No. of shares forfeited ×No. of shares reissued) - (Amount with which Forfeited Shares Account was debited at the On Reissue Discount time of reissue of such shares.)

Practical Questions

Q.1. On 1st April, 2013 Janta ltd. was formed with an authorized capital of Rs.30,00,000 divided into 30,000 shares of Rs. 100 each. The company issued 10,000 shares at par.

The issue price was payable as follows:

On application	-	Rs.30 per share
On allotment	-	Rs.50 per share
On final call	-	Rs.20 per share

The issue was fully subscribed and the company allotted shares to all the applicants. All money was received except the final call money on 1,800 shares.Show the 'share capital' in the balance sheet of the company as per Schedule III of the companies act,2013 as at 31st march,2014 and also show note to accounts.

Ans. **BALANCE SHEET OF JANTA LTD. (Relevant Extract)**

Particulars	Note No.	Rs.
1. EQUITY AND LIABILITIES		
Shareholders' Funds Share Capital	1	
		9,80,000

Note to Accounts

1. **Share Capital**			
Authorised Capital			
30,000 Equity Shares of Rs. 100 each			30,00,000
Issued Capital			
10,000 Equity Shares of Rs 100 each			10,00,000
Subscribed Capital			
Subscribed and Fully Paid-up			
9,000 Equity Shares of Rs 100 each			9,00,000
Subscribed but not fully Paid-up			
1,000 Equity Shares of Rs 100 each		1,00,000	80,000
Less: Calls-in-Arrears(1,000*Rs20)	20,000		9,80,000

Q.2. Rohit Ltd. Purchased assets from Rohan & Co., for Rs 350,000. A sum of Rs.75000 was paid by means of a bank draft and for the balance due Rohit Ltd. issued equity shares of Rs. 10 each at Premium of 10%. Journalise the above transactions in the books of the company.

Q.3. Mohan Ltd. forfeited the following equity shares of Rs 10. Each issued at a premium of Rs 2 per shares :-

(i) 700 shares issued to X for the non-payment of second and final call of Rs 3 per shares.

(ii) 500 shares issued to Z for the non-payment of first call of Rs 2 per shares and second and final call of Rs 3 per share. The forfeited shares were reissued to Y for Rs 11 per share fully paid.

Pass entries to record the forfeiture and reissues of share.

Q.4. X Ltd. issued 50,000 shares of Rs 10 each at a premium of Rs 2 per shares payable as follows

Rs 3 on application,

Rs 6 on allotment (including premium) and

Rs 3 on call. Applications were received for 75,000 shares and a pro rata allotment was made as follows :

To the applicants of 40,000 shares , 30,000 shares were issued and for the rest 20,000 shares were issued. All money due was received except the allotment and call money from Ram who had applied for 1,280 shares (out of the group of 40,000 shares). All his shares were forfeited. The forfeited shares were reissued for Rs 7 per share fully paid up.

Pass necessary journal entries for the above transactions.

[Ans- Capital Reserve- Rs.900]

Q.5. Lenoova ltd. has authorized share capital of Rs 1, 00, 00,000 divided into 10, 00,000 equity shares of Rs 10 each. It has existing issues and paid up capital of Rs 25, 00,000. It further issued to public 2,50,000 equity shares at a premium of 20% for subscription payable as under:

On applications: Rs 3

On allotment: Rs 6; and On call: Balance Amount

The issue was fully subscribed and allotment was made to all the applicants. The company did not make the call during the year.Show share capital of the company in the balance sheet of the company.

Note: Problems related to disclosure of share capital in company's Balance sheet are also given under the head issue of shares at par and at premium.

Q.6. (a) X Ltd. forfeited 30 shares of Rs 10 each fully called up held by Karim for non-payment of allotment money of Rs3 per share and Final call of Rs4 per share. He had paid the application money of Rs 3 per share. These shares were reissued to Salim for Rs 8 per share.

(b) X ltd. Forfeited 20 shares of Rs 10 each, Rs 7 called up on which Mahesh had paid application and allotment money of Rs 5 per share. Of these, 15 shares were reissued to Naresh as fully paid up for Rs 6 per share.

Ans.- (a) [Capital Reserve – 30]

(b) [Capital Reserve – 15]

Q.7. Super Star ltd. issued a prospectus inviting applications for 2,000 shares of Rs 10 each at a premium of Rs 2 per share, payable as:

On applications - Rs 3 (including Re 1 premium).

On allotments - Rs 4(including Rs 1 premium) On first call - Rs 3, On second and final call -Rs 2

Applications were received for 3,000 shares and pro rata allotments were made on the applications for 2,400 shares. It was decided to utilise excess applications money towards the amount due on allotments. Ramesh to whom 40 shares were allotted, failed to pay the allotments money and on his subsequent failure to pay the first call, his shares were forfeited. Ramesh to whom 40 shares were allotted, failed to pay the allotments money and on his subsequent failure to pay the first call, his shares were forfeited. Rajesh who applied for 72 shares failed to pay the two calls on such failures, his shares were forfeited of the shares forfeited, and 80 shares were sold to Krishna credited as fully paid up for Rs 9 per share, the whole of Ramesh's share being included. Give journal entries to record the above transactions (including cash transactions).

Ans. [Capital Reserve – Rs224]

MISSING INFORMATION:-

1) Complete the following journal entries:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/C		80,000	
	To Forfeited shares A/C			50,000
	To shares first call A/C			30,000
	(Being 1,000 shares of RS.100 each forfeited for non-payment of first call)			
	Bank A/c .... Dr		?	
	Sharesforfeiture Ac-Dr		?	
	To Share Capital A/c			
	(Being 1,000 shares reissued at Rs.70 per share Rs.80 paid-up)			?
	? A/c		?	
	To? A/c			
	(Being the gain on reissued of shares transferred to capital reserve)			?

Solution

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/c ...Dr		80,000	
	To Forfeited Shares A/c			50,000
	To Shares First call A/c			30,000
	(Being 1000 shares of Rs100 each forfeited for non-payment of First call)			
	Bank A/c ...Dr		70,000	
	Forfeited Shares A/c ...Dr		10,000	
	To Share Capital A/c			80,000
	(Being 1000 Shares reissued at Rs70 per share Rs80 paid up)			
	Shares forfeited A/c ...Dr		40,000	
	To Capital Reserve A/c			40,000
	(Being the gain on reissue of shares transfer to Capital reserve)			

6. Fill in the blanks : **Forfeited shares account**

Liabilities	Amount	Assets	Amount
To Share Capital A/c	2,000	By Share Capital A/c	15,000
(Discount on reissue of 200 shares)		(Amount forfeited on 500 shares)	
To Capital Reserve A/c	?		
To Bal c/d	?		

Solution:

Liabilities	Amount	Assets	Amount
To Share Capital A/c	2,000	By Share Capital A/c	15,000
(Discount on reissue of 200 shares)		(Amount forfeited on 500 shares)	
To Capital Reserve A/c	4,000		
To Bal c/d	9,000		
	15,000		15,000

COMPANY ACCOUNTS - ISSUE OF DEBENTURES

***DEBENTURE**-debenture is a written acknowledgement of a debt by the company. Its contains the terms for the repayment of the principal debt on specified date and for payment of interest at a fixed percent until the principal sum is paid.

***DISCLOSURE OF DEBENTURES IN COMPANY'S BALANCE SHEET**-As per schedule III of the companies act,2013,debentures are shown in balance sheet as a Long-Term borrowings under non-current liabilities but debentures, shown as long - term borrowings and payable within 12 months fro the date of balance sheet or within the period of operating cycle is shown as current maturity of long term debts under other current liabilities under the head current liability interest accured [due and not due] is shown as other current liability under current liabilities

DEBENTURE TRUST DEED-is document created by the company whereby trustees are appointed to protect the interest of debentureholder before they are offered for public subscription.

ISSUE OF DEBENTURES-Debenture like shares can be issued for [i] cash and [ii] consideration other than cash. These debentures can be issued [a] at par or [b] at premium or[c] at discount.Accounting for issue of debenture for cash is the same as the accounting for issue of shares with one change i.e. the word 'share' shall be replace by 'debenture' and 'share capital' by 'debenture' . The terms used for the issue of the share will be changed at the time of issue of debenture.

*****Premium on redemption of debentures: disclosure in the balance sheet[i]** If the debentures are shown as 'long term borrowing' then it is shown in equity and liabilities part of the balance sheet under the head 'non-current liabilities' and sub head 'other long term liabilities'. [II]. If the debentures are shown as 'short term borrowing' then it is shown in the equity and liabilities part of the balance sheet under the head 'current liabilities' and sub head 'other current liabilities'.[iii] If the debentures are shown as 'current maturities of a long term debts' then it is shown under the head 'current liabilities' and sub head and 'other current liabilities'.

INTEREST ON DEBENTURES- is considered as an expense it is charged against the profit of the company and is payable whether profit are earned or not.

TAX REDUCTED AT SOURCE [TDS] tax is deducted on interest at the specified rate and deposited in the government account on the due date.

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH a company can issue debentures to the vendors as a payment for the purchase of the assets such as issue of debentures is known as an issue of debenture consideration other than cash.

ISSUE OF DEBENTURES AS COLLATERAL SECURITY means issue of debentures as a subsidiary or secondary security collateral security means additional security i.e., in addition to the prime security. It is only to be realised when the prime security fails to pay the amount of the loan.Debentures issued as collateral security may or may not be recorded in the books of accounts if an accounting entry is not passed it is disclose under the loan if an accounting entry is passedit is shown below the loan first as debenture issued and thereafter debenture suspense account is deducted.

Case	Conditions of Issue	Condition on Redemption
1	Issued At Par	Redeemable At Par
2	Issued At Discount	Redeemable At Par
3	Issued At Premium	Redeemable At Premium
4	Issued At Par	Redeemable At Premium
5	Issued At Discount	Redeemable At Premium
6	Issued At Premium	Redeemable At Premium

COMPANY ACCOUNTS-REDEMPTION OF DEBENTURES

***__REDEMPTION OF DEBENTURE__** Is a process of repayment of a loan taken by issue of debentures

***__METHODS OF REDEMPTION OF DEBENTURES__** 1.on the maturity in lump sum,2.installments by the draw of lots,3.by purchase of own debentures from open market and 4.by conversion into share or new class of debentures.

SOURCES OF REDEMPTION OF DEBENTURES-debentures can be redeemed by utilizing any of the following sources.

[I] **Redemption out of capital**: when the debentures are redeemed without adequate profits being transferred from surplus i.e statement of profit and loss to debenture redemption reserve [DRR] at the time of redemption of debentures, such redemption is said to be out of capital.

[II] **REDEMPTION OUT OF PROFITS** : when debentures are redeemed only out of profit and amount equal to nominal [face] value of debenture is transferred from surplus i.e., statement of profit and loss to debenture redemption reserve [DRR] before the redemption of debentures, such redemption is said to be out of profits.

[III] Redemption partly out of profits and partly out of capital: It means that the company does not transfer 100 per cent nominal (face) value of the total redeemable debentures of a particular series to DRR out of surplus.

Debenture Redemption Reserve (DRR) is created out of profit of the company available for payment as divided for the purpose of redemption of debentures. As per the provision of section 71 (4) of the companies act,2013 read with Rule 18(7) of the companies (share capital of debentures) Rules 2014, a company shall transfer at least 25% of total nominal (face) value of redeemable debentures of that class out of surplus available for payment of dividend to DRR. DRR is required to be created in only case of non- convertible Debentures (NCD) and Non – convertible portion of partly Convertible Debentures (PCD).

Debenture Redemption Investment: A company required to create/maintain DRR shall on or before 30th April of the current year, deposit or invest (as the case may be) at least 15 % of the amount of its debentures maturing during the year ending on 31[st] March of the next year. Companies not required to create DRR are not requires to invest in specified securities. **Issue Of Debentures (Solved Practical Questions)**Q.1.X limited issued 5,000, 12% debentures of Rs. 100 each on 1[st] April,2010 at par redeemable at a premium of 5%. Interest on these debentures is paid half yearly, i.e., on 30[th] September and 31[st] March. Pass necessary journal entries for the year ended 31[st] March, 2011 assuming income tax is deducted @10% on the amount of interest.

Solution **Journal**

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2010	Bank A/c	Dr.		5,00,000	
April 1	To Debentures Application and Allotment A/c				5,00,000
	(Amount received on application.)				
April 1	Debenture Application & Allotment A/c	Dr.		5,00,000	
	Loss on issue of Debenture A/c	Dr.		25,000	
	To 12% Debentures A/c				5,00,000
	To Premium on Redemption of Debentures A/c				25,000
	(Issue of Debentures at par and redeemable at b 5% premium)				
Sept. 30	Interest on Debentures A/c	Dr.		30,000	
	To Debenture holders A/c				24,000
	To Income Tax Payable A/c				6,000
	(Half-yearly interest due on debentures and tax deducted at source)				
Sept. 30	Debenture holders A/c	Dr.		24,000	
	To Bank A/c				24,000
	(Payment of interest)				
Sept. 30	Income Tax Payable A/c	Dr.		6,000	
	To Bank A/c				6,000
	(TDS deposited with income tax authorities)				
2011	Interest on Debentures A/c	Dr.		30,000	
March 31	To Debenture holders A/c				24,000
	To Income Tax Payable A/c				6,000
	(Half-yearly interest due on debentures and tax deducted at source)				
March 31	Debenture holders A/c	Dr.		24,000	
	To Bank A/c (Payment of interest)				24,000
March 31	Income Tax Payable A/c	Dr.		6,000	
	To Bank A/c				6,000
	(TDS deposited with income tax authorities)				
March 31	Statement of Profit & Loss	Dr.		6,000	
	To Interest on Debentures A/c (30,000+30,000)				60,000
	(Interest transferred to statement of profit & loss)				

Q.2. Give journal entries for the issue of debentures in the following conditions.

I. Issued 2,000, 12% debentures of Rs. 100 each at par, redeemable also at par.

II. Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at par.

III. Issued 2,000, 12% debentures of Rs 100 each at a premium of 5%, redeemable at par.

IV. Issued 2,000, 12% debentures of Rs. 100 each at par but redeemable at 5% premium.

V. Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at a premium of 5%.

VI. Issued 2,000, 12% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%.

Solution **Journal**

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Case 1	Bank A/c	Dr.		2,00,000	
	To 12% debentures application & allotment a/c				2,00,000
	(application money received)				
	12% debentures application & allotment A/c	Dr.		2,00,000	
	To 12% debentures a/c				2,00,000
	(Transfer of application money to denitures a/c, issued at par)				
Case 2	Bank a/c	Dr.		1,96,000	
	To 12% debentures application & allotment a/c				1,96,000
	(Application money received)				
	12% debentures application & allotment a/c	Dr.		1,96,000	
	Discount on issue of debentures a/c	Dr.		4,000	
	To 12% debentures a/c				2,00,000
	(Transfer of application money to debentures a/c, issued at a discount of 2%)				
Case 3	Bank a/c	Dr.		2,10,000	
	To 12% debentures application & allotment a/c				2,10,000
	(application money received)				
	12% debentures application & allotment a/c	Dr.		2,10,000	
	To 12% debentures a/c				2,00,000
	To Securities premium reserve A/c				10,000
	(Transfer of application money to debentures a/c, issued at a premium of 5%)				
Case 4	Bank A/c	Dr.		2,00,000	
	To 12% debentures application & allotment a/c				2,00,000
	(application money received)				
	12% debentures application & allotment a/c	Dr.		2,00,000	
	Loss on issue of debentures a/c			10,000	
	To 12% debentures a/c				2,00,000

	To premium on redemption a/c (transfer of application money to debentures a/c, issued at par, but redeemable at a premium of 5%)			10,000
Case 5	Bank a/c Dr.		1,96,000	
	To 12% debentures application & allotment a/c			1,96,000
	(application money received)			
	12% debentures application & allotment a/c Dr.		1,96,000	
	Loss on issue of debentures a/c Dr.		14,000	
	To 12% debentures a/c			2,00,000
	To premium on redemption a/c			10,000
	(Transfer of application money to debentures a/c, issued at a discount of 2% and redeemable at a premium of 5%)			
Case 6	Bank a/c Dr.		2,10,000	
	To 12% debentures application & allotment a/c			2,10,000
	(application money received)			
	12% debentures application & allotment a/c Dr.		2,10,000	
	Loss on issue of debentures a/c Dr.		20,000	
	To 12% debentures a/c			2,00,000
	To Securities premium reserve a/c			10,000
	To premium on redemption a/c			20,000
	(transfer of application money to debentures a/c, issued at a premium of 5% and redeemable at a premium of 10%)			

METHODS OF REDEMPTION OF DEBENTURES

I. Redemption of Debentures on Maturity in Lump Sum –

Case 1. When debentures are Redeemed at Par, the journal entries are:

(i) On debentures becoming due for payment:

...%Debentures A/c ....Dr [with nominal value]

To Debenture holders' A/c

(ii) On payment:

Debenture holder A/c ...Dr. [with nominal value]

To Bank A/c

Case 2. When debentures are redeemed at premium, the journal entries are:

(i) On debentures becoming due for payment:

..... % Debentures A/c ....Dr. [with nominal value]

Premium on redemption on debentures A/c ....Dr. [with amount of premium]

To Debenture holders' A/c [with nominal value + premium]

(ii) On payment:

Debenture holder A/c ...Dr. [with the amount paid]

To Bank A/c

(i) **Redemption of debentures out of capital:**

a. On Debentures becoming due for Payment:

.... %debentures A/c ...Dr. [with nominal value]

Premium on redemption on debentures A/c ...Dr. [if premium is payable on redemption]

To Debenture holders A/c [with nominal value+ premium]

b. On payment

Debenture holder A/c ...Dr. [with the amount paid]

To Bank A/c

(ii) **Redemption of debentures out of profit**:

(i) on creation of Debenture Redemption Reserve:

Surplus, i.e., balance in statement of Profit and Loss A/c ....Dr.

To Debenture Redemption Reserve

(ii) on investment or deposit being made in specified securities:

Debenture Redemption Investment A/c ...Dr.

To Bank A/c

(iii) On Encashing investment before redemption of debentures:

Bank A/c ...Dr.

To Debenture Redemption Investment A/c

(iv) On the Amount being due to Debenture holders on redemption:

a. if the debentures are to be redeemed at par:

...% Debentures A/c ...Dr. [Due with nominal value]

To Debenture holders A/c

b. if the debentures are to be redeemed at premium:

...% Debentures A/c ...Dr. [Due with nominal value]

Premium on Redemption of Debentures ...Dr. [with premium payable]

To Debenture holders A/c [Due with nominal +premium]

(v) On payment to Debenture holders:

Debenture holders' A/c ...Dr. [with the amount paid]

To Bank A/c

2. Redemption of debentures in Installments by Draw of Lots: Under this method, the company can redeem its debentures by payment each year a part of debentures being selected by draw

The holders of the debentures, which are drawn out, are repaid the amount at par or at premium according to the terms of issue. This process is called **Redemption of Debentures by Draw of Lots.**

3. **Redemption of debentures by Purchase from Open Market:**

1) When Debentures are Purchased from the Open Market for Immediate Cancellation and are Redeemable at Par:

(a) When Debentures are Purchased at a Price Equal to Nominal Value of Debentures:

(i) When debentures are purchased, the entry passed is:

Own debentures A/c	...Dr.	[with purchase cost]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr.	
To Own Debentures A/c		

(b) When Debentures are Purchased at a Price below the Nominal Value of Debentures:

(i) When Debentures are purchased:

Own Debentures A/c	...Dr.	[with purchase cost]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr.	[with nominal value]
To own Debentures A/c		[with purchase cost]
To gain on cancellation of own debentures A/c		[excess of face value over cost of own debentures cancelled]

Gain on cancellation of debentures:-

Gain on cancellation of own debentures A/c

To Capital Reserve

(c) When Debentures are purchased at a Price Higher than the Nominal Value of Debentures:

(i) when debentures are purchased:

Own Debentures A/c	...Dr.	
To Bank A/c		

(ii) For cancellation of Own Debentures:

...% Debentures A/c	...Dr.	[with face value]
Loss on Cancellation of own Debentures A/c	...Dr.	[with excess of cost over nominal value]
To Own Debentures A/c		[with purchase cost]

Note: loss on Cancellation of own Debentures is debited to the Capital Reserve.

2) **When Debentures are Purchased from the Open Market for Immediate Cancellation and Debentures are Redeemable at Premium:**

(a) When Debentures are Purchased at a Price equal to Nominal Value of Debentures:

(i) When Debentures are Purchased, the entry is:

Own Debentures A/c	...Dr.	[with purchase cost]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr.	[with face value]
Premium on Redemption of Debentures A/c	...Dr.	[with amount of premium payable on redemption]
To Own Debentures A/c		[with purchase cost]
To Gain on cancellation of Own Debentures A/c		[with premium amount]

Gain on cancellation of debentures:-

Gain on cancellation of own debentures A/c

To Capital Reserve

(b) When Debentures are Purchased at a Price below to Nominal Value of Debentures:

(i) When Debentures are Purchased, the entry is:

Own Debentures A/c	...Dr.	[with purchase cost]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr.	[with face value]
Premium on Redemption of Debentures A/c	...Dr.	[with amount of premium payable on redemption]
To Own Debentures A/c		[with purchase cost]
To Gain on Cancellation of Own Debentures A/c		[amount of premium + with difference between purchase cost and face value]

(c) When Debentures are Purchased at a Price Higher than the Nominal Value of Debentures:

(i) When Debentures are Purchased, the entry is:

Own Debentures A/c	...Dr.	[with purchase cost]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

In case of gain (profit)

...% Debentures A/c	...Dr.	[with face value]
Premium on Redemption of Debentures A/c	...Dr.	[with premium payable on redemption]
To Own Debentures A/c		[with purchase cost]
To Gain on cancellation of own Debentures A/c		[with excess of nominal value & premium over purchase cost]

In Case of loss

....% Debentures A/c	...Dr.	[with face value]
Premium on Redemption of Debentures A/c	...Dr.	[with premium payable on redemption]
Loss on Cancellation of Own Debentures A/c	...Dr.	[with excess of purchase cost over face value and premium]
To Own Debentures A/c		[with purchase cost]

Note: Loss on Cancellation of Own Debentures Account is debited to the Capital Reserve.

ACCOUNTING ENTRIES FOR CONVERSION OF DEBENTURES;

For amount due to Debenture Holders

(i) If redemption is at par ;

_____% debentures A/c	Dr.	(With nominal value)
To Debenture holders A/c		

(ii) If redemption is at premium

_______% Debentures A/c	Dr.	(With nominal value)
Premium on redemption of debentures A/c	Dr.	(With premium payable)
To debenture holders A/c		

For issuing Shares or debentures where the debentures are fully convertible:

(i) If shares or New debentures are issued at par;

Debentures holders A/c	Dr	(with amount due)
To share capital A/c		(With nominal amount)

(ii) If shares or new debentures are issued at a premium ;

Debentures holders A/c	Dr.	(With amount due)
To share capital a/c		
To securities Premium reserve A/c		

REDEMPTION OF DEBENTURES BY CONVERSION

For issuing the shares/debentures where debentures are fully convertible:

(i) If shares or New Debentures are issued at a par:

Debenture holders' A/c	.....Dr.
To Share Capital A/c/ New Debentures A/c	

(ii) Is shares or New Debentures are issued at a Premium:

Debenture holders' A/c	.....Dr.
To Share Capital A/c/ New Debentures A/c	
To Securities Premium Reserve A/c	

When Shares or New Debentures are Issued at Par for Part Consideration and Balance is paid in Cash

(a) Debenture holders' A/c ....Dr.

To Share Capital A/c/New Debentures A/c

To Bank

(b) Debenture Redemption Reserve A/c ....Dr.

To General Reserve A/c

When Shares or New Debentures are issued at Premium for part Consideration and Balance is paid in Cash:

(a) Debenture holders' A/c ....Dr.

To Share Capital A/c/ New Debentures A/c

To Securities Premium Reserve A/c

To Bank

(b) Debenture Redemption Reserve ....Dr.

To General Reserve A/c

When new Debentures are issued at a Discount for Part Consideration and Balance is paid in Cash:

(a) Debenture holders' A/c ....Dr.

Discount on Issue of Debentures A/c ....Dr.

To New Debentures A/c

To Bank A/c

(b) Debenture Redemption Reserve ....Dr.

To General Reserve A/c

Conversion of convertible Debentures issued at a Discount by Conversion into shares

Accounting Entries

Debentures may be redeemed by conversion into shares (preference or equity) or new debentures. The journal entries passed are as follows:

i. Conversion of debentures into shares or debentures at par:

....% Debentures A/c ...Dr. (with nominal value).

To Debenture holders' A/c (with net amount due)

ii. Conversion of debentures redeemable at a premium, into shares:

....% Debentures A/c ...Dr. (with nominal value)

Premium on redemption of debenture A/c ...Dr. (with premium payable)

To Debenture holders' A/c (with net amount due)

iii. (a) On issue of shares or new debentures at par:

Debenture holders' A/c ....Dr.

To share capital A/c (if shares are issued)

To ....% Debentures A/c (if debentures are issued)

(b) On issue of shares or new debentures at premium:

Debenture holders A/c	….Dr.
To share capital A/c	(if shares are issued)
To ….% Debentures A/c	(if debentures are issued)
To securities premium reserve A/c	(with amount of premium)

(c) On issue of new debentures at discount:

Debenture holders A/c	….Dr.
Discount on issue of debentures A/c	….Dr.
To ….% Debentures A/c	

(d) On issue of new debentures at discount redeemable at premium:

Debenture holders A/c	….Dr.
Loss on issue of debentures A/c	….Dr.
To ….% Debentures A/c	
To premium on redemption of debentures A/c	

UNSOLVED PRACTICAL PROBLEM

Q1. Give the journal entries at the time of issue of debentures in the following cases:

(i) Issued 5,00,000 , 12% debentures at par and redeemable at par after 5 years.

(ii) Issued 8,00,000 ,11% debentures at 6% discount, redeemable at par after 4 years.

(iii) Issued 10,00,000, 14% debentures at 5% premium, redeemable at par after 4 years.

(iv) Issued 20,00,000, 12% debentures at par, redeemable at 5% premium after 3 years.

(v) Issued 12,00,000, 13% debentures at 4% discount, redeemable at 6% premium after 3 years.

Q 2. Chandra Tubes Ltd. Issued 70,000, 7% debentures of 100 each on June 30,2011 redeemable at a premium of 6% on July 1,2015. The Board of Directors have decided to transfer out of profits 7,50,000 to Debentures Redemption Reserve on March 31,2013, 5,00,000 on March 31,2014 and 5,00,000 on March 31,2015.Record necessary journal entries regarding issue and redemption of debentures. Ignore entries relating to writing off loss on issue of debentures and interest paid thereon.

[Ans]. Debentures Redemption Investment 10,50,000 on 30th April, 2015; Debenture Redemption Reserve amounting to 17,50,000 will be transferred to General Reserve.]

Q3. Mayur Ltd. Issued 15,000 9% Debentures of 100 each redeemable after 5 years either by draw of lots or by purchase in the open market. At the end of five years, it purchased all its debentures for immediate cancellation @ 94 per debenture. Expenses of purchase amounted to 1,500. Pass the necessary journal entries for cancellation of debentures assuming the company has sufficient balance in Debenture Redemption Reserve.

[Ans]. Profit on Redemption 88,500 will be transferred to Capital Reserve; Debenture Redemption Reserve transferred to General Reserve 3,75,000.[Hint: Investment encashed 2,25,000Note: It is assumed that the Company has invested 15% amount at the beginning of financial year.

Q4. On 1st April,2012 a company issued 10,000, 9% debentures of 100 each at a premium of 5%. The terms of issue provide for redemption of 1,00,000 worth Debentures every year commencing from March,2014 either by purchasing in the open market or by draw of lots at the company's option. On 31st March,2014, the company purchased 400 debentures @95 and 500 debentures @96 for cancellation and redeemed the balance of 10,000 debentures by draw of lots. Journalise these transactions and also show how you would deal with the profit on redemption of debentures.[Ans4. Debentures Redemption Investment made on 30th April,2013 for 15,000 and will not be encashed. Profit on redemption 4,000 will be transferred to capital reserve.]

Q5. Green Forest Ltd. issued 12,00,000, 7% Debentures divided into debentures of 100 each on April 1, 2010, redeemable in four equal annual installments starting from 31st March, 2015. The Board of Directors have decided to create Debenture Redemption Reserve of 80,000 on March 31,2012; 80,000 on March 31,2013 and the balance on March 31,2014. Record necessary journal entries at the time of issue and at the time of redemption of debentures and creation of Debenture Redemption Reserve.

[Ans 5. Debenture Redemption Investment made for 45,000 on 30th April,2014 and encashed on 31st March, 2018. Amount transferred to Debenture Redemption Reserve on March 31,2014 1,40,000 and the balance of this account transferred General Reserve 3,00,000.]

PRACTICAL PROBLEMS

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

   [**Ans**- Debenture Redemption Reserve is not to be created, it being an All India Financial Company]

2. On 1st April,2013, following were the balances of Blue Bird Ltd.:

10% Debentures (redeemable on 31st March, 2015)	Rs. 15,00,000
Debenture Redemption Reserve	Rs. 2,00,000

   The company met the requirements of the Companies Act, 2013 regarding - Debenture Redemption Reserve and Investment and redeemed the debentures.

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

   [**Ans**- Transfer of Profit to DRR- Rs.1,75,000; Investment- Rs.2,25,000]

3. Shakti Enterprises Ltd. issued 30,000; 8% Debentures of Rs.100 each on 1st October,2011 redeemable in five equal annual instalments starting with 31st

   March,2015. The Board decides to transfer the Debenture Redemption Reserve Rs.50,000 and Rs.4,00,000 on 31st March, 2012 and 2013 respectively and balance required to be transferred to Debenture Redemption Reserve on 31st March, 2014.

   Pass Journal entries.

   [**Ans**- Transferred Rs.3,00,000 to DRR on 31st March,2014, Investment in specified securities- Rs.90,000]

4. On 1st April,2010, X Ltd. Had 1,000; 12% Debentures of Rs.100 each. Interest on debentures is payable half yearly on 30th September and on 31st March. On 1st July, 2010, the company purchased 300 own debentures at Rs.93 for immediate cancellation.

   Pass Journal entries for the purchase and cancellation of debentures.

   [**Ans**- Gain on cancellation of Debentures- Rs.2,100]

5. AAA Ltd. purchased its own 1,000; 10% of Debentures of Rs.100 each @ Rs.100 from open market for immediate cancellation. As per the terms of issue, these debentures were redeemable at 5% premium.

   Pass necessary Journal entries for purchase and cancellation of debentures.

   [**Ans**- Gain (Profit) on Cancellation- Rs.5,000]

6. DDD Ltd. purchased its own 2,500; 10% of Debentures of Rs.100 each redeemable at 10% premium @112 per debenture for immediate cancellation.

   Pass necessary Journal entries for purchase and cancellation of debentures.

   [**Ans**- Loss on Cancellation- Rs.5,000]

7. Pass necessary Journal entries in the books of the company in the following cases for redemption of 2,000; 12% Debentures of Rs.10 each issued at par:

   (a) Debentures redeemed at par by conversion into 10% preference shares of Rs.50 each.

   (b) Debentures redeemed at premium of 5% by conversion into equity shares issued at a par.

   (c) Debentures redeemed at premium of 5% by conversion into equity shares issued at a premium of 20%.

   [**Ans**- (a) Number of preference shares issued- 400 preference share;

   (b) Number of Equity Shares issued- 2,100 shares (assume face value Rs.10);

   (c) Number of Equity Shares issued- 1,750 shares (assume face value Rs.10)]

Problem 6 . Fill in the missing information in the following journal entries:

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Own Debentures A/c	Dr.		....	
	To Bank A/c				
	(2,000 own debentures of 100 each purchased at __ each for immediate cancellation.)				....
	11% Debentures A/c	Dr.		....	
	To ____________ A/c				
	To profit on redemption of debentures A/c				
	(Cancellation of own debentures)				
	Profit on redemption of debentures A/c	Dr.		5000	
	To Capital Reserve A/c				5000
	(Profit on redemption transferred to capital reserve A/c)				

Answer and hint to solve the problem 6: 2,000 own debentures purchased for Rs. 1,95,000, @ 95 per debenture

UNIT-III
Financial Statements of a Company

Financial Statements: Financial statements are the end products of accounting process, which reveal the financial results of a specified period and financial position as on a particular date. These statements include income statement and balance sheet. The basic objective of these statements is to provide information required for decision making by the management as well as other outsiders who are interested in the affairs of the undertaking. Section 129 of as per Schedule III to the Companies Act, 2013 every year.

1. **Balance Sheet**: The balance sheet shows all the assets owned by the concerned, all the obligations or liabilities payable to outsiders or creditors and claims of the owners on a particular date.
2. **Income statement or Statement of Profit and Loss** : The Income Statement or Profit and Loss is prepared for theperiod (12 months) to determine the operational results of an undertaking. It is a statement of revenue earned and the expenses incurred for earning the revenue.
3. **Notes to Accounts.** (Balance Sheet & Statement of Profit and Loss) supported by the notes in which details of items is given.
4. **Cash Flow Statement.** Cash flow statement provides information changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities for a particular period of time i.e financial year as per AS-3.

Internal Users of Financial Statements

1. Shareholders
2. Management
3. Employees

External Users of Financial Statements

1. Banks & financial Institutions
2. Investors and Potential Investor
3. Creditors
4. Government and its Authorities
5. Securities Exchange board of India SEBI

Objectives of financial statement analysis.

Financial statements are the basic sources of formation to the shareholders and other external parties for understanding the profitability and financial position of any concern.

1. To provide information about economic resources and obligations of a business.
2. To provide information about the earning capacity of the business.
3. To provide information about cash flows.
4. To judge effectiveness of management.
5. Information about activities of business affecting the society.
6. Disclosing accounting policies.

Limitations of financial statement analysis.

1. Do not reflect current situation-Historical cost.
2. Assets may not realise the stated values.
3. **Bias** the concepts and conventions depend upon personal judgments from time to time.
4. Aggregate information not detailed information.
5. Vital Information missing-to loss of markets .
6. No Qualitative information-monetary information but not qualitative information.
7. **They are only interim report** it does not give an idea about the earning capacity over time and the change on a future date is not depicted.

The following points explain the **Nature of Financial** statements:	**OPERATING CYCLE**
1. Recorded facts 2. Accounting Conventions& concepts. 3. Postulates-prepared on certain basic assumptions (pre-requisites) 4. Personal Judgements	Operating cycle is the time between the acquisition of an asset for processing, and its realization into Cash & Cash Equivalents. It cannot be identified, it is assumed to be of 12 month. A company can have two operating cycle for two business.

- **Employee Benefit Expenses-** Expenses payment made to and for the benefits of the employees. Example- Wages, Salaries, Bonus, Leave encashment, Staff welfare expenses, ESOP expenses **are shown in the notes to Accounts** on **Employee Benefit Expenses** and total of these is shown on the face of the statement of Profit and Loss against **Employee Benefit Expenses.**
- **Finance Cost-**Means cost incurred by the company on the borrowings i.e loan processing fee, discount if issues of debenture written off, premium payable of redemption of debenture, interest paid on bank overdraft.
- **Bank charges** are not a finance cost they come under other expenses as they are expenses on service availed from bank.

PART I — BALANCE SHEET   Schedule III (See section 129)

Name of the Company..............................

Balance Sheet as at ....(Rupees in.............)

Particular	**Note No.**	**Figures as at the end of the Current Reporting Period**	**Figures as at the end of the Previous Reporting Period**
1	2	3	4
I. **EQUITY AND LIABILITIES**			
(1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			

4) **Current liabilities**			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
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			

Give the Main Heading and Sub- Heading of Equity and Liabilities of the Balance sheet of a company as per Schedule III to the Companies Act, 2013

S. No.		Heading	Sub-Heading	S. No.		Heading	Sub-Heading
1	Unclaimed Dividend			10	Bank/Cash Balance		
2	Trade Payable			11	Work-in-progress		
3	Outstanding Salaries			12	Interest on Call in Advance		
4	Trade marks			13	Security Premium		
5	9% Debentures			14	Computer Software		
6	Provision for doubtful debt			15	General Reserve		
7	Patents and Trade Marks			16	Share Forfeiture Account		
8	Prepaid Expenses			17	Proposed Dividend		
9	Goodwill			18	Provision for Tax		

19	Preliminary Expenses			26	Net loss shown by statement of P&L		
20	Sinking Fund			27	Govt. Securities		
21	Provision for Provident Fund			28	Capital Redemption Reserve		
22	Investment in Govt. Securities			29	Mining Right		
23	Advances Receivable in Cash			30	Bonds		
24	Short-term deposit payable demand			31	Stores and Spare Parts		
25	Loose Tools			32	Goodwill		

Q.1. 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.

Q.2. 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 is a standard forms prescribed under the companies Act 2013 . 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.

Q.3. How does analysis of financial statements suffer from the limitation of window dressing?

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.

Q.4. Operating Cycle and The period when payment is made given below, how will you classify the liabilities.

Particular	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
Operating Cycle	8	10	10	11	18	18	15	20
Expected Period when payment is made in months	12	9	12	13	16	20	14	18
Answer: (Current or Non-Current)	?	?	?	?	?	?	?	?

Q.5. Prepare Statement of Profit & Loss from the following information of Z Ltd 31st March 2016.

Q.No. 1	Rupees	Q.No. 2	Rupees
Revenue From	25,00,000	Revenue From Operations	30,00,000
Operations Purchase of Stock	15,00,000	10% debenture Issues on 1st April 2015	4,00,000
Interest Received	30,000		
Wages & Salaries	5,00,000	Depreciation Machinery	60,000
Bonus Paid	60,000	Wages	3,60,000

Gratuity Paid	40,000	Salaries	1,20,000
Opening Inventories	1,50,000	Scrap Sale	20,000
Closing Inventories	2,50,000	Material Consumed Cost	16,00,000
Answer: Profit Before Tax	5,30,000	**Answer:** Profit Before Tax	8,40,000

Q.6. From the following balances prepare Balance Sheet of the company as per schedule III, Company act 2013.

Share capital Rs 10,00,000(Equity Share of Rs 10 each fully paid up), 10% Debenture Rs. 2,00,000,Discount on issues of 10% Debenture Rs.5,000, Proposed Dividend Rs. 1,00,000 Land & Building Rs. 3,00,000, Plant & Machinery Rs. 7,00,000 , Trade Bills Receivable Rs 1,50,000, Inventories Rs1,00,000, Goodwill 2,30,000, Investment in Share of X Ltd Rs 2,00,000, Trade Debtor Rs 1,00,000, Creditors Rs.1,00,000, unsecured loan from Bank Rs.1,00,000, Provision for Tax Rs. 55,000, General Reserve Rs.2,00,000.

Financial Statements Analysis-2

Financial Statements Analysis is evaluation, analyzing and interpretation of the financial information contained in the financial statements to understand and take decisions regarding the operations and financial position of the firm.

Tools of Financial Statements Analysis.	**Objectives of Financial Statements Analysis is Assessing** of
1. Comparative Statement 2. Common-sizeStatement 3. Ratio Analysis 4.Cash Flow Statement	1.Earning Capacity 2.Managerial Efficiency 3.Solvency 4. Comparison 5. Forecasting

➢ Horizontal Analysis is a time series analysis whereas Vertical Analysis is analyze of one year only.

1. **Comparative Statements**: The statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. **Horizontal analyses'**.
2. **Common Size Statements**: The statements which indicate the relationship of different items of a financial statement with some common item by expressing each item as a percentage of the common item. **'Vertical analysis'**.

Q1. Prepare Comparative and Common Size **INCOME STATEMENT** from the following information for the year's ended March 31st, 2015 and 2016.

Particulars		**2015 (Rs.)**	**2015 (Rs.)**
1.	Revenue From Operations	12,00,000	15,00,000
2.	Other Income	4,00,000	5,00,000
3.	Cost of Material	60% of total Revenue	60% of total Revenue
4.	Indirect Expenses	10% of profit	10% of profit
5.	Income Tax rate	50%	60%

Solution: - Comparative Income statement

S. No.	Particular	2015 Amount P.Y.	2016 Amount C.Y.	Absolute Change Change +/-	Percentage % of Change
i.	Revenue From Operations	1200000	1500000	300000	25%
ii.	Add other Income	400000	500000	100000	25%
	Total Income (I+II)	**1600000**	**2000000**	**400000**	**25%**
iii.	Less Expenses Cost of Material Consumed	960000	1200000	240000	25%
iv.	Other Expenses	64000	80000	16000	25%
	Total Expenses (IV+V)	**1024000**	**1280000**	**256000**	**25%**
v.	Profit before tax	576000	720000	144000	25%
vi.	less Tax	288000	432000	144000	50%
vii.	**Profit After tax**	**288000**	**288000**	**0**	**0%**

Solution: - Common Size Income statement

S. No.	Particular	2015 Amount P.Y.	2016 Amount C.Y.	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
I.	Revenue From Operations	1200000	1500000	100%	100%
II.	Add other Income	400000	500000	33.33%	33.33%
III.	**Total Income (I+II)**	**1600000**	**2000000**	**133.33%**	**133.33%**
IV.	Less Expenses Cost of Material Consumed	960000	1200000	80%	80%
V.	Other Expenses	64000	80000	5.33%	5.33%
VI	**Total Expenses (IV+V)**	**1024000**	**1280000**	**85.33%**	**85.33%**
VII	Profit before tax	576000	720000	48%	48%
VIII	less Tax	288000	432000	24%	28.87%
IX	**Profit After tax**	**288000**	**288000**	**24%**	**19.2%**

From the following information prepares a Comparative Comman Size income Statements.

Q2.	**Particulars**	**2015**	**2016**
	Revenue from Operations	15,00,000	18,00,000
	Cost of Operations	11,00,000	14,00,000
	Indirect Expenses	20% of Revenue Gross	25% of Revenue Gross
	Income Tax	50%	50% (CBSE)

Answer -Net Profit After Tax 2015 Rs.1,60,000 2016 Rs. 1,50,000 Change (-10,000) & (-6.25%)

Q3.	Particulars	31.3.2015	31.3.2016
	Revenues from Operations	20,00,000	40,00,000
	Cost of Goods Operations	60% of Sales	55% of Sales
	Paid wages	25,000	30,000
	Operating Expenses	20% of Revenue Gross	25% of Revenue Gross
	Income Tax	40%	40% (CBSE)

Answer-Net Profit after tax 2015 Rs 3,76,000, 2016 Rs 8,10,000 change 2,34,000 & 40.63%

Q.4. Y Ltd. Decided to set up a charitable Hospital to provide free medical facilities to the weaker section of the society. Following information is given. Prepare a Common Size Balance Sheet and **identify the value involved.**

Particular	2015	2016
Share capital	340000	300000
Trade payables	25000	40000
Trade receivable	29000	190000
Reserve and Surplus	80000	80000
Short-term borrowings	120000	100000
Long-term borrowings	75000	80000
Current investments	15000	10000
Fixed assets	240000	290000
Inventories	82000	101000
Cash and cash equivalents	10000	9000

Solution: - Common Size Balance Sheet

BALANCE SHEET

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016	Percentage of BS Total	Percentage of BS Total
1	2	3	4	5	6
I. EQUITY AND					
LIABILITIES					
(1) Shareholders' funds		340000	300000	53.12%	50%
(a) Share capital		80000	80000	12.5%	13.33%
(b) Reserve and Surplus					
(3) Non-current liabilities		75000	80000	11.71%	13.33%
(a) Long-term borrowings					
4) Current liabilities					
(a) Short-term borrowing		120000	100000	18.75%	16.67%
(b) Trade payables		25000	40000	3.90%	6.67%
TOTAL		**640000**	**600000**	**100%**	**100%**

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016	Percentage of BS Total	Percentage of BS Total
1	2	3	4	5	6
II. ASSETS					
(1) Non-current assets					
(a) Fixed assets		240000	290000	37.50%	48.33%
(2) Current assets					
(a) Current investments		18000	10000	2.81%	1.66%
(b) Inventories		82000	101000	12.81%	16.83%
(c) Trade receivables		290000	190000	45.31%	31.667%
(d) Cash and cash equivalents		10000	9000	1.56%	1.5%
TOTAL		**640000**	**600000**	**100%**	**100%**

Q5. Balance sheet of Rubie Ltd given you are required to make ComparativeBALANCE SHEET

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016
1	2	3 Rs.	4 Rs.
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital		5,600	6,600
(b) Reserve and Surplus		2,000	2,800
(3) Non-current liabilities			
(a) Long-term borrowings		1,200	1,020
4) Current liabilities			
(a) Short-term borrowings		1,200	1,720
(b) Trade payables		500	860
TOTAL		10,500	13,000
II. ASSETS			
(1) Non-current assets			
(a) Fixed assets		4,260	7,260
(2) Current assets			
(a) Current investments		2,560	2,800
(b) Inventories		3,000	2,200
(c) Cash and cash equivalent		680	740
TOTAL		10,500	13,000

Solution-*Comparative BALANCE SHEET*

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016	Absolute Change+/-	Percentage of change %
1	2	3 Rs.	4 Rs.	4 Rs.	4 Rs.
I. EQUITY AND LIABILITIES					
(1) Shareholders' funds		A	B	C=B-A	D=C/A x100
(a) Share capital		5,600	6,600	1,000	17.85%
(b) Reserve and Surplus		2,000	2,800	800	40%
(3) Non-current liabilities					
(a) Long-term borrowings		1,200	1,020	(-180)	(-15%)
4) Current liabilities					
(a) Short-term borrowings		1,200	1,720	520	43.33%
(b) Trade payables		500	860	360	72%
TOTAL		10,500	13,000	2,500	23.81%
II. ASSETS					
(1) Non-current assets					
(a) Fixed assets		4,260	7,260	3,000	70.42%
(2) Current assets					
(a) Current investments		2,560	2,800	240	9.38%
(b) Inventories		3,000	2,200	(-800)	(-26.67%)
(c) Cash and cash equivalent		680	740	60	8.82%
TOTAL		10,500	13,000	2,500	23.81%

Values of Question Number 4 are SYMPATHY HEALTH CONCERN AND CHARITY.

Do it yourself

Q6. From the Comparative Income statement find missing figures. (CBSE)

S. No.	**Particular**	**2015 Amount P.Y.**	**2016 Amount C.Y.**	**Absolute Change +/-**	**Percentage of Net sales in C.Y.**
i.	Revenue From Operations	1500000	?	500000	?
ii.	Add other Income	400000	?	?	150%
iii.	**Total Income (I+II)**	?	3000000	?	57.89%
iv.	Less Expenses	1500000	2100000	?	
v.	Profit before tax (III-IV)	?	?	?	125%
vi.	less = Tax 50%C	200000	?	?	125%
vii.	Profit After tax (V-VI)	?	450000	250000	?

***Test your Understanding – I**

Choose the right answer :

1. The financial statements of a business enterprise include:
   (a) Balance sheet
   (b) Statement of Profit and loss
   (c) Cash flow statement
   (d) All the above
2. The most commonly used tools for financial analysis are:
   (a) Horizontal analysis
   (b) Vertical analysis
   (c) Ratio analysis
   (d) All the above
3. An Annual Report is issued by a company to its:
   (a) Directors
   (b) Auditors
   (c) Shareholders
   (d) Management
4. Balance Sheet provides information about financial position of the enterprise:
   (a) At a point in time
   (b) Over a period of time
   (c) For a period of time
   (d) None of the above
5. Comparative statement are also known as:
   (a) Dynamic analysis
   (b) Horizontal analysis
   (c) Vertical analysis
   (d) External analysis

***Test your Understanding – II**

State whether each of the following is True or False :

(a) The financial statements of a business enterprise include funds flow statement.
(b) Comparative statements are the form of horizontal analysis.
(c) Common size statements and financial ratios are the two tools employed in vertical analysis.
(d) Ratio analysis establishes relationship between two financial statements.
(e) Ratio analysis is a tool for analyzing the financial statements of any enterprise.
(f) Financial analysis is used only by the creditors.
(g) Statement of Profit and loss shows the operating performance of an enterprise for a period of time.
(h) Financial analysis helps an analyst to arrive at a decision.
(i) Cash Flow Statement is a tool of financial statement analysis.
(j) In a Common size statement each item is expressed as a percentage of some common base.

***Test your Understanding -III**

Fill in the blanks with appropriate word(s).

1. Analysis simply means———data.
2. Interpretation means ———data.
3. Comparative analysis is also known as ———— analysis.
4. Common size analysis is also known as ——— analysis.
5. The analysis of actual movement of money inflow and outflow in an organization is called————analysis.

***FROM NCERT BOOK Test your Understanding – III**

1. Simplification 2. Explaining 3. the impact of horizontal 4. vertical 5. cash flow.

Test your Understanding – I 1 (d) 2 (d) 3 (c) 4 (a) 5 (b)

Test your Understanding – II- (a) True (b) True (c) True (d) True (e) True (f) False (g) True (h) True (i) True (j) True

Accounting Ratios-3

Classification or types of ratios

Ratios are classified into 4 categories

1. Liquidity Ratios also called as short term solvency ratios.
2. Solvency Ratios
3. Activity ratios also known as Turnover ratios or Performance ratios
4. Profitability ratios

1. Liquidity Ratios

1. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Current Investments + Inventories (**Excluding** Spare Parts and Loose Tools) + Trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets.

Current Liabilities = Short Term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions. (Standard Current Ratio:- 2:1)

2. Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

Liquid Assets = Current Assets - Inventories - Prepaid expenses

Current Liabilities = Short - Term Borrowings + Trade Payable + Other Current Liabilities + Short - term Provision

2. Solvency Ratios

1. Debt Equity Ratio = $\frac{\textbf{Debt}}{\textbf{Equity}}$

Debt = Long Term Borrowings + Long Term Provisions Equity/Shareholder's Funds = Share Capital + Reserves and Surplus OR

Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Trade Investments + Long-Term Loans & Advances) + Working Capital – Non-Current Liabilities (Long-Term Borrowings + Long-Term Provisions)

(Standard Debt Equity Ratio:- 2:1)

Working Capital = Current Assets–Current Liabilities

2. Total Assets to Debt Ratio = $\frac{\textbf{Total Assets}}{\textbf{Debt}}$

Total Assets = Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Investments + Long-Term Loans & Advances) + Current Assets (Current Investments + Inventories Trade Receivables + Cash & Cash Equivalent + Short-Term Loans & Advances + Other Current Assets). **Debt** = Long Term Borrowings + Long Term Provisions

3. Proprietary Ratio = $\frac{\textbf{Proprietors Funds}}{\textbf{Total Assets}}$

Proprietors Funds =
Share Capital + Reserves and Surplus

OR

Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Trade Investments + Long-Term Loans & Advances) + Working Capital–Non-Current Liabilities (Long-Term Borrowings + Long-Term Provisions)

Total Assets = Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Investments + Long –Term Loans & Advances) +

Current Assets (Current Investments + Inventories **including** Spare Parts & Loose Tools + Trade Receivables + Cash & Cash Equivalent + Short-Term Loans & Advances + Other Current Assets).

4.. Interest Coverage Ratio =

$\frac{\text{Net Profit before interest and tax}}{\text{Interest on Long term debt}}$

Significance/Objectives/Importance

1. This ratio indicates that a firm can pay interest due on long term debts or not.
2. Higher ratio indicates that firm can pay interest on long term debts without any hurdle.
3. Low ratio indicates that firm may face problem in paying the interest due on long term debts.

Formula of Capital Employed

✓ **Liabilities side approach**

Shareholder's Fund (Share Capital + Reserves & surpluses) + Non-Current liabilities (Long term borrowing + long term Provisions

✓ **Assets Side Approach**

Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current investment + Long-term Loans & Advances) + Working Capital

➢ It is Assumed that all Non-Current Investments are Trade Investments only.

➢ Interest on Non-Trade Investments should be deducted from Profit before Interest, Tax and Dividend. Therefore it cannot be a part of Non-Current Investments.

3. **Activity Turnover Ratio**

1. **Inventory Turnover Ratio** =

Cost of Revenue from operations
Average Inventory

Cost of Revenue from Operation = Revenue from Operation – Gross Profit OR

Opening Inventory + Net Purchases + Direct Expenses (Assume to be given) – Closing Inventories OR

Cost of materials consumed + purchase of stock-in-trade + change in Inventory (Finished Goods; Work in Progress & Stock-in-trade) + Direct Expenses (Assume given)

Average Inventory =

Opening Inventory + Closing Inventory/2

2. **Trade Receivable Turnover Ratio** =

Net credit revenue from operation

Average Trade Receivable

Net Credit Sales = Total Sales - Cash Sales)

OR

Credit Revenue from Operation = Revenue from Operation – Cash Revenue from Operation

Average Trade Receivables = Opening + Trade Receivable + Closing trade Receivable
2

4. **Profitability Ratios**

1. **Gross Profit Ratio** =

Gross profit ______ x 100
Net Revenue from Operations

Gross Profit = Revenue from Operation – Cost of Revenue from Operations

Cost of Revenue from Operation = Opening Inventory (excluding Spare Parts and Loose Tools) + Net Purchases + Direct Expenses –

Closing Inventory (excluding Spare Parts and Loose Tools) OR

Revenue from Operation – Gross Profit

2. **Operating Ratio** =

Cost of Revenue from operations + Operating Expenses x 100
Net Revenue from operations

Cost of Revenue from Operation = Opening Inventory (excluding Spare Parts and Loose Tools) + Net Purchases + Direct Expenses–Closing Inventory (excluding Spare Parts and Loose Tools) OR

Revenue from Operation – Gross Profit

Operating Expenses = Office, Administrative, Selling and Distribution Expenses, Employees Benefit expenses, Depreciation & Amortisation

3. **Operating Profit Ratio** =

Operating Profit____x 100
Revenue from operations

Operating Profit = Net Profit (After Tax) + Non-Operating Expenses/Losses–Non Operating Incomes OR

Gross Profit + Operating Income–Operating

Trade Receivable = Debtors + Bills Receivables

3. **Trade payable Turnover Ratio** =

$$\frac{\text{Net Credit Purchase}}{\text{Average Trade Payable}}$$

Net Credit Purchase = Total Purchases – Cash Purchases

Average Trade Payables = $\frac{\text{Opening Trade Payables + Closing trade Payables}}{2}$

Trade Payables = Creditors + Bills Payable

4. **Working Capital Turnover Ratio** = Net Revenue from Operations

Working Capital

****Working Capital =Current Assets – Current Liabilities***

Current Asset = Current Investments + Inventories (Excluding Spare Parts and Loose Tools) + trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets

Current Liabilities = Short-Term Borrowings + Trade Payables + Other Current Liabilities + Short- term Provisions

Expenses Non-Operating Expenses = Interest on Long Term Borrowing + Loss on sale of Fixed or Non-Current Assets

Non-Operating Income = Interest received on investments + Profit of sale on Fixed Assets or Non- Current Assets

4. **Net Profit Ratio** =

$$\frac{\text{Net Profit} \times 100}{\textbf{Net Revenue from operations}}$$

Net Profit before interest & Tax =

Gross Profit + Other Incomes – Indirect Expenses

5. **Return on Investment (ROI) or Yield on Capital** =

NET PROFIT before interest, tax & dividend x 100 Capital Employed

Net Profit before Interest, Tax and Dividend = Gross Profit + other Income–Indirect Expenses

✓ A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage, and a number of times.

Q1. Shine Limited has a current ratio 4.5:1 and quick ratio 3:1; if the stock is Rs. 36,000, calculate current liabilities and current assets.

Ans: Current Assets Rs. 1,08,000, current liabilities Rs. 24,000)

Q1.A Cost of Goods Sold is Rs. 1,50,000. Operating expenses are Rs. 60,000. Sales is Rs. 2,60,000 and Sales Return is Rs. 10,000. Calculate Operating Ratio. (Ans: Operating Ratio 84%)

Q2. Calculate debt equity ratio from the following information:

Total Assets	Rs. 15,00,000
Current Liabilities	Rs. 6,00,000
Total Debts	Rs. 12,00,000

(Ans: Debt Equity Ratio 2:1.)

Q3. Following is the Balance Sheet KDS Ltd. as on March 31, 2016, Calculate Current Ratio and Liquid Ratio.

Liabilities Amount		Assets Amount	
Equity Share Capital	24,000	Buildings	45,000
8% Debentures	9,000	Stock	12,000
Profit and Loss	6,000	Debtors	9,000
Bank Overdraft	6,000	Cash in Hand	2,280
Creditor	23,400	Prepaid Expenses	720
Provision for Taxation	600		
	69,000		69000

(Ans: Current Ratio .8:1, Liquid Ratio .37:1)

Q4. Calculate following ratios from the following information:

(i) Current ratio (ii) Acid test ratio (iii) Operating Ratio (iv) Gross Profit Ratio

Current Assets	Rs. 35,000
Current Liabilities	Rs. 17,500
Stock	Rs. 15,000
Operating Expenses	Rs. 20,000
Revenue from operation	Rs. 60,000
Cost of Revenue from operation	Rs. 30,000

(Ans: Current Ratio 2:1; Liquid Ratio 1.14:1; Operating Ratio 83.3%; Gross Profit Ratio 50%)

Q5. Compute Gross Profit Ratio, Working Capital Turnover Ratio, Debt Equity Ratio and Proprietary Ratio from the following:

Paid-up Capital	Rs. 5,00,000
Current Assets	Rs. 4,00,000
Revenue from operation	Rs. 10,00,000
13% Debentures	Rs. 2,00,000
Current Liability	Rs. 2,80,000
Cost of Goods Sold	Rs. 6,00,000

(Ans: Gross Profit Ratio 40%; Working Capital Ratio 8.33 times; Debt Equity Ratio 2:5; Proprietary Ratio 25:49).

Q6. From the following information calculate Gross Profit Ratio, Stock Turnover Ratio and Debtors Turnover Ratio.

Revenue from operation	Rs. 3,00,000
Cost of Gods Sold	Rs. 2,40,000
Closing Stock	Rs. 62,000
Gross Profit	Rs. 60,000
Opening Stock	Rs. 58,000
Debtors	Rs. 32,000

(Ans: Gross Profit Ratio 20%; Stock Turnover Ratio 4 times; Debtors Turnover Ratio 9.4 times)

Q7. From the following information calculate

(i) Debt-Equity Ratio

(ii) Interest Coverage Ratio

(iii) Proprietary Ratio.

Equity Share Capital Rs. 2,00,000, General Reserve Rs.1,20,000

5%Pref. Share Capital Rs.60,000, Fixed Assets Rs.5,05,000, Current Assets Rs. 1,20,000. Current Liability Rs.40,000, Loan10% Interest 5,00,000. Tax paid during the year Rs.30,000

Profit for the current year after interest and tax Rs 96,000

Ans: (i) Debt-Equity Ratio=1.06:1 (ii) Interest Coverage Ratio=3.4 times (iii)Proprietary Ratio=0.752:1

Q8. From the following information calculate Return on investment (or Return on Capital Employed).

Share Capital Rs. 0,000, Reserve &Surplus Rs.25,000, Net Fixed Assets Rs.2,25,000;

Non-Current Trade Investment Rs. 25,000;

12%LongTerm Borrowings Rs. 2,00,000,Current Assets Rs.1,10,000. Current Liability Rs.85,000. Net Profit before Tax Rs.60,000.

Answer- ROI=30.55%

UNIT-IV
Cash Flow Statement-4

- **Cash Flow Statement** It is a statement that shows flow of cash and cash equivalents during the period under report. The statement net increase or decrease of cash and cash equivalents under each activity separately- operating, investing and financing as well as collectively.
- **Objectives of CFS:**
  - To ascertain the sources (receipts) of cash and cash equivalents under operating, investing and financing activities by the enterprise.
  - To ascertain applications (payments) of cash and cash equivalents under operating, investing and financing activities by the enterprise.
  - To ascertain net change in cash and cash equivalents being the difference between sources and applications under the three between the dates of two balance sheets.
- **Steps in the preparation of CFS:**

I. Ascertain cash flows from operating activities

II. Ascertain cash flows from investing activities

III. Ascertain cash flows from financing activities

IV. Steps I, II AND III are added and the resultant figure is net increase or decrease in cash and cash equivalents.

V. Cash and cash equivalents of the beginning is added to the cash flow arrived under step IV.

VI. In the last we get cash and cash equivalents at the end

- **CASH AND CASH EQUIVALENTS:** It includes cash, bank balance, marketable securities etc

1. Why is Cash Flow Statement prepared?
2. Give the classification of the Cash Flow for preparing Cash Flow Statement.
3. Give any two items of cash equivalent used while preparing Cash Flow Statement.
4. How are non-cash items dealt in Cash Flow Statement?
5. Give an example of non-cash transaction.
6. Dividend received by a Finance Company will come under which activity while preparing Cash Flow Statement.

✓ Identify the following transactions belonging to

(i) Operating Activities, (ii) Investing Activities,

(iii) Financing Activities, and (iv) Cash and Cash Equivalents:

1. Cash Sales	11. Cash paid to Creditors
2. Cash Purchase	12. Purchase of Machines
3. Rent paid	13. Income Tax refund received

4.	Cash-in-hand	14.	Issue of Share Capital
5.	Income Tax paid	15.	Sale of Patents
6.	Office Expenses	16.	Manufacturing Expenses
7.	Balance at Bank	17.	Purchase of Goodwill
8.	Sale of Machines	18.	Short-term Deposits in Banks
9.	Issue of Debentures	19.	Purchase of investments(non-current)
10.	Dividend paid	20.	Cash received from Debtors

Sol: Operating Activities: 1,2,3,5,6,11,13,16 and 20; Investing Activities: 8,12,15,17 and 19;

Financing Activities: 9,10 and 14; Cash and Cash Equivalents: 4,7 and 18;

Calculate Cash Flow from Operating Activities from the following details:

Particulars	**31st March, 2014 (Rs.)**	**31st march, 2013(Rs.)**
Surplus, i.e., balance in statement of P/L	3,00,000	2,00,000
Bills Receivable	1,80,000	1,40,000
Depreciation	3,20,000	3,00,000
Outstanding Rent	40,000	36,000
Prepared Insurance	12,000	14,000
Goodwill	1,60,000	2,00,000
Inventories (stock)	1,80,000	1,40,000

(Cash Flow from Operating Activities is Rs. 1,06,000.)

8. Calculate Cash Flow from Operating Activities from the following:

a. Profit for the year is Rs. 2,50,000 after considering the following items:

Particulars		**Rs.**
a)	Depreciation on Fixed Assets	10,000
b)	Amortization of Goodwill	5,000
c)	Transfer to general Reserve	7,000
d)	Profit on Sale Land	3,000

b. Following is the position of current assets and current liabilities:

Particulars	**Closing Balance (Rs.)**	**Opening Balance (Rs.)**
Trade Receivables	23,000	22,000
Trade Payables	10,000	15,000
Prepaid Expenses	4,000	6,000

(Cash Flow from Operating Activities is Rs. 2, 65,000.)

Note: Net Profit before Tax = Profit for the year + Transfer to General Reserve = Rs. 2, 50,000 + Rs. 7,000. = Rs. 2,57,000

9. **From the following information, calculate Cash Flow from Investing Activities:**

Particulars (Rs.)	Closing Balance (Rs.)	Opening Balance
Machinery (at cost)	4,20,000	4,00,000
Accumulated depreciation	1,10,000	1,00,000
Patents	1,60,000	2,80,000

Additional Information:

During the year, a machine costing Rs. 40,000 with its accumulated depreciation of Rs. 24,000 was sold for Rs. 20,000.Patents were written off to the extent of Rs. 40,000 and some patents were sold at a profit of Rs. 20,000.[Cash Flow from Investing Activities is Rs. 60,000.]

10. **From the following information, calculate Cash Flow from Financing Activities:**

Particulars 2014 (Rs.)	31st March, 2013 (Rs.)	31st March,
Equity share capital	5,00,000	4,00,000
10% Debentures	1,00,000	1,50,000
Securities Premium Reserve	50,000	40,000

Additional Information: Interest Paid on debentures Rs. 10,000.

(Cash Flow from Financing Activities is Rs. 50,000.)

11. From the following information, prepare CFS for the year ended 31[st] March, 2014

Particulars	Rs.
Opening Cash Balance	10,000
Closing Cash Balance	12,000
Decrease in Trade Receivables	5,000
Increase in Trade payables	7,000
Sales on Fixed Assets	20,000
Redemption of Debenture	50,000
Net Profit for the Year	20,000

[CFFOA – Rs. 32,000; CFFIA – Rs. 20,000; and CUIFA – Rs.[50,000]

10. **Following are the Balance Sheets of X Ltd. prepares Cash Flow Statement.**

Particulars	Note No.	31[st] March, 2014 (Rs.)	31[st] march, 2013 (Rs.)
EQUITY AND LIABILITIES			
Shareholder's Funds			
Share Capital		25,00,000	20,00,000
Reserve and Surplus		2,30,000	1,00,000
Current liabilities			
Trade payables		4,50,000	7,00,000
Total		31,80,000	28,00,000

ASSETS			
Non- current Assets			
Fixed Assets- tangible Assets(land)		6,60,000	50,00,00
Current Assets			
Inventories		9,00,000	8,00,000
Trade Receivable		11,50,000	12,00,000
Cash and cash Equivalent		4,70,000	3,00,000
Total		31,80,000	28,00,000

Notes to Accounts

Particulars	**31st March, 2014 (Rs.)**	**31st march, 2013(Rs.)**
Reserves and surplus Surplus, i.e., Balance in Statement of P/L	2,30,000	1,00,000

[CUIOA – Rs. (1,70,000); CUIIA – Rs. (1,60,000); and CFFFA – Rs. 5,00,000

Q.23. From the given notes to accounts and Cash Flow Statement of Red Hot Dog Ltd Complete the Missing Figure: 6

NOTES TO ACCOUNTS:

Particulars		**31.03.2015**	**31.03.2014**
Note No. 1:	**Reserve and Surplus**		
	General Reserve	**3,00,000**	**2,70,000**
	Balance in statement of Profit & Loss	**25,000**	**(20,000)**
		3,25,000	**2,50,000**
Note No. 2:	**Cash and Cash Equivalents**		
	Cash at Bank	**20,000**	**40,000**

Additional information:

1. *Depreciation charged on plant & Machinery for the year 2014-15 was Rs.1,75,000. During the year 2014-2015, plant and Machinery of Rs.7,25,000 was purchased.*
2. *Interest on Mortgage loan paid during the Year amounted to Rs.35,000.*
3. *Dividend paid during the year Rs.44,000.*

CASH FLOW STATEMENT
For the year ended 31.03.2015

Particulars	31.03.2015	31.03.2014
A. Cash flow from Operating Activities		
Net profit before tax		
Adjustments for :	....	
Depreciation on plant and Machinery	....	
Interest on mortgage Loan	....	....
Operating profit before working capital changes	....	
Add: decrease in current assets:		
Inventory	1,20,000	
Add: Increase in Current Liabilities:		
Trade Payables	....	3,95,000
Less: Increase in Current Assets:		....
Trade Receivables		
Net cash from operating Activities	....	....
B. Cash Flow from investing Activities:	....	....
Purchases of Plant and Machinery	(.............)	
Net cash used in Investing Activities	(.............)	(.............)
C. Cash Flow from Financing Activities:		
Proceeds from issue of shares		
Proceeds from Mortgage Loan		
Payment of Interest on Mortgage Loan	....	
Payment of Dividend	1,50,000	
Net Cash from Financing Activities	(.............)	
Net Decrease in cash and Cash Equivalents	(.............)	
Add: Opening Balance of Cash and Cash Equivalents	....	....
Closing Balance of Cash and cash Equivalents		(.............)

Formulas

1. Interest on capital = Opening capital x Rate/100
2. Interest on Drawing
   (i) Simple Method
   Interest on Drawing = Amount of Drawing x Rate of Interest/100 x months/12
   (ii) Product Method
   Interest on Drawings = Total of products x $\frac{Rate}{100 \times 12}$
   (iii) Fixed amounts drawn by partners during the month at regular intervals

(a) If drawings of fixed amount are made on the first day of each month:

Interest on Drawings = Total amount of Drawings x $\frac{Rate}{100}$ x $\frac{12+1/2}{12}$

(b) If drawings of fixed amount are made in the middle of each month:

Interest on Drawings = Total amount of Drawings x $\frac{Rate}{100}$ x $\frac{12\div2}{12}$

(c) If drawings of fixed amount are made on the last day of each month:

Interest on Drawings = Total amount of Drawings x $\frac{Rate}{100}$ x $\frac{12-1/2}{12}$

3. Methods of Valuation of Goodwill

(i) Average Profit Method:

(a) Simple Average
Goodwill= Average Profit x Number of year's purchase.

(b) Weighted Average
Goodwill=Weighted average x number of years' purchase.

(ii) Super Profit Method:

Goodwill =Super profits x number of years' purchase.

(iii) Capitalisation Method

Capitalisation of Average Profits: This involves the following steps:

(i) Ascertain the average profits based on the past few years' performance.

(ii) Capitalize the average profits on the basis of the normal rate of return to ascertain the capitalised value of average profits as follows:

Average Profits x 100/Normal rate of Return

(iii) Ascertain the actual capital employed (net assets) by deducting outside liabilities from the total assets (excluding goodwill).

Capital Employed/Net Assets = Total Assets (excluding goodwill) – Outside Liabilities

(iv) Compute the value of goodwill by deducting net assets from the capitalised value of average profits, i.e. (ii) – (iii).

Capitalisation of Super Profits:

Goodwill = Super Profits × 100/ Normal Rate of Return

4. Sacrificing Ratio = Old share in profit – New share in profit

5. Gaining Ratio = New share in profit – Old share in profit

Retirement /death of a partner and Dissolution of Partnership Firm

6. New ratio (retirement /death of a partner) = Old share + Acquired share

7. Gaining ratio = New ratio- Old ratio

8. Calculation of share of profit of the deceased partner

(a) On the basis of time:-

Deceased partner's share= Last year profit/Average profits x period (in months)/12/365 x Deceased partner's ratio

Note: Period here means from the period from the beginning of the year to the date of death.

(b) On the basis of sales– Sales for the period *rate/100 * Deceased partner' s Ratio

Company Accounts - Accounting for Share Capital & Debentures

Maximum Permissible Discount on Reissue of Forfeited Shares: Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

In other words, reissue price cannot be less than the amount unpaid on forfeited shares.

Accounting Treatment:

i. **When all Forfeited Shares are Reissued**

Forfeited Shares a/c Dr.
 To Capital Reserve a/c

(Being the gain on reissue transferred to Capital Reserve).

ii. **When All Forfeited Shares are not Reissued**

*Gain on reissue of shares is calculated as follows:

= (Total amount forfeited */No. of shares forfeited × No. of shares reissued) - (Amount with which Forfeited Shares Account was debited at the Or Reissue Discount time of reissue of such shares.)

SOURCES OF REDEMPTION OF DEBENTURES–debentures can be redeemed by utilizing any of the following sources

1) **Redemption out of capital**: when the debentures are redeemed without adequate profits being transferred from surplus i.e statement of profit and loss to debenture redemption reserve [DRR] at the time of redemption of debentures, such redemption is said to be out of capital.

[ii[**REDEMPTION OUT OF PROFITS** : when debentures are redeemed only out of profit and amount equal to nominal [face] value of debenture is transferred from surplus i.e., statement of profit and loss to debenture redemption reserve [DRR] before the redemption of debentures , such redemption is said to be out of profits .

[III] **Redemption partly out of profits and partly out of capital**: It means that the company does not transfer 100 per cent nominal (face) value of the total redeemable debentures of a particular series to DRR out of surplus.

Debenture Redemption Reserve (DRR): DRR is created out of profit of the company available for payment as divided for the purpose of redemption of debentures. As per the provision of section 71 (4) of the companies act,2013 read with Rule 18(7) of the companies (share capital of debentures) Rules 2014, a company shall transfer at least 25% of total nominal (face) value of redeemable debentures of that class out of surplus available for payment of dividend to DRR. DRR is required to be created in only case of non- convertible Debentures (NCD) and Non – convertible portion of partly Convertible Debentures (PCD).

2) **Debenture Redemption Investment**: A company required to create/maintain DRR shall on or before 30th April of the current year, deposit or invest (as the case may be) at least 15 % of the amount of its debentures maturing during the year ending on 31st March of the next year. Companies not required to create DRR are not required to invest in specified securities.

SAMPLE PAPERS-1

Question Paper Design Accountancy (Code No. 055) Class-XII (2016-17)

Duration : 3 Hrs. **Theory: 80 Marks**

S. No.	Typology of Question	Very Short Answer 1 Mark	Short Answer I 3 Mark	Short Answer II 4 Mark	Long Answer I 6 Mark	Long Answer II 8 Mark	Marks	Marks %
1.	**Remembering** : knowledge based simple recall questions, to know specifics facts, terms, concepts, principles	3	1	1	1	–	16	20%
2.	**Understanding**: Comprehension - to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information	2	–	2	1	1	24	30%
3.	**Application** : Use abstract information in concrete situation, to apply knowledge to new situation, use given content to interpret a situation, provide an example or solve a problem.	–	2	2	1	–	20	25%
4.	**Higher Order Thinking Skills** : Analysis and Synthesis - classify, compare, contrast, or differentiate between different pieces of information.	2	–	–	1	1	16	20%
5.	**Evaluation** : Appraise, Judge, and/or justify the value or worth of a decision or outcome or to predict outcomes based on values.	1	1	–	–	–	04	05%
	TOTAL	8x1=8	4x3=12	5x4=20	4x6=24	2x8=16	80(20)+20 Projects	100%

SAMPLE QUESTION PAPER

ACCOUNTANCY (055) CLASS-XII 2016

Time allowed –Three hours Max Marks 80

General Instructions:

1) *This question paper contains two parts A and B.*
2) *Part A is compulsory for all.*
3) *Part B has two options-Financial statements Analysis and Computerized Accounting.*
4) *Attempt only one option of Part B.*
5) *All parts of a question should be attempted at one place.*

PART A: ACCOUNTING FOR PARTNERSHIP FIRMS AND COMPANIES

Q1. A, B and C are the partners sharing profits and losses in the ratio of 5:3:2. C retired and his capital balance after adjustments regarding Reserves, Accumulated profits/ losses and gain/loss on revaluation was ₹ 2,50,000. C was paid ₹ 3,00,000 in full settlement. Afterwards D was admitted for 1/4th share. Calculate the amount of goodwill premium brought by D. (1)

Sol: Goodwill share of C= ₹ 3,00,000 - ₹ 2,50,000= ₹ 50,000

Firm's Goodwill= ₹ 50,000x10/2= ₹ 2,50,000

D's share in Goodwill= ₹ 2,50,000x1/4 = ₹ 62,500

Q2. A and B were partners in a firm. They admitted C as a new partner for 20% share in the profits. After all adjustments regarding general reserve, goodwill, gain or loss on revaluation, the balances in capital accounts of A and B were ₹ 3,85,000 and ₹ 4,15,000 respectively. C brought proportionate capital so as to give him 20% share in the profits. Calculate the amount of capital to be brought by C. (1)

Sol: Combined capital of A and B = ₹ 3,85,000 + ₹ 4,15,000 = ₹ 8,00,000 C's Share= 1/5th of total capital

Remaining share = 1-1/5=4/5 4/5 = ₹ 8,00,000

C's capital = ₹ 8,00,000x5/4x1/5 = ₹ 2,00,000

Q3. A and B are partners. The net divisible profit as per Profit and Loss Appropriation A/c is ₹ 2,50,000. (1)

The total interest on partner's drawing is ₹ 4,000. A's salary is ₹ 4,000 per quarter and B's salary is ₹ 40,000 per annum. Calculate the net profit/loss earned during the year.

Sol. Net Profit during the year = Divisible profits + Salary to partners – Interest on Drawings = ₹ 2,50,000 + ₹ 16,000 + ₹ 40,000 – ₹ 4000 = ₹ 3,02,000

Q4. ABC Ltd. Purchased for cancellation its own ₹ 5,000, 9% Debentures of 100 each for 95 per debenture. The brokerage charges 15,000 were incurred. Calculate the amount to be transferred to capital reserve. (1)

Sol. Amount paid for ₹ 5,000 Debentures= ₹ 4,75,000 + ₹ 15,000 = ₹ 4,90,000 The nominal value of debentures to be redemption/cancelled = ₹ 5,00,000

Amount of profit on redemption to be transferred to capital reserve = ₹ 5,00,000 - ₹ 4,90,000= 10,000

Q5. A Ltd forfeited a share of 100 issued at a premium of 20% for non-payment of first call of 30 per share and final call of 10 per share. State the minimum price at which this share can be reissued. (1)

Sol. Minimum price at which shares can be reissued = 100 – 60 = 40

Q6. A group of 60 persons want to form a partnership business in India. Can they do so? Give reason in support of your answer. (1)

Sol. No, Maximum no. of partners as per The Companies Misc. Rule, 2014 is 50 persons

Q7. Explain with an imaginary example how issue of debenture as collateral security is shown in the balance sheet of a company when it is recorded in the books of accounts. (3)

Sol. Alfa Ltd. obtained Loan of 1, 00,000 from Indian Bank and issued 1200, 10% Debentures of 100 each as Collateral security. (or any other example)

An extract of Balance sheet of Alfa Ltd.
as at ——————

Particulars	Note No.	
EQUITY AND LIABILITIES		
Non- current liabilities		
Long Term Borrowings	1	1,00,000

Notes to Accounts:

Note No	Particulars		₹
1	**Long Term Borrowings**		
	Loan from Indian Bank		1,00,000
	1200, 10% Debentures of 100 each issued as Collateral Security	1,20,000	
	Less: debenture Suspense	(1,20,000)	------
			1,00,000

Q8. Rekha, Sunita and Teena are partners in a firm sharing profits in the ratio of 3:2:1. Samiksha joins the firm. Rekha surrenders 1/4[th] of her share; Sunita surrenders 1/3[rd] of her share and Teena 1/5[th] of her share in favour of Samiksha. Find the new Profit sharing ratio. (3)

Sol.

Rekha surrenders for Samiksha = ¼ *3/6 = 3/24

Sunita surrenders for Samiksha = 1/3*2/6=2/18

Teena surrenders for Samiksha = 1/5*1/6=1/30

New share of Rekha = 3/6-3/24 =9/24

New share of Sunita = 2/6- 2/18 =4/18

New share of Teena= 1/6-1/30 =4/30

Share of Samiksha = 3/24+2/18+1/30=97/360

New Ratio :- 9/24:4/18:4/30:97/360

135 : 80 : 48 : 97

Q9. King Ltd took over Assets of ₹ 25,00,000 and liabilities of ₹ 6,00,000 of Queen Ltd. King Ltd paid the (3) purchase consideration by issuing 10,000 equity shares of ₹ 100 each at a premium of 10% and ₹ 11,00,000 by Bank Draft.

Calculate Purchase consideration and pass necessary Journal entries in the books of King Ltd. (3)

Sol.

Calculation of Purchase Consideration:

Nominal Value of Shares issued = 10000 x 100 =	10,00,000
Securities Premium Reserve =	1,00,000
Bank draft =	11,00,000
Purchase consideration =	22,00,000

King Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	i. Sundry Assets A/c	Dr		25,00,000
	Goodwill A/c (b/f)	Dr		3,00,000
	To Sundry Liabilities A/c			6,00,000
	To Queen Ltd.			22,00,000
	(Being the purchase of assets and liabilities of Queen Ltd.)			
	ii. Queen Ltd. .... Dr		22,00,000	
	To Equity Share capital A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	To Bank A/c			11,00,000
	(Being 10,000 Equity Shares issued of 100 each issued at a premium of 10% and 11,00,000 paid by Bank draft)			

Q10. ABC Ltd was a cloth manufacturing company located in Delhi. Being a socially aware organisation they wanted to set up a manufacturing plant in a backward area of Kashmir to provide employment to the local people. On July 17, 2014 a flood had hit the entire state of Jammu & Kashmir causing massive destruction and loss. The company wanted to help the people, so they decided to raise the funds through issuing 50,000 Equity shares of Kashmir.

Sol.

Pass necessary Journal entries for the issue of shares and identify any two values that the company wanted to communicate to the society.

ABC Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	(i) Bank A/c Dr.		25,00,000	
	To Equity Share Application & Allotment A/c			25,00,000
	(Being the amount of application money received on 50,000 shares @ 50 per share.)			
	(ii) Equity Share Application & Allotment A/c Dr.		25,00,000	
	To Equity Share Capital A/c			25,00,000
	(Being the amount transferred to Share Capital A/c)			

Q11. A, B, C and D were partners sharing profits in the ratio of 1:2:3:4. D retired and his share was acquired by A and B equally. Goodwill was valued at 3 year's purchase of average profits of last 4 years, which were 40,000. General Reserve showed a balance of 1,30,000 and D's Capital in the Balance Sheet was 3,00,000 at the time of D's retirement. You are required to record necessary Journal entries in the books of the firm and prepare D's capital account on his retirement. (4)

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	(i) A's Capital A/c Dr.		24,000	
	B's Capital A/c Dr.		24,000	
	To D's Capital A/c			48,000
	(Treatment of goodwill on retirement of D)			
	(ii) General Reserve Dr.		1,30,000	
	To A's Capital A/c			13,000
	To B's Capital A/c			26,000
	To C's Capital A/c			39,000
	To D's Capital A/c			52,000
	(General Reserve distributed)			

Dr. D's Capital Account Cr.

Liabilities	Amount	Assets	Amount
To D's Loan A/c	4,00,000	By Balance b/d	3,00,000
		By A's Capital A/c	24,000
		By B's Capital A/c	24,000
		By General Reserve	52,000
	4,00,000		4,00,000

Q12. Kavita, Meenakshi and Gauri are partners doing a paper business in Ludhiana. After the accounts of partnership have been drawn up and closed, it was discovered that for the years ending 31st March 2013 and 2014, Interest on capital has been allowed to partners @ 6% p. a. although there is no provision for interest on capital in the partnership deed. Their fixed capitals were ₹ 2,00,000; ₹ 1,60,000 and ₹ 1,20,000 respectively. During the last two years they had shared the profits as under: (4)

Year	Ratio
31 March 2013	3 : 2 : 1
31 March 2014	5 : 3 : 2

You are required to give necessary adjusting entry on April 1, 2014.

Sol.

Table Showing Adjustment

		Kavita	Meenakshi	Gauri	Total
Interest on Capital (2012-13)	Dr.	12,000	9,600	7,200	28,800
Interest on Capital (2013-14)	Dr.	12,000	9,600	7,200	28,800
Total Dr.		24,000	19,200	14,400	57,600
Profit to be credited (2012-13)	Cr.	14,400	9,600	4,800	28,800
Profit to be credited (2013-14)	Cr.	14,400	8,640	5,760	28,800
Total Cr.		28,800	18,240	10,560	57,600
Adjustment		4,800 Cr.	960 Dr.	3,840 Dr.	

JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2014	Meenakshi's Current A/c	Dr.		960	
Apr 1	Gauri's Current A/c	Dr.		3,840	
	To Kavita's Current A/c				4,800
	(Adjustment for interest on capital for the year 2012-13 and 2013-14)				

Q13. On 31st March 2015 the Balance Sheet of Punit, Rahul and Seema was as follows

Balance Sheet of Punit, Rahul and Seema As at March 31, 2015

Liabilities	Amount	Assets	Amount
Liabilities		Buildings	40,000
Capitals:		Machinery	60,000
Punit 60,000		Patents	12,000
Rahul 50,000		Stock	20,000
Seema 30,000	1,40,000	Cash	42,000
Reserves	20,000		
Creditors	14,000		
	1,74,000		1,74,000

They were sharing Profit and loss in the ratio 5:3:2.

Seema died on October 1, 2015. It was agreed between her executors and the remaining partners that:

i. Goodwill be valued at 2 years' purchase of the average profits of the previous five years, which were: 2010-11: ₹ 30,000; 2011-12: ₹ 26,000; 2012-13: ₹ 24,000; 2013-14: ₹ 30,000 and 2014-15: ₹ 40,000.

ii. Patents be valued at 16,000; Machinery at ₹ 56,000; Buildings at ₹ 60,000.

iii. Profit for the year 2015-16 be taken as having been accrued at the same rate as that in the previous year.

iv. Interest on capital be provided at 10% p. a.

v. A sum of ₹ 15,500 was paid to her executors immediately.

Prepare Revaluation Account, Seema's Capital Account and Seema's executors Account.

Dr. Revaluation Account Cr.

Liabilities	LF ₹	Amount	Assets	LF ₹	Amount
To Machinery		4,000	By Patents		4,000
To Profit Distributed:			By Buildings		20,000
Punit 10,000					
Rahul 6,000					
Seema 4,000		20,000			
		24,000			24,000

Dr. Seema's Capital Account Cr.

Date	Liabilities	LF ₹	Amount	Date	Liabilities	LF ₹	Amount
2015				2015			
Oct. 1	To Seema's Executor's A/c		55,500	Apr. 1	By Balance b/d		30,000
				Oct. 1	By Reserves		4,000
				Oct. 1	By Punit's Capital		7,500
				Oct. 1	By Rahul's Capital		4,500
				Oct. 1	By Revaluation A/c		4,000
				Oct. 1	By P&L Suspense		4,000
				Oct. 1	By Int. on Capital		1,500
			55,500				55,500

Dr. Seema's Executor's Account Cr.

Date	Liabilities	LF ₹	Amount	Date	Liabilities	LF ₹	Amount
2015				2015			
Oct. 1	To Bank A/c		15,500	Oct. 1	By Seema's Capital A/c		55,500
Oct. 1	To Seema's Executor's Loan A/c		40,000				
			55,500				

Working Note:

Average Profit = (30,000+26,000+24,000+30,000+40,000)/5 = ₹ 30,000

Goodwill = 30,000 X 2 = ₹ 60,000

Seema's share of Profit for 6 months = 40,000 X 6/12 X 2/10 = ₹ 4,000

Interest on Seema's Capital = 30,000 X 10/100 X 6/12 = ₹ 1,500

Q14. Ruchi Ltd issued 42,000, 7% Debentures of ₹ 100 each on 1st April, 2011, redeemable at a premium of (6) 8% on 31st March 2015. The Company decided to create required Debenture Redemption Reserve on

31st March 2014. The company invested the funds as required by law in a fixed deposit with State Bank of India on 1st April, 2014 earning interest @10% per annum. Tax was deducted at source by the bank on interest @10% per annum. Pass necessary Journal Entries regarding issue and redemption of debentures.

Sol.

RUCHI LTD.
JOURNAL

ISSUE OF DEBENTURES

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2011					
Apr. 1	Bank A/c	Dr.		42,00,000	
	To Debenture Application & Allotment A/c				42,00,000
	(Being the Application and allotment money received on issue of Debentures)				
Apr. 1	Debenture Application & Allotment A/c	Dr.		42,00,000	
	Loss on Issue of Debenture A/c	Dr.		3,36,000	
	To 7% debenture A/c				42,00,000
	To Premium on Redemption of Debenture A/c				3,36,000
	(Being allotment of Debentures redeemable at 8% premium)				

REDEMPTION OF DEBENTURES

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2014					
Mar. 31	Surplus i.e. balance in Statement of Profit & Loss	Dr.		10,50,000	
	To Debenture redemption Reserve A/c				10,50,0000
	(Being the profits transferred to Debenture Redemption Reserve)				
2014					
Apr. 1	Debenture Redemption Investment A/c	Dr.		6,30,000	
	To Bank A/c				6,30,000
	(Being the investment made as fixed deposit as per Companies Act, 2013 earning Interest @10%)				

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2015 March 31	Bank A/c	Dr.		6,86,700	
	TDS collected A/c	Dr.		6,300	
	To Debenture Redemption Investment A/c				6,30,000
	To Interest Earned A/c				63,000
	(Being the fixed deposit encashed on Redemption and interest received @10%p.a.)				
2015 March 31	7% Debenture A/c	Dr		42,00,000	
	Premium on Redemption of Debenture A/c	Dr		3,36,000	
	To Debenture holder's A/c				45,36,000
	(Being amount due to Debenture holders)				
March 31	Debenture holder's A/c	Dr.		45,36,000	
	To Bank A/c				45,36,000
	(Being the amount due paid on redemption)				
March 31	DRR A/c	Dr.		105000	
	To General Reserve A/c				105000
	(Being the amount due paid on redemption)				

Q13. Hema and Garima were partners in a firm sharing profits in the ratio of 3:2. On March 31, 2015, their Balance Sheet was as follows:

Balance Sheet of Hema and Garima
Cash at Bank a/c

Dr. Cr.

Liabilities	Amount	Assets	Amount
Creditors	36,000	Bank	40,000
Garima's Husband's Loan	60,000	Debtors	76,000
Hema's Loan	40,000	Stock	2,00,000
Capitals:		Furniture	20,000
Hema 2,00,000		Leasehold Premises	1,00,000
Garima 1,00,000	3,00,000		
	4,36,000		4,36,000

On the above date the firm was dissolved. The various assets were realized and liabilities were settled as

On the above date the firm was dissolved. The various assets were realized and liabilities were settled as under:

(i) Garima agreed to pay her husband's loan.

(ii) Leasehold Premises realized 1,90,000 and Debtors 2,000 less.

(iii) Half the creditors agreed to accept furniture of the firm as full settlement of their claim and remaining half agreed to accept 5% less.

(iv) 50% Stock was taken over by Hema on cash payment of 90,000 and remaining stock was sold for 94,000.

(v) Realisation expenses of 10,000 were paid by Garima on behalf of firm.

(vi) Pass necessary journal entries for the dissolution of the firm.

Sol:

Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
1	Realisation A/c	Dr.		3,96,000	
	To Debtors A/c				76,000
	To Stock A/c				2,00,000
	To Furniture A/c				20,000
	To Leasehold Premises A/c				1,00,000
	(Being Assets transferred to Realisation A/c)				
2	Creditors A/c	Dr.		36,000	
	Garima's Husband's loan A/c	Dr.		60,000	
	To Realisation A/c				96,000
	(Being third party liabilities transferred to Realisation A/c)				
3	Bank A/c	Dr.		4,08,000	
	To Realisation A/c				4,08,000
	(Being Assets realised)				
4	Realisation A/c	Dr.		17,100	
	To Bank A/c				17,100
	(Being creditors paid)				
5	Realisation A/c	Dr.		70,000	
	To Garima's Capital A/c				70,000
	(Being realization expenses and Garima's husband loan paid off by Garima)				
6	Realisation A/c	Dr.		20,900	
	To Hema's Capital A/c				12,540
	To Garima's Capital A/c				8,360
	(Being profit on realization distributed among partners)				
7	Hema's Loan A/c	Dr.		40,000	
	To Bank A/c				40,000
	(Being Hema's loan paid)				
8	Hema's Capital A/c	Dr.		2,12,540	
	Garima's Capital A/c	Dr.		1,78,360	
	To Bank A/c				3,90,900
	(Being amount paid to partners at final settlement of accounts)				

Q16. P and Q were partners in a firm sharing profits in 3: 2 ratio. R was admitted as a new partner for 1/4th share in the profits on April 1, 2015. The Balance Sheet of the firm on March 31, 2015 was as follows:

Balance Sheet of P and Q
As at March 31, 2015

Liabilities		Amount	Assets	Amount
Creditors		20,000	Cash	20,000
General Reserve		16,000	Debtors	18,000
Capital :			Stock	20,000
P	96,000		Furniture	12,000
Q	68,000	1,64,000	Machinery	40,000
			Buildings	90,000
		2,00,000		2,00,000

The terms of agreement on R's admission were as follows:

a) R brought in cash 60,000 for his capital and 30,000 for his share of goodwill.

b) Building was valued at 1,00,000 and Machinery at 36,000.

c) The capital accounts of P and Q were to be adjusted in the new profit-sharing ratio. Necessary cash was to be brought in or paid off to them as the case may be.

Prepare Revaluation Account, Partner's Capital Account and the Balance Sheet of P, Q and R.

OR

Khushboo, Leela and Meena were partners in a firm sharing profits in the ratio of 5:3:2. Their Balance Sheet on March 31, 2015 was as follows:

Sol.

Balance Sheet of Khushboo, Leela and Meena
As at March 31, 2015

Liabilities		Amount	Assets	Amount
Creditors		70,000	Bank	44,000
Capitals:			Debtors	24,000
Khushboo	90,000		Stock	60,000
Leela	56,000		Buildings	1,40,000
Meena	60,000	2,06,000	Profit & Loss A/c	8,000
		2,76,000		2,76,000

On April 1,2015 Leela retired on the following terms:

i. Building was to be depreciated by 10,000.

ii. A Provision of 5% was to be made on Debtors for doubtful debts.

iii. Salary outstanding was 4,800.

iv. Goodwill of the firm was valued at 1,40,000.

v. Leela was to be paid 20,800 through cheque and the balance was to be paid in two equal quarterly installments (starting from June 30, 2015) along with interest @ 10% p.a.

Prepare Revaluation Account, Leela's Capital Account and her Loan Account till it is finally paid.

Dr. Revaluation Account Cr.

Liabilities	L.F ₹	Amount	Assets	L.F ₹	Amount
To Machinery		4,000	By Buildings		10,000
To Profit Distributed:					
P 3,600					
Q 2,400		6,000			
		10,000			10,000

Dr. Partners' Capital Account Cr.

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Cash A/c	19,200	16,800		By Balance b/d	96,000	68,000	
To Balance C/d	1,08,000	72,000	60,000	By General			
	1,27,200	88,800	60,000	Reserve	9,600	6,400	
				By Cash A/c			60,000
				By Premium A/c	18,000	12,000	
				By Revaluation	3,600	2,400	
	1,27,200	88,800	60,000		1,27,200	88,800	60,000

Dr. As at April 1, 2015 Cr.

Liabilities	Amount	Assets	Amount
Creditors	20,000	Building	1,00,00
Capital :		Machinery	36,000
P 1,08,000		Cash	
Q 72,000		(20,000+60,000+30,000-	
R 60,000	2,40,000	19,200-16,800)	74,000
	2,60,000	Debtors	18,000
		Stock	20,000
		Furniture	12,000
	2,60,000		2,60,000

OR

Dr. As at April 1, 2015 Cr.

Liabilities	Amount	Assets		Amount
To Buildings	10,000	By Loss Distributed		
To Prov. for Doubtful Debts	1,200	Khushboo	8,000	
To Salary Outstanding	4,800	Leela	4,800	
		Meena	3,200	16,000
	16,000			16,000

Dr.		Leela's Capital Account			Cr.
Liabilities	L.F ₹	Amount	Assets	L.F ₹	Amount
To Profit & Loss A/c		2,400	By Balance b/d		56,000
To Revaluation A/c		4,800	By Khushboo's Capital		30,000
To Bank A/c		20,800	By Meena's Capital		12,000
To Leela's Loan A/c		70,000			
		98,000			98,000

Dr.		Leela's Loan Account					Cr.
Date	Particulars	LF	₹	Date	Particulars	LF	₹
2015				2015			
Jan 30	To Bank A/c		36,750	Apr 1	By Leela's Capital		70,000
Sep 30	To Bank A/c		35,875	Jun 30	By Interest		1,750
				Sep 30	By Interest		875
			72,625				72,625

17. Surya Ltd with a Registered capital of 10,00,000 Equity Shares of 10 each, issued 1,00,000 Equity Shares payable 3 on Application, 2 on Allotment, 3 on First Call and 2 on Second and Final Call. The amount due on Allotment was duly received except Mr. X holding 6,000 shares. His shares were immediately forfeited. On the first call being made, Mr. Y holding 5,000 Equity shares paid the entire balance on his holding. Second call was not made.

Pass the necessary Journal Entries to record the transactions and Show how the Share Capital will be presented in the Balance Sheet of the Company. Also prepare notes to accounts.

OR

a) Nidhi Ltd. issued 2,000 Shares of 100 each. All the money was received except on 200 shares on which only 90 per share were received. These shares were forfeited and out of the forfeited shares 100 shares were reissued at 80 each as fully paid up. Pass necessary Journal entries for the above transactions and prepare the Forfeited Share Account.

b) Complete the following Journal Entries:

S.No.	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
i.	.... Dr.		....	
	To			....
	To			....
	(Being the forfeiture of 1000 shares of 10 each, 8 called up, on which allotment money of 2 nd First Call of 3 has not been received.)			
ii.	.... Dr.		....	
	To			....
	To			....
	(Being reissue of 1000 forfeited shares fully paid up at 11 per share)			
iii.	.... Dr.		....	
	To			....
	To			
	(Being gain on the reissue of shares transferred to capital reserve Account			

Sol.

In the books of Surya Ltd. : **Journal**

S.No.	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
I	Bank A/c	Dr.		3,00,000	
	To Equity Share Application A/c				3,00,000
	(Being the application money received on 1,00,000 shares @ 3 per share received)				
Ii	Equity Share Application A/c	Dr.		3,00,000	
	To Equity Share Capital A/c				3,00,000
	(Being the application money transferred to Share Capital A/c)				
Iii	Equity Share Allotment	A/c	Dr.	2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being Allotment made due on 1,00,000 Equity Shares @ 2 per share)				
Iv	Bank A/c	Dr.		1,88,000	
	Calls in Arrears A/c	Dr.		12,000	
	To Equity Share Allotment A/c	2,00,000			
	(Being the Allotment money received except for 6,000 shares)				
V	Equity Share Capital A/c	Dr.		30,000	
	To Share Forfeited A/c				18,000
	To Calls in Arrears A/c				12,000
	(Being 6,000 shares forfeited for non-payment of allotment money)				
V	Equity Share First Call A/c	Dr.		2,82,000	
	To Equity Share Capital A/c				2,82,000
	(Being First Call made due on 94,000 Equity Shares @ 3 per share)				
Vi	Bank A/c	Dr.		2,92,000	
	To Equity Share First Call A/c				2,82,000
	To Calls in Advance A/c				10,000
	(Being the First Call money received on				94,000
	Equity Shares @ 3 per share and Rs.2 per share on 5,000 shares received in Advance)				

Particulars	Note No	₹
I EQUITY AND LIABILITIES		
I. **Shareholder's Funds**		
Share Capital	1	7,70,000

Notes to Accounts :

Note No.		₹
1	Share Capital	
	Authorised Share Capital	
	10,00,000 Equity Shares of 10 each.	1,00,00,000
	Issued Share Capital	
	1,00,000 Equity Shares of 10 each.	10,00,000
	Subscribed Share capital	
	Subscribed but not fully paid-up	
	94,000 equity shares of 10 each, 8 Called up 7,52,000	
	Add Share Forfeited Account 18,000	7,70,000

S.No.	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
i	Share Capital A/c Dr.		20,000	
	To Forfeited Share A/c			18,000
	To Calls in Arrears A/c			2,000
	(Being 200 shares forfeited for non-payment of call money of Rs.10 per share)			
ii	Bank A/c Dr.		8,000	
	Forfeited Share A/c Dr.		2,000	
	To Share Capital A/c			10,000
	(Being 100 shares re-issued for Rs.80 per share as fully paid up)			
iii	Forfeited Share A/c Dr.		7,000	
	To Capital Reserve			7,000
	(Being Allotment made due on 1,00,000 Equity Shares @ 2 per share)			

Forfeited Share A/c

Liabilities	₹	Assets	₹
To Share Capital A/c	2,000	By Share Capital A/c	18,000
(100x20)		(200x90)	
To Capital Reserve	7,000		
(100x70)			
To Balance c/d	9,000		
	18,000		18,000

b) **JOURNAL**

S.No.	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
I	Share Capital A/c Dr		8,000	
	To Forfeited Share A/c			3,000
	To Share Allotment A/c			2,000
	To Share First Call A/c			3,000
	(Being the forfeiture of 1000 shares, 8 called up, on which allotment money of 2 and First Call of 3 has not been received.)			
II	Bank A/c Dr		11,000	
	To Share Capital A/c			10,000
	To Securities Premium A/c			1,000
	(Being reissue of 1000 forfeited shares fully paid up at 11 per share)			
III	Share Forfeiture A/c Dr		3,000	
	To Capital Reserve A/c			3,000
	(Being gain on the reissue of shares transferred to capital reserve Account)			

ANALYSIS OF FINANCIAL STATEMENTS PART – B

Q18. The Goodwill of X ltd. increased from 2, 00,000 in 2013-14 to 3, 50,000 in 2014-15. What will be its treatment while preparing Cash Flow Statement for the year ended 31st March 2015? (1)

Sol. It will be taken as purchase of Goodwill of 1,50,000 and will be shown under Cash from Investing Activities as an outflow of cash.

Q19. Kartik Mutuals, a mutual fund company, provides you the following information: (1)

	31st March 2013	31st March 2014
Proposed Dividend	20,000	15,000

Additional Information:

Equity Share Capital raised during the year	3,00,000
10% bank loan repaid was	1,00,000
Dividend received during the year was	20,000

Find out the cash flow from financing activities.

Sol.

Proceeds from Equity share capital:	3,00,000
Repayment of Bank Loan:	(1,00,000)
	2,00,000

Dividend Paid	(20,000)
	1,80,000

Q20. Mudra Ltd. is in the process of preparing its Balance Sheet as per Schedule III, Part I of the Companies Act, 2013 and provides its true and fair view of the financial position. (4)

a) Under which head and sub-head will the company show 'Stores and Spares' in its Balance Sheet?

b) What is the accounting treatment of 'Stores and Spares' when the Company will calculate its Inventory Turnover Ratio?

c) The management of Mudra Ltd. want to analyse its Financial Statements. State any two objectives of such analysis.

d) Identify the value being followed by Mudra Ltd.

Sol.

a) Head: Current Assets Sub head : Inventories

b) While calculating Inventory Turnover Ratio it is not included in Inventories

c) Objectives - Assessing the ability of the enterprise to meet its short term and long term commitments. Assessing the earning capacity of the enterprise

d) Values: Transparency, Honesty, Abiding by law

Q21. a) X Ltd. has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by Inventory is 24,000, calculate current assets and current liabilities. (4)

b) From the following information, calculate Inventory Turnover Ratio.

Revenue from Operations: 4,00,000, Average Inventory : 55,000, The rate of Gross Loss on Revenue from Operations was 10%.

Sol.

a) Current Ratio = 3.5:1

Quick Ratio = 2:1

Let Current Liabilities = x

Current Assets = 3.5x And

Quick Assets = 2x

Inventory = Current Assets – Quick Assets 24,000 = 3.5x – 2x

24,000 = 1.5x

x = Rs. 16,000

Current Assets = 3.5x = 3.5 × 16,000 = 56,000.

Verification : Current Ratio = Current Assets : Current Liabilities

= 56,000 : 16,000

= 3.5 : 1

Quick Ratio = Quick Assets : Current Liabilities

= 32,000 : 16,000

= 2:1

b) Revenue from Operations = 4,00,000 Gross Loss = 10% of 4,00,000 = 40,000

Cost of Revenue from Operations = Revenue from Operations + Gross Loss

= 4,00,000 + 40,000

= 4,40,000

Q22. From the following Statement of profit and loss of the Sakhi Ltd for the years ended 31st March 2015, prepare Comparative Statement of Profit & Loss. (4)

STATEMENT OF PROFIT & LOSS
for the years ended 31st March, 2015

Particulars	2013-14	2014-15
Revenue from operations	25,00,000	40,00,000
Expenses:		
(a) Employee benefit expenses were 5% of Revenue from operations		
(b) Other expenses	5,90,000	6,80,000
Rate of Tax 35%		

Sol. **STATEMENT OF PROFIT & LOSS**
for the years ended 31st March 2015 & 2016

Particulars	2013-14	2014-15	Absolute Change (in)	%age Change
Revenue from operations	25,00,000	40,00,000	15,00,000	60
Expenses:				
(a) Employee benefit expenses	1,25,000	2,00,000	75,000	60
(b) Other expenses	5,90,000	6,80,000	90,000	15.25
Total expenses	7,15,000	8,80,000	1,65,000	23.07
Profit before tax	17,85,000	31,20,000	13,35,000	74.78
Less: Taxes @ 35%	6,24,750	10,92,000	4,67,250	74.78
Profit after tax	11,60,250	20,28,000	8,67,750	74.78

Q. 23 Following is the Balance Sheets of Akash Ltd. as at 31-3-2014:

Akash Ltd. Balance Sheet

	PARTICULARS	Note No.	2013-14	2012-13
I.	**EQUITY & LIABILITIES**			
	(1) Shareholders' Funds		15,00,000	14,00,000
	(a) Share Capital	1	2,50,000	1,10,000
	(b) Reserves & Surplus			
	(2) Non - Current Liabilities		2,00,000	1,25,000
	(a) Long Term Borrowings			

	(3) Current Liabilities	2	12,000	10,000
	(a) Short term borrowings		15,000	83,000
	(b) Trade Payables	3	18,000	11,000
	(c) Short term provisions			
II	**TOTAL**		**19,95,000**	**17,39,000**
	(1) Non - Current Assets			
	(a) Fixed Assets			
	(i) Tangible assets	4	18,60,000	16,10,000
	(ii) Intangible assets	5	50,000	30,000
	(2) Current Assets			
	(a) Current Investments			
	(b) Inventories		8,000	5,000
	(c) Trade Receivables		37,000	59,000
	(d) Cash & Cash Equivalents	26,000	23,000	
			14,000	12,000
	TOTAL		**19,95,000**	**17,39,000**

Notes to Accounts :-

Note No.	Particulars	2013-14	2014-15
1	Reserves and Surplus:-		
	Surplus (balance in Statement of Profit and Loss)	2,50,000	1,10,000
2	Short Term Borrowings		
	Bank Overdraft	12,000	10,000
3	Short term provisions		
	Provision for Tax	18,000	11,000
4	Tangible Assets		
	Machinery	20,00,000	17,00,000
	Accumulated Depreciation	(1,40,000)	(90,000)
5	Intangible Assets		
	Patents	50,000	30,000

Additional information:

(i) Tax paid during the year amounted to 16, 000.

(ii) Machine with a net book value of 10,000 (Accumulated Depreciation 40,000) was sold for 2,000.

Prepare Cash Flow Statement.

CASH FLOW STATEMENT
For the year ended 31st March,2014

I – CASH FLOW FROM OPERATING ACTIVITIES		
Surplus: Balance in the Statement of Profit & Loss (closing)		2,50,000
Less: Surplus: Balance in the Statement of Profit & Loss (beginning)		1,10,000
NET PROFIT		1,40,000
Add: Provision for Tax		23,000
Net Profit before Tax and Extraordinary Items		1,63,000
Add: Non-Cash and Non-operating Expenses		
Depreciation	90,000	
Loss on Sale of Machine	8,000	98,000
		2,61,000
Add: Decrease in Current Assets & Increase in Current Liabilities	-	
Inventories	22,000	22,000
		2,83,000
Less: Increase in Current Assets & Decrease in Current Liabilities		
Trade Receivables	3,000	
Trade Payables	68,000	71,000
Cash generated from Operating Activities		2,12,000
Less: Income Tax Paid		(16,000)
Cash Flow From Operating Activities		**1,96,000**
II – CASH FLOW FROM INVESTING ACTIVITIES		
Sale Of Machinery		2,000
Purchase of Machinery		(3,50,000)
Purchase of Patents		(20,000)
Cash Used in Investing Activities		**(3,68,000)**
III – CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital		1,00,000
Proceeds from Long term Borrowings		75,000
Increase in Bank Overdraft		2,000
Cash Flow From Financing Activities		**1,77,000**
IV – NET INCREASE IN CASH & CASH EQUIVALENTS (I+II+III)		5,000
V – Cash & Cash Equivalents in the Beginning of the year		
Current Investments	5,000	
Cash & Cash Equivalents	12,000	17,000
VI – Cash & Cash Equivalents at the End of the year		**22,000**
Current Investments	8,000	
Cash & Cash Equivalents	14,000	
		22,000

Working Notes

Machinery Account

Particulars	Amount	Particulars	Amount
To Balance b/d	17,00,000	By Bank A/c (Sale)	2,000
To Bank A/c (Purchase)	3,50,000	By Loss on Sale of Machinery A/c	8,000
		By Depreciation A/c	40,000
		By Balance c/d	20,00,000
	20,50,000		20,50,000

Accumulated Depreciation Account

Particulars	Amount	Particulars	Amount
To Machinery A/c	40,000	By Balance b/d	90,000
(sold Asset)		By Statement of Profit & Loss	90,000
To Balance c/d	1,40,000		
	1,80,000		1,80,000

Provision for Tax Account

Particulars	Amount	Particulars	Amount
To Bank A/c (Tax Paid)	16,000	By Balance b/d	11,000
To Balance c/d	18,000	By Statement of Profit & Loss	23,000
	34,000		34,000

SAMPLE PAPER – 2
SAMPLE QUESTION PAPER ACCOUNTANCY (055)
CLASS-XII

Time allowed : 3 hours Max Marks 80

General Instructions:

1) This question paper contains two parts A and B.

2) Part A is compulsory for all.

3) All parts of a question should be attempted at one place.

PART A: ACCOUNTING FOR PARTNERSHIP FIRMS AND COMPANIES

1. Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of a new agreement is called

    (a) Revaluation of partnership.

    (b) Reconstitution of partnership.

    (c) Realization of partnership.

    (d) None of the above. (1)

2. Karim, Nakul and Asha were partners in a firm sharing profits and losses in the ratio 3:2:1. At the time of admission of a partner, the goodwill of the firm was valued at '2,00,000. The accountant of the firm passed the entry in the books of accounts and thereafter showed goodwill at '2,00,000 as an asset in the Balance Sheet. Was he correct in doing so? Why? (1)

3. Anu, Bina and Charan are partners. The firm had given a loan of '20,000 to Bina. They decided to dissolve the firm. In the event of dissolution, the loan will be settled by:

    (a) Transferring it to debit side of Realization account.

    (b) Transferring it to credit side of Realization account.

    (c) Transferring it to debit side of Bina's capital account.

    (d) Bina paying Anu and Charan privately. (1)

4. Differentiate between 'Capital Reserve' and 'Reserve Capital'. (1)

5. Metacaf Ltd. issued 50,000 shares of ' 100 each payable '20 on application (on 1st May 2012); '30 on allotment (on 1st January 2013); '20 on first call (on 1st July 2013) and the balance on final call (on 1st February 2014). Shankar, a shareholder holding 5,000 shares did not pay the first call on the due date. The second call was made and Shankar paid the first call amount along with the second call. All sums due were received.

    Total amount received on 1st February was:

    (a) '15,00,000

    (b) '18,00,000

    (c) '10,00,000

    (d) '11,00,000 (1)

6. Abha and Beena were partners sharing profits and losses in the ratio of 3:2. On April 1st 2013, they decided to admit Chanda for 1/5th share in the profits. They had a reserve of '25,000 which they wanted to show in their new balance sheet. Chanda agreed and the necessary adjustments were made in the books. On October 1st 2013, Abha met with an accident and died. Beena and

Chanda decided to admit Abha's daughter Fiza in their partnership, who agreed to bring '2,00,000 as capital. Calculate Abha's share in the reserve on the date of her death. (1)

7. State any three purposes for which securities premium can be utilized. (3)

8. Ankur and Bobby were into the business of providing software solutions in India. They were sharing profits and losses in the ratio 3:2. They admitted Rohit for a 1/5 share in the firm. Rohit, an alumni of IIT, Chennai would help them to expand their business to various South African countries where he had been working earlier. Rohit is guaranteed a minimum profit of '2,00,000 for the year. Any deficiency in Rohit's share is to be borne by Ankur and Bobby in the ratio 4:1. Losses for the year were '10,00,000. Pass the necessary journal entries.

9. Newbie Ltd. was registered with an authorised capital of '5,00,000 divided into 50,000 equity shares of '10 each. Since the economy was in robust shape, the company decided to offer to the public for subscription 30,000 equity shares of '10 each at a premium of '20 per share. Applications for 28,000 shares were received and allotment was made to all the applicants. All calls were made and duly received except the final call of ' 2 per share on 200 shares. Show the 'Share Capital' in the Balance Sheet of Newbie Ltd. as per Schedule VI of the Companies Act 1956. Also prepare Notes to Accounts for the same. (3)

10. Drumbeats Ltd. had a prosperous shoe business. They were manufacturing shoes in India and exporting to Italy. Being a socially aware organization, they wanted to pay back to the society. They decided to not only supply free shoes to 50 orphanages in various parts of the country but also give employment to children from those orphanages who were above 18 years of age. In order to meet the fund requirements, they decided to raise 50,000 equity shares of ' 50 each and 40,000 9% debentures of ' 40 each. Pass the necessary journal entries for issue of shares and debentures. Also identify one value which the company wants to communicate to the society. (3)

11. Following is the Balance Sheet of Punita, Rashi and Seema who are sharing profits in the ratio 2:1:2 as on 31st March 2013. (4)

Liabilities		Amount	Assets	Amount
Creditors		38,000	Building	2,40,000
Bills Payable		2,000	Stock	65,000
Capitals:			Debtors	30,000
Punita	1,44,000		Cash at bank	5,000
Rashi	92,000		Profit and Loss Account	60,000
Seema	1,24,000	3,60,000		
		4,00,000		4,00,000

Punita died on 30th September 2013. She had withdrawn 44,000 from her capital on July 1, 2013. According to the partnership agreement, she was entitled to interest on capital @8% p.a. Her share of profit till the date of death was to be calculated on the basis of the average profits of the last three years. Goodwill was to be calculated on the basis of three times the average profits of the last four years. The profits for the years ended 2009-10, 2010-11 and 2011-12 were '30,000, '70,000 and '80,000 respectively.

Prepare Punita's account to be rendered to her executors.

12. Kanika and Gautam are partners doing a dry cleaning business in Lucknow, sharing profits in the ratio 2:1 with capitals '5,00,000 and '4,00,000 respectively. Kanika withdrew the following

amounts during the year to pay the hostel expenses of her son.

1st April 10,000

1st June 9,000

1st Nov. 14,000

1st Dec. 5,000

Gautam withdrew '15,000 on the first day of April, July, October and January to pay rent for the accommodation of his family. He also paid '20,000 per month as rent for the office of partnership which was in a nearby shopping complex.

Calculate interest on Drawings @6% p.a. (4)

13. A firm earned profits of '80,000, '1,00,000, '1,20,000 and '1,80,000 during 2010-11, 2011-12, 2012-13 and 2013-14 respectively. The firm has capital investment of '5,00,000. A fair rate of return on investment is 15% p.a. Calculate goodwill of the firm based on three years' purchase of average super profits of last four years.

14. (a) Sunrise Company Ltd. has an equity share capital of '10,00,000. The company earns a return on investment of 15% on its capital. The company needed funds for diversification. The finance manager had the following options: (i) Borrow '5,00,000 @15% p.a. from a bank payable in four equal quarterly installments starting from the end of the fifth year (ii) Issue '5,00,000, 9% Debentures of Rs. 100 each redeemable at a premium of 10% after five years. To increase the return to the shareholders, the company opted for option (ii). Pass the necessary journal entries for issue of debentures.

(b) Walter Ltd. issued ' 6,00,000 8% Debentures of ' 100 each redeemable after 5 years either by draw of lots or by purchase in the open market. At the end of three years, finding the market price of debentures at '95 per debenture, it purchased all its debentures for immediate cancellation. Pass necessary journal entries for cancellation of debentures assuming the company has sufficient balance in Debenture Redemption Reserve. (6)

15. Ashish and Neha were partners in a firm sharing profits and losses in the ratio 4:3. They decided to dissolve the firm on 1st May 2014. From the information given below, complete Realisation A/c, Partner's

Capital Accounts and Bank A/c: (6)

Dr. **Realisation A/c** **Cr.**

Liabilities	Amount	Assets	Amount
To sundry assets:		By Sundry liabilities:	
-Machinery	5,00,000	-Creditors	40,000
-Stock	90,000	-Ashish's wife's loan	25,000
-Debtors	55,000		
		By Bank:	
To Bank:		-Machinery	4,80,000
-Creditors	______	-Debtors	10,000

Liabilities		Amount	Assets		Amount
Employees Provident Fund		17,000	Stock		15,000
Workman's Compensation Fund		6,000	Debtors		50,000
To Ashish's Capital A/c:			By Ashish's Capital A/c:		
			-Stock	1,28,000	
-Ashish's wife's loan		34,000	-typewriter	70,000	1,98,000
To Neha's Capital A/c:					
-Realisation expenses		7,000	By Neha's Capital A/c		
To profit transferred to:			-Debtors		
Ashish's capital A/c	4,000				40,000
Neha's capital A/c	3,000	7,000			
		7,93,000			7,93,000

Dr. **Partner's Capital Accounts** Cr.

Particulars	Ashish(₹)	Neha(₹)	Particulars	Ashish(₹)	Neha(₹)
To Realisation A/c	______	______	By	______	______
To Bank A/c	4,00,000	4,50,000	By	______	______
			By	______	______

Dr. **Bank A/c** Cr.

Liabilities	Amount	Assets	Amount
To Balance b/d	....	By Realisation A/c	....
To Realisation A/c	4,00,000	By Ashish's Loan A/c	4,000
		By Ashish's Capital A/c	4,00,000
		By Neha's Capital A/c	....

16. A and B are partners in a firm sharing profits and losses in the ratio 3:1. They admit C for a ¼ share on 31st March 2014 when their Balance Sheet was as follow:

Liabilities		Amount	Assets		Amount
Employees Provident Fund		17,000	Stock		15,000
Workmen's Compensation Fund		6,000	Debtors	50,000	
Investment Fluctuation Reserve		4,100	Less provision for doubtful debts	2,000	48,000
Capitals :	A	54,000	Investments		7,000
	B	35,000	Cash		6,100
			Goodwill		40,000
		1,16,100			1,16,100

The following adjustments were agreed upon:

(a) C brings in '16,000 as goodwill and proportionate capital.

(b) Bad debts amounted to '3,000.

(c) Market value of investment is '4,500.

(d) Liability on account of workmen's compensation reserve amounted to '2,000. Prepare Revaluation A/c and Partner's Capital A/cs.

OR

X, Y and Z are partners in a firm sharing profits in proportion of 1/2, 1/6 and 1/3 respectively. The Balance Sheet as on April 1, 2014 was as follows:

Liabilities	Amount	Assets		Amount
Employees Provident Fund	12,000	Freehold Premises		40,000
Sundry Creditors	18,000	Machinery		30,000
General Reserve	12,000	Furniture		12,000
Capitals		Stock		22,000
X	30,000	Debtors	20,000	
Y	30,000	Less provision for		
Z	28,000	doubtful debts	1,000	19,000
		Cash		7,000
	1,30,000			1,30,000

Z retires from the business and the partners agree that:

(a) Machinery is to be depreciated by 10%.

(b) Provision for bad debts is to be increased to ' 1,500.

(c) Furniture was taken over by Z for ' 14,000.

(d) Goodwill is valued at ' 21,000 on Z's retirement.

(e) The continuing partners' have decided to adjust their capitals in their new profit sharing ratio after retirement of Z. Surplus or deficit if any, in their capital accounts will be adjusted through their current accounts.

Prepare Revaluation A/c and Partners' Capital A/c's. (8)

17. Amrit Ltd. issued 50,000 shares of '10 each at a premium of '2 per share payable as '3 on application, '4 on allotment (including premium), '2 on first call and the remaining on second call. Applications were received for 75,000 shares and a pro-rata allotment was made to all the applicants.

All moneys due were received except allotment and first call from Sonu who applied for 1,200 shares. All his shares were forfeited. The forfeited shares were reissued for '9,600. Final call was not made. Pass necessary journal entries.

OR

Velco Ltd. issued 30,000 shares of ' 10 each at a discount of '1 per share payable as '3 on application, '2 on allotment, '2 on first Call and '2 on second call.

Applications were received for 40,000 shares and a pro-rata allotment was made to all the applicants.

All money due were received except allotment and first call from Mohit who had applied for 2,000 shares. His shares were forfeited after first call. Subsequently, the second call was duly made and duly received. Thereafter, the forfeited shares were reissued for '9 fully paid. Pass the necessary journal entries (8)

PART B: ANALYSIS OF FINANCIAL STATEMENTS

18. Cash deposit with the bank with a maturity date after two months belongs to which of the following while preparing cash flow statement:
    (a) Investing activities
    (b) Financing activities
    (c) Cash and Cash equivalents
    (d) Operating activities. (1)

19. Finserve Ltd is carrying on a Mutual Fund business. It invested ' 30,00,000 in shares and '15,00,000 in debentures of various companies during the year. It received ' 3,00,000 as dividend and interest. Find out cash flows from investing activities. (1)

20. (a) Name the sub-heads under the head 'Current Liabilities' in the Equity and Liabilities part of the Balance Sheet as per Schedule VI of the Companies Act 1956.
    (b) State any two objectives of Financial Statements Analysis. (4)

21. (a) From the following details, calculate Opening inventory: Closing inventory '60,000; Total Revenue from operations '5,00,000 (including cash revenue from operations '1,00,000); Total purchases '3,00,000 (including credit purchases '60,000). Goods are sold at a profit of 25% on cost.
    (b) Current Assets of a company are '17,00,000. Its current ratio is 2.5 and liquid ratio is 0.95.
    Calculate Current Liabilities and Inventory. (4)

22. Nimani Ltd. is into the business of back office operations. Honesty and hard work are the two pillars on which the business has been built. It has a good turnover and profits. Encouraged by huge profits, it decided to give the workers bonus equal to two months salary. Following is the Comparative Statement of Profit and Loss of Nimani Ltd. for the years ended 31st March 2013 and 2014.

(a) Calculate Net Profit ratio for the years ending 31st March, 2013 and 2014.
    Identify any two values which Nimani Ltd. wants to communicate to the society.

	Note NO.	2012-13 (₹)	2013-14 (₹)	Absolute Change	Percentage Change
Revenue from operations		20,00,000	30,00,000	10,00,000	50
Less Employee benefit expenses		8,00,000	10,00,000	2,00,000	25
Profit before tax		12,00,000	20,00,000	8,00,000	66.67
Tax rate 40%		4,80,000	8,00,000	3,20,000	66.67
Profit after tax		7,20,000	12,00,000	4,80,000	66.67

23. Following are the Balance Sheets of Krishna Ltd. as on 31st March 2013 and 2014:

PARTICULARS	Note No.	2013-14	2012-13
EQUITY AND LIABILITIES			
(1) Shareholders Funds			
(a) Share capital		14,00,000	10,00,000
(b) Reserves and Surplus	1	5,00,000	4,00,000
(2) Non Current Liabilities			
Long term borrowings		5,00,000	1,00,000
(3) Current Liabilities			
Trade Payables		1,00,000	60,000
Short term Provisions	2	80,000	60,000
Total		25,80,000	16,60,000
ASSETS			
(1) Non Current Assets			
(a) Fixed assets			
(i) Tangible assets	3	16,00,000	9,00,000
(ii) Intangible Assets	4	1,40,000	2,00,000
(2) Current Assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade Receivables		5,00,000	3,00,000
(b) Cash and Cash Equivalents		90,000	60,000
Total		25,80,000	16,60,000

Notes to Accounts :-

Note No.	Particulars	2013-14	2014-15
1.	Reserves and Surplus Surplus (i.e. balance in Statement of Profit and Loss)	5,00,000	4,00,000
2.	Short Term provisions Provision for tax	80,000	60,000
3.	Tangible assets Machinery Less Accumulated depreciation	17,60,000 (1,60,000)	10,00,000 (1,00,000)
4.	Intangible Assets Goodwill	1,40,000	2,00,000

UNSOLVED SAMPLE PAPER-3
ACCOUNTANCY
CLASS-XII

Time allowed : 3 hours Max Marks 80

Part-A
(Accountancy for Partnership firm and Companies)

1. State the need for treatment of goodwill on admission of a partner. (1)
2. What is meant by under-subscription? (1)
3. Give the meaning of Bond. (1)
4. State any one difference between fixed capital accounts and fluctuating capital of partners. (1)
5. What is meant by Sacrificing ratio? (1)
6. What is meant by Authorised capital of a company? (1)
7. What is meant by Dissolution by Notice? (1)
8. Hemant and Dinesh are partners sharing Profit & Losses in the ratio of 3:2 respectively. They admit Ansh as partner with 1/6th share in the profit of the firm. Hemant personally guaranteed that Ansh's share of profit would not be less than Rs. 60,000 in any year. The net profit of the firm for the year ending 31st March 2014 was Rs. 1,80,000. Prepare Profit & Loss Appropriation Account. (3)
9. Kashish ltd issued Rs. 3,50,000, 12% debentures of Rs. 100 each at a premium of 10% repayable at premium of 20%. Pass necessary Journal entries at the time of issue of debentures. (3)
10. P ltd. Redeemed 4,000 8% Debentures of Rs. 100 each which were issued at par by converting them into equity shares of Rs. 100 each issued at a premium of 25%.

    Pass necessary journal entries in the books of P ltd. (3)
11. (a) P, Q and R are partners sharing profit in the ratio of 6:5:4 respectively. R retired surrendering 1/4th of his share in favour of P and remaining in favour of Q. Calculate the new profit sharing ratio of P and Q.

    (b) X, Y and Z are partners sharing profit in the ratio of 4:3:3 respectively. Z retire and his share was taken over by the remaining partners equally. Calculate gaining ratio of X and Y.
12. S ltd. Was registered with an authorized capital of Rs. 10,00,000 divided into equity share of Rs. 10 each. The company invited applications for the issue of 50,000 shares. Applications for 48,000 share were received. All calls were made and were dulyreceived except the final call of Rs. 2 per share on 1000 shares. All these shares were forfeited and later on re-issued at Rs. 9,000 as fully paid.

    (i) Show how share capital will appear in the Balance Sheet of B ltd. As per schedule VI Part I of the companies Act 1956.

    (ii) Also prepare Notes to Accounts for the same. (4)
13. Sahaj Ltd. Purchased a running business from G ltd. For a sum of Rs. 9,00,000 payable by issue of equity shares of Rs. 100 each at a premium of Rs. 20 per share. The assets and liabilities consisted of the following:

Plant 1,75,000 land 3,00,000 Stock 2,25,000 and creditors Rs. 50,000

Pass necessary Journal entries in the books of X Ltd. For the above transactions. (4)

14. Gunjan and Akanksha were partners in a firm sharing profit in the ratio of their capitals Rs. 1,60,000 and Rs. 1,00,000 respectively. They admitted Seema in the firm on Jan 1, 2014 as a new partner for 1/4th share in the future profit. Seema brought Rs. 1,20,000 as her capital. Calculate the value of goodwill of the firm and record the necessary journal entries on Seema's admission. (4)

15. Nikhil, Rishabh and Jagat were partners. They started a business in one of the remote tribal areas of North-east India. They were interested in the development of the tribal community by providing good education and health.

On 31st March 2014 Nikhil, Rishabh and Jagat had capital of Rs. 6,00,000; Rs. 4,00,000 and Rs. 2,00,000 respectively. The partnership deed provided that interest on capital will be allowed @ 6% p.a. Drawing for the year were Nikhil Rs. 40,000; RishabhRs. 20,000; and JagatRs. 10,000. It was found that the interest on capital for the year ended 31st March 2013 was not allowed. The profit earned by the firm for the year ended 31st March 2014 were Rs. 3,00,000. Showing your workings clearly, pass necessary adjustment entry. Also identify any two values highlighted in the above question. (6)

16. A, B and C were partners sharing profit in 2:3:1 ratio respectively. The partnership deed provided that in case of death of a partner the deceased partner's share of capital will be donated for the construction of a hospital in the tribal area.

Due to ill health C died on 30th September 2013. The Balance sheet of A,B and C on 31st March 2013 was as follows

Balance Sheet as on 31.3.2013

Particulars		**Amount**	**Particulars**	**Amount**
Capital			Goodwill	7,000
A	50,000		Cash	1,48,000
B	1,00,000		Stock	40,000
C	1,50,000	3,00,000	Debtors	1,50,000
Creditors		1,80,000	Investment	25,000
Workmen Compensation fund		10,000	Land	1,25,000
Provision for doubtful debts		5,000		
		4,95,000		4,95,000

On that date of C's death i.e. 30th September 2013, the following was agreed upon:

Goodwill is valued at two years' purchase of average profits of last three completed years i.e. 2010 – 11 = Rs. 22,500

2011 – 12 = Rs. 45,000

2012 – 13 = Rs. 67,500

C's share of profit till the date of his death will be calculated on the basis of average profits of last three years land was undervalued by Rs. 12,500 and stock overvalued by Rs. 4,000.

Provision for doubtful debts is to be made at 5% of debtors claim on account of workmen compensation estimated at Rs. 2,500. Prepare C's capital A/c to be rendered to his executor.

Also identify the value that A, B and C wanted to communicate to the society. (6)

17. B ltd. Invited application for issuing 1,00,000 equity shares of Rs. 10 each. The amounts were payable as follows:

On Application Rs. 3

On allotment Rs. 5

On First and final Call Rs. 2

Applications were received for 1,50,000 shares and pro-rata allotment was made to all the applicants prorate allotment was made to all the applicants. Money overpaid on applications was adjusted towards allotment money. B who was allotted 1,500 shares, failed to pay the first and final call money. His shares were forfeited out of the forfeited shares, 1250 share were reissued as fully paid up @ Rs. 8 per share.

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

OR

(a) A company forfeited 400 share of Rs. 20 each, Rs. 15 per share called up on which Rs. 10 per share had been paid. Directors reissued all the forfeited share to B as Rs. 15 per share paid up for a payment of Rs. 10 each. Give journal entries in the books of the company for forfeiture and reissue of share.

(b) A ltd forfeited 200 equity shares of the face value of Rs. 10 each, for the non-payment of first call of Rs. 2 per share. Rs. 6 per share had already been called and paid these share were subsequently reissued as fully paid at the rate of Rs. 7 per share. Give journal entries in the books of the company for forfeiture and reissue of share. (8)

18. S and G were partners in a firm sharing profit in the ratio of 3:2 respectively. On 31st March 2014 their Balance Sheet was as follows:

Balance Sheet of S and G as at 31st March 2014.

Liabilities	Amount	Assets		Amount
Creditors	35,000	Cash		5000
Investment fluctuation fund	8,000	Debtor	20,000	
Capital		Prov. For b. debts	700	19,300
S		Stock		25,000
G	70,000	Plant		35,000
Bank Loan	20,000	Patents		20,700
		Investment		20,000
		Goodwill		8,000
	1,33,000			1,33,000

B was admitted as a new partner as the following conditions:

(a) B will get 4/15th share of profits.

(b) B had to bring Rs. 30,000 as his capital.

(c) B would pay cash for his share of goodwill based on 2 ½ years purchase of average profit of last 4 years.

(d) The profits of the firm for the year ending on 31st March 2011, 2012, 2013 and 2014 were Rs. 20,000; Rs. 14,000; Rs. 17,000 and Rs. 15,000 respectively.

(e) Stock was valued at Rs. 20,000 and provision for doubtful debts was raised up to Rs. 100.

(f) Plant was revalued at Rs. 40,000.

Prepare Revaluation Account, Partner's capital A/c and the Balance Sheet of the new firm.

OR

K, S and R were partners in a firm sharing profit in the ratio of 3:2:1 respectively. They decided to dissolve the firm with effect from April 1, 2014. As that date the Balance Sheet of the firm was as follows:

Balance Sheet
As at 1.04.2014

Liabilities		Amount	Assets	Amount
Capital			Plant	1,60,000
K	1,36,000		Motor Van	50,000
S	1,00,000		Furniture	90,000
R	54,000	2,90,000	Stock	60,000
Creditors		2,40,000	Debtors	1,40,000
		5,30,000	Cash	30,000
		5,30,000		5,30,000

The dissolution result in the following:

(i) Plant of Rs. 80,000 was taken over by K at an agreed value of Rs. 90,000 and remaining Plant realisedRs. 1,00,000.

(ii) Furniture realisedRs. 80,000.

(iii) Motor Van was taken over by S for Rs. 60,000.

(iv) Debtor realisedRs. 2,000 less.

(v) Creditor for Rs. 40,000 were untraceable and the remaining creditors were paid in full.

(vi) Realisation expenses amounted to Rs. 10,000.

Prepare the Realisation Account, capital accounts of partners and Bank Account of the firm.

PART – B

(Financial Statement Analysis)

19. Name any two tools of analysis of financial statements. (1)
20. Dividend paid by a financial company is classified under which type of activity, while preparing cash flow statement?
21. State any one objective of preparing Cash Flow Statement. (1)
22. State under which major heading the following items will be presented in the Balance Sheet of a Company as per revised schedule VI Part I of the company Act 1956:
    (i) Trade Mark
    (ii) Capital Redemption Reserves

(iii) Income received in advance

(iv) Stores and spares

(v) Office equipment

(vi) Current investment (3)

23. From the following calculate:

(a) Current Ratio

(b) Working Capital turnover Ratio

(I) Revenue from operation 3,00,000

(II) Total Assets 2,00,000

(III) Shareholder's funds 1,20,000

(IV) Non current liabilities 40,000

(V) Non current Assets 1,00,000 (2+2 = 4)

24. On the basis of the following information extracted from the statement of Profit &Loss for the year ended 31[st] March 2013-14. Prepare a comparative statement of profit and loss:

Particulars	Note	31-3-13	31-3-14
Revenue from operations		30,800	20,000
Expenses		21,000	12,000
Other income		3,600	4,000
Tax rate		50%	50%

25. Prepare of cash flow statement from the following sheet :

Particulars	Note	31-3-13	31-3-14
I EQUITY AND LIABILITIES			
(1) Shareholder fund			
(a) Share Capital			
(b) Reserve and Surplus		3,00,800	2,50,000
(2) Current Liabilities	1	2,00,800	1,00,000
Trade Payables		1,40,000	90,000
Total		6,40,800	4,40,000
II ASSETS			
(1) Non-Current Assets			
(a) Fixed Assets			
Plant & Machinery			
(2) Current Assets		2,50,000	1,50,000
(a) Inventories		50,000	75,000
(b) Trade receivables		3,00,000	2,00,000
(c) Cash and Cash equivalents		40,000	15,000
Total		6,40,000	4,40,000

Notes to Accounts

Note - 1

Particulars	Note	31-3-13	31-3-14
Reserve and Surplus (Surplus balance in statement of Profit & Loss)		2,00,000	1,00,000

(1) An old machinery having book value of Rs. 25,000 was sold for Rs. 30,000.

(2) Depreciation provided on Machinery during the year was Rs. 15,000. (6)

Answers:

15. Jagats capital a/c Dr. Rs. 13,000, Nikhils capital a/c Cr. Rs. 12,800, Rishabs capital a/c cr. Rs. 200

19. His share of goodwill – Rs. 25,000

Examination Tips

1. Your school has issued a time table for the exams. Go through the time table carefully.
2. Find out which are the subjects whose examination dates fall after a Sunday/public holiday.
3. Ensure that you know the portions for the exams. If in doubt, ask your teacher.
4. Prepare a study time table of your own every day.
5. If you are weak in a particular subject, do not postpone studying for this subject at all.
6. Every night before going to sleep, look at the plan that you made in the morning and review what you have done. This will help you understand if you are lagging behind the plan.
7. Your plan has to be realistic. Do not stuff too many things in a day. Set aside some time in the day for relaxation like playing/ television/ music.
8. Read all the questions carefully before starting and quickly plan how much time to allocate to each.
9. Start answering the questions that you feel confident about.
10. Take healthy diet during examination.

ACCOUNTANCY

SAMPLE PAPERS-1

Question Paper Design Accountancy (Code No. 055) Class-XII (2016-17)

Duration : 3 Hrs. **Theory: 80 Marks**

S. No.	Typology of Question	Very Short Answer 1 Mark	Short Answer I 3 Mark	Short Answer II 4 Mark	Long Answer I 6 Mark	Long Answer II 8 Mark	Marks	Marks %
1.	**Remembering** : knowledge based simple recall questions, to know specific facts, terms, concepts, principles	3	1	1	1	–	16	20%
2.	**Understanding**: Comprehension - to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information	2	–	2	1	1	24	30%
3.	**Application** : Use abstract information in concrete situation, to apply knowledge to new situation, use given content to interpret a situation, provide an example or solve a problem.	–	2	2	1	–	20	25%
4.	**Higher Order Thinking Skills** : Analysis and Synthesis - classify, compare, contrast, or differentiate between different pieces of information.	2	–	–	1	1	16	20%
5.	**Evaluation** : Appraise, Judge, and/or justify the value or worth of a decision or outcome or to predict outcomes based on values.	1	1	–	–	–	04	05%
	TOTAL	8x1=8	4x3=12	5x4=20	4x6=24	2x8=16	80(20)+20 Projects	100%

QUESTION PAPER

ACCOUNTANCY (055)

CLASS-XII

Time allowed –3 hours **Maximum Marks 80**

General Instructions:

1) *This question paper contains two parts A and B.*
2) *Part A is compulsory for all.*
3) *Part B has two options-Financial statements Analysis and Computerized Accounting.*
4) *Attempt only one option of Part B.*
5) *All parts of a question should be attempted at one place.*

Q-1. A and B are partners sharing profit and losses in the ratio of 2:3. C is admitted for 1/5 share in the profits of the firm. If C gets it wholly from A, Calculate the new profit sharing ratio after C's admission. (1)

Q-2. A,B and C are partners sharing profit and loss in the ratio of 2:5:5 form 1st Jan,2015,they decided to share profit and loss in the ratio of 3:5:7. On that date General Reserve shown in the books at Rs.48, 000. Pass journal entry. (1)

Q-3. On the dissolution of a firm, there was an unrecorded asset of Rs.2,000 which was taken over by a Creditor at Rs.2,500. What entry will be passed? (1)

Q-4. Give distinction between Issued Capital and Subscribed Capital. (1)

Q-5. Angel Ltd., in order to retain high caliber employees or to give them a belongingness, company has offered a choice to the whole time directors, officers and employees, the right to purchase or subscribe at a future date, the securities or equity shares offered by the company at a pre-determined rate. State what type of plan Angle Ltd. has implemented here. (1)

Q-6. X and Y are partners sharing profits in the ratio of 4: 3. Z is admitted for 1/7th share and he brings in Rs. 1,40,000 as his goodwill out of which Rs. 80,000 is credited to X and remaining amount to Y. In which ratio X and Y are sacrificing in favour of Z? (1)

Q-7. You are required to complete the following incomplete journal entries related to forfeiture of shares originally issued at premium. (3)

JOURNAL

	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Share capital A/c Dr.	500	
	....	250	
	To..		....
	To..		....
	(Being 50 shares of Rs. 10 each forfeited for non-payment of allotment money of Rs. 9 per share including Rs. 5of Securities premium per share)		

	Bank A/c Dr. .... To.. To.. (Being 50 shares reissued .... as fully paid up)	600	....
	.... A/c Dr. .... To.. (Being profit on reissue of forfeited shares transferred to capital reserve)	....	....

Q-8. State any three purposes for which Securities Premium amount can be used by a Company as per Companies Act 2013. (3)

Q-9. Sundaram Ltd. Purchased Furniture for Rs. 5,00,000 from Ravindran Ltd. Rs. 1,00,000 was paid by drawing a Promissory note in favour of Ravindran Ltd. The balance was paid by issue of 9% Debentures of Rs. 10 each at a premium of 25%. Pass necessary Journal entries in the books of Sundaram Ltd. (3)

Q-10. A, B and C are partners sharing profit in the ratio of 5:4:1. C is given a guarantee that his share of profits in any given year would be Rs. 5,000. Deficiency, if any, would be borne by A and B equally. The profits for the year 2014-15 amounted to Rs. 40,000. Pass necessary entries in the books of the firm. (3)

Q-11. A and B are partners sharing profits & losses equally. They admit C into partnership, C paid only Rs. 60,000 for premium out of his share of premium of Rs. 1,08,000 for 1/4th share in profit. Goodwill account appears in the books at Rs. 3, 00,000. All the partners have decided that goodwill should not appear in the new firm's books. Half of the premium is withdrawn by the partners. Give the necessary journal entries. (4)

Q-12. On 01.01.2012 a public ltd. Company issued 25,000, 10% Debentures Rs. 100 each at par, which were repayable at a premium of 10%. 30.09.2015, on the date of maturity the company decided to redeem the above mentioned 10% Debentures as per the terms of issue, out of profits. The profit and loss account show a credit balance of Rs. 30,00,000 on this date, the offer was accepted by all the debenture-holders and all the debentures were redeem, if the Company follows the Companies Act. (4)

Q-13. The partners of a firm distributed the profits for the year ended 31st March 2003, Rs-90,000 in the ratio of 3:2:1 without providing for the following adjustments:

(1) A & B were entitled to a salary of Rs.1, 500 each per annum.

(2) B was entitled to a commission of Rs. 4,500.

(3) B & C had guaranteed a minimum profit of Rs. 35,000 p.a. to A.

(4) Profits were to be shared in the ratio of 3 : 3 : 2.

Pass necessary journal entries for the above adjustments in the books of the firm. (6)

Q-14. Meghnath limited took a loan of Rs. 1,20,000from a bank and deposited 1,400, 8%-debentures of Rs. 100 each as collateral security along with primary security worth Rs 2 lakh. Company again took a loan of Rs. 80,000 after two months from a bank and deposited 1,000, 8% debentures of Rs. 100 each as collateral security. Record necessary journal entries. How will you show the issue of debentures and bank loan in the balance sheet of the company. (6)

Q-15. Sudha and Shiva are running a chemical business nearby Jaipur city. Under a notification issued by the Government of India the type of business they are running has been included in pollute products and as per the Pollution Control Act they decided to close the existing business and start School for the poor and backward students. So they decided to close down their business.

(a) State the values followed by Sudha and Shiva

(b) Pass the necessary journal entries for the following transactions on the dissolution of the firm of Sudha and Shiva assuming the various assets (other than cash) and outside liabilities have been transferred to realisation account. (1X6=6)

(1) Sudha agreed to pay off her husband's loan Rs. 19,000

(2) A debtor whose debt of Rs. 9,000 was written off in the books paid Rs. 7,500 in full settlement.

(3) Sundry creditors Rs. 10,000 were paid at 9% discount.

(4) Loss on realization Rs. 9,400 was divided between Sudha and Shiva in 3:2 ratio.

Q-16. (A) Khanna, Seth & Mehta were partners in a firm sharing profits in the ratio of 3:2:5. On 31-03-2010 the balance sheet of Khanna, Seth and Mehta was as follows:

Dr. **Cash at Bank a/c** Cr.

Liabilities		Amount	Assets	Amount
Capitals:			Goodwill	3,00,000
Khanna	3,00,000		Land and Building	5,00,000
Seth	2,00,000		Machinery	1,70,000
Mehta	5,00,000	10,00,000	Stock	30,000
			Debtors	1,20,000
General Reserve		1,00,000	Cash	45,000
Loan From Seth		50,000	Profit and Loss Account	60,000
Creditors		75,000		
Total		12,25,000	Total	12,25,000

On 14th June, 2011, Seth died. The partnership deed provided that on the death of a partner the executor of the deceased partner is entitled to:

(1) Balance in capital account;

(2) Share in profit up to the date of death on the basis of last year's profit;

(3) His share in profits/losses on revaluation of assets and re-assessment of liabilities which were as follows :

(a) Land and building was appreciated by Rs - 1,20,000.

(b) Machinery was to be depreciated to Rs-1,35,000 and stock to 25,000.

(c) A provision of 2.5% for bad and doubtful debts was to be created on debtors.

(4) The net amount payable to Seth's executors was transferred to his loan account which was to be paid later.

Prepare Revaluation account, Partners Capital Account, Seth's Executor's A/c and the Balance Sheet of Khanna and

Mehta who decided to continue the business keeping their capital balances in their new profit sharing ratio. Any surplus or deficit to be transferred to current accounts of the partners. (8)

OR

Q-16(B) X and Y were partners in the firm in sharing profit in 5:3 ratio. They admitted Z as a new partner for 1/3 share of profit. Z was contribute Rs. 20,000 as his capital. The balance sheet of X & Y as at 1st April 2007 the date of z's admission was as follow.

Liabilities		Amount	Assets		Amount
Creditors		27,000	Land and Building		25,000
Capital:			Plant and Machinery		30,000
X	50,000		Stock		15,000
Y	35,000	85,000	Debtors	20,000	
General Reserve		16,000	Less: provision		
			Doubtful debts	1,500	18,500
			Investment		20,000
			Cash		19,500
		1,28,000			1,28,000

Other terms agreed upon were:

1- Goodwill of firm was valued at 12,000.

2- The land and building were to be valued at Rs. 35,000 and plant and machinery at Rs 25,000.

3- The provision for doubtful debts was found to be in excess by Rs.400.

4- A liability for Rs. 1,000 included in creditors was not likely to arise.

5- The capital of the partners be adjusted on the basis of Z's contribution of capital in the firm.

6- Excess or shortfall if any to be transferred to current account.

Prepare revaluation account, partners' capital account and the balance sheet of the new firm (8)

Q17. X Ltd. Issued 40,000 Equity Shares of Rs. 10 each at a premium of Rs. 2.50 per share. The amount was payable as follows:

On applications - Rs. 2 per share

On allotment - Rs. 4.50 per share (including premium)

And on call - Rs. 6 per share

Owing to heavy subscription, the allotment was made on pro rata basis as follows:

(a) Applications for 20,000 shares were allotted 10,000 shares.

(b) Applications for 56,000 shares were allotted 14,000 shares.

(c) Applications for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilised on allotment and the surplus would be refunded.

Ram, to whom 1,000 shares were allotted, who belongs to category (a), failed to pay allotment money. His shares were forfeited after the call.

1- Which value has been affected by rejecting the applications of the applicants who have applied for 3,000 shares?

2- Suggest a better alternative for the same.

3- Pass the necessary journal entries in books of X Ltd. (8)

OR

Q-17. Vaibhav Ltd. issued Rs.5,00,000 new capital divided into Rs. 50 per share at a premium of Rs. 10, payable as under:

On application	Rs. 5 per share
On allotment	Rs. 20 per share (including premium of Rs. 5 per share)
On first &final call	Rs. 35 per share (including premium of Rs. 5 per share)

Over payments on applications were to be utilised towards sums due on allotment and first &final call. Where no allotment was made money was to be refund in full.

The issue was oversubscribed to the extent of 13,000 shares. Applicants for 12,000 shares were allotted only 2,000 shares and applicant for 3,000 shares were sent letters of regrets. Shares were allotted in full to the remaing applicants. All the money due was duly received.

1- Which value has been affected by rejecting the applications of the applicants who have applied for 3,000 shares?

2- Suggest a better alternative for the same.

3- Give journal entries to record the above transactions (including cash transaction) in the books of the company. (8)

PART-B (ANALYSIS OF FINANCIAL STATEMENTS)

Q-18. At the time of preparation of Cash Flow Statement, What will be the treatment of goodwill in the following cases.

(i) If it is increasing, (ii) If it is decreasing. (1)

Q-19. Interest received by State Bank of India Ltd for Rs. 1,00,00,000 on Loan to Reliance India Ltd., is what type of activity? (1)

Q-20. State the respective heads and sub-heads of the following items which will appear in the Balance Sheet of a company: (4)

(1) General Reserve

(2) Government and Trust Securities.

(3) Capital Reserve

(4) Public Deposits

(5) Authorised Capital

(6) Mortgage Loan

(7) Interest Accrued and due on Secured Loan

(8) Acceptance (Bills Payable

Q.21. Prepare a complete Common Size statement from the following information of Pragatisheel Stationers Ltd for. (4)

Particulars	Absolute Amounts (Rs.)		Percentage of Revenue from operations (Net Sales)	
	X Ltd. (Rs.) 2013	Y Ltd. (Rs.) 2013	X Ltd. (Rs.) 2013 %	Y Ltd. (Rs.) 2013 %
Revenue from operations	2,500,000	20,00,000	100	100
Add: Other Income	....	2,00,000	12	......
Total Revenue (1+2)	28,00,000	....	112	......
(Expenses) Other Expenses	....	....	......	48
Profit before tax (3-4)	....	14,00,000	88	......
Income Tax 50%	....	....	......	......
Profit after tax	....	7,00,000	......	......

Q.22. From the given information calculate the inventory turnover ratio: Revenue from operations Rs. 2,00,000; Gross profit 25% on cost. Opening inventory was 1/3rd of the value of closing inventory. Closing inventory was 30% of revenue from operations. (4)

Q-23. The Balance Sheet of Raksha Ltd. As on 31-03-2014 and 31-03-2015 were as follows:

Balance Sheet

Particulars	Note No.	Amount 31-03-15	Amount 31-03-14
(I) EQUITY AND LIABILITIES			
1. Shareholder's Fund			
Equity Share Capital		10,00,000	7,00,000
Reserves and Surplus	1	2,50,000	1,50,000
2. Current Liabilities			
Short-term Provisions	2	50,000	40,000
Total		**13,00,000**	**8,90,000**
(II) ASSETS			
1. Non Current Assets			
Fixed Assets			
Tangible Assets	3	8,00,000	5,00,000
2. Current Assets			
(a) Inventory		1,00,000	75,000
(b) Cash and Cash Equivalents	4	4,00,000	3,15,000
Total		**13,00,000**	**8,90,000**

Notes to Accounts :-

Note No.	Particulars 31-03-15	Amount 31-03-14	Amount
1.	**Reserves and Surplus**		
	Profit and Loss Balance	2,50,000	1,50,000
2.	**Short Term Provisions**		
	Proposed Dividends	50,000	40,000
3.	**Tangible Assets**		
	Plant and Machinery	8,00,000	5,00,000
5.	**Cash and Cash Equivalents**		
	Cash	4,00,000	3,16,000

ADDITIONAL INFORMATION:

(a) Rs. 50,000 depreciation has been charged to plant and machinery during the year 2014-15.

(b) A piece of machinery costing Rs. 12,000 (book value Rs. 5,000) was sold @ 60% profit on book value.

Marking Scheme - Accountancy Sample Paper

ACCOUNTANCY (055)

CLASS-XII

Time allowed –3 hours **Maximum Marks 80**

Ans.1 1:3:1 (1 mark)

Ans.2 (1 mark)

Entry should be

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2003	General Reserve A/c Dr.		48,000	
Jan 1	To A's Capital			8,000
	To B's Capital			20,000
	To C's Capital			20,000
	(Adjustment of Goodwill due change in old profit sharing ratio 2:5:5)			

Ans.3: No Entry will be passed (1 mark)

Ans.4 Issued capital is a part of authorized capital which is offered to the public for subscription and subscribed capital is a part of issued capital which is actually subscribed by the public.

Ans.5: Employee Stock Option Scheme (1 mark)

Ans.6: 80000:60000; It means sacrifice ratio is 4:3 (1 mark)

Ans.7: Solution JOURNAL (1 mark for each entry)

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share capital A/c Dr.		500	
	Securities Premium A/c Dr.		250	
	To Share Forfeiture A/c			300
	To Share Allotment A/c			450
	(being 50 shares of Rs. 10 each forfeited for non-payment of allotment money of Rs. 9 Per share including Rs. 5 of Securities premium per share)			
	Bank A/c Dr.		600	
	To Share Capital A/c			500
	To Securities Premium A/c			100
	(Being 50 forfeited shares were reissued at Rs. 12 each fully paid up)			
	Share Forfeiture A/c Dr.		300	
	To Capital Reserve A/c			300
	(Being profit on reissue of forfeited shares transferred to capital reserve)			

Ans.8: Following are the Purposes for which Securities Premium amount can be used by a Company: (1 x 3 =3 marks any three points)

(a) To issue fully paid-up Bonus shares to the existing shareholders.

(b) To write off preliminary expenses of the Company.

(c) To write off the share issue expenses, Underwriting Commission or discount/expenses of Shares/debentures.

(d) To pay premium on the redemption of preference shares or debentures of the company.

(e) Buy-back of Equity shares and other securities as per section 68.

Ans.9: Journal of Sundaram Ltd. (1x2 = 2 marks for entries)

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Furniture A/c	Dr.		3,00,000	
	To B/P				1,00,000
	To Ravindran Ltd.				2,00,000
	(Being purchased furniture and paid Rs. 1,00,000 by Promissory note)				
	RavindranLtd's A/c	Dr.		2,00,000	
	To 9%Debentures (16,000 x 10)				1,60,000
	To Securities Premium (16,000 x 2.5)				40,000
	(Being paid amount by issue of				

Working: No of Shares issued = Amount Payable / Issue price per debenture

= 2,00,000/12.5

= 16,000 Equity Shares (1 mark of calculation)

Ans. 10: (1 mark for each entry)

Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2015	Profit and Loss A/c	Dr.		40,000	
Mar 31	To P & L Appropriation A/c				40,000
	(Being Profit transferred in P&L Appropriation A/c)				
	P&L Appropriation A/c	Dr.		40,000	
	To A's Capital A/c				20,000
	To B's Capital A/c				16,000
	To C's Capital A/c				4,000
	(Being Profit distributed among partners)				
	A's Capital A/c	Dr.		500	
	B's Capital A/c	Dr.		500	
	To C's Capital A/c (Being C's deficiency borne by a and b equally)				1,000

Ans. 11: (1 mark for each entry)

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	A'S capital A/c	Dr.		1,50,000	
	B's capital A/c	Dr.		1,50,000	
	To Goodwill A/c				3,00,000
	(Being existing goodwill written off)				
	Bank A/c	Dr.		60,000	
	To Premium for goodwill A/c				60,000
	(A part of his share of goodwill/premium brought in by C)				
	Premium goodwill A/c	Dr.		60,000	
	C's Capital A/c	Dr.		48,000	
	To A's capital A/c				54,000
	To B's capital A/c				54,000
	(the goodwill premium credited to old partners in their sacrificing ratio)				
	A'S capital A/c	Dr.		15,000	
	B's capital A/c	Dr.		15,000	
	To Bank A/c				30,000
	(Being half of the premium is withdrawn)				

Ans. 12 (1 mark for first three entries each and ½ marks for last two entries each)

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2015	Debenture Redemption Investment A/c	Dr.		3,75,000	
Apr 30	To Bank A/c				3,75,000
	(Being 15% of redeemable amount invested)				
Sep. 30	Surplus of Statement of P&L A/c	Dr.		25,00,000	
	To DRR				25,00,000
	(Being Profit transferred to DRR)				
	10% Debenture A/c	Dr.		25,00,000	
	Premium on Redemption A/c	Dr.		2,50,000	
	To Debenture Holders A/c				
	(Being the Amount Payable on redemption				27,50,000
	Transferred to Debentureholders A/c)				
	Debentureholders A/c	Dr.		27,50,000	
	To Bank				27,50,000
	(Being amount paid to debentur sholders on redemption)				
	DRR A/c	Dr.		25,00,000	
	To General Reserve A/c				25,00,000
	(Being transfer of DRR to General Reserve)				

Ans. 13: Adjustment Table **(4 mark for calculation and 2 marks for entry)**

Particulars	A	B	C	Total
1. Partners Salaries	1,500	1,500		(3,000)
2. Partner's Commission		(45,000)		4,500
3. Profit Wrongly Distributed in 3:2:1	(4,500)	(30,000)	(15,000)	90,000
Total	(43,5000)	(24,000)	(15,000)	82,500
Guaranteed Profit to A	35,000			(35,000)
Distribution of Profit Rs. 47,500 in 3 : 2		28,500	19,000	(47,500)
Net Effect	(8,500)	4,500	4,000	-

Adjustment Entry:

A's capital A/c Dr. 8,500

To B's Capital A/c 4,500

To C's Capital A/c 4,000

(Being adjustment entry passed)

Note: Profit to A = 82,500 x 3/8 = 30937.5 or Rs. 30,938 which is less than Guaranteed profit hence he should be given Rs. 35,000. Remaining profit is distributed between B and C in 3: 2.

Ans.14: (1 mark for each entry and 2 mark for balance sheet)

JOURNAL OF MEGNATH LTD.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
When loan is taken	Bank A/c Dr. To Bank loan A/c (Being loan obtained from bank secured by primary security* worth Rs. 2,00,000 &Rs. 1,40,000, 8% debentures as collateral security)		1,20,000	 1,20,000
//	Debenture suspense A/c Dr. To 8% Debentures A/c (Being issue of Rs. 1,40,000 debentures as collateral security to secure a loan of rs. 1,20,000 from the bank)		1,40,000	 1,40,000
//	Bank A/c Dr. To Bank Loan A/c (Being loan obtained from bank secured by Rs. 1,00,000, 8% debentures as collateral security)		80,000	 80,000
//	Debenture suspense A/c Dr. To 8% Debentures A/c (Being issue of Rs. 1,00,000 debentures as collateral security to secure a loan of Rs. 80,000 from the bank)		1,00,000	 1,00,000

Balance Sheet of Magnath Ltd.
As at ....

Particulars	Note No.	Figures of Current Year	Figures of Previous Year
(I) EQUITY AND LIABILITIES			
1. Shareholder's Fund			
2. Non-Current Liabilities			
Long Term Borrowings		2,00,000	
(II) ASSETS			
1. Non-Current Assets			
2. Current Assets:			
Cash & Cash Equivalent		2,00,000	

Ans.15 (3 marks for two values and 1 mark for each journal entries)

(a) Two Values are Respect of Law, Concern to environment, care to poor and backward communities, and development of education.

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Realisation A/c	Dr.		19,000	
	To Sudha's Capital A/c				19,000
	(Being Sudha husband loan taken over by Sudha)				
2.	Bank A/c	Dr.		7,500	
	To Realization				7,500
	(Being debtors realized)				
3.	Realisation A/c	Dr.		9,100	
	To Bank				9,100
	(Being creditors settled)				
4.	Sudha's Capital A/c	Dr.		5,640	
	Shiva's Capital A/c	Dr.		3,760	
	To Realisation A/c				9,400
	(Being Loss on Realisation transferred to Partner's Capital A/c)				

Ans.16 (2 marks for Revaluation A/c, 3 marks for Partners Capital A/c, 1 mark for Executors A/c, 2 Marks for Balance Sheet)

Particular		Amount	Particular	Amount
To Machinery A/c		35,000	By Land and building	1,20,000
To Stock		5,000		
To Provision for debts		3,000		
To partner's capital (Profit transferred to):				
Khanna's capital A/c	23,100			
Seth's capital A/c	15,400			
Mehta's capital A/c	38,500	77,000		
		1,20,000		1,20,000

Dr. **Partners Capital Account** Cr.

Particulars	Khanna	Seth	Mehta	Particulars	Khanna	Seth	Mehta
To Goodwill A/c	90,000	60,000	1,50,000	By Balance B/d	3,00,00	2,00,000	5,00,000
To P&L A/c	18,000	12,000	30,000	By General Reserve	30,000	20,000	50,000
To P&L Suspense A/c	-	2,400	-	By Revaluation A/c (Profit)	23,100	15,400	38,500
To Seth's Executor's A/c	-	1,61,000	-				
To Balance C/d	2,45,100		4,08,500				
	3,53,100	2,35,400	5,88,500		3,53,100	2,35,400	5,88,500

Dr. **Seths Executor's Account** Cr.

Liabilities	Amount	Assets	Amount
To Seths executors loan a/c	2,11,000	By Seth's Capital a/c	1,61,000
		By Seth's loan a/c	50,000
	2,11,000		2,11,000

Balance Sheet of Khanna & Seth
As at 14th March, 2011

Liabilities		Amount	Assets		Amount
Capital A/c			Land & Building		6,20,000
Khanna	2,45,100		Machinery		1,35,000
Mehta	4,08,500	6,53,600	Stock		25,000
Creditors		75,000	Debtors	1,20,000	
Seth's Executor's Loan A/c		2,11,000	Less: provision	(3,000)	1,17,000
Profit and Loss Suspense A/c		2,400	For doubtful debts		
			Cash		45,000
		9,42,000			9,42,000

OR

Ans.16 (2 marks for Revaluation A/c, 3 marks for Partners Capital A/c and 3 marks for Balance Sheet

Dr. **Revaluation Account** Cr.

Particular		Amount	Particular	Amount
To plant& Machinery A/c		5,000	By Land & Building A/c	10,000
To profit transferred to:			By Provision for Doubtful Debtors	400
X's capital A/c	4,000		By creditors A/c	1,000
Y's capital A/c	2,400	6,400		
		11,400		11,400

Dr. Partners Capital Account Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Balance c/d	66,500	44,900	20,000	By Balance b/d	50,000	35,000	-
				By General Reserve	10,000	6,000	-
				By Revaluation A/c (Profit)	4,000	2,400	
				By Cash A/c		—	20,000
				By Z's Current A/c (Goodwill)(Note2)	2,500	1,500	-
				By Balance b/d			
	66,500	44,900	20,000		66,500	44,900	20,000
				By Balance b/d	66,500	44,900	20,000
To Current A/c (Transfer)	41,500	29,900	-				
To Balance c/d (Note3)	25,000	15,000	20,000				
	66,500	44,900	20,000		66,500	44,900	20,000

Balance Sheet (After Z's admission)

Liabilities	Amount	Assets	Amount
Creditors	26,000	Land and building	35,000
Capital account		Plant and machinery	25,000
X 25,000		Stock	15,000
Y 15,000		Debtors 20,000	
Z 20,000	60,000	Less: provision for doubtful debts 1,100	18,900
Current account		Investment	20,000
X 41,500		Cash	19,500
Y 29,900	71,400	Z's current account	4,000
	1,57,400		1,57,400

Working note:

New profit sharing ratio

1. Share given to Z=1/3, Remaining share 1-1/3=2/3

   X's new share =2/3x5/8=10/24

   Y's new share =2/3x3/8=6/24

   Z's share =1/3 or 8/24

   Hence, new ratio of x,y,z =10:6:8 or 5:3:4

2. Z's share of goodwill has been debited to his current account instead of his capital account since the other partner's capitals are to be adjusted on the basis of Z's capital which is Rs. 20,000.

Following entry will be passed for adjustment of goodwill:

Z's current a/c (12,000x1/3)	dr.	4,800	
To X's capital a/c			2,500
To Y's capital a/c			1,500

3. Based on Z' capital the total capital of the new firm will be:

20,000x3/1=60,000

X's capital in the new firm=60,000x5/12=25,000

Y's capital in the new firm =60,000x3/12=15,000

4.

	X(Rs.)	Y(Rs.)
Existing capitals	66,500	44,900
Capital in the new firm should be	25,000	15,000
Transferred to current account	41,500	29,900

Ans.17: (1 Mark for Value, 1 for alternative and 3 marks first three entries, 2 marks for 4th to 5th entries and 1 mark for last entries.)

1. Value of equity has been affected by not allotting to the applicants in equal ratio.
2. The better alternative could have been to allot the shares proportionately to all the applicants so that such applicants may not be demotivated from investing in the capital of big company in future.

Journal of X Ltd.

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.		2,48,000	
	To Equity Share Application A/c				2,48,000
	(Being application money received)				
	Equity Share Application A/c			2,48,000	
	To Equity share capital A/c				80,000
	To Equity share allotment a/c				1,47,000
	To Bank a/c				21,000
	(being application money transferred)				
	Equity share allotment A/c	Dr.		1,80,000	
	To Equity Share Capital				80,000
	To Securities Premium Reserve a/c				1,00,000
	(being allotment money due)				
	Bank A/c	Dr.		30,500	
	To Equity Share Allotment A/c				
	(Being allotment money received)				30,500
	Equity Share First & Final call a/c	Dr.		2,40,000	
	To Equity share capital a/c				2,40,000
	(Being first & final call money due)				

OR

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.		2,34,000	
	To Equity Share First & Final Call A/c				2,34,000
	(Being First & Final call Money received)				
	Equity Share Capital A/c	Dr.		10,000	
	Securities Premium Reserve A/c	Dr.		2,500	
	To Equity Share Allotment A/c				2,500
	To Equity Share First & Final Call A/c				6,000
	To Share Forfeiture A/c				4,000
	(Being 1,000 Equity shares were forfeited due to non-payment of allotment and call money)				

Ans.17: (1 Mark for Value, 1 for alternative and 3 marks first three entries, 2 marks for 4th to 5th entries and 1 mark for last entries.)

1. Value of equity has been affected by rejecting the applications of the retail investors from getting shares of the company.

2. The better alternative could have been to allot the shares proportionately to all the applicants so that such applicants may not be demotivated from investing in the capital of company in future.

Journal of Vaibhav Ltd.

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.		1,15,000	1,15,000
	To Share Application A/C				
	(being application money received on 23,000 shares @ 5 per share)				
	Share Application A/c	Dr.		1,15,000	
	To Share Capital A/c				50,000
	To Share Allotment A/c				40,000
	To calls-in-advance A/c				10,000
	To Bank A/c				15,000
	(Being application money adjusted and balance refunded)				
	Share Allotment A/c	Dr.		2,00,000	
	To Share Capital A/c				1,50,000
	To Securities Premium Reserve A/c				50,000
	(Being allotment due)				
	Bank A/c	Dr.		1,60,000	
	To Share Allotment A/c				1,60,000
	(Being allotment money received)				

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share First and Final call A/c	Dr.		3,50,000	
	To Share Capital A/c				3,00,000
	To Securities Premium Reserve A/c				50,000
	(Being call money due)				
	Bank A/c	Dr.		3,40,000	
	Calls in advance A/c	Dr.		10,000	
	To Share first and final Call A/c				3,50,000

Working Note: -

1. Total amount received on application = Rs.5x23,000 = Rs.1,15,000
2. Pro-rata category=applied (12,000): allotted (2,000) =6 :1

   Money received on applications = 12,000xRs. = Rs.60,000

   Money required on applications=2,000xRs.5 = Rs10,000

   Excess money received on application Rs 50,000

   Money required on allotment =2,000xRs.20 = Rs.40,000

   So, entire amount due on allotment is already received. Excess of Rs 10,000 is transferred to call in advanced.

(PART- B ANALYSIS OF FINANCIAL STATEMENTS)

Ans.18: 1/2x 2= 1 mark

(i) Will be shown as Cash outflow under Investing activities as it shows Purchase of goodwill.

(ii) Will be added to net profit (before tax) while calculating cash flow from Operating activities (goodwill written off).

Ans.19: Operating Activity 1 mark

Ans.20: 1/2x8 = 4marks

	Item	Heading	Sub-Heading (If Any)
1.	General Reserve	Share Holders Funds	Reserves and Surplus
2.	Government and Trust Securities	Non-Current Assets	Non-Current Investments
3.	Capital Reserve	Share Holders Funds	Reserves and Surplus
4.	Public Deposits	Non Current Liabilities	Long Term Borrowings
5.	Authorised Capital	Share Holders Funds	Share Capital
6.	Mortgage Loan	Non Current Liabilities	Long Term Provisions
7.	Interest Accrued and Due on Secured Loan	Current Liabilities	Other Current Liabilities
8.	Acceptance (Bills	Current Liabilities	Trade Payables

Particulars	Absolute Amounts (Rs.)		Percentage of Revenue from operations (Net Sales)	
	X Ltd. (Rs.) 2013	Y Ltd. (Rs.) 2013	X Ltd. (Rs.) 2013	Y Ltd. (Rs.) 2013
Revenue from operations	2,500,000	20,00,000	100	100
Add: Other Income	3,00,000	2,00,000	12	10
Total Revenue (1+2)	28,00,000	22,00,000	112	110
(Expenses) Other Expenses	6,00,000	8,00,000	24	40
Profit before tax (3-4)	22,00,000	14,00,000	88	70
Income Tax 50%	11,00,000	7,00,000	44	35
Profit aftertax	11,00,000	7,00,000	44	35

Ans.22:

(a) Assume Cost is 100
Gross profit = 25% on cost
So, Revenue from operation = 100+25= 125
If Revenue from operation is 125 then cost = 100
If Revenue from operation is 1 then cost = 100/125 If
Revenue from operation is 2, 00,000 then cost
= (100/125) X2,00,000
= 1,60,000 — 1/2 mark

(b) Closing inventory 30% of Revenue from operation
= 2,00,000 x 30/100
= 60,000 — 1/2 mark

(c) Opening Inventory 1/3rd of Closing Inventory
= 60,000 x 1/3
= 20,000

(d) Average inventory = (Opening + Closing inventory)/2
= (60,000 + 20,000) / 2
= 40,000 — 1 mark

(e) Inventory Turnover Ratio = Cost of revenue from operation / Average Inventory
= 1,60,000 / 40,000 = 4 times — 1 mark

Q.23 : Solution

Dr. Plant and Machinery (1 mark) Cr.

Particulars	Amount	Particulars	Amount
To balance b/d	5,00,000	By Depreciation Account	50,000
To statement of Profit and Loss (Profit on sale)	3,000	By Bank (sale of machine)	8,000
To Bank (balancing figure being Purchase on machinery)	3,55,000	(Rs. 5000 + 60% Rs. 5,000 + 3,000) By Balance c/d	8,00,000
	8,58,000		**8,58,000**

Ans. 23 :

Cash Flow Statement for the year Ended on 31-03-2015

A)	**Cash** Flow from **Operating Activities:**		
	Net Profit before Tax and Extra-ordinary Items		
	Net Profit		1,00,000
	Add: Proposed Dividends		50,000
	Depreciation on Machinery		38,000
		2,00,000	
	Less: Profit on Sale of Machinery	(3,000)	(3,000)
	Operating Profit before working capital changes		**1,97,000**
	Less: Increase in Current Liabilities		
	Inventory	(25,000)	(25,000)
	Net Cash (inflow) **form Operating Activities**		**1,72,000**
B)	**Cash Flow From Investing Activities**		
	Cash Received from Sale Of Machinery	8,000	
	Cash paid for Purchase of Machinery	(3,55,000)	
	Net Cash Outflow from Investing Activities		**(3,47,000)**
C)	**Cash Flow From Financing Activities**		
	Cash received from Issue of Shares	3,00,000	
	Dividend Paid	(40,000)	
	Net Cash (Inflow) from Financing Activities		**(2,60,000)**
	Net Cash Flow (A + B + C)		**85,000**
	Add: Opening Cash and Cash Equivalent		3,15,000
	Closing Cash and Cash Equivalent		**4,00,000**

ACCOUNTANCY

ACCOUNTING FOR PARTNERSHIP FIRMS-FUNDAMENTALS